



# FINANCIAL REPORT 2015

## Einhell Germany AG



INNOVATION · QUALITY · SERVICE · DESIGN · SUSTAINABILITY

# Einhell Germany AG, Landau a. d. Isar

## Consolidated statement of financial position as of 31 December 2015

<b>Assets</b>	Notes	31.12.2015	31.12.2014
		EURk	EURk
Intangible assets	(2.2)	22.156	23.989
Property, plant and equipment	(2.3)	19.550	18.618
Non-current financial assets	(2.4)	380	375
Deferred tax assets	(2.5)	5.869	6.228
Other non-current assets	(2.9)	2.073	1.800
<b>Non-current assets</b>		<b>50.028</b>	<b>51.010</b>
Inventories	(2.6)	139.128	110.400
Trade receivables	(2.7)	62.711	62.474
Other financial assets	(2.8)	4.147	13.251
Other current assets	(2.9)	20.438	20.125
Cash and cash equivalents		24.306	36.254
<b>Current assets</b>		<b>250.730</b>	<b>242.504</b>
<b>Total assets</b>		<b>300.758</b>	<b>293.514</b>

<b>Equity and liabilities</b>	Notes	31.12.2015	31.12.2014
		EURk	EURk
Subscribed capital	(2.10)	9.662	9.662
Capital reserve	(2.10)	26.677	26.677
Retained earnings	(2.10)	128.484	122.575
Other reserves	(2.11)	-8.544	-927
Equity of shareholders of Einhell Germany AG		156.279	157.987
Non-controlling interest	(2.12)	1.655	1.601
<b>Equity</b>		<b>157.934</b>	<b>159.588</b>
Provisions for pensions	(2.13)	2.762	2.567
Provisions for other risks	(2.14)	830	750
Non-current financial liabilities	(2.15)	30.000	30.000
Deferred tax liabilities	(2.5)	3.152	5.828
Other liabilities	(2.17)	4.316	7.749
<b>Non-current liabilities</b>		<b>41.060</b>	<b>46.894</b>
Trade payables		62.529	55.269
Provisions for income taxes		1.794	1.043
Provisions for other risks	(2.14)	10.793	9.500
Current financial liabilities	(2.15)	2.519	212
Other financial liabilities	(2.16)	2.698	2.803
Other current liabilities	(2.17)	21.431	18.205
<b>Current liabilities</b>		<b>101.764</b>	<b>87.032</b>
<b>Total equity and liabilities</b>		<b>300.758</b>	<b>293.514</b>

# Einhell Germany AG, Landau a. d. Isar

## Consolidated statement of income (IFRS) for the period from 1 January to 31 December 2015

	Notes	2015 EURk	2014 EURk
Revenue	(3.1)	443.751	416.363
Own work capitalised	(2.2)	121	0
Other operating income	(3.2)	5.845	7.117
Cost of materials	(3.3)	-303.066	-289.974
Personnel expenses	(3.4)	-61.343	-55.426
Depreciation	(3.5)	-5.156	-4.970
Other operating expenses	(3.6)	-66.260	-64.665
Financial result	(3.7)	-2.113	-3.369
Profit before income taxes		11.779	5.076
Income taxes	(3.8)	-4.136	-3.438
<b>Consolidated net profit</b>		<b>7.643</b>	<b>1.638</b>
Thereof share of minority shareholders in consolidated net profit/loss		292	37
Thereof share in consolidated net profit/loss of shareholders of Einhell Germany AG		7.351	1.601

# Einhell Germany AG, Landau a. d. Isar

## Consolidated statement of comprehensive income for the period from 1 January to 31 December 2015

	2015	2014
	EURk	EURk
<b>Consolidated net profit</b>	<b>7.643</b>	<b>1.638</b>
<b>Items of other comprehensive income that were or can be reclassified to profit or loss</b>		
Unrealised losses (previous year: gains) from currency translation	-1.720	1.073
Unrealised losses (previous year: gains) from the disposal of available-for-sale financial assets	-1	3
Unrealised losses (previous year: gains) from derivative financial instruments	-6.156	2.808
	-7.877	3.884
<b>Items of other comprehensive income that will not be reclassified to profit or loss in future periods</b>		
Employee benefits (IAS 19 revised)	263	-453
<b>Other comprehensive income, after taxes</b>	<b>-7.614</b>	<b>3.431</b>
Thereof share of other comprehensive income attributable to minority interests, after taxes	3	-45
Thereof share of other comprehensive income attributable to shareholders of Einhell Germany AG, after taxes	-7.617	3.476
<b>Consolidated comprehensive income</b>	<b>29</b>	<b>5.069</b>
Thereof share of consolidated comprehensive income attributable to non-controlling interest	295	-8
Thereof share of consolidated comprehensive income attributable to shareholders of Einhell Germany AG	-266	5.077

# Einhell Germany AG, Landau a. d. Isar

## Consolidated statement of changes in equity for financial year 2015

	Subscribed capital	Capital reserve	Retained earnings	Other reserves				Equity of shareholders of Einhell Germany AG	Share of non-controlling interest	Total equity
				Adjustment from currency translation	Financial assets available for sale	Remeasurement reserve pursuant to IAS 19	Derivative financial instruments			
	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	
1 January 2014	9.662	26.677	123.851	-4.289	28	-614	472	155.787	2.464	158.251
Consolidated net profit	-	-	1.601	-	-	-	-	1.601	37	1.638
Unrealised gains/losses	-	-	-	1.118	3	-647	5.765	6.239	-45	6.194
Deferred taxes on unrealised gains/losses	-	-	-	-	-	194	-2.957	-2.763	-	-2.763
Comprehensive income	-	-	1.601	1.118	3	-453	2.808	5.077	-8	5.069
Dividends	-	-	-1.384	-	-	-	-	-1.384	-680	-2.064
Other changes	-	-	-1.493	-	-	-	-	-1.493	-175	-1.668
31 December 2014	9.662	26.677	122.575	-3.171	31	-1.067	3.280	157.987	1.601	159.588
Consolidated net profit	-	-	7.351	-	-	-	-	7.351	292	7.643
Unrealised gains/losses	-	-	-	-1.723	-1	337	-8.544	-9.931	3	-9.928
Deferred taxes on unrealised gains/losses	-	-	-	-	-	-74	2.388	2.314	-	2.314
Comprehensive income	-	-	7.351	-1.723	-1	263	-6.156	-266	295	29
Dividends	-	-	-1.384	-	-	-	-	-1.384	-200	-1.584
Other changes	-	-	-58	-	-	-	-	-58	-41	-99
31 December 2015	9.662	26.677	128.484	-4.894	30	-804	-2.876	156.279	1.655	157.934

# Einhell Germany AG, Landau a. d. Isar

## Consolidated statement of cash flows for financial year 2015

	2015	2014
	EURk	EURk
<b>Cash flows from/used in operating activities</b>		
Profit before taxes	11.779	5.076
+ Depreciation and amortisation of intangible assets and property, plant and equipment	5.156	4.970
- Interest income	-187	-215
+ Interest expenses	2.113	1.458
+/- Other non-cash expenses and income	-10	1.861
<b>Operating profit before changes in net working capital</b>	<b>18.851</b>	<b>13.150</b>
+/- Decrease/increase in trade receivables	-1.387	1.829
+/- Decrease/increase in inventories	-28.127	-4.969
+/- Decrease/increase in other assets	-1.048	-173
+/- Increase/decrease in non-current liabilities	-3.146	1.123
+/- Increase/decrease in current liabilities	6.222	1.205
+/- Increase/decrease in trade payables	4.750	-892
<b>Cash flows generated from operating activities</b>	<b>-3.885</b>	<b>11.273</b>
- Taxes paid	-1.670	-3.064
+ Interest received	178	122
- Interest paid	-1.573	-1.426
<b>Net cash from/used in operating activities</b>	<b>-6.950</b>	<b>6.905</b>
<b>Cash flows from/used in investing activities</b>		
- Payments to acquire assets	-4.729	-3.684
+ Proceeds from disposal of assets	270	161
<b>Net cash used in investing activities</b>	<b>-4.459</b>	<b>-3.523</b>
<b>Cash flows from/used in financing activities</b>		
+ Proceeds from taking out loans	2.360	0
- Payments for repayment of loans	0	-21.237
- Payments for acquisition of equity investments	-3.432	-5.735
+ Proceeds from minority shareholders	0	20
- Dividend payments to shareholders of Einhell Germany AG	-1.384	-1.384
- Dividend payments to non-controlling interests	-200	-701
<b>Net cash used in financing activities</b>	<b>-2.656</b>	<b>-29.037</b>
Changes to cash and cash equivalents due to currency exchange	2.117	2.903
<b>Net decrease/increase in cash and cash equivalents</b>	<b>-11.948</b>	<b>-22.752</b>
Cash and cash equivalents at beginning of reporting period	36.254	59.006
<b>Cash and cash equivalents at end of reporting period</b>	<b>24.306</b>	<b>36.254</b>

Additional details are shown in the Notes in item 5.

# Einhell Germany AG, Landau a. d. Isar

## Notes to the Consolidated Financial Statements for the Financial Year 2015

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### **1. Principles and Methods**

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#### **1.1 General information**

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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 applicable in the European Union.

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

The Board of Directors approved the consolidated financial statements on 31 March 2016 to be passed on to the Supervisory Board.

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#### **1.2 Basis of preparation**

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##### **Standards applied**

The accounting and valuation policies used in the consolidated financial statements are in accordance with the IFRSs applicable as of 31 December 2015. The Group has applied the following standards and amendments to standards to be adopted for the first time from 1 January 2015.

- IFRIC 21 "Levies"; effective for annual periods beginning on or after 17 June 2014.
- Improvements to IFRS 2011-2013; effective for annual periods beginning on or after 1 January 2015.

All standards that had to be adopted for the first time in 2015 had no material effect 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 2015 and which have not been applied prematurely by the Einhell Group. The Einhell Group does not currently plan a premature adoption of standards, interpretations and amendments.

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 IAS 19 “Defined Benefit Plans: Employee Contributions”; effective for annual periods beginning on or after 1 February 2015. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Improvements to IFRS 2010-2012; effective for annual periods beginning on or after 1 February 2015. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- IFRS 14 “Regulatory Deferral Accounts”; effective for annual periods beginning on or after 1 January 2016. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”; effective for annual periods beginning on or after 1 January 2016. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”; effective for annual periods beginning on or after 1 January 2016. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Ventures”; effective for annual periods beginning on or after 1 January 2016. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IAS 1 “Disclosure Initiative”; effective for annual periods beginning on or after 1 January 2016. The application of the amendments is expected to entail adjustments to the disclosures in the notes.
- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”; effective for annual periods beginning on or after 1 January 2016. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”; effective for annual periods beginning on or after 1 January 2016. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IAS 27 “Equity Method in Separate Financial Statements”; effective for annual periods beginning on or after 1 January 2016. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.



- Improvements to IFRS 2012-2014; effective for annual periods beginning on or after 1 January 2016. The amendments refer to standards IFRS 5, IFRS 7, IAS 19, IAS 34. We do not expect any material effects on net assets, financial position and results of operations as presented in the consolidated financial statements.

The effects of the following standards on the consolidated financial statements of the Einhell Group are being analysed at present.

- IFRS 9 “Financial Instruments”; effective for annual periods beginning on or after 1 January 2018. The standard IFRS 9 issued in July 2014 replaces the existing guidelines in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 contains revised guidance on the classification and measurement of financial instruments, including a new model for expected defaults to calculate the impairment of financial assets, as well as new general hedge accounting provisions. It also replaces the guidelines for recognising and derecognising financial assets previously governed by IAS 39. We expect that IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, although the assessment of the effects on the consolidated financial statements has not yet been completed.
- IFRS 15 “Revenue from Contracts with Customers”; effective for annual periods beginning on or after 1 January 2018. IFRS 15 “Revenue from Contracts with Customers” contains a comprehensive framework on when to recognise revenue in what amount. It replaces the existing guidelines on recognising revenue, including those in IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. The Einhell Group is presently analysing the effects thereof.
- IFRS 16 “Leases”; effective for annual periods beginning on or after 1 January 2019. According to this standard, all leases are recognised as a liability for the payment obligation on the liabilities side and, at the same time, as a right of use for the leased asset on the assets side of the balance sheet. This is depreciation on a straight-line basis, while the liability is reduced during its term through repayment and interest accruals. The Einhell Group has not yet analysed the effects of the new standard. We assume that liabilities from debt capital and intangible assets will increase.

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

## **Presentation**

Presentation in the statement of financial position 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 income is drawn up using the total cost method.

For clarity and comprehensibility of the consolidated financial statements, individual items in the statement of financial position and the statement of income have been summarised. These line items are listed separately in the notes to the consolidated financial statement.

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### **1.3 Principles of consolidation**

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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. In turn, subsidiaries are no longer included in the consolidated financial statements 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 the consolidated companies is 31 December; Ozito Industries Pty Ltd acquired in 2013 and Einhell Holding Australia Pty Ltd founded in 2013 have different financial years (30 June). Ozito Industries Pty Ltd and Einhell Holding Australia Pty Ltd prepare an interim financial statement as of 31 December. The 31 December is the reporting date of the parent company.

Capital consolidation is made using 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 asset-side balances are recognised as goodwill.

Within the consolidated group of companies, intra-group profits and losses, revenues, expenses and other income, all receivables and liabilities or provisions are eliminated. The income tax effects of consolidation transactions are recognised through profit or loss and appropriate deferred taxes are recognised.

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### **1.4 Basis of consolidation**

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

The Einhell Group increased its stake in Einhell Hellas AE in the 2015 financial year. Einhell Germany AG therefore now owns 98.08% of the shares in this company. In addition, the minority shareholder of Einhell Chile S.A. bought 10% of the shares; the Einhell Group now owns all of the shares in this company.

The subsidiaries consolidated in the consolidated financial statements are listed in section 8 of the notes to the consolidated financial statement. The subsidiary iSC GmbH, Landau a. d. Isar partially uses the exemptions pursuant to section 264 (3) of the German Commercial Code (HGB).

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### **1.5 Currency translation**

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The foreign investments within the consolidation group are financially, economically and organisationally autonomous. They 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 through profit or loss 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 income. All resulting translation differences are recognised in 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	
		31.12.2015	31.12.2014	2015	2014
Australia	AUD	1.4894	1.4841	1.4765	1.4724
Brazil	BRL	4.3139	3.2410	3.6916	3.1228
China	CNY	7.0724	7.5550	6.9730	8.1883
Hong Kong	HKD	8.4422	9.4373	8.6023	10.3052
Poland	PLN	4.2636	4.2902	4.1828	4.1845
Switzerland	CHF	1.0822	1.2024	1.0676	1.2146
Turkey	TRY	3.1815	2.8327	3.0219	2.9070
USA	USD	1.0892	1.2166	1.1096	1.3288

## 1.6 Accounting and valuation principles

**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. Usually, the depreciation period does not amount to 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 recognised in previous financial years 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 carrying amount of the net 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 purchase or manufacturing 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 and machinery	3-20 years
Other equipment, operating and office 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 lease 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 almost 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 realisable value of inventories falls below acquisition costs.

**Financial assets.** Financial assets comprise in particular trade receivables, receivables from banks, cash in hand, derivative financial assets and marketable securities.

*Financial assets measured 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 held for sale). Gains or losses from financial assets held 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 listed on an active market, such as trade receivables. After the first-time recognition, loans and receivables are valued at amortised cost using the effective interest method less impairment. Gains and losses are included in consolidated net profit when the loans and receivables are derecognised 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. Following initial recognition, financial assets available for sale are valued at fair value, whereby non-realised gains or losses are recognised in other comprehensive income. Where there are objective indications of a value impairment, or if there are changes to the fair value of a loan instrument due to exchange rate fluctuations, they are taken into account in the consolidated net profit or loss. Upon disposal of financial assets, cumulated gains or losses from the valuation at fair value that were recognised in other comprehensive income are recognised through profit or loss. Interest received from 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 corresponds with the respective figure in the consolidated cash flow statement.

**Impairment of financial assets.** At each reporting date, the carrying amounts 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 carrying 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 increase in 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 recognised 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 the estimated level of default probability for the receivable. If a receivable is classed as unrecoverable, the corresponding impaired asset value is derecognised.

**Deferred tax assets and liabilities** are set aside pursuant to IAS 12 "Income Taxes" for temporary differences between the carrying values shown in the consolidated statement of financial position 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 recognised in the amount of the probable tax burden or relief in future financial 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 adequate 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 equity in the same or another reporting period. Deferred tax liabilities and assets are only netted if they are deductible in the view of the fiscal authorities.

The **adjustment for currency conversion** results from 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 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 statement of financial position. The allocable consolidated net profit and allocable other comprehensive income is recognised separately in the income statement or in the statement of comprehensive income. Non-controlling interest includes the share of minority shareholders in the fair 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 from changes in 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 dependants.

A discount factor for interest rates for future beneficiaries of 2.71% (previous year: 2.22%) was used, along with 1.96% (previous year: 1.39%) for pensioners. As in the previous year, the rate for pension progression for commitments with adjustment guarantee was 3.00%. No rate of compensation increase was available for non-salary based obligations and for commitments without adjustment guarantee.

The pension provisions shown in the statement of financial position on the reporting date equal the defined benefit obligations offset against the fair value of plan assets. Pursuant to IAS 19.8, plan assets include assets of long-term funds independent of the reporting company that have been set up to render benefit payments to employees. Actuarial gains or losses are realised in the year they occur. The recognised fair value of the DBO is not secured by a pension fund, but to some extent by reinsurance policies.

**Provisions for other risks** 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 warranty and guarantees are set up at the time the products are sold. The valuation of warranty 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, liabilities to banks, 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 measured 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 liabilities held for sale). Gains or losses from financial liabilities held for sale 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 planned transaction.

Upon initial recognition and at each subsequent reporting date, derivative financial instruments are recognised at fair value. The fair value of tradeable derivatives corresponds to the positive or negative market value. If there is no market value available, they are calculated on the basis of generally accepted actuarial methods, 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. Derivative instruments are recorded in the Treasury system on the day of trading.

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 Einhell Group's fair values are validated by financial institutions that have provided the Group with the relevant contracts.

