Einhell Germany AG

FINANCIAL REPORT 2013

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Einhell Germany AG, Landau a. d. Isar

Consolidated statement of financial position as of 31 December 2013

Assets	Notes	31.12.2013	31.12.2012
		€ thousand	€ thousand
Intangible assets	(2.2)	27.479	10.450
Property, plant and equipment	(2.3)	18.287	17.961
Non-current financial assets	(2.4)	368	362
Deferred tax assets	(2.5)	6.835	6.481
Other non-current assets	(2.9)	2.287	2.465
Non-current assets		55.256	37.719
Inventories	(2.6)	105.973	125.715
Trade receivables	(2.7)	64.415	66.264
Other financial assets	(2.8)	4.977	2.033
Other current assets	(2.9)	20.415	22.010
Cash and cash equivalents		59.006	5.618
Current assets		254.786	221.640
Total assets		310.042	259.359

Equity and liabilities	Notes	31.12.2013	31.12.2012
		€ thousand	€ thousand
Subscribed capital	(2.10)	9.662	9.662
Capital reserves		26.677	26.677
Retained earnings		123.851	123.903
Other reserves	(2.11)	-4.403	-2.982
Equity of shareholders of Einhell Germany AG		155.787	157.260
Minority interests	(2.12)	2.464	3.017
Equity		158.251	160.277
Provisions for pensions	(2.13)	1.909	1.965
Provisions for other risks	(2.14)	696	630
Non-current financial liabilities	(2.15)	30.000	20.584
Deferred taxes	(2.5)	4.484	906
Other non-current liabilities	(2.17)	11.365	1.935
Non-current liabilities		48.454	26.020
Trade payables		52.601	32.613
Provisions for income taxes		1.102	1.439
Provisions for other risks	(2.14)	8.673	7.229
Current financial liabilities	(2.15)	21.449	11.629
Other financial liabilities	(2.16)	1.579	4.938
Other current liabilities	(2.17)	17.933	15.214
Current liabilities		103.337	73.062
Total equity and liabilities		310.042	259.359

Previous year’s figures were adjusted retrospective according IAS 19

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income (IFRS) for the period from 1 January to 31 December 2013

	Notes	2013	2012
		€ thousand	€ thousand
Revenues	(3.1)	416.287	379.862
Other operating income	(3.2)	11.495	8.176
Cost of materials	(3.3)	-296.011	-261.037
Personnel expenses	(3.4)	-54.326	-51.128
Depreciation and amortisation costs	(3.5)	-3.889	-2.707
Other operating expenses	(3.6)	-66.924	-60.502
Net finance costs	(3.7)	-2.610	-1.955
Profit before income taxes		4.022	10.709
Income taxes	(3.8)	-2.521	-4.742
Consolidated net profit		1.501	5.967

Minority interest share of consolidated net profit	-585	-196
Share of consolidated net profit of shareholders of Einhell Germany AG	2.086	6.163

Previous year's figures were adjusted retrospective according IAS 19

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income
for the period from 1 January to 31 December 2013

	2013	2012
	€ thousand	€ thousand
Consolidated net profit	1.501	5.967
Items of other comprehensive income that were or will be reclassified to profit or loss		
Unrealised losses (previous year: gains) from currency translation	-3.322	474
Unrealised gains from available-for-sale financial assets	1	3
Unrealised gains (previous year: losses) from derivative financial instruments	1.733	-6.413
	-1.588	-5.936
Items of other comprehensive income that will not be reclassified to profit or loss in future periods		
Employee benefits (IFRS 19 revised)	48	-387
Other comprehensive income, after taxes	-1.540	-6.323
Thereof share of other comprehensive income attributable to minority interests, after taxes	-119	97
Thereof share of other comprehensive income attributable to shareholders of Einhell Germany AG, after taxes	-1.421	-6.420
Consolidated comprehensive income	-39	-356
Thereof share of consolidated comprehensive income due to minority interest	-704	-99
Thereof share of consolidated comprehensive income due to shareholders of Einhell Germany AG	665	-257

Previous year's figures were adjusted retrospective according IAS 19

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity for the financial year 2013

				Other reserves						
	Subscribed capital	Capital reserve	Retained earnings	Currency adjustment	Financial assets available for sale	Remeasurement reserve pursuant to IAS 19	Derivative financial instruments	Equity of shareholders of Einhell Germany AG	Share of minority interests	Total equity
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	thousand
1 January 2012	9.662	26.677	121.015	-1.463	24	-275	5.152	160.792	2.390	163.182
Consolidated net profit	-	-	6.163	-	-	-	-	6.163	-196	5.967
Unrealised gains/losses	-	-	-	377	4	-552	-8.058	-8.229	97	-8.132
Deferred taxes on unrealised gains/losses	-	-	-	-	-1	165	1.645	1.809	-	1.809
Total earnings	-	-	6.163	377	3	-387	-6.413	-257	-99	-356
Dividends	-	-	-2.894	-	-	-	-	-2.894		-2.894
Other changes	-	-	-381	-	-	-	-	-381	726	345
31 December 2012	9.662	26.677	123.903	-1.086	27	-662	-1.261	157.260	3.017	160.277
Consolidated net profit	-	-	2.086	-	-	-	-	2.086	-585	1.501
Unrealised gains/losses	-	-	-	-3.203	1	68	2.642	-492	-119	-611
Deferred taxes on unrealised gains/losses	-	-	-	-	-	-20	-909	-929	-	-929
Total earnings	-	-	2.086	-3.203	1	48	1.733	665	-704	-39
Dividends	-	-	-2.139	-	-	-	-	-2.139	-	-2.139
Other changes	-	-	1	-	-	-	-	1	151	152
31 December 2013	9.662	26.677	123.851	-4.289	28	-614	472	155.787	2.464	158.251

Previous year's figures were adjusted retrospective according IAS 19

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for financial year 2013

	2013	2012
	€ thousand	€ thousand
Net cash flows from/used in operating activities		
Profit before taxes	4.022	10.709
+ Depreciation and amortisation of intangible assets and property, plant and equipment	3.889	2.707
- Interest income	-263	-833
+ Interest expenses	1.712	1.523
+/- Other non-cash expenses and income	1.703	-645
Operating profit before changes in net working capital	11.063	13.461
+/- Decrease/increase in trade receivables	1.121	-4.063
+/- Decrease/increase in inventories	30.281	-13.518
+/- Decrease/increase in other assets	-1.093	-8.239
+/- Increase/decrease in non-current liabilities	-899	454
+/- Increase/decrease in current liabilities	-1.089	926
+/- Increase/decrease in trade payables	12.988	5.048
Cash flows generated from operating activities	52.372	-5.931
- Taxes paid	-2.622	-5.004
+ Interest received	134	394
- Interest paid	-1.592	-1.311
Net cash from/used in operating activities	**48.292**	**-11.852**
Cash flows from/used in investing activities		
- Payments to acquire assets	-2.903	-4.795
+ Net cash acquired from acquisitions	639	214
- Payments for capital expenditure	-10.539	-500
+ Proceeds from disposal of assets	274	782
+/- Increase/decrease in goodwill	126	813
+ Proceeds from disposal of consolidated companies	0	0
- Cash-outflow from changes to companies included in the consolidation	0	0
Net cash from/used in investing activities	**-12.403**	**-3.486**
Cash flows from/used in financing activities		
+ Proceeds from taking out loans	19.593	10.596
- Payments for repayment of loans	0	-377
- Payments for acquisition of equity investments	-754	-355
+ Proceeds from minority shareholders	174	408
- Dividend payments to shareholders of Einhell Germany AG	-2.139	-2.894
- Dividend payments to minority shareholders	0	-129
- Payments for liabilities for finance leases	-4	-9
Net cash used in financing activities	**16.870**	**7.240**
Changes to capital funds due to currency exchange	629	7
Net decrease/increase in cash and cash equivalents	**53.388**	**-8.091**
Cash and cash equivalents at beginning of reporting period	5.618	13.709
Cash and cash equivalents at end of reporting period	**59.006**	**5.618**

Previous year's figures were adjusted retrospective according IAS 19

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 2013

1. Principles and Methods

1.1 General information

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

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

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

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

The Board of Directors approved the consolidated financial statements on 27 March 2014 to be passed on to the Supervisory Board.

1.2 Basis of preparation

Standards applied

The accounting and valuation policies used in the consolidated financial statements are in accordance with the IFRSs applicable as of 31 December 2013. The Group has applied the following standards and amendments to standards to be adopted for the first time from 1 January 2013.

- Amendments to IFRS 1 “Government Loans”; effective for annual periods beginning on or after 1 January 2013.
- Amendments to IFRS 1 “Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters”; effective for annual periods beginning on or after 1 January 2013.
- Amendments to IFRS 7 “Disclosures – Offsetting Financial Assets and Financial Liabilities”; effective for annual periods beginning on or after 1 January 2013.
- IFRS 13 “Fair Value Measurement”; effective for annual periods beginning on or after 1 January 2013.

- Amendments to IAS 1 “Presentation of Items of Other Comprehensive Income”; effective for annual periods beginning on or after 1 July 2012.
- Amendments to IAS 12 “Recovery of underlying assets”; effective for annual periods beginning on or after 1 January 2013.
- IAS 19 “Employee Benefits”; effective for annual periods beginning on or after 1 January 2013.
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”; effective for annual periods beginning on or after 1 January 2013.
- Improvements to IFRS 2009-2011 “Amendments to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34 / Adjustments to IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34”; effective for annual periods beginning on or after 1 January 2013.

The effects are described below:

Fair Value Measurement

IFRS 13 provides a single IFRS framework for measuring fair value and for disclosures about fair value measurement, if these measurements are required or permitted by other IFRSs. The standard defines fair value on the basis of an exit price notion, i.e. the price that would be paid for the sale of an asset in a regular transaction between market participants as at the measurement date, or that would be paid when the liability is transferred. The standard replaces and extends the disclosure requirements concerning fair value measurement as stated in other IFRSs, including IFRS 7. The Group has therefore introduced the required disclosures (cf. 6.6 Market values and carrying amounts of financial instruments).

In accordance with the transition requirements of IFRS 13, the Group has prospectively applied the new requirements on fair value measurement and did not disclose comparable information from the previous year. Irrespective of this, the amendment did not have any major impact on the measurement of the Group's assets and liabilities.

Employee Benefits

The most important changes resulting from the amendment to IAS 19 (revised in 2011) pertain to the recognition of pension obligations from defined benefit plans.

In the past, companies were able to choose whether so-called actuarial gains and losses were recognised in the financial statement. These were either (a) recognised in profit or loss in the statement of income, (b) in other comprehensive income (OCI) or (c) with a time delay using the so-called corridor approach. The new version of IAS 19 abolishes the option to choose in favour of a more transparent and comparable illustration; the amounts can therefore exclusively be recognised immediately and fully in the year in which they have incurred. They are to be recognised in other comprehensive income. Moreover, past service expense is now to be recognised directly in profit or loss in the year in which it has incurred.

Also, the expected return on plan assets was previously calculated based on management expectations regarding the value development of the asset portfolio. Pursuant to IAS 19 (revised in 2011), interest on plan assets can only be recognised to the amount of the discount rate for the pension obligation at the beginning of the period.

In addition to changes to accounting, this also entails changes to the notes to the consolidated financial statement, e.g. in the form of sensitivity analyses.

The amendments to IAS 19 are to be adopted in line with IAS 8, which means that the changes are to be applied retrospectively. The reported values from the previous year as well as the accounts carried forward as of 1 January 2012 were adjusted accordingly.

The adoption of IAS 19 leads to an adjustment of personnel expenses and the result for the period as well as changes in deferred taxes and other comprehensive income. Until 31 December 2012 actuarial gains and losses were directly recognised in the statement of income. When adopted to the situation on 31 December 2013, the amendment to IAS 19 results in a recognition of EUR 614 thousand in other comprehensive income (without effect on profit or loss), taking into account deferred taxes.

The effects of the amendment to IAS 19 (revised in 2011) on the items in the statement of financial position, the statement of comprehensive income and the cash flow statement are shown in the below tables:

Adjustments to the consolidated statement of income	**2013**	**2012**
Personnel expenses	-68	+552
Operating earnings	**-68**	**+552**
Income taxes	+20	-165
Result for the period	**-48**	**+387**

Adjustments to the consolidated statement of comprehensive income	**2013**	**2012**
Result for the period	**-48**	**+387**
Remeasurement reserve IAS 19	68	-552
Deferred taxes	-20	+165
Other comprehensive income	**+48**	**-387**

Adjustments to the consolidated statement of financial position	**31.12.2013**	**31.12.2012**
Remeasurement reserve IAS 19	+48	-662
Retained earnings	-48	+387

The adjusted amount for the remeasurement reserve pursuant to IAS 19 in the consolidated statement of financial position as of 31 December 2012 is composed of the remeasurement reserve to be formed as of 31 December 2012 in the amount of EUR 387 thousand as well as the remeasurement reserve that already had to be formed as of 1 January 2012 in the amount of EUR 275 thousand.

All other standards that had to be adopted for the first time in 2013 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 2013 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. A premature application of these standards would not have had a significant impact on the consolidated financial statements.

- Amendments to IAS 27 "Separate Financial Statements"; effective for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 28 "Investments in Associates and Joint Ventures"; effective for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities"; effective for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets"; effective for annual periods beginning on or after 1 January 2014.
- Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge-Accounting"; effective for annual periods beginning on or after 1 January 2014.
- IFRS 10 "Consolidated Financial Statements"; effective for annual periods beginning on or after 1 January 2014.
- IFRS 11 "Joint Arrangements"; effective for annual periods beginning on or after 1 January 2014.
- IFRS 12 "Disclosure of Interests in Other Entities"; effective for annual periods beginning on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 11 und IFRS 12 "Transition Guidance"; effective for annual periods beginning on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 12 und IAS 27 "Investment Entities"; effective for annual periods beginning on or after 1 January 2014.

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):

- IFRS 9 (2009/2010) "Financial Instruments"; first-time mandatory adoption still open.
- IFRS 9 (2013) "Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39"; first-time mandatory adoption still open.
- Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date and Transition Disclosures"; first-time mandatory adoption still open.
- Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"; effective for annual periods beginning on or after 1 July 2014.
- IFRIC 21 "Levies"; effective for annual periods beginning on or after 1 January 2014.
- Improvements to IFRS 2010-2012; effective for annual periods beginning on or after 1 July 2014.
- Improvements to IFRS 2011-2013; effective for annual periods beginning on or after 1 July 2014.