If the provisions of IAS 39 on hedge accounting are met, Einhell Group 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 that is recognised in the statement of financial position or of an obligation that is recognised in the statement of financial position or a fixed obligation that is not included in the statement of financial position. A cash flow hedge secures highly probable future payment flows or fluctuating payment inflows or outflows in connection with a hedged asset or liability as recognised in the statement of financial position. 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 for 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.

Fair value changes of the derivatives are taken into account in consolidated net profit or other comprehensive 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 consolidated net profit through profit or loss. The after-tax effective portion of changes in the fair value of derivative instruments that are allocated to a cash flow hedge are initially recognised in other comprehensive income. The reclassification to the statement of income is made at the same time as the underlying hedged item is recognised in profit or loss. The hedge-ineffective portions of fair value changes are recognised directly in consolidated net profit.

**Revenue recognition** 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 liabilities. Interest and changes in market values in connection with interest hedges are also included in these line items. 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 taxable result for the year and national tax regulations. 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. The change of deferred tax assets and liabilities is reflected in income taxes. Changes to be recognised in other comprehensive income are an exception to this rule.

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## 1.7 Estimates and assessments in accounting

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The consolidated financial statements contain a certain amount of estimations, assessments and assumptions. These can affect the amount and recognition 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, assessments and assumptions are explained below. Actual results may differ from these estimations, assessments and assumptions; any changes may have a significant effect on the consolidated financial statements.

**Fair value measurement.** Several accounting methods and disclosures of the Group require that the fair values of financial and non-financial assets and liabilities are measured.

The fair value measurement of an asset or a liability is, to the extent possible, based on observable market data. Depending on the input factors used in the valuation models, the fair values are classified to different levels of the fair value hierarchy:

- Level 1: Quoted prices (unadjusted) on active markets for identical assets and liabilities;
- Level 2: Input other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as price) or indirectly (i.e. based on price);
- Level 3: Valuation parameters for assets or liabilities that are not based on observable market data.

With regard to the fair value measurement with non-observable input factors (Level 3), the Group monitors the key input factors on a regular basis and performs valuation adjustments. If information provided by third parties, such as price quotes provided by service agencies, is used to measure fair values, the Group checks the data provided by the third party in terms of whether it meets the requirements according to the IFRS, including the level in the fair value hierarchy to which this information is to be classified.

If the input factors used to measure the fair value of an asset or a liability can be allocated to different levels of the fair value hierarchy, the measurement of all fair values is classified at the lowest input factor level on which the valuation is based.

The Group records possible reclassification between different levels of the fair value hierarchy at the end of the reporting period in which the changes have occurred.

Further information on the assumptions underlying the measurement of fair values is provided in the following section:

- Section 6 Risk report and financial instruments



**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 refer 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 2015, realisable values significantly exceed net asset values of the Group's 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 profit.

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

**Income taxes.** Estimates of future taxable 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 income from the reversal of taxable temporary differences and realisable tax strategies. As future business developments are uncertain and the Group has limited control over these developments, 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 benefits 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 several 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 results of operations.

## 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

	2015	2014
	EURk	EURk
Acquired intangible assets (without goodwill)	8,703	10,395
Self-developed intangible assets	306	212
Acquired goodwill	13,147	13,382
	<b>22,156</b>	<b>23,989</b>

Acquired intangible assets include the customer base and the acquired Ozito brand value from the acquisition of Ozito Industries Pty Ltd. The customer portfolio is systematically depreciated over five years.

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 2015, costs amounting to EUR 121 thousand were capitalised for self-developed software that is to support the optimisation of service procedures within the Einhell Group. In financial year 2015, expenses for product processing amounted to EUR 5.5 million (previous year: EUR 4.8 million). As in the previous year, none of these costs were capitalised as expenses in 2015. A total of 47 employees (previous year: 41 employees) were employed in this division.

Goodwill pertains to the following companies:

	2015	2014
	EURk	EURk
Ozito Industries Pty Ltd, Melbourne/Australia	5,699	5,720
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	1,679	1,886
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	2,174	2,117
Einhell Export-Import GmbH, Tillmitsch/Austria	2,148	2,145
Einhell Romania SRL, Bucharest/Romania	941	971
KWB-RUS OOO, St. Petersburg/Russia	192	229
kwb Germany GmbH, Stuhr/Germany	314	314
	<b>13,147</b>	<b>13,382</b>

Goodwill refers to companies that directly helped the Group to enter new markets or gain market shares. Assets and liabilities arising from hidden reserves are valued at fair value at the time of acquisition.

The cash flow forecasts contained specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined on the basis of estimates for the average annual EBIT growth rate made by the Board of Directors; these estimates correspond to forecasts that would be made by market participants.

The planned EBIT was estimated on the basis of past experience. Revenue growth was forecast on the basis of the average growth rate over the last few years and the estimates revenue volume and price increases in the next five years.

The estimated achievable earnings of Einhell-Unicore s.r.o exceeds its carrying amount by nearly EUR 200 thousand (2014:EUR 34 thousand). The Board of Directors established that a conceivable change of two of the material assumptions could mean that the carrying amount exceeds the achievable amount. The following table shows the amount by which these two assumptions would have to change for the achievable amount to equal the carrying amount.

Changes required for the recoverable amount to equal the carrying amount	
Discount rate (WACC)	+0.44
Planned EBIT growth rate	-5.00%

The recoverability of goodwill is verified in the scope of an annual impairment test. Any value adjustments on goodwill have no effect on tax. An impairment is recognised if the realisable amount falls below the carrying amount of the cash generating units' goodwill. The realisable amount is derived from future cash flows. Determination of the cash flows 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 valuation factors were used for all companies:

	2015	2014
	%	%
Terminal growth rate	1.25	1.25
Base rate	1.50	2.00
Market risk premium	7.00	6.75

The post-tax discount rate is determined from figures such as weighted equity costs, borrowing costs after tax, base rate, market risk premium and a specific country risk. The following discount rates (before tax) were used to determine the three largest goodwill items:

	2015	2014
	%	%
Ozito Industries Pty Ltd, Melbourne/Australia	8.04	8.51
Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	10.74	11.01
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	8.64	9.51

The base rate was adjusted to the current interest rate level.

A country-specific risk premium was considered in the calculation of the discount rate after taxes for each individual cash generating unit (CGU). In addition, the calculation of the discount rate is

also based on the country-specific tax rate. An individual discount rate is therefore calculated for every CGU.

The annual impairment test in financial year 2015 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 assessment parameters.

Pursuant to IAS 21.47, goodwill of non-euro countries is converted at the reporting date exchange rate. Goodwill impairments were applied in non-euro countries in financial year 2015. Goodwill of Einhell Export-Import GmbH is derived from the takeover of Einhell Croatia d.o.o., which is a fully-owned subsidiary of Einhell Export-Import GmbH.

### 2.3 Property, plant and equipment

	2015	2014
	EURk	EURk
Land and buildings in company assets	10,645	9,848
Technical equipment and machinery	2,621	2,762
Other equipment, operating and office equipment	6,257	5,834
Prepayments and assets under construction	27	174
	<b>19,550</b>	<b>18,618</b>

### 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 EUR -1 thousand (previous year: EUR 3 thousand). The expected yield on securities is 1% p.a.

### 2.5 Deferred taxes

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

	Deferred tax assets		Deferred tax liabilities		Net amount	
	2015	2014	2015	2014	2015	2014
Self-developed intangible assets and property, plant and equipment	18	269	2,323	2,754	-2,305	-2,485
Current assets	1,973	2,189	-29	-72	2,002	2,261
Other financial assets (at their fair values)	84	10	805	3,118	-721	-3,108
Pension provisions	336	393	-6	-12	342	405
Provisions for other risks	1,364	1,218	53	33	1,311	1,185
Other liabilities	198	337	6	7	192	330
Tax losses carried forward	1,896	1,812	0	0	1,896	1,812

	5,869	6,228	3,152	5,828	2,717	400
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The deferred taxes on hedge accounting and available-for-sale securities - which are shown under deferred taxes on other financial assets - are exclusively recorded in other comprehensive income.

Deferred taxes with respect to the above items result from the following circumstances:

- Capitalisation and amortisation of development costs;
- Increased tax depreciation on property, plant and equipment result in tax valuations falling under the carrying amounts;
- The valuation of trade receivables is different than in the tax base. This applies in particular to foreign group companies;
- Financial assets accounted for at fair value (available-for-sale assets and financial assets held for sale) show differing tax values and carrying amounts as a remeasurement is only carried out for accounting purposes and not for tax purposes.
- The 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 recognised in profit or loss in the financial statements over a longer period of time;
- Capitalisation of deferred taxes from loss carry forwards of subsidiaries.

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## 2.6 Inventories

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	2015	2014
	EURk	EURk
Raw materials and supplies (at acquisition cost)	323	299
Finished goods (at acquisition cost less impairment)	137,835	109,209
Prepayments	970	892
	<b>139,128</b>	<b>110,400</b>

In 2015 EUR 299 thousand (previous year: EUR 309 thousand) in raw materials and supplies, consisting primarily of packaging materials, were recognised as expense.

All in all, the company recognised impairments in the amount of EUR 5,007 thousand (previous year: EUR 3,720 thousand). No goods were transferred by way of security at the reporting date, as in the previous year. In financial year 2015, inventory write-downs of EUR 3,429 thousand (previous year: EUR 2,281 thousand) were recognised in the statement of income with effect on net income.

## 2.7 Trade receivables

Trade receivables are shown after deduction of impairment for bad debts. In financial year 2015, these impairments amounted to EUR 1,901 thousand (previous year: EUR 1,788 thousand). In addition, the company posted income from the receipt of receivables that had been written off and from the reversal of bad debt impairments in the amount of EUR 148 thousand (previous year: EUR 560 thousand) in the reporting period. The maximum default risk corresponds to the carrying amount of the receivables. Of the total gross receivables, 88% (previous year: 86%) are not yet due on the reporting date.

Impairments are recognised when customers file for insolvency or if a default risk arises from the time frame in which amounts remain overdue.

At the reporting date, there are no indications of impairments on trade receivables that are neither overdue nor already impaired.

The maturity structure of trade receivables is as follows:

2015	Net receivables	Value adjustment	Gross amount
	EURk	EURk	EURk
Receivables not due and due 1-120 days	61,810	471	62,281
Receivables due 121-360 days	901	556	1,457
Receivables due more than 360 days	0	3,365	3,365
	<b>62,711</b>	<b>4,392</b>	<b>67,103</b>

2014	Net receivables	Value adjustment	Gross amount
	EURk	EURk	EURk
Receivables not due and due 1-120 days	61,838	237	62,075
Receivables due 121-360 days	538	406	944
Receivables due more than 360 days	98	3,490	3,588
	<b>62,474</b>	<b>4,133</b>	<b>66,607</b>

## 2.8 Other financial assets

	2015	2014
	EURk	EURk
Derivative financial instruments included in hedge accounting	3,077	11,459
Financial assets measured at fair value through profit or loss	1,070	1,792
	<b>4,147</b>	<b>13,251</b>

Unrealised gains/losses from derivative financial instruments included in hedge accounting are taken directly to equity after deduction of deferred taxes.

## 2.9 Other assets

	2015	2014
	EURk	EURk
<b>Non-current</b>		
Income tax claims	331	651
Other	1,742	1,149
	<b>2,073</b>	<b>1,800</b>

	2015	2014
	EURk	EURk
<b>Current</b>		
Income tax claims	781	1,242
Other	19,657	18,883
	<b>20,438</b>	<b>20,125</b>

Income tax claims include in particular corporation tax credits pursuant to section 37 (5) of the German Corporation Tax Act (KStG). The other assets item also includes VAT receivables amounting to EUR 12,478 thousand (previous year: EUR 8,936 thousand). As at the balance sheet date, impairments in the amount of EUR 536 thousand were recognised on the total VAT receivables of Einhell Brazil totalling EUR 2,025 thousand.

## 2.10 Equity

### Subscribed capital

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

	2015	2015
	Number of shares	EUR
<b>Ordinary shares</b>		
Ordinary bearer shares (no-par)		
each with an arithmetic interest in share capital of EUR 2.56	2,094,400	5,361,664.00
<b>Preference shares</b>		
Non-voting preference bearer shares (no-par)		
each with an arithmetic interest in share capital of EUR 2.56	1,680,000	4,300,800.00
	<b>3,774,400</b>	<b>9,662,464.00</b>

All shares are fully paid up. The dividend proposal for Einhell Germany AG amounts to EUR 2,138,976.00 for financial year 2015 (previous year: EUR 1,384,096.00). The distribution amount corresponds to a dividend of EUR 0.60 per preference share (previous year: EUR 0.40) and EUR 0.54 per ordinary share (previous year: EUR 0.34).

A minimum of EUR 0.15 per share must be paid out to the holders of preference shares and has preference over the dividend to ordinary shareholders. The dividend per preference share is EUR 0.06 higher than the dividend per ordinary share. If the net profit in one or several financial years does not suffice to pay a dividend of EUR 0.15 per preference share, the missing amounts will be paid without interest from the net profit of subsequent financial years after the minimum preference share dividend for these financial years has been paid and before distribution of a dividend for ordinary shares. There are no distributions from minimum dividends outstanding. The preference shares do not carry any voting rights. All shares are of equal rank with regard to residual assets of the company. The ordinary shares hold voting rights in the Annual General Meeting.

### **Authorised capital I**

The Board of Directors is authorised until 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and /or preference bearer shares without voting rights for cash on one or several occasions by a total amount of EUR 3,864,985.60 (authorised capital I). Here, the shareholders must be granted a subscription right. The Board of Directors is, however, authorised to exclude fractional amounts from the shareholders' subscription rights with the approval of the Supervisory Board and, where ordinary and preference shares are issued at the same time, to exclude shareholders of one class from subscribing to shares of the other class, provided the subscription ratio is the same for both classes. 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 in the distribution of profit or company assets.

### **Authorised capital II**

The Board of Directors is authorised until 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and /or preference bearer shares without voting rights for cash on one or several occasions by a total amount of EUR 966,246.40 (authorised capital II). Here, the shareholders must be granted a subscription right. The Board of Directors is, however, authorised to exclude fractional amounts from the shareholders' subscription rights with the approval of the Supervisory Board and, where ordinary and preference shares are issued at the same time, to exclude shareholders of one class from subscribing to shares of the other class, provided the subscription ratio is the same for both classes. The Board of Directors may further exclude the subscription right in general in order to issue new bearer preference shares without voting rights at an issue price that is not substantially below the stock market price (section 203 (2) and section 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 in the distribution of profit or company assets.

### **Capital reserve**

The capital reserve consists of premiums on the issue of shares.



## Retained earnings and consolidated net profit

This item includes the Group's accumulated net profit from previous years less dividend payments. The Annual General Meeting on 17 June 2015 resolved to pay a dividend in the amount of EUR 1,384,096.00. Dividend payouts are based on the equity that is available pursuant to German commercial law provisions.

## Capital management

The capital management of the Group has the objective to safeguard the going concern of the Group in the long term and generate attractive returns for the shareholders. Capital management instruments include the distribution of dividends. In its capital management activities, the Group complies with the statutory regulations on capital maintenance. The articles of association state no capital requirements. Moreover, the Board of Directors is authorised until 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and/or preference bearer shares without voting rights for cash on one or several occasions by up to a total amount of EUR 4,831,232.00 (authorised capital).

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### 2.11 Changes to other reserves

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	2015			2014		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Unrealised gains/losses from currency translation	-1,723	0	-1,723	1,118	0	1,118
Unrealised gains/losses from available-for-sale financial assets	-1	0	-1	3	0	3
Unrealised gains/losses from derivative financial instruments	-8,544	2,388	-6,156	5,765	-2,957	2,808
Unrealised gains/losses from employee benefits (IAS 19 revised)	337	-74	263	-647	194	-453
<b>Other comprehensive income</b>	<b>-9,931</b>	<b>2,314</b>	<b>-7,617</b>	<b>6,239</b>	<b>-2,763</b>	<b>3,476</b>

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### 2.12 Non-controlling interest

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	2015	2014
	EURk	EURk
1 January	1,601	2,464
Capital contributions	0	0
Disposals	-41	-175
Dividends	-200	-680
Unrealised gains from currency translation (= share in other comprehensive income)	3	-45
Share in consolidated net profit	292	37
<b>31 December</b>	<b>1,655</b>	<b>1,601</b>

The proportion of minority interests is insignificant at 1.0% of equity.

## 2.13 Pension provisions

Benefits resulting from pension obligations are contingent on the employees' length of employment. The obligations comprise both benefits from pensions that are being paid and rights to future pension payments.

Current and former members of the Board of Directors as well as a small number of employees of Einhell Germany AG and iSC GmbH, who entered the companies prior to 1993, have vested pension rights in the form of a direct benefit commitment. The benefit commitments are based on individual contractual stipulations. No claim to a universal benefit plan can be derived based on the entry date. The individual pension entitlement is defined based on a fixed pension amount in euro per year of employment. The Company took out reinsurance to cover the basic entitlements. The ultimate responsibility for the pension obligations lies with the Company. Einhell Schweiz AG has to enter a follow-up agreement with a pension fund to comply with statutory requirements. By law, the pension fund has to cover at least the occupational pension. Einhell Schweiz AG has entered a follow-up agreement with a collective foundation.