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

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.

1.3 Principles of consolidation

The consolidated financial statements include Einhell Germany AG and its subsidiaries for which Einhell Germany AG fulfils the respective criteria pursuant to IAS 27. These companies are included in the consolidated financial statements from the time when there is a possibility of control being exercised. 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 all consolidated companies is 31 December; the newly acquired Ozito Industries Pty Ltd and the newly founded Einhell Holding Australia Pty Ltd have different financial years (30 June). Ozito Industries Pty Ltd produces interim statements as of 31 December. The 31 December is the reporting date of the parent company.

Capital consolidation is made by the purchase method by offsetting investment book values with the pro rata newly valued equity of the subsidiary at the time of acquisition (IFRS 3). Remaining 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.

1.4 Basis of consolidation

The companies included in the consolidation are Einhell Germany AG and a further 42 (previous year 40) fully consolidated companies.

The Einhell Group acquired 1.2% in Anxall Hellas A.E. from the local Managing Director in financial year 2013. In addition, the Group founded Einhell Holding Australia, a fully owned subsidiary of Einhell Germany AG. A new company in Columbia was founded in the South America region. Einhell Germany AG holds 100% of shares in this new company. Einhell Rus OOO, which was founded in 2012, was sold.

Under the purchase agreement of 1 July 2013, the Einhell Group took over 100% of shares in Ozito Industries Pty Ltd, Bangholme, Victoria, Australia and its affiliates. The shares in Ozito Industries Pty Ltd were acquired directly by the new entity Einhell Holding Australia Pty Ltd Melbourne, Australia, a fully owned subsidiary of Einhell Germany AG. The property, plant and equipment of the China location was taken over by Hans Einhell (Shanghai) Trading Co. Ltd. The main activities that a carried out there pertain to procurement, order processing, quality assurance and quality control.

Ozito is well known among consumers and a long established brand in the price entrance segment in the power tool and garden tool section of the Australian and New Zealand markets. In these two markets, Ozito Industries Pty Ltd sells power tools and garden equipment under its own Ozito brand name, while the company also sells goods under private brands in other markets.

The integration of Ozito Industries Pty Ltd will enable the Einhell Group to establish itself as a strong DIY supplier in the Australia and New Zealand region. The main customer of Ozito Industries Pty Ltd is the Bunnings DIY chain that belongs to the Wesfarmers Group. Through this acquisition, Einhell buys a brand that is well known in the Australian market, thus facilitating access to Australia’s most important DIY chain Bunnings. This enables Einhell to generate considerable additional revenue in a growing DIY market and benefit from the earnings potential in the Australian market.

The financial year of Ozito Industries Pty Ltd deviates from the calendar year (30 June). In the 2012/2013 financial year, the company and its related business activities generated revenue of about EUR 75 million.

The purchase price comprises a fixed amount and a variable component. The fixed purchase price for the takeover of all Ozito shares amounts to the equivalent of about EUR 13.1 million before adjustments. The acquisition was made cash-free / debt-free in consideration of working capital. Here, average working capital is compared to working capital as of closing date. These calculations yield an adjustment of approx. EUR 2.6 million to approx. EUR 10.5 million. In addition, a variable purchase price component equivalent to about EUR 17.4 million (4 x AUD 6.18 million; FX rate 30 June 2013) was agreed. The exact amount depends on the achievement (without cap and floor) of defined earnings targets (EBT 2013/14, 2014/15, 2015/16, 2016/17). The Group is obliged to pay a contingent consideration of EUR 17.4 million in four years to the selling shareholder, if the contractually agreed cumulated EBT is to actually meet or exceed EUR 39.3 million in the next four years. Pursuant to the agreement, the variable purchase price components are to be paid in Australian dollar.

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).

1.5 Currency translation

The foreign investments within the consolidation group are financially, economically and organisationally autonomous and are therefore regarded as economically independent, foreign entities. Their reporting currency is their relevant local currency.

In the individual financial statements of the companies in the Einhell Group, all foreign currency transactions are converted from the local currency into the reporting currency at the rate of exchange applicable at the time of the transaction. Monetary foreign currency holdings as at the reporting date are valued at reporting date at the relevant daily exchange rate. Conversion differences from monetary transactions or the valuation of monetary items of a company which vary from the exchange rates during the period in which they were originally valued, or in previous transactions, are recognised 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 as other comprehensive income and as an adjustment for currency conversion and in the difference (part of other reserves).

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

		Reporting date rate		Average rate	
		31.12.2013	31.12.2012	2013	2012
Australia	AUD	1.5396	1.2712	1.4574	1.2413
Brazil	BRL	3.2519	2.6953	2.8669	2.5097
China	CNY	8.3314	8.2117	8.1655	8.1094
Hong Kong	HKD	10.6753	10.2188	10.3018	9.9726
Poland	PLN	4.1508	4.0929	4.1971	4.1843
Switzerland	CHF	1.2267	1.2072	1.2309	1.2053
Turkey	TRY	2.9450	2.3557	2.5329	2.3145
USA	USD	1.3767	1.3183	1.3282	1.2856

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. 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

Leases. 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 trading). Gains or losses from financial assets held for trading are recognised in profit or loss.

Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables. After the 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 income 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 current value of a loan instrument due to exchange rate fluctuations, they are taken into account in consolidated net income through profit or loss. Upon disposal of financial assets, cumulated gains or losses from the valuation at fair value 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 made in impairment accounts. The decision whether default risks will be taken into account for an impairment account or via a direct reduction in the receivable depends on how high the probability of the default of the receivable is assessed. If a receivable is assessed as unrecoverable, the corresponding impaired asset value is derecognised.

Deferred tax assets and liabilities are set aside pursuant to IAS 12 for temporary differences between the 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.

The **differences arising from currency translation** result 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 interests include the share of minority shareholders in the current value of identifiable assets and liabilities at the time the affiliated company is acquired. Changes result from capital increases in which minority shareholders participate, distributions and shares of minority shareholders in profits, and 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 3.43% (previous year: 3.22%) was used, along with 2.78% (previous year: 2.54%) for pensioners. As in the previous year, the rate of pension progression for commitments with adjustment guarantee was 3.00% and 2.00% for commitments without adjustment guarantee. No rate of compensation increase was available for non-salary based obligations.

The pension 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 defined benefit obligation is not secured by a pension fund, but to some extent through reinsurance policies.

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

Provisions for 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 trading). Gains or losses from financial liabilities held for trading are recognised in profit or loss in the consolidated net profit.

Derivative financial instruments and hedge accounting.

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

Upon initial recognition and at each subsequent reporting date, derivative financial instruments are recognised at fair value. The fair value of listed derivatives corresponds to the positive or negative market value. If there is no market value 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 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 AG designates and documents the hedge from this point on either as a fair value hedge or as a cash flow hedge. A fair value hedge secures the fair value of an asset or liability 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 effective estimation of risk compensation for changes in the fair value or payment flows in relation to the hedged risk and regularly checks that the hedge remains effective during the whole reporting period for which the hedge is designated.

Current value changes of the derivatives are taken into account in consolidated net 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 the consolidated net profit though profit or loss. The after-tax effective portion of changes in the current 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 current 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 this line item. Interest income and expenses are recognised pro rata in accordance with contractual arrangements where applicable.

Income taxes. Current income taxes are calculated on the basis of the relevant national 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. Changes to deferred tax assets and liabilities are reflected in the line item income taxes, except for the changes that are recognised in other comprehensive income.

1.7 Estimates and assessments in accounting

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 are with respect to future cash inflows and outflows for the planning period and for subsequent periods. The estimations refer mainly to future market shares and growth in the respective markets. On the basis of impairment tests carried out during 2013, 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 profit or loss.

2. Notes to consolidated statement of financial position

The takeover of Ozito Industries Pty Ltd and its affiliate businesses meant that assets and liabilities were taken over. The purchase price allocation yields adjustments due to hidden reserves and hidden liabilities, mainly in the areas of intangible assets, inventories and deferred taxes.

Identifiable acquired assets and assumed liabilities:

in € thousand	*Carrying amount pursuant to IFRS as of 30 June 2013*	*Fair value as of 1 July 2013*
Intangible assets	0	11,560
Property, plant and equipment	1,116	1,286
Deferred tax assets	809	809
Inventories	12,421	14,332
Trade receivables	2,312	2,312
Income tax receivables	66	66
Other assets	240	240
Cash and cash equivalents	638	638
Derivative financial instruments	2,928	2,928
Deferred tax liabilities	878	4,947
Trade payables including other liabilities	8,679	8,679
Provisions	1,627	1,627

In addition, assets in the amount of EUR 179 thousand were taken over from Hans Einhell (Shanghai) Trading Co. Ltd.

in € thousand	*Carrying amount pursuant to IFRS as of 30 June 2013*	*Fair value as of 1 July 2013*
Property, plant and equipment	179	179

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.

Property, plant and equipment at Ozito and at the site in China comprise mainly leasehold improvements as well as furniture and office equipment. The fair value assessment, which is carried out on a regular basis, is based on the replacement costs at the reporting date, after depreciation. The purchase price allocation involved a revaluation of furniture and office equipment according to a technical procedure. The remeasurement of Ozito's property, plant and equipment yields hidden reserves of about EUR 170 thousand.

2.2 Intangible assets

	2013	2012
Acquired intangible assets (without goodwill)	12,067	1,327
Self-developed intangible assets	197	8
Acquired goodwill	15,215	9,115
	27,479	10,450

The takeover of Ozito Industries accounts for intangible assets worth EUR 17.5 million. This amount was determined in a purchase price allocation process. Intangible assets are the acquired goodwill (EUR 6.0 million), the value of the Ozito brand (EUR 3.3 million) and the acquired, existing customer portfolio (EUR 8.2 million). The customer portfolio is systematically depreciated over five years.

Brand

The valuation of the brand is based on a legal as well as an economic dimension. The legal dimension refers to the protection of the trademark, while the economic dimension is derived from the substantial economic value. The method that is theoretically to be favoured for the valuation of a brand is the excess profit method, which is based on a price comparison between the trademarked product and an equivalent, non-trademark product. Such a price comparison is not possible at Ozito. While the company also sells non-trademarked export products, or products with an external trademark, in the FOB business, these tools are rather simple off-the-shelf products, which means that the surcharge for Ozito brand products cannot exclusively be attributed to the brand name. The surcharge is also due to the higher quality of the products in terms of innovation, function and design.

For this reason, the Relief from Royalty Method has been applied. This approach derives the value of the brand from the cash value of the license fees (royalties) saved. It calculates the notional amount of royalties that would have accrued if the brand would have been licensed out to a third party. The notional amount of royalties is calculated based on the market royalty rates applicable for comparable licenses or rights of use. Unit sales volume, revenue or profit are typical reference figures used to calculate the royalty rates. The fair value of a brand is derived from discounting the calculated notional royalties after taxes with the relevant capitalization interest rate.

In determining the value of the company brand it was assumed that its remaining economic life is infinite. Neither the competitive situation nor a domination of other strong brands give any indication that the remaining economic life should be limited.

Customer relationship

The customer relationship with Bunnings is valued based on the Multi Period Excess Earnings Method. This method is appropriate against the backdrop of the customer relationship being the primary asset. With regard to the customer relationship relevant revenues and remaining economic life must be considered. The revenue generated with the customer is relevant for the customer relationship. This refers to revenue subject to an exclusivity agreement, on the one hand, and revenue with product brands, on the other. It was not considered appropriate to divide the customer relationships into these two elements as no meaningful information could be drawn from such a division due to the strong integration and comparable profitability of the two elements.

As a matter of principle, the remaining economic life of a customer relationship is finite; the assumption of an unlimited remaining economic life of customer-related intangible assets is not appropriate (cf. IDW (Institute of Public Auditors in Germany) S 5.99). As revenues generated with

Bunnings have risen continuously since the customer relationship was taken up, future customer behaviour cannot be projected based on historical data in this case. The remaining economic life of the customer relationship to Bunnings also needs to take into account the following aspect, in our view. Due to the exclusive relationship with the major customer, the customer relationship is transferred to the buyer. As in this case the assessment refers to an individual customer, the buyer can concentrate fully on this customer and is therefore not prepared to compensate the customer relationship based on a long earnings period. Against this backdrop we have applied the geometric reduction rate of 30% p.a. which leads to an expiry of the customer relationship within five financial years.

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

Self-developed intangible assets mainly comprise expenses arising from the development of new products that are amortised over the expected life cycle of the product. In financial year 2013, expenses for product development amounted to EUR 4.5 million (previous year: EUR 5.2 million). As in the previous year, none of these costs were capitalised as expenses in 2013. A total of 37 employees (previous year: 42 employees) were employed in this division.

Goodwill pertains to the following companies:

	2013	2012
	€ thousand	€ thousand
Ozito Industries Pty Ltd, Bangholme/Australia	5,975	0
Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	3,013	3,013
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	2,141	2,141
Einhell Export-Import GmbH, Tillmitsch/Austria	2,238	2,123
Einhell Romania SRL, Bucharest/Romania	1,137	1,127
KWB-RUS OOO, St. Petersburg/Russia	397	397
kwb tools GmbH, Stuhr/Germany	314	314
	15,215	9,115

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 addition to goodwill of Einhell Export-Import GmbH amounting to EUR 115 thousand results from a contingent purchase price payment made in 2013 for the purchase of the remaining 24% of shares in 2009.

Goodwill as a result of the acquisition of Ozito Industries Pty Ltd was recognised as follows:

	in € thousand
Total amount of the transferred consideration	25,085
Fair value of identifiable net assets	23,179
Deferred taxes on temporary differences	4,069
	5,975

The remaining difference is the goodwill resulting from the transaction. This represents the value of the workforce as well as particularly the synergies Einhell has remunerated in the purchase price:

- the Ozito acquisition allows the Einhell Group to considerably expand revenues in Australia and New Zealand
- establishment of a distribution base for Einhell products
- the merger enables the Einhell Group to boost its purchasing power in China

The recoverability of goodwill will be 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:

	2013	2012
	%	%
Terminal growth rate	1.25	1.25
Pre-tax discount rate	8.15	8.52
Base rate	2.75	2.25
Market risk premium	6.00	6.75
Typical tax rate	30.00	30.00

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

The annual impairment test in financial year 2013 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.