The defined benefit obligations (DBO) developed as follows in financial year 2015:

	2015	2014	2013	2012	2011
	EURk	EURk	EURk	EURk	EURk
1 January	3,235	2,573	2,624	2,049	1,901
Current service expense (personnel expenses)	249	44	45	30	26
Interest expense (personnel expenses)	75	75	70	87	87
Actuarial losses and gains from changes in financial assumptions	-217	647	-68	552	124
Pension payments	-283	-104	-98	-94	-89
Payments from employees	40	0	0	0	0
Other changes	1,827	0	0	0	0
Currency difference	203	0	0	0	0
<b>31 December</b>	<b>5,129</b>	<b>3,235</b>	<b>2,573</b>	<b>2,624</b>	<b>2,049</b>

Plan assets developed as follows in financial year 2015:

	2015	2014	2013	2012	2011
	EURk	EURk	EURk	EURk	EURk
1 January	668	664	659	650	643
Interest income	41	4	5	9	7
Other changes	1,493	0	0	0	0
Currency difference	165	0	0	0	0
<b>31 December</b>	<b>2,367</b>	<b>668</b>	<b>664</b>	<b>659</b>	<b>650</b>

	2015	2014	2013	2012	2011
	EURk	EURk	EURk	EURk	EURk
Cash value of defined benefit obligations	5,129	3,235	2,573	2,624	2,049
Less fair value of plan assets	-2,367	-668	-664	-659	-650
<b>Net obligations</b>	<b>2,762</b>	<b>2,567</b>	<b>1,909</b>	<b>1,965</b>	<b>1,399</b>

Actuarial gains and losses refer primarily to changes in the discount rate. Expenses from obligations regarding employee benefits are shown in personnel expenses. The pension provisions shown in the statement of financial position on the reporting date equal the defined benefit obligations offset against the fair value of plan assets. The actuarial assumptions to determine pension obligations are explained in section 1.6 Accounting and valuation principles.

The other changes item pertains to the addition of pension provisions of Einhell Schweiz AG, which were set aside as at 1 January 2015. There are no significant shortfalls in coverage between plan assets and defined benefit obligation. The shortfall as at 1 January 2015 in the amount of EUR 334 thousand does not constitute a material value and can therefore be corrected in the ongoing accounts pursuant to IAS 8.

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

#### Plan assets comprise

	2015	2014
	EURk	EURk
Pension funds	666	668
Qualified insurances	1,701	1,494
	<b>2,367</b>	<b>2,162</b>

#### Future payments

Benefits to be paid in the future are estimated as follows:

	Payments from plan assets
	EURk
2016	146
2017	150
2018	158
2019	161
2020	165
	<b>780</b>

Employer payments into plant assets will amount to around EUR 36 thousand in 2016.

In Germany, the weighted average term of defined benefit obligations for pensions is 15.0 years, in Switzerland it is 18.4 years.

### Sensitivity analysis for benefit obligations

Sensitivity analyses are usually performed using the following parameters:

- Actuarial interest rate
- Salary trend
- Rate for pension progression
- Life expectancy

The existing benefit obligations of Einhell Germany AG are not linked to salary, making a calculation on the basis of the salary trend obsolete as the defined benefit obligations remain unchanged if the salary trend rises or falls by 0.25%. The guaranteed adjustment of current benefits for existing pension obligations by 3% p.a. is significantly higher than the current inflation trend. Therefore, a change in the rate for pension progression by +/- 0.25% has no effect on the obligation, likewise rendering a sensitivity analysis obsolete as the DBO remains unchanged.

Therefore, the sensitivity analysis only accounts for the actuarial interest rate and life expectancy, whereby the latter only applies to obligations regarding future pension payments as a longer life expectancy has no effect on capital commitments.

		EURk
<b>Einhell Germany AG</b>		
Actuarial interest rate +0.5%	3.21% future beneficiaries, 2.46% pensioners	2,777
Actuarial interest rate -0.5%	2.21% future beneficiaries, 1.46% pensioners	3,294
Life expectancy + 1 year		3,156
<b>iSC GmbH</b>		
Actuarial interest rate +0.5%	3.21% future beneficiaries, 2.46% pensioners	101
Actuarial interest rate -0.5%	2.21% future beneficiaries, 1.46% pensioners	121
Life expectancy + 1 year		115
<b>Einhell Schweiz AG</b>		
Actuarial interest rate +0.25		1,912
Actuarial interest rate -0.25		2,098
Life expectancy + 1 year		2,047
Life expectancy - 1 year		1,955

### Risks

Risks from benefit obligations arise from the investment in plan assets. These risks might entail the requirement to pay additional capital into the plan assets to be able to meet current and future pension obligations.

### Demographic/biometric risks

A large share of the benefit obligations pertains to life-long benefits and pensions for surviving dependants. Early claims and benefit payments over longer durations may lead to higher pension expenses and higher pension payments than previously anticipated.

The Einhell Group does not take any specific measures to balance out potential risks in the case of need. Given the overall amount of commitments, pension obligations are no major risk for the Einhell Group and therefore no further reinsurance is needed.

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### 2.14 Provisions for other risks

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	Warranties	Other	Total
	EURk	EURk	EURk
1 January 2015	4,605	5,645	10,250
Claims	-4,356	-1,269	-5,625
Reversals	-132	-566	-698
Additions	4,739	3,038	7,777
Currency translation effects and other changes	-88	7	-81
<b>31 December 2015</b>	<b>4,768</b>	<b>6,855</b>	<b>11,623</b>

	Warranties	Other	Total
	EURk	EURk	EURk
<b>31 December 2015</b>			
Non-current	0	830	830
Current	4,768	6,025	10,793
<b>31 December 2014</b>			
Non-current	0	750	750
Current	4,605	4,895	9,500

Long-term provisions contain exclusively provision for severance payments of Hans Einhell Österreich GmbH (EUR 123 thousand) and Einhell Italia (EUR 707 thousand). The last cash outflow is expected in 2039.

## 2.15 Liabilities from debt capital

	2015	2014
	EURk	EURk
<b>Non-current</b>		
Loans, secured	0	0
Loans, unsecured	30,000	30,000
	<b>30,000</b>	<b>30,000</b>

	2015	2014
	EURk	EURk
<b>Current</b>		
Loans and overdrafts, secured	447	10
Loans and overdrafts, unsecured	2,072	202
	<b>2,519</b>	<b>212</b>
Thereof non-current loans maturing in the short term	0	0
Thereof loans and overdrafts maturing in the short term	2,519	212

Collateral in the total amount of EUR 447 thousand consisting mainly of cheques and bills was furnished to secure liabilities from debt capital.

The Einhell Group utilised the favourable interest level in financial year 2013 for refinancing. The Group concluded long-term bilateral loan agreements totalling EUR 30.0 million with several banks, securing long-term financing until 2018 at extremely favourable conditions. The new financing did not require the provision of securities. The Group thus believes it has a sound basis to weather the continuously difficult market environment and the Group therefore does not expect any problems in financing future business.

Financial covenants were stipulated in the loan agreements, the breach of which allows creditors to increase the credit margin in a first step and reduce the loan term in the subsequent year as a second step if the covenants are still not met. The covenant ratios are equity ratio, debt coverage ratio and interest coverage ratio. All covenants were met in financial year 2015. On account of the low interest level and the current market forecasts, Group management decided not to extend the interest caps and interest swaps expired in 2014.

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## 2.16 Other financial liabilities

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	2015	2014
	EURk	EURk
Derivative financial instruments included in hedge accounting	2,382	1,074
Financial liabilities measured at fair value through profit or loss	316	1,729
	<b>2,698</b>	<b>2,803</b>

Unrealised gains/losses from derivative financial instruments included in hedge accounting are taken directly to equity after deduction of deferred taxes.

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## 2.17 Other liabilities

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	2015	2014
	EURk	EURk
Non-current	4,316	7,749
Current	21,431	18,205
	<b>25,747</b>	<b>25,954</b>

Other liabilities consist mainly of tax liabilities, liabilities for wages and salary payments including those from employee profit participation and social security contributions and liabilities from current customer bonuses and customer credits. In 2015, the other liabilities item also includes the contingent purchase price payment from the takeover of Ozito Industries Pty Ltd in the amount of EUR 6,918 thousand. The purchase price payment, which is due in 2016, is shown in current liabilities.

### 3. Notes to the consolidated statement of income

#### 3.1 Revenue

Segments	2015		2014		Change	
	EURk	%	EURk	%	EURk	%
Tools	269,600	60.8	256,582	61.6	13,018	5.1
Garden & Leisure	174,151	39.2	159,781	38.4	14,370	9.0
	<b>443,751</b>	<b>100.0</b>	<b>416,363</b>	<b>100.0</b>	<b>27,388</b>	<b>6.6</b>

Regions	2015		2014		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	175,569	39.6	164,472	39.5	11,097	6.7
Other Europe	144,043	32.4	133,489	32.1	10,554	7.9
Asia	7,437	1.7	15,284	3.7	-7,847	-51.3
South America	25,757	5.8	21,817	5.2	3,940	18.1
Other	90,945	20.5	81,301	19.5	9,644	11.9
	<b>443,751</b>	<b>100.0</b>	<b>416,363</b>	<b>100.0</b>	<b>27,388</b>	<b>6.6</b>

#### 3.2 Other operating income

	2015	2014
	EURk	EURk
Income from the release of warranty provisions	132	118
Commission income	559	1,030
Income from costs for inspection of goods charged to suppliers	515	424
Income from the receipt of receivables that had been written off and from the reversal of impairments for bad debts	148	560
Proceeds from disposal of fixed assets	119	34
Income from the release of other provisions	566	2,759
Income from purchase price adjustments	0	512
Income from letting and leasing	318	169
Income from damage compensation	786	167
Income from PV plant	542	422
Other income	2,160	922
	<b>5,845</b>	<b>7,117</b>



### 3.3 Cost of materials

	2015	2014
	EURk	EURk
Expenses for raw materials and supplies and purchased goods	302,946	289,819
Expenses for purchased services	120	155
	<b>303,066</b>	<b>289,974</b>

### 3.4 Personnel expenses

	2015	2014
	EURk	EURk
Wages and salaries	51,926	46,408
Social security contributions	9,289	8,892
Expenses for old-age pensions	128	126
	<b>61,343</b>	<b>55,426</b>

Number of employees (annual average)	2015	2014
	Number	Number
D/A/CH region	557	571
Other Europe	332	325
South America	83	80
Asia	272	275
Other countries	76	69
	<b>1,320</b>	<b>1,320</b>

### 3.5 Depreciation

	2015	2014
	EURk	EURk
Amortisation of intangible assets (without goodwill)	2,348	2,213
Depreciation of property, plant and equipment	2,808	2,757
	<b>5,156</b>	<b>4,970</b>

As in the previous year, financial year 2015 did not see any extraordinary depreciation. The purchase price allocation pertains to amortisation of intangible assets in the amount of EUR 1.643 thousand (previous year: EUR 1,643 thousand) and depreciation of property, plant and equipment amounting to EUR 56 thousand (previous year: EUR 56 thousand).

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### 3.6 Other operating expenses

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	2015	2014
	EURk	EURk
Rent expenses	3,090	3,315
Expenses for buildings including maintenance of fixed assets	2,140	2,307
Legal and consulting expenses	2,267	2,370
Expenses for external stock keeping	7,125	6,069
Expenses on freight outward	15,804	16,873
Advertising expenses	6,644	7,308
Commission expenses	2,590	2,554
Fleet expenses	2,328	2,294
Expenses from bad debts and valuation allowances on receivables	2,778	2,351
Miscellaneous other operating expenses	21,494	19,224
	<b>66,260</b>	<b>64,665</b>

Given the short-term nature of the trade receivables item and the fact that payments are expected to be received in the near future, interest effects are of no major significance in calculating impairments.

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### 3.7 Financial result

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	2015	2014
	EURk	EURk
Interest income	187	215
Interest expenses	-2,113	-1,458
Gains/losses from currency translation	-187	-2,126
	<b>-2,113</b>	<b>-3,369</b>
thereof interest income from hedging instruments	0	84
thereof interest expenses from hedging instruments	0	-69
thereof currency translation gains from hedging instruments	1,070	1,792
thereof currency translation losses from hedging instruments	-316	-1,729

The financial result also includes measurement results from derivative financial instruments not subject to hedge accounting and the ineffective share of value adjustments of hedging instruments that are subject to hedge accounting. The financial result includes financial income amounting to EUR 16,948 thousand and financial costs in the amount of EUR 19,061 thousand.

### 3.8 Income taxes

	2015	2014
	EURk	EURk
Actual tax expenses	6,361	7,159
Deferred taxes	-2,225	-3,721
	<b>4,136</b>	<b>3,438</b>

In measuring a capitalised asset for future tax relief, the probability of recovery of the anticipated tax relief is also taken into account. Deferred taxes for hedge accounting and available-for-sale securities are only recognised in other comprehensive income. Deferred tax assets on changes in the fair value of cash flow hedges amount to EUR 84 thousand (previous year: EUR 10 thousand), while the corresponding deferred tax liabilities come out to EUR 805 thousand (previous year: EUR 3,056 thousand). Further deferred taxes in equity in the amount of EUR 2,233 thousand (previous year: EUR 2,739 thousand) refer to the initial consolidation of Ozito Industries Pty Ltd. in 2013.

The subsidiaries capitalised deferred taxes from loss carryforwards in the amount of EUR 1,896 thousand (previous year: EUR 1,812 thousand), thereof EUR 689 thousand at the subsidiary kwb Germany GmbH, which generated a tax loss of EUR 2,210 thousand (previous year: profit of EUR 425 thousand) in financial year 2015. Loss carryforwards that are classified as non-recoverable, because either no profit is expected or they cannot be carried forward, are not included in the determination of deferred tax assets. In 2015, no deferred tax assets were recognised for loss carryforwards in the amount of EUR 16,894 thousand (previous year: EUR 21,024 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 applied, is as follows:

	2015	2014
	EURk	EURk
Expected tax expenses	3,534	1,523
Tax expenses/income from intra-Group income/expenses	640	273
Other non-tax-deductible expenses	1,732	4,572
Different tax rates in other countries	-640	-1,682
Tax free income	-971	-2,079
Changes in loss carryforwards	-96	-172
Other	-63	1,003
<b>Reported tax expenses</b>	<b>4,136</b>	<b>3,438</b>

The table shows the reconciliation of tax expenses anticipated in the financial year with the respective reported tax expenses. The anticipated tax expense is calculated by multiplying profit before taxes with the domestic total tax rate applicable in that financial year of 30.0% (2014: 30.0%).

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### **3.9 Earnings per share**

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Earnings per share as per IAS 33 refer to a company's ordinary shares. Since the ordinary shares of Einhell Germany AG are not publicly traded, earnings per share are not reported.

## 4. Segment reporting

### 4.1 Segment reporting by division

The identification of reportable operating segments pursuant to IFRS 8 is based on the so-called management approach concept. The segmentation of the Einhell Group into the two segments Garden & Leisure and Tools reflects the Group's internal management and reporting structures. Einhell Group's product range is also divided into garden products and tools. The central management parameter of the Einhell Group is operating earnings. The business activities of the Einhell Group are divided into the two segments of Tools and Garden & Leisure. Revenue is allocated to the individual segments. The items financial result, interest income and expenses, scheduled depreciation as well as non-cash income and expenses are usually allocated on a pro rata basis to the segment at the level of the individual company based on revenue. The Tools segment includes the areas of electronic hand tools, stationary tools and accessories. Garden & Leisure comprises the areas of garden and water technology as well as cooling and heating technology. The segment information is determined on the basis of the accounting and valuation principles that are also applied in the consolidated financial statements. Revenue between segments is generally invoiced on the basis of normal market conditions.

2015	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk
Segment revenue	269,600	174,151	443,751	0	443,751
Profit from ordinary activities (EBT)	8,080	3,699	11,779	0	11,779
Financial result	-2,454	341	-2,113	0	-2,113
Interest income	93	94	187	0	187
Interest expenses	-1,456	-657	-2,113	0	-2,113
Scheduled depreciation	3,296	1,860	5,156	0	5,156
Non-cash income	-309	-138	-447	0	-447
Non-cash expenses	210	227	437	0	437
Inventories	93,387	45,741	139,128	0	139,128
Depreciation of inventories	2,207	1,222	3,429	0	3,429

2014	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk
Segment revenue	256,582	159,781	416,363	0	416,363
Profit from ordinary activities (EBT)	1,537	3,539	5,076	0	5,076
Financial result	-3,134	-235	-3,369	0	-3,369
Interest income	107	108	215	0	215
Interest expenses	-986	-472	-1,458	0	-1,458
Scheduled depreciation	3,193	1,777	4,970	0	4,970
Non-cash income	-96	-50	-146	0	-146
Non-cash expenses	1,533	474	2,007	0	2,007
Inventories	72,582	37,818	110,400	0	110,400
Depreciation of inventories	1,254	1,027	2,281	0	2,281

## 4.2 Segment reporting by region

The geographic allocation of revenue for segment reporting by region is based on the registered office of the invoice recipient.

2015	D/A/CH region	Other Europe	Asia	South America	Other countries	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk	EURk	EURk
External revenue	175,569	144,043	7,437	25,757	90,945	0	443,751
Non-current assets (without deferred taxes)	15,599	12,287	673	1,475	14,125	0	44,159

Total group revenue generated in Germany amounts to EUR 143.9 million. The companies with the strongest revenue in other Europe are Einhell Italy with EUR 17.6 million, Einhell France with EUR 17.5 million and Einhell UK with EUR 11.9 million.

The largest part of revenue in the South America region is generated by the subsidiaries in Chile, Argentina and Brazil. Revenue in Asia is largely generated by the subsidiaries in Hong Kong. In Australia, external revenue of EUR 86.0 million was generated and the share in non-current assets amounts to EUR 14.1 million.

The share of non-current assets pertaining to Germany is EUR 13,362 thousand.

2014	D/A/CH region	Other Europe	Asia	South America	Other countries	Reconciliation	Einhell Group
	EURk	EURk	EURk	EURk	EURk	EURk	EURk
External revenue	164,472	133,489	15,284	21,817	81,301	0	416,363
Non-current assets (without deferred taxes)	15,536	12,039	561	880	15,766	0	44,782

Total group revenue generated in Germany amounts to EUR 132.7 million. The companies with the strongest revenue in other Europe are Einhell Italy with EUR 14.5 million, Einhell Turkey with EUR 13.3 million and Einhell France with EUR 13.0 million.

The largest part of revenue in the South America region is generated by the subsidiaries in Chile, Argentina and Brazil. In Australia, external revenue of EUR 78.5 million was generated and the share in non-current assets amounts to EUR 15.8 million.

The share of non-current assets pertaining to Germany is EUR 13,207 thousand.

In the past financial year 2014, EUR 72,553 thousand was generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. In the past financial year 2015, EUR 85,058 thousand was generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. This revenue was generated in both the Garden & Leisure and the Tools segments.