2.3 Property, plant and equipment

in € thousand	2013	2012
Land and buildings in company assets	9,255	9,528
Technical equipment and machinery	2,890	3,037
Other equipment, operating and office equipment	5,989	5,220
Prepayments and assets under construction	153	176
	18,287	17,961

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 4 thousand). The expected yield on securities is 1% to 2% p.a.

2.5 Deferred taxes

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

in € thousand	Deferred tax assets		Deferred tax liabilities		Net amount	
	2013	2012	2013	2012	2013	2012
Self-developed intangible assets and property, plant and equipment	48	265	3,548	22	-3,500	243
Current assets	2,284	1,564	266	371	2,018	1,193
Other financial assets (at their fair values)	426	1,254	578	497	-152	757
Pension provisions	242	253	-6	-7	248	260
Provisions for other risks	466	602	93	77	373	525
Other liabilities	421	676	5	-54	416	730
Tax losses carried forward	2,948	1,867	0	0	2,948	1,867
	6,835	6,481	4,484	906	2,351	5,575

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 write-offs 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 valued at present value (available-for-sale assets and financial assets held for trading) 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.

2.6 Inventories

in € thousand	2013	2012
Raw materials and supplies (at acquisition cost)	309	274
Finished goods (at cost less impairment)	104,423	124,055
Prepayments	1,241	1,386
	105,973	125,715

All in all, the company recognised impairments in the amount of EUR 6,899 thousand (previous year EUR 7,718 thousand). The carrying amount of impaired goods after impairment amounts to EUR 51,985 thousand (previous year EUR 56,011 thousand). No goods were transferred by way of security at the reporting date, as in the previous year.

The inventories of Ozito Industries Pty Ltd acquired on 1 July 2013 are measured at fair value. Ozito is a trading company and exclusively stocks articles of merchandise. Pursuant to IFRS 3, articles of merchandise are to be recognised at sales price less the expected costs of disposal and including a reasonable profit margin when a company is acquired. At Ozito Industries Pty Ltd the sales price corresponds to gross revenue less any reductions. Costs of disposal mainly comprise storage costs, commissions, freight costs as well as personnel costs for sales staff on a pro rata basis. The profit margin was calculated by distributing the company's operating earnings among the operating costs. The remeasurement of the inventory assets of Ozito Industries Pty Ltd yields a total difference of EUR 1,911 thousand as of 1 July 2013.

2.7 Trade receivables

Trade receivables are shown after deduction of impairment for bad debts. In financial year 2013, these impairments amounted to EUR 1,419 thousand (previous year: EUR 501 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 493 thousand (previous year: EUR 435 thousand) in the reporting period. The maximum default risk corresponds to the carrying amount of the receivables. Of the total gross receivables, 79% (previous year: 74%) 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.

Receivables acquired from Ozito amount to EUR 2.3 million. The amount of unrecoverable cash flow is immaterial.

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:

2013	Net amount	Value adjustment	Gross amount
Receivables not due and due in 1-120 days	62,931	934	63,865
Receivables due in 121-360 days	1,188	761	1,949
Receivables due in more than 360 days	296	2,318	2,614
	64,415	4,013	68,428

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

2.8 Other financial assets

in € thousand	2013	2012
Derivative financial instruments included in hedge accounting	3,844	1,766
Financial assets measured at fair value through profit or loss	1,133	267
	4,977	2,033

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

2.9 Other assets

in € thousand	2013	2012
Non-current		
Income tax claims	964	1,271
Other	1,323	1,194
	2,287	2,465

in € thousand	2013	2012
Current		
Income tax claims	1,817	3,108
Other	18,598	18,902
	20,415	22,010

Income tax claims include in particular corporation tax credits pursuant to section 37 (5) of the German Corporation Tax Act (KStG). Other assets comprise VAT claims and the positive market values of derivative financial instruments among other items. At the reporting date, there are no indications of impairments on other assets that are neither overdue nor already impaired.

2.10 Subscribed capital

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

	Amount	EUR
Ordinary shares		
Ordinary bearer shares (no-par)		
each with an arithmetic interest in share capital of EUR 2.56	2,094,400	5,361,664.00
Preference shares		
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
	3,774,400	9,662,464.00

All shares are fully paid up. The dividend proposal for Einhell Germany AG amounts to EUR 1,384,096.00 for financial year 2013 (previous year: EUR 2,138,976.00). The payout amount corresponds to a dividend of EUR 0.40 per preference share (previous year: EUR 0.60) and EUR 0.34 per ordinary share (previous year: EUR 0.54).

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 retained 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 interests from the retained profits 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 18 June 2014 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and /or 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 further authorised until 18 June 2014 to raise the capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and /or 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 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.

2.11 Changes to other reserves

in € thousand	2013			2012		
	Before taxes	Taxes	After taxes	Before taxes	Taxes	After taxes
Unrealised gains/losses from currency conversion	-3,203	0	-3,203	377	0	377
Unrealised gains/losses from available-for-sale financial assets	1	0	1	4	-1	3
Unrealised gains/losses from derivative financial instruments	2,642	-909	1,733	-8,058	1,645	-6,413
Unrealised gains/losses from employee benefits (IFRS 19 revised)	68	-20	48	-552	165	-387
Other comprehensive income	-492	-929	-1,421	-8,229	1,809	-6,420

2.12 Minority interests

in € thousand	2013	2012
1 January	3,017	2,390
Capital contributions	173	507
Disposals	-22	348
Dividends	0	-129
Unrealised gains from currency conversion (= share in other comprehensive income)	-119	97
Share of consolidated net profit	-585	-196
31 December	2,464	3,017

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.

The defined benefit obligations (DBO) developed as follows in financial year 2013:

	2013	2012	2011	2010	2009
1 January	2,624	2,049	1,901	1,831	1,547
Current service expense (personnel expenses)	45	30	26	26	20
Interest expense (personnel expenses)	70	87	87	87	93
Actuarial losses and gains from changes in financial assumptions	-68	552	124	73	293
Pension payments	-98	-94	-89	-87	-108
Transfer/settlement	0	0	0	-29	-14
31 December	2,573	2,624	2,049	1,901	1,831

Plan assets developed as follows in financial year 2013:

	2013	2012	2011	2010	2009
1 January	659	650	643	640	631
Interest income	5	9	7	3	9
31 December	664	659	650	643	640

	2013	2012	2011	2010	2009
Cash value of defined benefit obligations	2,573	2,624	2,049	1,901	1,831
Less fair value of plan assets	-664	-659	-650	-643	-640
Net obligations	1,909	1,965	1,399	1,258	1,191

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 policies.

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

Future payments

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

in € thousand	Payments from plan assets
2014	103
2015	106
2016	109
2017	113
2018	116
	547

In Germany, the weighted average term of defined benefit obligations is 15.0 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 (about 1.75% to 2.00%). 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.

in € thousand		
Einhell Germany AG		
Actuarial interest rate +0.5%	3.93% future beneficiaries, 3.28% pensioners	2,305
Actuarial interest rate -0.5%	2.93% future beneficiaries, 2.28% pensioners	2,693
Life expectancy +1 year		2,594
iSC GmbH		
Actuarial interest rate +0.5%	3.93% future beneficiaries	78
Actuarial interest rate -0.5%	2.93% future beneficiaries	95
Life expectancy +1 year		89

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.