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### **4.3 Working capital**

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The financial requirements of the Einhell Group are driven in particular by the level of inventories and trade receivables. Stock turnover rates of inventories and the maturities of trade receivables play a major role here and have a significant impact on the financial requirements.

The Einhell Group's funding derives, on the one hand, from the equity that was provided by its shareholders when the company was founded and the subsequent capital increases and retained earnings that are set aside in reserves or profits carried forward. In addition, the Einhell Group procures debt capital in the form of long-term loans and short-term borrowings as well as, to some extent, supplier loans. Loans are largely denominated in euro. Supplier loans are mainly in USD or CNY. Anticipated cash flows from the payment of supplier liabilities are largely hedged with the corresponding hedge transactions.

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## **5. Notes to the consolidated statement of cash flows**

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The consolidated statement of cash flows shows the development of cash flows by inflows and outflows in connection with operating, investing and financing activities. Effects from changes to companies included in the consolidation were eliminated.

### **Operating activities**

Cash inflow from operating activities results from profit before taxes as well as the accumulated depreciation and amortisation of intangible assets and property, plant and equipment. The increase in inventories of EUR 28,127 thousand at the end of the year had a negative effect on operating cash flow, while the increase in current liabilities of EUR 6,222 thousand and in trade payables of EUR 4,750 thousand had a positive effect.

### **Investing activities**

Cash outflows for investments in property, plant and equipment pertain primarily to operating and office equipment.

### **Financing activities**

Cash flows from financing activities include mainly inflows and outflows associated with loans and the distribution of the dividend. Moreover, the item also includes the payment of the second tranche of the earn-out liabilities from the takeover of Ozito Industries Pty Ltd.

### **Changes in cash and cash equivalents**

Cash and cash equivalents comprise cash in hand, cash at banks with an original term of less than 90 days and cheques as of the reporting date. Effects from the changes in cash due to exchange rate fluctuation are shown separately.



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## **6. Risk report and financial instruments**

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### **6.1 Financial risk management**

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The Einhell Group operates internationally and is thus exposed to market risks from changes to interest rates and exchange rates. The Group uses derivative financial instruments to manage these risks. The guidelines used for managing the associated risks are implemented with the approval of the Board of Directors by a central treasury department working in close cooperation with the Group companies. The Einhell Group monitors the current market environment to assess these risks. Further information on risk management is available in the management report.

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### **6.2 Default risk**

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Company policy is to minimise default risk both from customers and suppliers by using instruments that are customary in international practice. These help the company evaluate default risks of the ordering company for each order based on the relevant economic situation. To counter the risks associated with new customers and high-risk countries in particular, the company uses letters of credits in individual cases. In the offer phase, the sales and finance departments jointly decide on security requirements and adjust these requirements when the orders are placed. The company also uses external information from banks and credit agencies to support the assessment of risk. To minimise the supplier default risk, both the purchase and project management teams work with the finance department to develop joint security concepts.

The maximum default risk corresponds to the carrying amount of the receivables. Trade receivables pertain to DIY chains, specialist traders and discounters and amount to EUR 62.7 million (previous year: EUR 62.5 million). In the financial year 2015, there were no significant receivables for which new payment targets were agreed.

Where possible, the Einhell Group uses Euler-Hermes credit insurance to counter credit risk.

As the derivatives are acquired from well-known financial institutions, the Group expects that the maximum default risk from derivatives will be covered by their positive market value.

The positive market value of all derivative financial instruments as of the reporting date is EUR 4,147 thousand.

Bank balances amounted to EUR 24.3 million on the reporting date (previous year: EUR 36.3 million). These assets are held at first-rate, well-known banks.

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

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### **6.3 Interest risks**

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The interest rate risk of the Einhell Group stems mainly from financial liabilities, loans and interest-bearing borrowings. The risk is reduced when required 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 fixed interests from concluded hedge transactions and the earmarked funds that are tied up in assets and liabilities.

The Group uses interest caps and swaps as required, either as an economic cash flow hedge or as economic fair value hedge, and recognises them at fair value. On account of the low interest level and the current market forecasts, Group management decided not to extend the interest caps and interest swaps expired in 2014.

The Group is subject to a cash flow risk from fluctuating variable interest rates. A change in market interest rates of 1% would have an effect on interests at the reporting date of EUR 82 thousand.

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#### 6.4 Liquidity risk

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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 the reporting date, the Group had about EUR 52.5 million in unsecured credit lines at its disposal for the operating business. The Group also keeps a constant eye on the financial markets for financing opportunities in order to secure the financial flexibility of the Einhell Group and limit excessive refinancing risks.

The following table shows all contractual payments as of 31 December 2015 for amortisation, repayments and interest for financial liabilities in the statement of financial position. Derivative financial instruments are shown at market value. It is not anticipated that actual cash flows will significantly differ from the expected cash flows with regard to the time of payment.

	2016	2017	2018-2020	2020 ff.
	EURk	EURk	EURk	EURk
Non-current liabilities to banks	450	450	30,375	0
Trade payables	62,529	0	0	0
Other current liabilities	24,129	0	0	0

The risk associated with the cash flows shown in the table is limited to cash outflows. Trade payables and other financial liabilities result mainly from financing operating 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 the effective management of the total liquidity risk. Risk management was extended and strengthened by implementing a Group-wide, internet-based risk management information system.

Current liabilities to banks are not shown separately.

At the reporting date there were open foreign exchange contracts for which we anticipate cash inflows corresponding to about EUR 289.9 million and cash outflows corresponding to about EUR 287.0 million. Sensitivities are specified under foreign currency risks.

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## 6.5 Foreign currency risks

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Due to the international nature of its operations, the Einhell Group is exposed to currency translation risks. To manage and minimise these risks, the Einhell Group uses derivative financial instruments with a maximum maturity of two years. 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, which is usually denominated in USD and CNY. Einhell products, in contrast, are mainly sold in the relevant national currency. The planned USD and CNY purchases are 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, where possible, made in the relevant national currencies or using currency hedges.

All assets or liabilities of the Einhell Group are based on observed prices or derived and determined therefrom. This excludes earn-out liabilities, which are measured at fair value level 3 (in accordance with section 1.7).

Given the short-term nature of the USD and CNY payment terms, the USD and CNY exposure from financial instruments pertains mainly to derivative financial instruments. A 10% change in exchange rates would result in pre-tax exchange rate gains/losses of EUR 21,735 thousand or EUR -19,186 thousand; due to the application of cash flow hedge accounting, this would be shown in equity. The derivative financial instruments are only used to hedge the procurement of goods. A 10% change in exchange rates of derivative financial instruments that are not shown under hedge accounting would result in pre-tax exchange rate gains or losses of EUR 643 thousand or EUR -786 thousand, respectively.

The nominal volume of derivative financial instruments is equivalent to the total of gross purchase price and sales price amounts (not offset against each other) agreed between the parties and is therefore not a reliable indicator for Group risk from the use of derivative financial instruments. Risks and opportunities are reflected in the market value, which is equivalent to the cash value of the derivative financial instruments at the reporting date.

Positive and negative market values of derivative financial instruments in 2015	Gross amount shown	Offsetting amount	Net amount shown
	EURk	EURk	EURk
Derivatives with positive market values	4,147	0	4,147
Derivatives with negative market values	2,698	0	2,698

The table shows the potential effects of the offsetting of financial assets and financial liabilities that are based on legally enforceable master netting arrangements or similar contracts. Einhell may only offset financial assets and financial liabilities as per IAS 32, if it has a legal right of set-off and Einhell actually intends to settle on a net basis.

Financial instruments with a positive market value to cash flow hedge	Nominal volume EURk		Market value EURk	
	2015	2014	2015	2014
Currency futures	97,238	145,110	2,759	10,148
Options	0	0	0	0
	<b>97,238</b>	<b>145,110</b>	<b>2,759</b>	<b>10,148</b>

Financial instruments with a negative market value to cash flow hedge	Nominal volume EURk		Market value EURk	
	2015	2014	2015	2014
Currency futures	100,817	101,008	2,571	1,223
Options	0	0	0	0
	<b>100,817</b>	<b>101,008</b>	<b>2,571</b>	<b>1,223</b>

The underlying transactions refer to contracted and planned purchases and sales. All the cash flows are expected within a period of 15 months and are recognised in the acquisition cost of inventories. Ineffectiveness of cash flow hedges is immaterial to hedge accounting due to their short-term nature.

## 6.6 Market values and carrying amounts of financial instruments

Pursuant to IAS 39, financial instruments (assets and liabilities) are allocated to different measurement categories. The allocation to a particular measurement category determines whether the financial instrument is recognised at cost or at fair value. The following table shows the carrying amount and fair value for the individual categories and the measurement category in the statement of financial position. Non-current loans are subject to variable interest rates and the fair value thus corresponds to the carrying amount. The other fair values are provided by banks or determined on the basis of generally accepted measurement models. Options are measured using Black Scholes models. All other hedging derivatives are measured by discounting future cash flows. The initial recognition parameters used in these models are the relevant observable market prices at the reporting date, such as volatilities and forward rates and interest rates. For current assets and liabilities, the carrying amounts provide a good indication of the fair value.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. It does not include any information on the fair values of financial assets and financial liabilities that were not measured at fair value, if the carrying amount provides an appropriate approximation to the fair value.

	Carrying amount	Fair value					Total						
		Held for trading	Measured at fair value	Fair value - hedge instruments	Held to maturity	Loans and receivables		Available for sale	Other financial liabilities	Level 1	Level 2	Level 3	Total
<b>2015</b>													
<b>in EURk</b>													
<b>Financial assets measured at fair value</b>													
Currency futures for hedging purposes				3,077						3,077			3,077
Options used for hedging purposes				0						0			0
Derivative hedge instruments not subject to hedge accounting	1,070												1,070
Available-for-sale financial instruments										380			380
	1,070		0	3,077	0	0	0	0	0	380		0	4,527
<b>Financial assets not measured at fair value</b>													
Trade receivables							62,711						62,711
Other assets							8,397						8,397
Cash and cash equivalents							24,306						24,306
	0		0	0	0	0	95,414			0		0	95,414
<b>Financial liabilities measured at fair value</b>													
Currency futures for hedging purposes				2,382									2,382
Options used for hedging purposes				0									0
Derivative hedge instruments not subject to hedge accounting	316												316
Contingent consideration							8,133						8,133
	316		8,133	2,382	0	0	0	0	0	0		0	10,831
<b>Financial liabilities not measured at fair value</b>													
Loans and overdrafts, secured												447	447
Loans and overdrafts, unsecured												32,072	32,072
Trade payables												62,529	62,529
	0		0	0	0	0	0	0	0	0	0	95,048	95,048

	Carrying amount					Fair value						
	Held for trading	Measured at fair value	Fair value - hedge instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
<b>2014</b>												
in EURk												
<b>Financial assets measured at fair value</b>												
Currency futures for hedging purposes			11,459					11,459		11,459		11,459
Options used for hedging purposes			0					0		0		0
Derivative hedge instruments not subject to hedge accounting	1,792							1,792		1,792		1,792
Available-for-sale financial instruments						375		375		375		375
	1,792	0	11,459	0	0	0	0	13,626				13,626
<b>Financial assets not measured at fair value</b>												
Trade receivables					62,474			62,474				62,474
Other assets					10,117			10,117				10,117
Cash and cash equivalents					36,254			36,254				36,254
	0	0	0	0	108,845	0	0	108,845				108,845
<b>Financial liabilities measured at fair value</b>												
Currency futures for hedging purposes			1,074					1,074		1,074		1,074
Options used for hedging purposes			0					0		0		0
Derivative hedge instruments not subject to hedge accounting	1,729							1,729				1,729
Contingent consideration		11,151						11,151				11,151
	1,729	11,151	1,074	0	0	0	0	13,954				13,954
<b>Financial liabilities not measured at fair value</b>												
Loans and overdrafts, secured							10	10				10
Loans and overdrafts, unsecured							30,202	30,202				30,202
Trade payables							55,269	55,269				55,269
	0	0	0	0	0	0	85,481	85,481				85,481

## Fair value measurement

### a) Valuation techniques and material unobservable input factors

The following table shows the valuation techniques that were used to measure level 2 and level 3 fair values as well as the material unobservable input factors that were applied:

#### Financial instruments measured at fair value

Type	Valuation technique	Material unobservable input factors	Relation between material unobservable input factors and measurement at fair value
Contingent consideration	<p><i>Discounted cash flows:</i> The valuation model considers the cash value of expected payments, discounted for a rate that takes account of the risks and maturities. The anticipated cash flow is determined by considering the possible scenarios for forecast profit before taxes, the amount to be paid in each of these scenarios and the likelihood of occurrence.</p>	<p><i>Ozito Industries Pty Ltd:</i></p> <ul style="list-style-type: none"> <li>Forecast annual revenue growth rate (2015/16: 12% growth; 2016/17: 7% growth) before adjustment for the risk that key account relations might end.</li> <li>Risk of termination of key account relations (2015/16: 0%, 2016/17: 5%)</li> <li>EBIT margin forecast</li> <li>Discount rate (2.6% - 2.7% p.a.)</li> </ul> <p><i>Einhell Intratek Mühendislik ve Dis Ticaret A.S.:</i></p> <ul style="list-style-type: none"> <li>Forecast annual revenue growth rate (2016:12.5%, 2017: 10.6%)</li> <li>EBIT margin forecast</li> <li>Discount rate (2016: 3.5%, 2017: 2.4%)</li> </ul>	<p>The estimated fair value would rise (fall) if:</p> <ul style="list-style-type: none"> <li>the annual average revenue growth rate were higher (lower)</li> <li>the risk of key account relations being terminated were lower (higher)</li> <li>the EBIT margin were higher (lower)</li> <li>the risk-related discount rate were lower (higher)</li> </ul> <p>A change in the annual revenue growth rate automatically entails a change in the EBIT margin in the same direction.</p>
Currency futures and options Available-for-sale financial instruments	<p><i>Market comparison method:</i> Fair values are based on price quotes by brokers. Similar contracts are traded on an active market and the price quotes reflect actual transactions for similar instruments.</p>	not applicable	not applicable

#### Financial instruments not measured at fair value

Other financial liabilities (secured and unsecured bank loans, liabilities from finance leases)	<i>Discounted cash flows</i>	not applicable	not applicable
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### b) Reclassifications between level 1 and level 2

No reclassifications were performed in 2014 and 2015 in either direction.

c) Fair values in level 3

**Reconciliation of fair values in level 3**

Contingent consideration	EURk
As of 1 January 2014	13,605
Earn-out payment Ozito Industries Pty Ltd	-4,264
Adjustment of earn-out liabilities Ozito Industries Pty Ltd	-512
Loss recognised in borrowing expenses	364
Currency translation effects recognised in exchange equalisation item	655
Accounting of earn-out liabilities Einhell Intratek	1,303
<b>As of 31 December 2014</b>	<b>11,151</b>
Earn-out payment Ozito Industries Pty Ltd	-3,332
Adjustment of earn-out liabilities Ozito Industries Pty Ltd	352
Loss recognised in borrowing expenses	261
Currency translation effects recognised in exchange equalisation item	-211
Earn-out payment Einhell Intratek	-100
Adjustment of earn-out liabilities Einhell Intratek	12
<b>As of 31 December 2015</b>	<b>8,133</b>

There were no reclassifications from or to level 3.

**Sensitivity analysis**

Any changes to material unobservable input factors that are deemed possible would have the following effects on the fair value of the contingent consideration, all other input factors being equal.

Fair value of the contingent consideration Ozito Industries Pty Ltd	AUD thousand		EUR thousand	
	Increase to	Decrease to	Increase to	Decrease to
<b>Exchange rate = 1.4894</b>				
31 December 2015				
Annual average revenue growth rate (change by 1 pp)	10,690	10,056	7,177	6,752
Risk of termination of key account relations (change by 10 pp respectively)	10,590	10,018	7,110	6,726
EBIT margin (change by 1 pp)	11,476	9,131	7,705	6,131
Discount rate (change by 1 pp)	10,422	10,188	6,997	6,840



Fair value of the contingent consideration Einhell Intratek	EURk	
	Increase to	Decrease to
31 December 2015		
Annual average revenue growth rate (change by 1 pp)	1,227	1,202
EBIT margin (change by 1 pp)	1,630	799
Discount rate (change by 1 pp)	1,231	1,198

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## 7. Other notes

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### 7.1 Other financial obligations

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Other financial obligations from rents and leases are distributed as follows:

	Total	up to one year	one to five years	more than five years
	EURk	EURk	EURk	EURk
Obligations from rental contracts	3,785	1,689	2,096	0
Obligations from leasing contracts	2,377	967	1,410	0
	<b>6,162</b>	<b>2,656</b>	<b>3,506</b>	<b>0</b>

Einhell Germany AG and its subsidiaries have entered into various operating leases for company cars, office equipment and other facilities and equipment. The terms of the leases range between two and five years. Usually, the leases cannot be terminated. In financial year 2015, the payments for operating leases amounted to EUR 567 thousand (previous year: EUR 570 thousand).

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### 7.2 Corporate Governance Code

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The Board of Directors and the Supervisory Board of Einhell Germany AG have made the declaration of compliance prescribed by 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](http://www.einhell.com).

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### 7.3 Related party disclosures

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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 the controlling shareholder of Einhell Germany AG. The following personnel connections exist between Thannhuber AG and Einhell Germany AG:

- Josef Thannhuber (Chairman of the Supervisory Board of Einhell Germany AG until 17 June 2015) is a shareholder and the Chairman of the Supervisory Board of Thannhuber AG.
- Philipp Thannhuber (Deputy Chairman of the Supervisory Board of Einhell Germany AG from 17 June 2015) is a shareholder of Thannhuber AG.
- Dr Markus Thannhuber (member of the Board of Directors of Einhell Germany AG) is a shareholder and Deputy Chairman of the Supervisory Board of Thannhuber AG.

In the financial year 2015, Josef Thannhuber, Philipp Thannhuber and Dr Markus Thannhuber received remuneration for their activities as executive bodies of Einhell Germany AG.

The value of the transactions and outstanding balances in connection with members of the management in key positions and companies, over which they have control or significant influence, were as follows.

EURk	Value of transactions		Outstanding balances as of 31 December	
	2015	2014	2015	2014
Consulting (*)	13	0	13	0

(\*) The Group used consulting services provided by Josef Thannhuber for project planning and implementation of construction and property projects as well as with regard to corporate strategy. The fee invoiced for these services corresponded to normal market rates. The invoice amounts were due in line with normal trading terms.

Einhell Germany AG and its subsidiaries did not carry out any legal transactions with Thannhuber AG and its related parties during financial year 2015 that would have been to the disadvantage of Einhell Germany AG or its subsidiaries. Nor did Thannhuber AG take or fail to take any measures that would have negatively affected Einhell Germany AG or its subsidiaries.

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#### **7.4 Remuneration of the Board of Directors and Supervisory Board**

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Remuneration of members of the management team in key positions comprises:

	<b>2015</b>	<b>2014</b>
	<b>EURk</b>	<b>EURk</b>
Short-term payments	2,361	1,634
Payments after termination of employment	780	685
	<b>3,141</b>	<b>2,319</b>

The members of the Board of Directors receive fixed salary components and variable components that are performance-dependent. Members of the Board of Directors hold shares in Einhell Germany AG. There are no share option programmes or similar schemes. In the financial year 2015, the total remuneration of the Board of Directors of Einhell Germany AG amounted to EUR 2,361 thousand (previous year: EUR 1,634 thousand). On 17 June 2011, the Annual General Meeting of Einhell Germany AG resolved to refrain from disclosing the remuneration of individual Board members for financial years 2011 until 2015. In addition, pension provisions for this group of persons totalling EUR 780 thousand were recognised in liabilities.

Pension provisions in the amount of EUR 1,893 thousand (EUR 2,065 thousand) were set aside for former members of the Board of Directors. Pension benefits in the amount of EUR 114 thousand were paid out to former members of the Board of Directors during the year under review.

The total remuneration of the Supervisory Board amounted to EUR 82 thousand (previous year: EUR 76 thousand) in the past financial year.

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

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#### **7.5 Auditor fees**

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Auditors' fees in the amount of EUR 146 thousand were booked to expenses in the year under review for the auditor KPMG AG (previous year: EUR 144 thousand). The fee pertains to the auditing of the financial statements. Fees for other services related to the audit of the system for compliance with requirements resulting from section 20(1) of the Securities Trading Act (WpHG) were recognised in the amount of EUR 13 thousand (previous year: EUR 0 thousand). No tax consulting services were rendered to the Einhell Group. Other services amounting to EUR 0 thousand (previous year: EUR 76 thousand) were rendered.

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#### **7.6 Events after the reporting date**

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

## 8. Subsidiaries

	Capital share	Equity
	%	31.12.2015
iSC GmbH, Landau a. d. Isar/Deutschland	100.0	1,162
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	4,401
HAFE Trading Ltd., Hong Kong/China	100.0	2,601
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	1,527
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	6,195
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	1,097
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0	584
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	2,699
Einhell Benelux B.V., Breda/Netherlands	100.0	-1,085
Einhell Italia s.r.l., Milan/Italy	100.0	6,036
Comercial Einhell S.A., Madrid/Spain	100.0	1,810
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	7,043
Einhell Hungaria Kft., Budapest/Hungary	100.0	389
Einhell Schweiz AG, Winterthur/Switzerland	100.0	2,621
Einhell UK Ltd., Birkenhead/Great Britain	100.0	1,555
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	299
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	2,260
Einhell Croatia d.o.o., Sveti Križ Začretje/Croatia	100.0	5,280
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,476
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	1,998
Einhell Romania SRL, Bucharest/Romania	100.0	3,404
Einhell-Ukraine TOV, Kiev/Ukraine	100.0	15
Svenska Einhell AB, Gothenburg/Sweden	100.0	-742
Einhell Holding Gesellschaft m.b.H., Vienna/Austria	100.0	137
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	100.0	1,796
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	100.0	5,682
Einhell Hellas A.E., Athens/Greece	98.1	2,589
Einhell Chile S.A., Santiago/Chile	100.0	985
Einhell Danmark ApS, Silkeborg/Denmark	100.0	-1,335
Einhell France SAS, Villepinte/France	95.0	-1,187
Einhell Australia PTY. Ltd., Melbourne/Australia	100.0	-149
Einhell Brasil Com. Distr. Ltda, Sao Paulo/Brazil	100.0	2,397
Einhell Norway AS, Larvik/Norway	100.0	-310
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	2,824
kwb Germany GmbH, Stuhr/Germany	100.0	446
KWB-RUS OOO, St. Petersburg/Russia	100.0	476
Hans Einhell Ukraine TOV, Kiev/Ukraine	100.0	336

Einhell Holding Australia Pty. Ltd., Melbourne/Australia	100.0	16,805
Einhell Colombia S.A.S., Bogota/Columbia	100.0	-12
Ozito Industries Pty Ltd, Melbourne/Australia	100.0	9,922

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## 9. Executive bodies

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### 9.1 The Board of Directors

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In financial year 2015 the Board of Directors of Einhell Germany AG comprised:

The Board of Directors	
Andreas Kroiss, Linz/Austria (Chairman)	Purchasing, marketing and sales, corporate strategy
Jan Teichert, Metten	Finance and accounting, taxes, legal, controlling, investor relations, personnel and logistics
Dr Markus Thannhuber, Landau a. d. Isar	Technology, product processing, quality control, services, IT and maintenance

Andreas Kroiss is Managing Director of KA-Invest GmbH, Linz.

Jan Teichert is Deputy Chairman of the Supervisory Board of SÜSS Micro Tec AG, Garching and a member of the Advisory Board of Kolb Technology GmbH Hengersberg (until May 2015).

Markus Thannhuber is Deputy Chairman of the Supervisory Board of Thannhuber AG, Landau an der Isar.

## 9.2 Supervisory Board

In financial year 2015 the Supervisory Board of Einhell Germany AG comprised:

Supervisory Board	until 17 June 2015	from 17 June 2015
Josef Thannhuber, Landau a. d. Isar, merchant	Chairman	
Professor Dr-Ing. Dr-Ing. E.h. Dr. h.c. Dieter Spath, Sasbachwalden, Chairman of the Board of WITTENSTEIN AG, Igersheim	Deputy Chairman	Chairman
Philipp Thannhuber, Landau an der Isar, Managing Director of Comedes GmbH, Landau an der Isar and WOTOX GmbH, Landau an der Isar		Deputy Chairman
Maximilian Fritz, Wallersdorf - Haidlfing, Call Centre team leader	Employee representative	Employee representative

Josef Thannhuber is Chairman of the Supervisory Board of Thannhuber AG, Landau an der Isar.

Professor Dr-Ing. Dr-Ing. E.h. Dr.h.c. 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, 31 March 2016

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 2015

	Acquisition and manufacturing cost				Cummulated depreciation				Carrying amounts					
	1.1.2015 EUR	Additions EUR	Changes in the consolidation EUR	Re- classifications EUR	Disposals EUR	Currency differences EUR	31.12.2015 EUR	1.1.2015 EUR	Depreciation in financial year EUR	Changes in the consolidation EUR	Disposals EUR	Currency differences EUR	31.12.2015 EUR	31.12.2014 EUR
<b>I. Intangible assets</b>														
1. Acquired intangible assets	20.559	633	-	-	-14	9	21.187	10.164	2.289	-	-12	33	12.484	8.703
2. Self-developed intangible assets	5.257	143	-	-	-	5.400	5.045	5.045	49	-	-	-	5.094	306
3. Acquired goodwill	15.489	-	-	-	-235	15.254	2.107	2.107	-	-	-	-	2.107	13.147
	41.305	776	-	-	-14	-226	41.841	17.316	2.348	-	-12	33	19.685	22.156
<b>II. Property, plant and equipment</b>														
1. Land and buildings in company assets	27.946	1.105	-	83	-	59	29.193	18.098	393	-	-	57	18.548	10.645
2. Technical equipment and machinery	5.247	68	-	19	-2	75	5.407	2.485	234	-	-1	68	2.786	2.621
3. Other equipment, operating and office equipment	20.681	2.722	-	75	-771	23	22.730	14.847	2.181	-	-579	24	16.473	6.257
4. Advance payments and assets under construction	174	52	-	-177	-22	27	27	-	-	-	-	-	27	174
	54.048	3.947	-	-795	-	157	57.357	35.430	2.808	-	-360	149	37.807	19.550
<b>III. Financial assets (securities)</b>														
	378	6	-	-	-1	-	383	3	3	-	-	-	3	380
	95.731	4.729	-	-	-810	-69	99.581	52.749	5.156	-	-592	182	57.495	42.086

Statement of non-current assets in the financial year 2014

	Acquisition and manufacturing cost				Cummulated depreciation				Carrying amounts					
	1.1.2014 EUR	Additions EUR	Changes in the consolidation EUR	Re- classifications EUR	Disposals EUR	Currency differences EUR	31.12.2014 EUR	1.1.2014 EUR	Depreciation in financial year EUR	Changes in the consolidation EUR	Disposals EUR	Currency differences EUR	31.12.2014 EUR	31.12.2013 EUR
<b>I. Intangible assets</b>														
1. Acquired intangible assets	20.006	484	-7	48	-	28	20.559	7.939	2.192	-7	-	40	10.164	10.395
2. Self-developed intangible assets	5.221	36	-	-	-	5.257	5.024	5.024	21	-	-	-	5.045	197
3. Acquired goodwill	17.322	-	-	-	-	-1.833	15.489	2.107	-	-	-	-	2.107	13.382
	42.549	520	-7	48	-	-1.805	41.305	15.070	2.213	-7	-	40	17.216	23.969
<b>II. Property, plant and equipment</b>														
1. Land and buildings in company assets	26.916	992	-	31	-	6	27.946	17.661	369	-	-	68	18.098	9.848
2. Technical equipment and machinery	5.074	75	-	19	-	98	5.247	2.184	210	-	-	91	2.485	2.620
3. Other equipment, operating and office equipment	18.880	2.186	-53	28	-530	170	20.681	12.881	2.178	-53	-314	145	14.847	5.989
4. Advance payments and assets under construction	183	128	-	-107	-48	274	54.048	32.736	2.757	-53	-314	304	35.430	18.237
	51.053	3.382	-53	-48	-	274	54.048	32.736	2.757	-53	-314	304	35.430	18.237
<b>III. Financial assets (securities)</b>														
	371	8	-	-	-1	-	378	3	3	-	-	-	3	375
	93.943	3.910	-60	-	-531	-1.531	95.731	47.809	4.970	-60	-314	344	52.749	42.882



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

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### **1.1 General operations and business segments**

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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 ensure the proximity to Einhell Germany AG's globally operating customers.

The subsidiaries comprise distribution companies mainly in Europe but also in South America and Australia as well as in Asia. The Asian subsidiaries are also responsible for product sourcing, product processing and procurement. As production is carried out in Asia, this is also where quality assurance takes place. Einhell employs a workforce of around 1,300 worldwide. Group revenue amounted to EUR 444 million in financial year 2015 (previous year: EUR 416 million).

The Einhell Group 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.

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### **1.2 Legal structure and management of the Group**

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#### **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 100% of the shares in subsidiaries with a centralised or special function such as services, product sourcing/product processing, procurement/purchasing and quality control/quality assurance. The Group also usually fully owns the global distribution 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 respective Managing Directors of the companies.

With regard 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 processing, the search for factories, auditing, certification, procurement, services, controlling, financing, IT and other administrative activities are centralised in Group companies in Germany and China. This organisational structure within the Group allows all distribution companies to focus on their core functions. Einhell is also in a position to press ahead with international expansion as each distribution company has a similar structure and the business model can be efficiently rolled out in additional 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 2015 financial year:

The Einhell Group increased its stake in Einhell Hellas AE in the 2015 financial year. Einhell Germany AG therefore now owns 98.08% of the shares in this company. In addition, the minority shareholder of Einhell Chile S.A. bought 10% of the shares; the Einhell Group now owns all of the shares in this company.

## **Management and control**

Responsibility for the business activities of the Einhell Group lies with the **Board of Directors** of Einhell Germany AG. 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 functional area the individual member is in charge of.

The Chairman of the Board of Directors is responsible for sales, procurement, marketing and corporate strategy.

The Chief Financial Officer is responsible for finance and accounting, tax, legal, controlling, investor relations, personnel and logistics.

The Chief Technical Officer is responsible for technology, product management, product processing, quality control, services, IT 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 makes sure 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 regular meetings and ensures an adequate level of communication and informational flows between the Board of Directors and the Supervisory Board.

In the past financial year, the composition of the Supervisory Board changed as follows, subsequent to the Annual General Meeting on 17 June 2015:

Supervisory Board	until 17 June 2015	from 17 June 2015
Josef Thannhuber	Chairman	
Professor Dr-Ing. Dr-Ing. E.h. Dr. h.c. Dieter Spath	Deputy Chairman	Chairman
Philipp Thannhuber		Deputy Chairman
Maximilian Fritz	Employee representa- tive	Employee representa- tive

### **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, segment earnings in the previous financial year, growth of Group assets and personal targets. The evaluation system for variable remuneration components has essentially 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. In the case of one of the Directors, an agreement exists, which stipulates that a proportion of the variable remuneration component must be used to purchase Einhell shares. If the employment contract of the Directors is not extended after twelve years, the relevant Director receives one year's salary plus the average management bonus paid over the last three years. If the employment contract is terminated before the twelve-year threshold, the proportional remuneration is calculated on a pro rata temporis basis. Further information about the members of the Board of Directors' remuneration can be found in the Notes.

### **Personnel changes to the Board of Directors**

There were no personnel changes to the Board of Directors in financial year 2015. There was no change to the division of responsibilities between the members of the Board of Directors.

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### 1.3 Corporate strategy and management

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#### Trends and challenges

The speed with which structural changes take place in the retail industry has accelerated in recent years. It is difficult to predict the future of the retail sector. New **digital channels** as well as high consumer expectations with regard to services, communication and the consideration of customer requirements confront retailers with enormous challenges. Companies will have to prepare themselves for continuous change in their environment and embed farsighted measures in their management strategies.

Online retail is also becoming more and more popular as an additional distribution channel in the DIY store sector. While this trade channel already existed in recent years, it failed to make a major revenue contribution compared to stationary trading - and the same applies to the Group's customers. The past year did not see any major shifts between the existing distribution channels. E-commerce trading is gaining more and more importance, also in the DIY store sector. The Einhell Group has developed a detailed online strategy with the aim of making the Einhell brand as visible as possible in the worldwide web. Einhell has built up resources in e-commerce and set up a dedicated e-commerce team that consists of specialists in e-commerce sales, IT and e-commerce marketing.

Power tools with high battery capacity are becoming increasingly popular. More and more consumers go for wireless options when buying power tools. Not only are they more practical to handle because of the larger radius of action, but they are also more powerful because of the lithium-ion batteries compared to the nickel-cadmium accumulators. In some markets such as Australia, more than half of all end consumers have already switched to **battery-operated** tools. Europe is not as advanced with regard to this trend, but battery-operated tools are likely to increasingly gain importance here as well in the coming years.

## **Group management**

Management of the business activities of the Einhell Group is mainly based on the **financial performance indicators** revenue and operating earnings before taxes (EBT). The two key figures are the most significant performance indicators of the Einhell Group.

Further financial **performance indicators** are the gross profit margin and the significant growth drivers of working capital, inventories and trade receivables. However, these key performance indicators are subject to strong country-specific variations and must therefore be interpreted within the context of the individual company. Inventories are analysed on an on-going basis and monitored 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 volumes. Trade receivables are constantly monitored on the basis of 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. Einhell does not use any non-financial performance indicators to manage the Group.

The Einhell Group's basic objective is to generate sustainable and profitable growth of **revenue** and **profit**. Profitability takes priority over pure growth targets. The Group substantiated these objectives by stating the targets of a long-term stable pre-tax margin averaging at least 4% to 5%, and long-term stable dividend distributions.

The management system has not been changed compared to the previous year.

## **Strategic orientation**

In recent financial years, the long-term strategic objectives of the Einhell Group were drawn up by the Board of Directors in conjunction with management. The Board of Directors summarised these objectives and oversees and continually monitors the operational implementation of the strategy.

The Einhell Group will consistently continue to pursue the expansion of its digital competence and capacity to act in all of its business divisions. Strategic decisions and measures to promote this goal continue to be implemented to ensure the organisation's future and to



secure competitive advantages, develop new business opportunities and revenue potential resulting from the digital revolution. The establishment of the **online retail** channel will also take place in close cooperation with our existing sales partners to optimise the presentation of our products in the field of e-commerce and add even more sales information.

The Einhell Group wants to be able to offer high-quality and innovative products to the end consumers. We want to try and gain additional market shares in various regions with the help of the new **Power X-Change system**. There is no master battery concept comparable to that of Einhell on the European market. Various devices from both the Tool and the Garden & Leisure segment can be operated with one and the same battery. We will develop the Power X-Change system even further in order to be able to offer the master battery system in as many areas as possible. It is also very important for us to not only entice enthusiasm from our trading partners and end customers, but to also win external partners for our platforms.

Another strategic aim is the further **internationalisation** of the Group. In addition to expanding existing customer relationships, the Group intends to make consistent efforts to break into new markets. Einhell thus intends to position itself as a global supplier with a highly attractive product range and benefit from economies of scale through higher sales volumes. The internationalisation process in Europe is already very advanced. The Group generates most of its revenue in Europe today. The further internationalisation outside of Europe is considered to be important in order to tap into additional growth fields and also gradually reduce the dependence on Europe. Through the positioning in regions outside of Europe, the Einhell Group optimises its global risk portfolio and thus tries to better balance out seasonal and especially regional economic downturns.

**Customer services** continue to be in the centre of these efforts and will also be rolled out as an international service organisation. This is to involve the establishment of a powerful, global services structure. The excellent service quality achieved in the D/A/CH region is to be gradually implemented in the subsidiaries in the coming years. Providing services to our customers beyond the point-of-sale, i.e. with maintenance or repair services, is a crucial factor in the development of the 'Einhell' brand. Good service does not only make the customers happy but also reduces costs at the same time. A well-organised structure is necessary in order to provide successful services.