2.14 Provisions for other risks

in € thousand	Warranty and guar-antees	Other	Total
1 January 2013	3,383	4,476	7,859
Claims	-1,359	-2,450	-3,809
Reversals	-226	-1,288	-1,514
Additions	2,852	4,185	7,037
Currency translation effects and other changes	-79	-125	-204
31 December 2013	4,571	4,798	9,369

in € thousand	Warranty and guar-antees	Other	Total
31 December 2013			
Non-current	0	696	696
Current	4,571	4,102	8,673
31 December 2012			
Non-current	0	630	630
Current	3,383	3,846	7,229

2.15 Financing liabilities

in € thousand	2013	2012
Non-current		
Loans, secured	0	22
Loans, unsecured	30,000	20,562
	30,000	20,584

	2013	2012
Current		
Loans and overdrafts, secured	1,439	1,784
Loans and overdrafts, unsecured	20,010	9,845
	21,449	11,629

Thereof non-current loans maturing in the short term	20,012	377
Thereof loans and overdrafts maturing in the short term	1,437	11,252

Collateral in the total amount of EUR 1,439 thousand consisting mainly of cheques and bills was furnished to secure financing liabilities.

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 on extremely favourable conditions. The existing long-term loans worth EUR 20.0 million that mature in mid-2014 are supposed to be likewise extended upon maturity. 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 does not expect any problems in financing future business. The loan agreements contain financial covenants and the creditors are entitled to terminate the loans prematurely during the term if these covenants are not met. All covenants were met in financial year 2013. The risk resulting from changes in interest rates is hedged using derivative financial instruments in the form of interest cap and interest swap agreements.

2.16 Other financial liabilities

in € thousand	2013	2012
Derivative financial instruments included in hedge accounting	1,414	3,997
Financial liabilities measured at fair value through profit or loss	165	941
	1,579	4,938

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

2.17 Other liabilities

in € thousand	2013	2012
Non-current	11,365	1,935
Current	17,933	15,214
	29,298	17,149

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 2013, the other liabilities item also includes the contingent purchase price payment from the takeover of Ozito Industries Pty Ltd in the amount of EUR 13,605 thousand. The purchase price payment, which is due in 2014, is shown in current liabilities.

Transferred consideration at the time of acquisition

	in € thousand
Cash	10,537
Fair value of the contingent consideration (exchange rate as of 30 June 2013)	14,529
Currency difference	19
	25,085

The Group recognised EUR 14,529 thousand as contingent consideration at the time of acquisition, equivalent to the fair value at the time of acquisition, to which a discount rate of 2.7% was applied. As at 31 December 2013, the fair value of the contingent consideration dropped to EUR 13,605 thousand, mainly due to currency translation effects.

In order to reflect the forecast uncertainty with regard to projected EBT, Einhell Germany AG developed a total of three scenarios for the statement of income: base case, low case and high case.

The Einhell Group has allocated the following probabilities to the individual scenarios:

- Base case: 70%
- Low case: 15%
- High case: 15%

The longer the planning horizon, the higher the risk associated with planning uncertainty. A risk discount was therefore applied in the purchase price allocation. According to the calculations, the assumption is based on EBT target estimates ranging between EUR 38.0 million and EUR 44.3 million.

3 Notes to the consolidated statement of income

Ozito Industries Pty Ltd and its affiliates were first consolidated as of 1 July 2013 and a pro-rata result for the period is shown as of 31 December 2013.

In the six-month period until 31 December 2013, Ozito Industries Pty Ltd including its affiliates contributed revenue of EUR 40.9 million and operating earnings of EUR 2.6 million to the consolidated net profit. These figures already account for the results of the purchase price allocation. If the acquisition had taken place on 1 January 2013, group revenue would have amounted to EUR 75.5 million and operating earnings to EUR 1.4 million according to a management estimate. In determining these figures, the management took account of the effects from purchase price allocation as would have applied to the full year. Seasonally, Ozito Industries Pty Ltd and its affiliates generate higher revenue and earnings in the second half than in the first half of the calendar year. The activities of affiliates refer to goods procurement with Chinese suppliers and the sale of merchandise under the private labels of the respective FOB customers.

3.1 Revenue

Segments in € thousand	2013		2012	
		%		%
Tools	259,037	62.2	230,787	60.8
Garden & Leisure	157,250	37.8	149,075	39.2
	416,287	100.0	379,862	100.0

Regions in € thousand	2013		2012	
		%		%
D/A/CH region	197,812	47.5	180,718	47.6
Other Europe	125,038	30.0	148,656	39.1
Asia	16,217	3.9	18,266	4.8
South America	24,959	6.0	19,431	5.1
Other countries	52,261	12.6	12,791	3.4
	416,287	100.0	379,862	100.0

3.2 Other operating income

in € thousand	2013	2012
Income from the release of warranty provisions	226	302
Commission income	1,520	1,254
Income from costs for inspection of goods charged to suppliers	349	448
Income from the receipt of receivables that had been written off and from the reversal of impairments for bad debts	493	435
Proceeds from disposal of fixed assets	104	416
Income from the release of other provisions	1,288	2,235
Income from purchase price adjustments	222	195
Other income	7,293	2,891
	11,495	8,176

Receivables from Praktiker AG and Max Bahr were largely insured. Other income also includes insurance benefits in the amount of EUR 3,916 thousand.

3.3 Cost of materials

in € thousand	2013	2012
Expenses for raw materials and supplies and purchased goods	295,690	260,778
Expenses for purchased services	321	259
	296,011	261,037

3.4 Personnel expenses

in € thousand	2013	2012
Wages and salaries	45,588	43,253
Social security contributions	8,616	7,760
Expenses for old-age pensions	122	115
	54,326	51,128

(Previous year's figures were adjusted)

Number of employees (annual average)	2013	2012
D/A/CH region	594	582
Other Europe	357	381
South America	74	65
Asia	262	263
Other countries	83	10
	1,370	1,301

3.5 Depreciation

in € thousand	2013	2012
Amortisation of intangible assets (without goodwill)	1,292	406
Depreciation of property, plant and equipment	2,597	2,301
	3,889	2,707

As in the previous year, financial year 2013 did not see any extraordinary depreciation. The purchase price allocation entails amortisation of intangible assets in the amount of EUR 823 thousand and depreciation of property, plant and equipment amounting to EUR 29 thousand.

3.6 Other operating expenses

Other operating expenses pertain primarily to expenses for the shipping of goods, guarantees, customer service, impairment, advertising and product design. Expenses for impairment of trade receivables were EUR 1,419 thousand (previous year EUR 501 thousand). The other operating expenses item in 2013 includes bad debt impairments on receivables from Praktiker AG and Max Bahr amounting to EUR 4,377 thousand. Given the short-term nature of the trade receivables items and the fact that payments are expected to be received in the near future, interest effects are of no major significance in calculating impairments.

Ancillary costs of acquisition from the Ozito takeover in the amount of EUR 0.2 million that have accrued to date were booked as other operating expenses.

3.7 Financial result

in € thousand	2013	2012
Interest income	263	833
Interest expenses	-1,712	-1,523
Unrealised gains/losses from currency conversion	-1,161	-1,265
	-2,610	-1,955

thereof interest income from hedging instruments	145	0
thereof interest expenses for hedging instruments	0	-273
thereof currency translation gains from hedging instruments	1,133	266
thereof currency translation losses from hedging instruments	-165	-713

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.