Centralising the spare parts supply structures across Europe is another objective to reduce the complexity in the local subsidiaries' organisational structure.

The ability to organise flows of goods from production to the customer in an efficient, high-quality and cost-efficient way is one of the Einhell Group's core competences. The **supply chain management** subject area comprises information management as well as the management of the physical flow of goods and warehousing. The goal is to optimise time cycles, minimise capital tied to inventories, minimise transport costs and maximise availability for the customers. This requires a consistent digitalisation of the supply chain. After introducing a disposition tool and a transport management system, we will devise production-optimised disposition concepts. As a consequence, outbound cargo sent by our subsidiaries to the customers can then be validated digitally.

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#### **1.4 Product processing, procurement and quality management**

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##### **Product processing**

Product processing expenses amounted to EUR 5.5 million (previous year: EUR 4.8 million) in financial year 2015. 47 employees (previous year: 41 employees) were employed in this division. The division 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 made Einhell one of the fastest reacting companies in the industry. This is also reflected in the launch of the Power X-Change concept, which is a master battery concept where a variety of tools can be operated with one and the same battery. Einhell's Power X-Change concept comprises devices in both the Tools and the Garden & Leisure segment, making it basically unique in the market.

##### **Procurement**

In the procurement division, commodity prices in global trade are an important factor. Raw material prices fell dramatically in 2015. Compared with the annual average in 2014, the HWWI index of world-market prices plummeted by a total of 41.5% in 2015 (29.7% on a euro basis). This is the highest loss in one year since the commodities index HWWi was

started. The decline in the overall index was caused by the drop in oil prices, as crude oil plays an important role for the index.

### **Quality management**

Most of the Einhell product range is currently produced in China. Quality standards stipulated by the Einhell Group to the Chinese suppliers are determined by customer requirements. Quality control and quality management meet high standards.

Since high priority is given to quality checks before shipping from China, this area is constantly monitored. In addition to 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 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.

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## 1.5 Personnel and HR services

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The headcount did not change in 2015 compared to the previous financial year. On average, the Einhell Group has 1,320 employees (previous year: 1,320). Revenue per employee was EUR 336 thousand (previous year: EUR 315 thousand).

The continuous improvement of the future-oriented organisational and personnel development is one of the key challenges of modern HR management. Data on individual perceptions of this subject area was collected in 2015, when the **employee survey** last conducted in 2013 was repeated. A detailed comparison of results from 2013 and 2015 showed fundamental improvements in cross-departmental communication as well as the workforce's perception of the Company's positioning and our products in the markets. The results of the divisions/departments were introduced and put up for discussion in a number of information events held in context with the **Einhell Academy**. As such, the impact of the measures implemented after the first employee survey was validated and further improvement steps initiated.

An individual **qualification matrix** was introduced in all of the departments to facilitate a structured needs analysis forming the basis for an effective and efficient personnel development in the Einhell Academy. This relatively simple and clearly arranged tool enables managers and their staff to compare actual and target qualifications, taking into account individual needs and the dynamics of a modern work environment. Building on that, training needs were bundled and can now be offered by the Einhell Academy in centralised and customised Einhell events. As such, training courses were offered in the fields of presentation techniques, rhetoric, sales and product management as well as regarding the use of internal software packages.

The second key area of **operational health management** also entered the implementation phase, after the required knowledge background had been established in 2014. Five staff presentations on health-related issues such as stress management, nutrition and exercise were extremely well attended.

**Value-oriented management** is one of the major prerequisites for establishing a healthy work environment, especially in view of high demands with regard to the quality and quantity of work. These topics were therefore discussed in five manager workshops and will continue to be one of the major topics in operational health management. Based on the

presentations and workshops, an event was organised (**Health Day**), involving all of the trainees and work-study students as well as a large number of external experts. At the Health Day, the workforce was offered a number of health checks as well as various information events on stress management, Yoga, relaxation techniques, a healthy diet and workplace ergonomics. The high level of staff participation confirmed that the chosen topics reflect the interests of the employees.

In 2016, we will focus on embedding the processes initiated in the Einhell Academy and the related operational health management in the institution and general business processes. In addition, the target agreements defining variable remuneration components for financial year 2016 were concluded with the employees. The variable remuneration components depend on the operating earnings figure achieved by the Group or individual companies. In addition, individual remuneration components were agreed for some of the employees.

**Thank you to the employees:**

The exceptional commitment of every singly employee kept the Company on track and enabled Einhell to return to the strong position it is holding today. Building on this, all of our employees can be very proud and look into the future with great confidence. **The Board of Directors of the Einhell Group would like to express its sincere thanks to all Group employees - without your excellent performance we would not have been able to achieve this!**

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## 2. Economic report

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### General economic conditions

#### Global economy

The **global** economy continues to grow more moderately than anticipated. According to the International Monetary Fund, global economic growth amounted to 3.1% in 2015. Weak growth in some of the emerging markets had a negative effect on the global growth rate.

Despite strong economic growth in many Western industrialised states, the global unemployment rate continues to rise according to the UN. The International Labour Organisation (ILO) states that the number of unemployed increased to 197.1 million persons in the past year. This is equivalent to nearly one million more unemployed persons than in the year before.

#### Germany

The **German** economy showed a stable development in 2015 and continued on its growth path. As communicated by the Federal Statistical Office, the gross domestic product (GDP) went up 1.7% in the past year. One year before, it grew by 1.6%. A high employment rate together with the highly expansive monetary policy led to strong domestic demand. As the largest economy in the European Union, Germany benefited enormously from the European Central Bank's expansive monetary policy. Unemployment figures are lower than ever in recent years, wages and salaries are increasing and oil prices are at an extremely low level. Domestic demand has therefore been the biggest growth driver.

According to the Federal Statistical Office, private consumer spending increased by 1.9% in 2015 compared to the year before. A higher increase was last seen in 2000. Public spending was up 2.8%, exports climbed by 5.4% and imports were 5.7% higher than in the preceding year.

The annual inflation rate weakened unexpectedly in December 2015 according to the Federal Statistical Office. Economists had forecast an increase in inflation of 0.4% for December, but the rate actually dropped by 0.1% compared to the previous month. The inflation rate in Germany for the full year 2015 stood at 0.3%. This development in 2015 largely hinged on the price declines for energy products.

Compared to December 2014, the harmonised index of consumer prices (HICP) for Germany, which is calculated for European purposes, increased by 0.2% in December 2015. Compared the previous month of November, the HICP was unchanged.

The **DIY store sector** in Germany managed to almost fully offset the Praktiker and Max Bahr effects seen in the previous year. Previously lost market shares were successfully regained. Market researchers assume that the German DIY core market will slightly exceed the prior-year figures in 2015 (+1.9%) with total revenue of EUR 43.94 billion. Construction and DIY stores even managed to achieve disproportionately high growth of 3.0%, corresponding to revenue of EUR 21.29 billion. Experts expect that the DIY core market will see more growth in 2016, as will the construction and DIY stores. Nevertheless, it is also stated that the DIY stores have not yet returned to the level of earlier times in their competition with other distribution channels. Market researcher Klaus Peter Teipel said: "The sector has to sharpen its own profile, sell with more conviction and act independently to achieve a perfect combination of stationary and online offerings, thus attracting customers with good prices, a good presentation of goods, a good quality of products and good consulting and selling skills."

## **Europe**

The eurozone economy generated 1.8% growth in financial year 2015. The gross domestic product in the eurozone posted the highest growth rate since 2011. Some countries in the eurozone showed a very positive development in 2015 and managed to achieve impressive growth rates, while others were burdened by a slowdown in the emerging countries as well as structural problems domestically.

Unemployment in the euro countries has eased further after the heavy crisis. The unemployment rate dropped to 10.4% in December, according to the statistical authority Eurostat. The ratio decreased for the fourth month in a row and reached the lowest level since October 2011. In comparison to the previous month, the number of unemployed fell by 49,000 persons in December 2015. A total of 16.75 million people were unemployed in the eurozone in December 2015.

The inflation rate in the eurozone was at a weak 0.2% in December 2015. The inflation rate in all of Europe also amounted to 0.2% in 2015. The main reason for the low inflation rate at the moment is the further decline in oil prices.

The annual inflation rate is therefore below the target level stated by the European Central Bank (ECB). The ECB strives for just under two per cent in the medium term.

Industrial production in the eurozone dropped unexpectedly in December 2015. According to Eurostat, production fell by 1.3% compared to the previous year, while economists had expected an increase of 0.7%.

### **Australia**

The Australian economy has been growing for more than 20 years in a row. High income was mainly generated because of the commodity boom. Falling commodity prices in recent years led to lower tax revenue, however. The Australian economy still managed to achieve positive growth. This also had an effect on the Australian labour market, which continues to be in good shape, even though unemployment has slightly risen of late.



## **Performance report**

### **Einhell Group increases revenue and profitability**

The Einhell Group managed to increase its revenue in comparison with the previous year in a challenging market environment. Group revenue amounts to EUR 443.8 million in financial year 2015, compared to EUR 416.4 million in the previous year.

This means that the Einhell Group clearly exceeded its forecast for financial year 2015, in which the Board of Directors had stated a moderate increase in revenue to about EUR 420 million at the beginning of 2015. After a positive revenue trend had already become visible in the first quarters, the Einhell Group gradually increased its forecast to EUR 435 to 440 million.

Revenue of the Einhell group clearly exceeded the prior-year values in the first quarter. Revenue increased from EUR 105.1 million in the previous year's quarter to EUR 112.8 million, equivalent to 7.3% growth. The increase in revenue in the first quarter of 2015 was largely driven by the positive development on the German domestic market, in the region of Southern and Eastern Europe and in Australia.

In the second quarter, revenue amounted to EUR 115.9 million, which also clearly exceeded the prior-year level (EUR 107.9 million). The high quality and clear differentiation of products had an extremely positive effect on the gross profit margin.

The positive revenue development in the first half of the year was confirmed in the third quarter, as the Einhell Group managed to clearly expand its business volume. Some regions, especially the domestic region of Germany, Southern and Eastern Europe, and Australia, managed to significantly increase their revenue compared to the previous year. In the third quarter, revenue climbed from EUR 112.4 million in the prior-year period to EUR 119.1 million.

In the fourth quarter, revenue also showed a slightly positive development compared to the prior-year period. Revenue increased from EUR 91.0 million to EUR 95.9 million, and as a result overall group revenue amounted to EUR 443.8 million, which is substantially higher than in the previous year.

The regional development of revenue in financial year 2015 was as follows:

	2015		2014		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	175,569	39.6	164,472	39.5	11,097	6.7
Other Europe	144,043	32.4	133,489	32.1	10,554	7.9
Asia	7,437	1.7	15,284	3.7	-7,847	-51.3
South America	25,757	5.8	21,817	5.2	3,940	18.1
Other	90,945	20.5	81,301	19.5	9,644	11.9
	<b>443,751</b>	<b>100.0</b>	<b>416,363</b>	<b>100.0</b>	<b>27,388</b>	<b>6.6</b>

The **D/A/CH** region posted revenue of EUR 175.6 million (previous year: EUR 164.5 million) in financial year 2015. The revenue contribution of the D/A/CH region therefore amounts to 39.6%.

Revenue in **other Europe** increased significantly in financial year 2015 compared to the previous year. Overall revenue growth amounted to 7.9%, from EUR 133.5 million to EUR 144.0 million. Italy, France and the UK are among the significant sales market in financial year 2015.

Revenue in the **Asia** region amounted to EUR 7.4 million in the reporting period (previous year: EUR 15.3 million).

The **other countries and South America** improved their revenue figures considerably. Revenue increased by EUR 13.6 million to EUR 116.7 million year-on-year (previous year: EUR 103.1 million). The South American subsidiaries as well as Ozito Industries Pty Ltd in Australia and New Zealand made the largest revenue contributions. Ozito Industries Pty Ltd managed to generate revenue of EUR 85.6 million in the past financial year (previous year: EUR 73.2 million).

The Einhell Group was able to report encouraging revenue growth in nearly all of the regions. Only revenue in Asia was not increased. This is due to the fact that some major customers have changed their international procurement and subsequent delivery to national locations with national invoicing to centralised delivery with centralised invoicing processes. This change resulted in some shifts between the individual regions.

## Total output development of the two segments

The development of revenue by segment was as follows in financial year 2015:

	2015		2014		Change	
	EURk	%	EURk	%	EURk	%
Tools	269,600	60.8	256,582	61.6	13,018	5.1
Garden & Leisure	174,151	39.2	159,781	38.4	14,370	9.0
	<b>443,751</b>	<b>100.0</b>	<b>416,363</b>	<b>100.0</b>	<b>27,388</b>	<b>6.6</b>

The Tools segment generated revenue of EUR 269.6 million in financial year 2015 (previous year: EUR 256.6 million). The share of Ozito Industries Pty Ltd amounts to EUR 55.6 million (previous year: EUR 49.8 million).

The most significant sales in this segment were generated by products in the electric power tools, compressed air technology and wood processing ranges. Products by kwb Germany GmbH are reported in the Tools segment.

The Garden & Leisure segment generated revenue of EUR 174.2 million in 2015 (previous year: EUR 159.8 million). Revenue of the Garden & Leisure segment contains revenue generated by Ozito Industries Pty Ltd of EUR 30.0 million (previous year: EUR 23.4 million).

High revenues were mainly generated with lawn and garden care products. Lawn mowers, products from the tree and shrub care ranges as well as products related to water technology sold particularly well.

Both segments Tools and Garden & Leisure thus managed to clearly exceed their forecasts for financial year 2015.

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### 3. Earnings

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The Einhell Group managed to boost its profitability significantly compared to the previous year. The Einhell Group generated operating earnings of EUR 11.8 million in financial year 2015 (previous year: EUR 5.1 million). The pre-tax margin is 2.7% (previous year: 1.2%).

The following table shows the operating earnings development in the two segments:

	2015		2014		Change	
	EURk	%	EURk	%	EURk	%
Tools	8,080	68.6	1,537	30.3	6,543	425.7
Garden & Leisure	3,699	31.4	3,539	69.7	160	4.5
	<b>11,779</b>	<b>100.0</b>	<b>5,076</b>	<b>100.0</b>	<b>6,703</b>	<b>132.1</b>

In the Tools segment, in particular, the figures reveal a significant improvement over the previous year. Driven by the excellent results of our tool-focused companies in Europe and Australia, earnings in the Tools divisions increased considerably. Moreover, the high losses in Brazil and Argentina seen in the previous year were successfully reduced.

In Garden & Leisure, the gross profit margin increased to a lesser degree than in the Tools division.

Purchase price allocation (PPA) effects, for example, squeezed earnings by EUR 2.0 million. Adjusted for PPA effects, operating earnings amount to EUR 13.7 million and the pre-tax margin is 3.1%.

At the beginning of 2015, the Einhell Group had expected an increase in revenue to EUR 420 million and a pre-tax margin of approx. 2% to 2.5%. This was equivalent to an operating earnings forecast of approx. EUR 8.4 to 10.5 million.

After the final figures for the second quarter had been presented, the revenue forecast was slightly lifted. It now stated expected revenue of approx. EUR 425 to 430 million and a pre-tax margin of 2% to 2.5%. This was equivalent to an operating earnings forecast of approx. EUR 8.5 to 10.8 million.

At the end of financial year 2015 - after the figures for the third quarter were available - the revenue forecast was again adjusted slightly upwards. The Einhell Group now expected revenue of EUR 435 to 440 million and a pre-tax margin of approx. 2.5%. The operating earnings forecast of EUR 11.0 million was exceeded slightly by another EUR 0.8 million as at the end of the financial year.

The earnings development benefited mainly from the price trend for commodities in 2015. In addition, freight costs were reduced compared to the previous year due to overcapacities. Measures implemented in the past financial year and in the year before such as cost reduction projects also had a positive effect on earnings.

Negative effects on the earnings development originated from the high losses in the South America region as well as losses at some companies in Northern Europe and at kwb Germany GmbH. The negative effects from the sharp increase in USD and CNY were largely balanced out thanks to the anticipatory hedging strategy.

The domestic market of Germany performed well in financial year 2015. This applies to stationary retail as well as online trading. With its product range, Einhell is able to differentiate itself strongly from its competitors. This has a positive effect on product range decisions made by customers of the Einhell Group as well as with regard to the perception of the end consumers. With its highly individual and eye-catching point-of-sale appearance - both online and in stationary trade - Einhell distinguishes itself from its competitors. This means that in addition to higher revenue and earnings, further important building blocks were implemented together with the customers in 2015, which are expected to lead to further positive growth in the future.

Revenue in the Southern and Eastern Europe region as well as in Western Europe stabilised further and showed another slight increase on the previous year. The consolidation measures initiated in previous years and the adjustment of the product portfolio to market conditions allowed Einhell to significantly increase its gross profit margins in these regions. Group companies in Northern Europe did not manage to generate positive results, however.

South America is facing major structural challenges of the organisational kind as well as on the market. The general economic situation continues to be strained and has deteriorated further in recent months. The difficult market situation is also affecting the subsidiaries' performances. Moreover, the subsidiary in Chile is currently undergoing restructuring. The Chilean subsidiary has the advantage, however, of cooperating closely with an important customer, which can be regarded as a good basis for a successful restructuring. Some of the companies in South America are continuing to incur very high start-up losses that are still weighing on Group earnings. In Brazil, all of the company divisions were already restructured in financial year 2015. Organisation and cost structures are now aligned to an adequate level. Nevertheless, based on current revenue this is not enough to generate profits. While the cooperation with an important international key customer was successfully initiated, this was at a much smaller scale than initially expected. The strategy for the Brazilian market will therefore have to be re-evaluated. Whether this might even lead to a closure of the subsidiary is still open. The Argentinian subsidiary, on the other hand, managed to make a positive contribution to consolidated net profit despite a massive devaluation of the Argentinian peso. The devaluation of the Argentinian currency also entailed comprehensive economic reforms such as in the area of import regulation, which Einhell believes to be positive.

The revenue performance on the significant Australian market was very good. This has a positive impact on consolidated net profit. Ozito Industries Pty Ltd acquired in financial year 2013 experienced strong growth in 2015, along with its most important customer.

The Asian subsidiaries also showed a strong performance. Their earnings performances are determined substantially by the volume of goods ordered by the distribution companies.

As such, the Einhell Group showed a highly positive operating earnings performance overall, although individual regions and individual subsidiaries were facing some challenges.

The increase in personnel expenses of EUR 5,917 thousand to EUR 61,343 thousand is mainly due to the general development of wages and salaries. In addition, a significant increase in profit also has an impact on potential provisions for variable remuneration of the

staff. The appreciation of CNY versus EUR also had a disproportionately high effect on personnel costs.

Other operating expenses increased by 2.5% year-on-year to EUR 66,260 thousand. The increase is mainly due to an increase in revenue.

The financial result improved by EUR 1.3 million to EUR -2.1 million. This is a significant improvement compared to the previous year. Due to continuous currency hedging in the Group, currency losses were reduced significantly. The financial result is mainly derived from the interest result of EUR -1.9 million (previous year: EUR -1.2 million) and currency translation losses of EUR -0.2 million (previous year: EUR -2.1 million).

Consolidated net profit after non-controlling interests increased from EUR 1.6 million to EUR 7.4 million in financial year 2015. The ROI<sup>1</sup>, taking into account PPA effects, was 3.9% (previous year: 1.7%) at the reporting date. Before PPA effects, the ROI amounted to 4.6%.

The EBIT margin on revenue amounted to 3.1% in financial year 2015 (previous year: 2.0%).

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<sup>1</sup> ROI (Return on Investment) = Operating earnings/Total capital \* 100

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#### 4. Assets and financial position

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The main line items in the statement of financial position for the financial years 2015 and 2014 are as follows:

in EUR million	31.12.2015	31.12.2014	Change
Assets	42.1	43.0	-0.9
Goods inventories	139.1	110.4	+28.7
Trade receivables	62.7	62.5	+0.2
Cash and cash equivalents	24.3	36.3	-12.0
Equity	157.9	159.6	-1.7
Liabilities to banks	32.5	30.2	+2.3

The balance sheet total increased by EUR 7.2 million or 2.5% to EUR 300.8 million.

#### Investments and non-current assets

Investments amounted to EUR 4.7 million in financial year 2015. This refers primarily to intangible assets and property, plant and equipment. The new buildings of Einhell Croatia d.o.o. as well as of kwb Germany GmbH were completed in financial year 2015. In 2015, costs amounting to EUR 121 thousand were capitalised for self-developed software that is to support the optimisation of service processes within the Einhell Group.

Depreciation amounted to EUR 5.2 million in 2015 and is therefore up EUR 0.2 million year-on-year (previous year: EUR 5.0 million). Purchase price allocation effects of EUR 1.7 million from the takeover of Ozito Industries Pty Ltd are included in the depreciation item.

#### Current assets

Inventories increased from EUR 110.4 million to EUR 139.1 million as of the reporting date. This was caused by the prevention of seasonal supply bottlenecks. In addition, higher inventories served as a precautionary measure with regard to the currently difficult procurement market China.

The below table depicts the development of inventories in the two segments Tools and Garden & Leisure:



	2015		2014		Change	
	EURk	%	EURk	%	EURk	%
Tools	93,387	67.1	72,582	65.7	20,805	28.7
Garden & Leisure	45,741	32.9	37,818	34.3	7,923	21.0
	<b>139,128</b>	<b>100.0</b>	<b>110,400</b>	<b>100.0</b>	<b>28,728</b>	<b>26.0</b>

Trade receivables increased slightly to EUR 62.7 million (previous year: EUR 62.5 million). As before, no factoring was carried out in financial year 2015.

Due to negative cash flow from the operating business as well as increased investment activities, cash and cash equivalents at reporting date fell by EUR 11.9 million to EUR 24.3 million. Their share in total assets amounts to 8.1% (previous year: 12.4%).

Debt capital taken out by the Einhell Group increased to EUR 142.8 million (previous year: EUR 133.9 million).

## Financing

The financial requirements of the Einhell Group, which also vary greatly depending on the season, are driven in particular by the level of inventories and trade receivables. Stock turnover rates of inventories and the maturities of trade receivables play a major role here and have a significant impact on the financial requirements.

The Einhell Group's funding derives, on the one hand, from the equity that was provided by its shareholders when the company was founded and the subsequent capital increases and retained earnings that are set aside in reserves or profits carried forward. In addition, the Einhell Group procures debt capital in the form of long-term loans and short-term borrowings as well as, to some extent, supplier loans. Loans are largely denominated in euro. Supplier loans are mainly in CNY or USD. Anticipated cash flows from the payment of supplier liabilities are largely hedged with the corresponding hedge transactions.

Owing to the very healthy and solid financing structure of the Einhell Group - the Einhell Group traditionally has an excellent equity ratio that currently stands at 52.5% - the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financing problems for future business volume in connection with the further expansion of the Group.

The Einhell Group utilised the favourable interest level in financial year 2013 for refinancing. The Group concluded long-term bilateral loan agreements totalling EUR 30.0 million with several banks, securing long-term financing until 2018 at extremely favourable conditions. The new financing did not require the provision of securities and the Group therefore does not expect any problems in financing future business.

Financial covenants were stipulated in the loan agreements, the breach of which allows creditors to increase the credit margin in a first step and reduce the loan term in the subsequent year as a second step if the covenants are still not met. The covenant ratios are equity ratio, debt coverage ratio and interest coverage ratio. All covenants were met in financial year 2015.

As of the reporting date, the Group had about EUR 52.5 million in unsecured credit lines at its disposal for the operating business. Overall, the Einhell Group had credit balances of EUR 24,306 thousand with banks and liabilities from debt capital in the amount of EUR 32,519 thousand on the reporting date.

The Group secured an optimisation of liquid funds and the related maximum reduction of debt capital through effective cash pooling and a cash concentration system. This means that the balances of the different Group companies' bank accounts are transferred to a Master Account of Einhell Germany AG. As a consequence, only the balance of the Master Account will have to be covered by borrowings on the capital market. The subsidiaries participating in the cash pooling scheme therefore do not need to make investment or borrowing transactions on the capital markets, but simply have receivables or liabilities with Einhell Germany AG. This procedure serves to protect credit lines provided by banks and optimise the interest result. All Einhell Group companies are currently included in the cash pooling, as far as this is legally possible and feasible.

The Board of Directors declares that all the Einhell Group's land and buildings are free from third-party security interests. Transfers by way of security or comparable third-party rights do not exist. All land charge agreements in favour of third parties were reorganised in financial year 2010 and cancelled in the land register. All inventories and receivables are also free from third-party security interests.

The summarised cash flow statement shows the development of the financial position in the 2015 financial year:

	2015	2014	Change
	in EUR m	in EUR m	%
Cash flow from operating activities	-7.0	6.9	-201.4
Cash flow from investing activities	-4.4	-3.5	-25.7
Cash flow from financing activities	-2.7	-29.0	+90.7
	<b>-14.1</b>	<b>-25.6</b>	<b>+44.9</b>
Changes from currency translation	2.1	2.9	-27.6
<b>Net increase in cash and cash equivalents</b>	<b>-12.0</b>	<b>-22.7</b>	<b>+47.1</b>
Cash and cash equivalents at beginning of period	36.3	59.0	-38.5
<b>Cash and cash equivalents at end of period</b>	<b>24.3</b>	<b>36.3</b>	<b>-33.1</b>

Cash outflow from operating activities mainly results from profit before taxes as well as the increase in inventories, depreciation and amortisation of intangible assets and property, plant and equipment as well as interest expenses.

Cash flow from financing activities includes mainly inflows and outflows associated with loans and the distribution of the dividend. Moreover, the item also includes the payment of the second tranche of the earn-out liabilities from the takeover of Ozito Industries Pty Ltd.

The cash flow from investing activities mainly pertains to payments for investments in operating and office equipment.

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## **5. Overall economic situation**

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In sum, the Einhell Group managed to significantly increase revenue and earnings in financial year 2015. Targeted plan revenue and plan results for 2015 were exceeded. Restructuring measures implemented at various subsidiaries in the years prior had a positive effect on earnings. The integration of Ozito Industries Pty Ltd, which had been taken over in financial year 2013, is also very successful.

The Einhell Group managed to slightly increase its gross profit margin compared to the previous year. The gross profit margin amounts to 31.7% (previous year: 30.4%).

Moreover, the Einhell Group has an excellent equity ratio of 52.5% (previous year: 54.4%) as well as a net cash position of EUR -8,213 thousand (previous year: EUR 6,042 thousand).

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**6. Events after reporting date**

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No events that are significant with regard to reporting occurred between the end of the 2015 financial year and the preparation of the management report.

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## **7. Responsibility Statement of the Board of Directors**

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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](http://www.einhell.com)).

Einhell Germany AG applies company management practices to ensure compliance with legal regulations that go beyond statutory requirements. In particular, Einhell Germany AG observes various guidelines and procedural rules that are aimed at all Group employees and are designed to avoid risks resulting from non-compliance with legal provisions. 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.

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## 8. Risk report

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The risk management system of the Einhell Group seeks to identify and evaluate opportunities and risks at an early stage to be able to apply the required measures to exploit opportunities and limit any negative consequences on the business performance. This is aimed at ensuring the existence of the company as a going concern and creating values for the long term by improving business decisions. The Einhell Group defines risk as any event that could negatively impact the achievement of operating or strategic objectives. The management decides on a case-by-case basis whether the risk is transferred (e.g. via insurances), recognised in the statement of financial position (e.g. via provisions, impairments) or whether a risk is deliberately taken.

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### **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)**

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#### **Description of risk management process**

As a vital component of the internal control system, the risk management system is designed to identify the risk of misstatements in the Group bookkeeping and external reporting with respect to Group accounting processes 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 calculated risks. 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 risk management process in the Einhell Group is split into two stages. The first stage is the decentralised recognition of risks in subsidiaries and the various departments of Einhell Germany AG by the risk officers appointed by the Board of Directors. They are responsible for risk identification and evaluation. The critical aspect here for the Einhell Group is identification, since no risk planning can be undertaken for risks that have not yet been identified. The identified risks are evaluated by multiplying 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 various 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 is deliberately taken on by the Einhell Group, depending on whether the risk/opportunity relation is appropriate.

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 risks. There is also a company-specific classification into departments relevant to risk assessment: procurement, development, finances, IT, human resources, product management, sales and legal. The risks are monitored regularly and reported on a quarterly basis. The most important risks are also discussed at meetings of the Board of Directors. Opportunities are not recorded separately in the risk management system.

### **Elements of the internal control and risk management system**

The internal control system of the Einhell Group includes 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 system comprises integrated process controls and internal control systems.

The domestic controlling, investment controlling, finance, Group accounting and legal departments constitute the internal management system of the Einhell Group. The Einhell Group companies make a forecast in the relevant financial year to budget the following financial year. Based on differentiated revenue planning, the corresponding costs of sales and other costs are budgeted. These projected figures are collated for the Group into a budgetary statement of income.

The actual figures from the individual companies are processed on a monthly basis. As a result, a complete consolidated statement of income is devised that compares the budgeted and actual figures and allows for their analysis. The development of order intake,



margins etc. is also reported for all companies on a monthly basis. The comparison is discussed with the members of the Board of Directors and with the managers of the separate divisions and companies. The analysis of the budgeted and actual figures permits relevant measures to be developed and implemented.

The internal monitoring system is comprised of measures that are integrated into the processes and measures that are independent of the processes. In addition to automated IT process controls, manual controls also form an important part of integrated process measures which are, for example, also carried out by the internal audit department. The Supervisory Board, the Group auditors and other audit bodies, e.g. tax auditors, are involved in carrying out process-independent controls within the Einhell Group.

The audit of the consolidated financial statements by the Group auditors in particular is the main process-independent control measure with respect to Group accounting processes.

### **Use of IT systems**

Accounting transactions are recorded based on individual accounts in the accounting programme Microsoft Business Solutions Navision or, in few exceptional cases, 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. The 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 recognition and valuation of assets and liabilities can also lead to other Group accounting related risks.

### **Important regulatory and control activities to ensure propriety and reliability of Group accounting**

The internal control measures aimed at propriety and reliability of Group accounting ensure that transactions are fully recorded in compliance with statutory requirements and the stipulations of the company's articles of association as well as in a timely manner.

They also ensure that inventories are carried out in a proper manner, and that assets and liabilities are properly recognised, measured and shown in the consolidated financial statements. The rules also ensure that the accounting documentation provides reliable and transparent information.

The control activities to ensure propriety and reliability of Group accounting comprise example analyses of circumstances and developments on the basis of specific key figure analysis. The separation of administration, implementation, invoicing and authorisation functions and the fact that they are performed by different persons reduces the likelihood of wilful contravention. It also ensures that changes to the IT systems used for the underlying bookkeeping in Group companies are subject to full and timely logging of bookkeeping transactions in the relevant reporting period. The internal control system also guarantees 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 principles for the companies in Germany and other countries that are included in the Einhell consolidated financial statements. In addition to general accounting principles and methods, there are also regulations regarding the statement of financial position, statement of income, notes, management report, cash flow statement and segment reporting in place that comply with the legal requirements 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 also contain concrete rules about presentation and handling of Group billing transactions and any resulting reconciliation.

At Group level, specific control activities to ensure propriety 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 restricted 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.

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## **8.2 Description of risks**

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### **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.

Risks remain largely unchanged compared to the previous year.

### **Political risks**

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 the Einhell Group operates today can affect the stability and economies of these countries. Also, policies in the countries in which the Einhell Group hopes to expand its operations can affect its business strategy. This risk extends, for example, to the currency policies of countries or to import and customs duties regulations and their practical application. The same also applies to procurement countries where Einhell sources its prod-

ucts. 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 keep up to date with current developments. The Einhell Group also pursues a strategy of limiting investment in non-current assets, such as real estate, in such countries. This gives the Einhell Group maximum flexibility to react to unfavourable developments and to be able to have current assets available to take appropriate action in any country at any time.

### **Industry risks**

With respect to industry risks, the Einhell Group is subject to developments in the DIY sector and specialist stores 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 therefore 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 by expanding 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 objective 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. Via constant quality checks, suppliers are integrated into the quality control system of the Einhell Group. 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. We also use a new disposition software that improves the coordination between procurement and sales in determining quantities and further consolidates orders. In order to enhance the transparency of order processing over the entire supply chain from the supplier to the national warehouses, we work with a newly implemented transport management system. The risk of price increases, such as from changes in commodity prices, is countered where possible on the supply-side and demand-side by means of the Einhell Group 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.

### **8.2.3 Sales market risks**

The Einhell Group sees the main 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. One of the customers accounted for more than 10% of the Einhell Group's revenue in the last two financial years. Nevertheless, the management has not identified any risk of dependency on this customer.

### **8.2.4 Strategic and expansion risks**

Risks are also associated with implementation of the Einhell Group strategy, resulting for instance from the fact that resources or elements required for strategy implementation are not available at a particular time or run up against realisation problems. This may have either personnel or technical reasons.

The establishment and acquisition of subsidiaries also carries fundamental risks. Einhell seeks to counter these risks by conducting a fundamental investigation of the target country before it begins to identify new sales areas. This includes an assessment 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 that applies to 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 internal staff from our investment control department, the legal department and, in individual cases, other Einhell Group departments, supported by external advisors.

### **8.2.5 Financial, interest and currency risks**

The continuing growth of the Einhell Group is also associated with financing risks. The Einhell Group uses both non-current and current financial strategies in order to cope with financing risk.

The Group has bilateral agreements with banks on long-term loans. It also has conventional lines of credit that were only partially utilised in the financial year 2015. Cash and cash equivalents and also the equity provision stood at very good levels in the reporting year.

The Einhell Group is also expanding its netting system and cash pool that was set up together by the parent company and its subsidiaries. Subsidiaries are financed 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 the budget and the expected business volume of the corresponding subsidiaries.

Risks from interest rate changes and fluctuations are managed, if required, with derivative financial instruments such as non-current interest swaps and interest caps. No deed was identified in financial year 2015 to conclude interest rate derivatives. Risks from currency fluctuation are mainly managed by using classic currency futures. The risk of currency fluctuation in procurement is covered where possible by hedging transactions in the form of currency futures and options. Currency hedging is carried out pursuant to IAS/IFRS regulations regarding hedge accounting for the individual hedge periods.

Please see the notes to the consolidated financial statements, item 6 “Risk report and financial instruments”, for more information on interest, financial and currency risks.

### **Default risk**

Company policy is to minimise default risk both from customers and suppliers by using instruments that are customary in international practice. These help the company evaluate default risks of the ordering company for each order based on the relevant economic situation. To counter the risks associated with new customers and high-risk countries in particular, the company uses letters of credits in individual cases. In the offer phase, the sales and finance departments jointly decide on security requirements and adjust these requirements when the orders are placed. The company also uses external information from banks and credit agencies to support the assessment of risk. To minimise the supplier default risk, both the purchase and project management teams work with the finance department to develop joint security concepts.

The maximum default risk corresponds to the carrying amount of the receivables. Trade receivables pertain to DIY chains, specialist traders and discounters and amount to EUR 62.7 million (previous year: EUR 62.5 million).

Where possible, the Einhell Group uses Euler-Hermes credit insurance to counter credit risk.

As the derivatives are acquired from well-known financial institutions, the Group expects that the maximum default risk from derivatives will be covered by their positive market value.

Bank balances amounted to EUR 24,306 thousand on the reporting date (previous year: EUR 36,254 thousand). The investments are held with first-rate, well-known banks.

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

### **Liquidity risk**

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 the reporting date, the Group had about EUR 52.5 million in unsecured credit lines at its disposal for the operating business. The Group also keeps a constant eye on the financial markets for financing opportunities in order to secure the financial flexibility of the Einhell Group and limit excessive refinancing risks.

### **8.2.6 Liability risks**

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 economically sensible and appropriate insurance. Product liability claims are classified and efficiently processed on the basis of a clear organisation 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 IT service centre that is responsible for the implementation of the Group's international strategy. Great importance is attached to the realisation of uniform 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 further 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 conclusion, there are no risks that endanger the future of the company as a going concern in our assessment.