3.8 Income taxes

in € thousand	2013	2012
Actual tax expenses	4,213	3,361
Deferred taxes	-1,692	1,381
	2,521	4,742

(Previous year's figures were adjusted)

Deferred tax liabilities in the amount of EUR 4,069 thousand were offset against equity without effect on profit or loss in the scope of the initial consolidation of Ozito Industries Pty Ltd.

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 426 thousand (previous year EUR 1,254 thousand), while the corresponding deferred tax liabilities come out to EUR 539 thousand (previous year EUR 520 thousand).

The subsidiaries capitalised deferred taxes from loss carryforwards in the amount of EUR 2,948 thousand (previous year EUR 1,867 thousand). 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 2013, no deferred tax assets were posted for loss carryforwards in the amount of EUR 23,944 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:

in € thousand	2013	2012
Expected tax expenses	1,207	3,213
Tax expenses/income from intra-Group income/expenses	0	263
Other non-tax-deductible expenses	3,476	2,863
Different tax rates in other countries	-822	-1,232
Tax free income	-1,815	-1,669
Changes in loss carryforwards	-860	669
Other	1,335	635
Reported tax expenses	2,521	4,742

(Previous year's figures were adjusted)

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% (2012: 30.0%).

3.9 Earnings per share

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. 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. 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 usual market conditions.

in € thousand 2013	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
Segment revenue	259,037	157,250	416,287	0	416,287
Profit from ordinary activities (EBT)	793	3,229	4,022	0	4,022
Financial result	-2,056	-554	-2,610	0	-2,610
Scheduled depreciation	2,541	1,348	3,889	0	3,889
Non-cash income	-245	-124	-369	0	-369
Non-cash expenses	1,622	450	2,072	0	2,072
Inventories	68,784	37,189	105,973	0	105,973

in € thousand 2012	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
Segment revenue	230,787	149,075	379,862	0	379,862
Profit from ordinary activities (EBT)	4,098	6,611	10,709	0	10,709
Financial result	-1,532	-423	-1,955	0	-1,955
Scheduled depreciation	1,648	1,059	2,707	0	2,707
Non-cash income	-722	-350	-1,072	0	-1,072
Non-cash expenses	257	170	427	0	427
Inventories	82,093	43,622	125,715	0	125,715

(Previous year's figures were adjusted)

Income and expenses that cannot be directly allocated to the individual segments are shown in the reconciliation item.

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.

in € thousand 2013	D/A/CH region	Other Europe	Asia	South America	Other countries	Reconciliation	Einhell Group
External revenue	197,812	125,038	16,217	24,959	52,261	0	416,287
Non-current assets (without deferred taxes)	15,139	13,871	577	880	17,954	0	48,421

Total group revenue generated in Germany amounts to EUR 162.5 million. The companies with the strongest revenue in other Europe are Einhell Turkey with EUR 13.7 million, Einhell Italy with EUR 12.8 million and Einhell Comercial with EUR 8.6 million. Here, one needs to consider that individual major customers have made adjustments to their logistics. A change to their billing policy means that invoices are now issued in Germany, which is why the respective revenue of EUR 22.9 million is now included in the D/A/CH figures. In the previous year's figures, this revenue was still shown in the other Europe item.

The major part of revenue in the South America region is generated by the subsidiaries in Brazil, Argentina and Chile. The revenue of the Hong Kong subsidiaries of EUR 26.0 million includes most of the Asia revenue. Other countries refers to Ozito's revenue in the amount of EUR 37.9 million.

The share of non-current assets pertaining to Germany is EUR 12,619 thousand.

in € thousand 2012	D/A/CH region	Other Europe	Asia	South America	Other countries	Reconciliation	Einhell Group
External revenue	180,718	148,656	18,266	19,431	12,791	0	379,862
Non-current assets (without deferred taxes)	15,457	14,354	486	638	303	0	31,238

Total group revenue generated in Germany amounts to EUR 139.1 million. The companies with the strongest revenue in other Europe are Einhell Turkey with EUR 14.6 million, Einhell Italy with EUR 12.8 million and Einhell Poland with EUR 8.8 million.

The major portion of revenue in the South America region is generated by the subsidiaries in Brazil, Argentina and Chile. The revenue of the Hong Kong subsidiaries of EUR 31.9 million includes most of the Asia revenue.

In 2012, the share of non-current assets pertaining to Germany amounted to EUR 12,907 thousand.

None of the customers accounted for more than 10% of the Einhell Group's revenue in financial years 2013 and 2012. The Group generated nearly half of its revenue volume with the ten largest customers.

4.3 Capital management

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, in some cases, 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.

5. Notes to the consolidated statement of cash flows

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

Operating activities

Cash inflows from operating activities result from decreases in inventories and increases in trade payables.

Investing activities

Cash outflows for investments in property, plant and equipment and intangible assets pertain primarily to operating and office equipment and payments for the acquisition of Ozito Industries Pty Ltd.

Financing activities

Cash flows from financing activities include mainly inflows and outflows associated with loans and the distribution of the dividend.

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.

6. Risk report and financial instruments

6.1 Financial risk management

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.

6.2 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 refer to DIY chains, specialist traders and discounters and amount to EUR 64.4 million (previous year EUR 66.3 million). In the financial year 2013 there were no significant receivables for which new payment targets were agreed.

The Einhell Group seeks to manage the creditworthiness risk by concluding Euler Hermes credit insurance where possible.

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 4,977 thousand.

Bank balances amounted to EUR 59.0 million on the reporting date (previous year EUR 5.6 million). 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.

6.3 Interest risks

The interest rate risk of the Einhell Group stems mainly from financial liabilities, loans and interest-bearing borrowings. The risk is reduced by using derivative financial instruments such as interest caps and interest swaps. The Group-wide treasury department manages interest risk for the Group, in order to optimise interest income and expenses for the Group and to minimise total interest rate risk. This also includes Group-wide interest overlay management, which is designed to directly connect fixed interests from concluded hedge transactions and the earmarked funds that are tied-up in assets and liabilities.

The Group uses all interest caps and swaps either as an economic cash flow hedge or as economic fair value hedge and recognises them at fair value. The nominal value of existing interest hedge transactions as of the reporting date is EUR 60 million (EUR 60 million).

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 276 thousand.

The Group is subject to accounting risk from the fair value measurement of derivatives. An increase in market interest rates of 1% would result in a positive effect on the statement of income at the reporting date of EUR 82 thousand. A decrease in market interest rates of 1% would result in a negative effect on the statement of income at the reporting date of EUR 83 thousand.

6.4 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 62.5 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 2013 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 flow will significantly differ from the expected cash flow with regard to the time of payment.

in € thousand	2014	2015	2016-2018	2019 and after
Non-current liabilities to banks	20,728	600	31,800	0
Trade payables	52,601	0	0	0
Other current liabilities	19,512	0	0	0

The overview includes the repayment of long-term loans that will mature in 2014. 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 286.8 million and cash outflows corresponding to about EUR 285.2 million. Sensitivities are specified under foreign currency risks.

6.5 Foreign currency risks

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 three 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.