To be able to effectively measure and control the identified risks, we evaluate them on the basis of the parameters probability of occurrence and the potential effects of occurrence on the results. Here, we rely on empirical data and forward-looking assumptions. The following table shows all risks with their potential effects on results and probability of occurrence. This enables us to take appropriate measures for risk control.

The Einhell Group does not expect any major changes in risks in 2016. Some risks were adjusted compared with the previous year according to current trends and expectations.

The unsecure economic situation in China may impact our procurement markets. The procurement market risk was increased accordingly.

**Possible current effects on earnings before tax (EBT) of risks after taking measures**

Possible effects concerning:	effects on EBT – 2016 +		incidence rate 2016	
<b>Environment &amp; Industry</b>				
Political risks	□□□■		probable	20 % - 30 %
Industry risks	□□■■■		probable	10 %
<b>Company-specific risks</b>				
Procurement risks	□□□■		probable	20 %
Sales market risks	□■■■■		probable	20 %
Strategic and expansion risks	□□■■■		probable	20 %
Liability risks	□□□□■		probable	10 %
IT risks	□□□□■		improbable	
Legal risks	□□□■		probable	10 %
<b>Finance</b>				
Financial, interest and currency risks	□□□■		probable	10 % - 20 %
Default risks	□□□□■		probable	10 % - 20 %
Liquidity risks	□□□□■		improbable	

Effects on EBT:

- < 1 million €
- ≥ 1 million € < 2 million €
- ≥ 2 million € < 3 million €
- ≥ 3 million € < 4 million €
- ≥ 4 million €

Incidence rate:

- ≥ 0 % < 10 % improbable
- ≥ 10 % < 70 % probable
- ≥ 70 % very probable

In hindsight, the risk assessment made in the previous year proved to be justified. No major deviations were found and no unforeseen risks arose.

**Possible current effects on earnings before tax (EBT) of risks after taking measures**

Possible effects concerning:	effects on EBT – 2015 +	incidence rate 2015
<b>Environment &amp; Industry</b>		
Political risks	□□□■	probable 20 % - 30 %
Industry risks	□■■■■	probable 10 %
<b>Company-specific risks</b>		
Procurement risks	□□□□■	probable 10 %
Sales market risks	■■■■■	probable 20 %
Strategic and expansion risks	□□■■■	probable 20 %
Liability risks	□□□□■	probable 10 %
IT risks	□□□□■	improbable
Legal risks	□□□■	probable 10 %
<b>Finance</b>		
Financial, interest and currency risks	□□□■	probable 10 % - 20 %
Default risks	□□□□■	probable 10 % - 20 %
Liquidity risks	□□□□■	improbable

Effects on EBT:

- < 1 million €
- ≥ 1 million € < 2 million €
- ≥ 2 million € < 3 million €
- ≥ 3 million € < 4 million €
- ≥ 4 million €

Incidence rate:

- ≥ 0 % < 10 % improbable
- ≥ 10 % < 70 % probable
- ≥ 70 % very probable

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## 9. Forecast

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### 9.1 Global economic development

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According to the International Monetary Fund (IMF), the **global economy** will grow by 3.4% in 2016. The IMF has again revised its forecast for the current year downwards. In the view of economists, the deterioration of economic growth in China and the more restrictive monetary policy in the US in combination with a strong US dollar post the largest growth risks. A potential escalation of the existing geopolitical tension also had a negative effect on the forecast.

Expected development in %	2015	2016
GDP global economy	3.1%	3.4%

Although the global economy is experiencing moderate growth, global unemployment will presumably continue to increase in the coming years. The International Labour Organization (ILO) predicts that the global number of unemployed people will rise by 2.3 million to 199.4 million. Weaker economic growth in the emerging and the developing countries as well as the strong drop in raw material prices have dramatic effects on the unemployment figures.

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### 9.2 Developments in Europe

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The economy in the **eurozone** experienced positive growth in 2015. According to the International Monetary Fund forecast, the economy in the euro countries will grow by 1.7% in the current year. The IMF's growth forecast for the eurozone is slightly more positive than only recently (+0.1). The more optimistic forecast is apparently due to the fall in oil prices and the weakness of the euro.

The moderate growth is also expected to have a positive influence on the labour market. The European Central Bank estimates that the unemployment rate will drop to 10.3% in 2016.

Economists that are regularly interviewed by the ECB (European Central Bank) regarding the inflation expect that the inflation in the current year will amount to a mere 0.7% instead

of 1.0%. The forecast for 2017 was likewise adjusted downwards from 1.5% to 1.4%. The forecasts are thus below the inflation rate of just under 2% targeted by the ECB for the medium term.

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### 9.3 Development in Germany

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Expected development in %	2015	2016
GDP Germany	1.7%	1.7%
Unemployment rate	6.1%	6.6%

The **German** economy experienced 1.7% growth in 2015. The International Monetary Fund expects the gross domestic product to stay at 1.7% in 2016. According to experts, consumer spending as well as public consumption will remain the primary driver of the German economic upturn in the current year. Low oil prices and the weak euro are further fuelling exports. Thus, the sentiment is rather optimistic for 2016 despite refugee crisis, the threat of terrorism and a weak China.

Apparently, the number of unemployed persons will at first continue to decline in 2016, but rise again in the course of the year, because, as experts say, more and more refugees will start to seek employment. All in all, new record highs are expected regarding the number of persons in employment in 2016 with concurrently rising unemployment figures.

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### 9.4 Expected growth in the markets relevant to the Einhell Group

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The developments expected in 2016 depend on a number of factors. The trends on the global markets remain fragile and hard to foresee in many respects. This applies to both economic changes and political developments. Political upheaval and conflicts like in Argentina, Russia, Poland or Ukraine and Syria can lead to unpredictable and mostly negative impacts on the economy. Moreover, the last years have shown that the extremely fast developments in today's information technology have decreased the time lag between the occurrence of external shocks. The forecasts of the Einhell Group with its international activities are also clearly marked by the aforementioned uncertainty. Also the currencies that are relevant for the Einhell Group's procurement activities are hard to predict. The Federal Reserve System (FED) is expected to raise the interest rates in the US, thus strengthen-

ing the US dollar. The economic problems in China, in turn, lead to expect a depreciation of the CNY.

The Einhell Group expects revenue amounting to about EUR 455 million in financial year 2016. With regard to profit before taxes, the Einhell Group expects a margin before taxes and PPA of around 3.5% (approx. 3.0% after PPA), which would represent another clear improvement in earnings quality. This, however, requires a stable international economic environment. In order to reach the announced target, the subsidiaries kwb Germany GmbH and Einhell Chile S.A. that generated high losses, particularly in financial year 2015, have to start generating profits again.

Expected development in EUR million	2015		2016	
	Revenue	Operating earnings	Revenue	Operating earnings
<b>Business unit</b>				
Tools	269.6	8.1	275.0	8.0 – 8.5
Garden & Leisure	174.2	3.7	180.0	5.0 – 5.5
	<b>443.8</b>	<b>11.8</b>	<b>455.0</b>	<b>13.0 – 14.0</b>

The Einhell Group forecasts total revenue of about EUR 275 million in the **Tools segment** and operating earnings of about EUR 8.0 - 8.5 million. Revenue of kwb Germany GmbH and KWB-RUS OOO is included in the Tools segment, as both are suppliers of power tools accessories.

The Einhell Group forecasts total revenue of about EUR 180 million in the **Garden & Leisure segment** and operating earnings of about EUR 5.0 - 5.5 million.

### Expected financial market trends

The performance of the financial markets in 2016 depends strongly on the monetary policy of the world's largest issuing banks in the US, Europe and China. The US dollar is set to increase in value in the course of 2016, whereas the economic problems in China render it likely that the CNY will depreciate. The main question here is to what extent the Chinese government will exert influence on the CNY exchange rate. At present, it seems ra-

ther unlikely that the European Central Bank (ECB) will increase the interest rate in the eurozone.

### **Expected sales market trends**

The sales markets are experiencing a significant transformation. Digitalisation is increasingly affecting the distribution structures in the construction material and tools trade and in the DIY sector. Online trading is gaining importance for wholesalers and specialist retailers as well as the DIY store sector as a whole. At present, the market share of e-commerce is still about 5%. By 2030, however, it is forecast to rise to 25% according to a survey by Roland Berger and the German association of DIY retailers (BHB). This will have various consequences for the market participants and will force them to take the corresponding actions (survey on changes in B2C/B2B market structures based on e-commerce).

### **Expected procurement market trends**

We do not expect any general bottlenecks on the procurement side in 2016, provided that the economic situation of our Chinese suppliers does not deteriorate materially due to the weak Chinese economy. The developments in the Middle East and oil production in the US will continue to play an important role for the oil market. The USA's decreasing dependency on oil imports is bound to have far-reaching geopolitical consequences. Below the line, we anticipate a moderate energy and raw material price trend.

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## 9.5 Aims and opportunities of the Einhell Group

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The aims of the Einhell Group were defined in a strategy paper in the last couple of years. The core issues that Einhell has committed to are 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 Einhell Group's primary objective is to generate sustainable and profitable revenue and profit growth. Profitability takes priority over pure growth targets. The long-term pre-tax margin is to average at least 4% to 5%, guaranteeing a stable dividend payout ratio.

### Future orientation

The Einhell Group will continue to push ahead with its **expansion** strategy in the future. In Europe, the Einhell Group already has an excellent position with a large number of own distribution companies. However, the future growth prospects on the European market are very limited, as the European market has been stagnating and even shrinking for years. Europe accounts for only about 32.6% of the global DIY market. With a share of 61.4% in the global market, the North American market including Canada and Mexico accounts for more than half the global DIY volume. In principle, the Einhell Group sees good business opportunities on these markets and is currently conducting in-depth risk assessment of different strategies for supplying the North American markets.

Einhell will definitely continue to work the Australian market via its Ozito subsidiary in order to optimally supply its key accounts there with modern and high-quality product ranges. Thus, Einhell will be able to participate in the Australian DIY market growth and the expansive growth strategies of its main customers on this market.

The Einhell Group has also taken steps in recent years to gain a foothold on the South American market, but not all the South American countries have fulfilled the growth expectations. The Brazilian economy, for instance, experienced a massive setback and there are no indications at the moment that the general economic conditions would improve. Therefore, the Einhell Group has to reassess its strategy for Brazil, which will be done in the course of 2016. It is as yet unclear whether this means that Einhell will withdraw from the Brazilian market. In Chile and, in particular, Argentina, where the political and eco-



conomic situation seems to be improving since the election of the new president, Einhell plans to further promote the cooperation with important key customers. By gaining a foothold in these growing markets, Einhell seeks to exploit opportunities for further growth and increase its resilience against regional economic downturns.

Another focus is placed on the establishment and expansion of the **international service organisation**. Based on its efficient and attractive mix of product range and service offering, Einhell aims to position itself as a strong DIY brand on the international markets. This is to be achieved by implementing the service concept that has been successfully introduced in Germany in other international markets to enhance the positive service experiences of end customers. We strive to offer a consistent, efficient and reliable service portfolio to our international retail customers across all sales countries. In order to be able to offer the required and attractive service range reliably and at low cost, we need to strengthen our internal logistics processes and service organisation. To this end, we will further centralise our spare parts supply in Europe over the next few years. Furthermore, we will restructure and further develop the local service organisations by establishing standardised service processes, thus reducing the organisational complexity of our subsidiaries.

The Einhell Group succeeded in generating higher **online** revenue in the last few years. Business with leading providers in particular has already been highly successful for the Einhell Group. Leading online traders position Einhell as premium supplier, which underlines the quality as well as the attractiveness of its product portfolio. We assume that the significance of e-commerce will continue to grow in the future. Therefore it is important that we increase our efforts and investments in this field to further expand our position. We intend to further improve the digital presence of the Einhell brand with regard to user friendliness and attractiveness in order to gain new customers, to win customers as Einhell brand ambassadors and to boost sales through the new digital channels with qualified distribution partners. To be able to meet the high standards that Einhell has set for itself, sales efforts must focus on the best possible presentation of the Einhell brand and its products at the digital point of sale. In addition to strengthening the internal service organisation for stationary retail, we also plan to provide better service to e-commerce customers to promote those customer relationships. We are presently analysing different approaches that aim at improving brand awareness of the Einhell brand and its products with end customers. The field of e-commerce will be expanded in close cooperation with our

wholesalers and retailers. By supplying our distribution partners with detailed information and providing pro-active services to our major customers, the employees of Einhell seek to intensify the cooperation with those key partners. And of course the path to digitalisation must also be anchored in the Einhell Group. All employees, departments and companies must be actively involved in the process. This includes a review of the currently used standard communication and project procedures and the identification of potential for optimisation. To successfully implement e-commerce within the Group, new roles need to be established while the existing employees will receive further training so that they can actively participate in shaping the new strategy.

The Einhell Group expects revenue from online trading to grow by 15% to 20% in financial year 2016.

### **Expected financial situation**

Efficient liquidity management remains a top priority of the Einhell Group in financial year 2016. We will concentrate on constantly forecasting cash flows from operating business as this is our main source of liquidity. Liquidity is forecast by means of a liquidity plan that covers a period of twelve months. In financial year 2018, we are due to repay long-term liabilities amounting to EUR 30.0 million. We will prepare an updated financial plan for the next five years in 2016. Based on this plan, we will examine whether we need to take out new long-term loans with the aim of distributing the final maturity dates over various years. We assume that the financing measures will not materially affect the liabilities side of the statement of financial position, because we expect the measures to lead rather to a re-classification from current to non-current financial debts.

### **Expected investments**

We will commence construction of a new logistics centre at the Landau an der Isar location in 2016. The investments for this construction project total about EUR 2.0 million. The new building serves to restructure logistic handling from goods receipt to repair services and goods dispatch. The processes will be reorganised and streamlined by means of an automated container warehouse and the pertinent transport and warehouse technology. At the same time, additional warehouse capacity will be created for the spare parts business (resupply). Today, these supplies are housed in external warehouses.

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## 9.6 Summary on expected developments

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### Outlook for financial year 2016

In financial year 2016, the internationally positioned Einhell Group will continue to face highly diverse developments on its individual markets.

The sentiment in the do-it-yourself industry on the domestic German market is basically positive. Private consumption will again contribute significantly to economic growth in 2016 and especially the field of e-commerce is expected to see a sharp rise in revenue. The challenge for Einhell will be to position itself on the market accordingly with the help of its distribution partners and to thus participate to a reasonable extent in the revenue growth. Inflation is minimal, mainly due to the low energy prices, thus benefitting consumers.

It is highly likely that the European market, which showed a positive performance overall in 2015, will continue on this path, even though individual countries are still struggling economically. The large economies of Great Britain and Italy achieved an extremely positive performance at the end of the past financial year, whereas the spending propensity in France dropped considerably. In southern Europe, especially in Spain and Portugal, the economic forecasts were much brighter towards the end of the last financial year, while they remain very restrained when it comes to Greece. Despite the difficult economic environment in the last three years, Eastern Europe is also showing first positive signs of a recovery. Economic growth in Turkey is highly positive in contrast to some of the other emerging countries. Since the beginning of 2015, the government has massively increased public spending and lower oil prices are boosting demand. These basically positive trends in Europe are countered by some risk factors. Above all, the refugee crisis that is as yet unsolved and the threat of terrorism could dampen consumer sentiment. The extremely low energy prices, in turn, have a highly favourable effect on economic growth. In the long run, however, this might cause the affected industries to lower their investments, which could then have a negative impact on the corresponding jobs.

At the moment, economic growth in Australia is still relatively robust, but there is a risk of the ailing Chinese economy, which is so important for the raw material industry, negatively impacting the economy in Australia.

The South American markets remain difficult and this situation will continue in financial year 2016. The Brazilian economy is currently caught in recession. The low oil price, a weak local currency and declining consumption are taking their toll. In Argentina it is as yet unclear how the strong depreciation of the peso at the end of last year and the corresponding price increases will affect the economy.

The procurement market China is still stable at present, although economic growth has deteriorated significantly in the country. The Chinese industry is struggling with declining capacity utilisation on the part of manufacturers. This may force some participants to drop out of the market and lead to further consolidation on the procurement markets.

Although the market environment is still highly fragile, the Einhell Group expects to see positive revenue and earnings growth. Considering all factors, the Group anticipates a moderate revenue increase to about EUR 455 million. With regard to profitability, the Einhell Group forecasts a margin before taxes and PPA in the range of 3.5% (approx. 3.0% after PPA). This forecast is slightly higher than the margins generated in the last few years. This margin, however, can only be reached if the Group generates revenue growth and manages to successful turnaround or improve the loss-making situation at individual subsidiaries. Fortunately, the number of subsidiaries posting losses was already reduced in 2015 and Einhell believes it will be able to find solutions for the few remaining loss-making companies in 2016.

The Einhell Group expects the following revenue and profit performance for the two segments in 2016:

in EUR million	2016	
	Revenue	Operating earnings
Tools	275.0	8.0 – 8.5
Garden & Leisure	180.0	5.0 – 5.5
	<b>455.0</b>	<b>13.0 – 14.0</b>

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

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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. First, Einhell plans revenue. These plans are drawn up for each Group company at segment 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 segment 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 changes in 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, 31 March 2016

Einhell Germany AG  
The Board of Directors

Andreas Kroiss

Jan Teichert

Dr Markus Thannhuber

# Unqualified Auditor's Report on Statutory Audit of Consolidated Financial Statements Prepared Pursuant to § 315a HGB [Handelsgesetzbuch: German Commercial Code] (S2a)

We issued the following unqualified auditor's report:



## Unqualified Auditor's Report

We have audited the consolidated financial statements prepared by the Einhell Germany AG, Landau a. d. Isar, comprising consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, notes to the consolidated financial statements and group management report, together with the group management report for the financial year from 1 January 2015 to 31 December 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a (1) HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a fair view of the Group's position and suitably presents the opportunities and risks of future development.

”

Munich, 31 March 2016

KPMG AG  
Audit firm

Hanshen  
Auditor

Schwarzhuber  
Auditor



Einhell Germany AG  
Wiesenweg 22  
D-94405 Landau a.d. Isar

Phone (0 99 51) 942-0  
Fax (0 99 51) 17 02

investor-relations@einhell.com  
www.einhell.com



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