Given the short-term nature of the USD/CNY payment terms, the USD/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 24,434 thousand or EUR -19,801 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 5,981 thousand or EUR -6,606 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 € thousand	2013		
	Gross amount shown	Offsetting amount	Net amount shown
Derivatives with positive market values	4,977	0	4,977
Derivatives with negative market values	1,579	0	1,579

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

in € thousand	Nominal volume		Market value	
	2013	2012	2013	2012
Forward exchange operations	131,381	136,446	3,932	1,736
Options	0	7,586	0	30
	131,381	144,032	3,932	1,766

Financial instruments with a negative market value to cash flow hedge

in € thousand	Nominal volume		Market value	
	2013	2012	2013	2012
Forward exchange operations	76,682	111,352	1,285	3,005
Options	0	18,763	0	993
	76,682	130,115	1,285	3,998

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.

2013 in € thousand	Book value								Fair value			
	Held for trading	Measured at fair value	Fair value - hedge instru-ments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value												
Currency futures for hedging purposes			3,844					3,844		3,844		3,844
Options for hedging purposes			0					0		0		0
Derivative hedge instruments not subject to hedge accounting	1,133							1,133		1,133		1,133
Available-for-sale financial instruments						368		368		368		368
	1,133	0	3,844	0	0	368	0	5,345				
Financial assets not measured at fair value												
Trade receivables					64,415			64,415				
Other assets					12,424			12,424				
Cash and cash equivalents					59,006			59,006				
	0	0	0	0	135,845	0	0	135,845				
Financial liabilities measured at fair value												
Currency futures for hedging purposes			1,414					1,414		1,414		1,414
Options for hedging purposes			0					0		0		0
Derivative hedge instruments not subject to hedge accounting	165							165		165		165
Contingent consideration		13,605						13,605			13,605	13,605
	165	13,605	1,414	0	0	0	0	15,184				
Financial liabilities not measured at fair value												
Loans and overdrafts, secured							1,439	1,439				
Loans and overdrafts, unsecured							50,010	50,010				
Trade payables							52,601	52,601				
	0	0	0	0	0	0	104,050	104,050				

2012 in € thousand	Book value								Fair value			
	Held for trading	Measured at fair value	Fair value - hedge instru-ments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value												
Currency futures for hedging purposes			1,736					1,736		1,736		1,736
Options for hedging purposes			30					30		30		30
Derivative hedge instruments not subject to hedge accounting	267							267		267		267
Available-for-sale financial instruments						362		362		362		362
	267	0	1,766	0	0	362	0	2,395				
Financial assets not measured at fair value												
Trade receivables					66,264			66,264				
Other assets					10,949			10,949				
Cash and cash equivalents					5,618			5,618				
	0	0	0	0	82,831	0	0	82,831				
Financial liabilities measured at fair value												
Currency futures for hedging purposes			3,005					3,005		3,005		3,005
Options for hedging purposes			993					993		993		993
Derivative hedge instruments not subject to hedge accounting	941							941		941		941
	941	0	3,998	0	0	0	0	4,939				
Financial liabilities not measured at fair value												
Loans and overdrafts, secured							1,806	1,806				
Loans and overdrafts, unsecured							30,407	30,407				
Trade payables							32,613	32,613				
	0	0	0	0	0	0	64,826	64,826				

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	*Discounted cash flows:* 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.	• Forecast annual revenue growth rate (about 13% to 15% p.a. before adjustment for the risk that key account relations might end) • Risk of termination of key account relations (2013/14: 0%, increase by 10 percentage points p.a. until 2016/17) • EBIT margin forecast • Discount rate (2.6% - 2.9% p.a.)	The estimated fair value would rise (fall) if: • the annual average revenue growth rate were higher (lower) • the risk of key account relations being terminated were lower (higher) • the EBIT margin were higher (lower) • the risk-related discount rate were lower (higher) A change in the annual revenue growth rate automatically entails a change in the EBIT margin in the same direction.
Forward exchange operations and options Available-for-sale financial instruments	*Market comparison method:* 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.	not applicable	not applicable

Financial instruments not measured at fair value

Other financial liabilities (secured and unsecured bank loans, liabilities from finance leases)	*Discounted cash flows*	not applicable	not applicable

b) Reclassifications between level 1 and level 2

No reclassifications were performed in 2012 and 2013 in either direction.

c) Fair values in level 3

Reconciliation of fair values in level 3

in € thousand	Contingent consideration
As of 1 January 2012	0
Net change in fair value	0
As of 31 December 2012	**0**
As of 1 January 2013	0
Acquired in the scope of a merger	14,529
Loss recognised in financing costs	209
Currency translation effects recognised in exchange equalisation item	-1,133
Net change in fair value (not realised)	0
As of 31 December 2013	**13,605**

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 contingent consideration			
Exchange rate of 1.5396	Increase to	Decrease to	Increase to	Decrease to
	AUD thousand	AUD thousand	€ thousand	€ thousand
31 December 2013				
Annual average revenue growth rate (change by 1 pp)	21,487	20,470	13,956	13,296
Risk of termination of key account relations (change by 10 pp respectively)	18,089	23,263	11,749	15,110
EBIT margin (change by 1 pp)	22,901	19,046	14,875	12,371
Discount rate (change by 1 pp)	20,541	21,421	13,342	13,913

7. Other notes

7.1 Other financial obligations

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

in € thousand	Total	up to one year	one to five years	more than five years
Obligations from rents	1,452	559	893	0
Obligations from leases	2,940	785	2,155	0
	4,392	1,344	3,048	0

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 2013, the payments for operating leases amounted to EUR 632 thousand (previous year EUR 586 thousand).

7.2 Corporate Governance Code

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.

7.3 Related party disclosures

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

In the financial year 2013, Josef Thannhuber and Dr Markus Thannhuber received remuneration for their activities as directors of Einhell Germany AG.

Einhell Germany AG and its subsidiaries did not carry out any legal transactions with Thannhuber AG and its related parties during financial year 2013, nor did Thannhuber AG take or fail to take any measures that would have negatively affected Einhell Germany AG or its subsidiaries.

7.4 Remuneration of the Board of Directors and Supervisory Board

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 2013, the total remuneration of the Board of Directors of Einhell Germany AG amounted to EUR 1,378 thousand (previous year EUR 1,747 thousand). In addition, pension provisions for this group of persons totalling EUR 421 thousand were recognised in liabilities.

Pension provisions in the amount of EUR 1,786 thousand (EUR 1,859 thousand) were set aside for former members of the Board of Directors. Pension benefits in the amount of EUR 107 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 83 thousand (previous year EUR 77 thousand) in the past financial year.

Loans and share options were not granted to members of the Board of Directors or the Supervisory Board.

7.5 Auditor fees

Auditors' fees in the amount of EUR 116 thousand were booked to expenses in the year under review for the auditor KPMG AG (previous year EUR 110 thousand). The fee pertains only to the auditing of the financial statements. No other consultancy services, tax advisory services or other services were rendered to the Einhell Group.

7.6 Events after the reporting date

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

If new information on facts or circumstances were to emerge within the time frame of one year counting from the acquisition of Ozito Industries Pty Ltd, which affect the situation on the acquisition date and would require adjustments to the above-mentioned amounts or additional provisions, the initial accounting of the acquisition will be revised.

8. Subsidiaries

31 December 2013	Share in capital	Equity
	%	€ thousand
iSC GmbH, Landau a. d. Isar/Deutschland	100.0	1,175
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	21,268
HAFE Trading Ltd., Hong Kong/China	100.0	2,619
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	1,314
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	2,891
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	-34
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0	824
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	2,730
Einhell Benelux B.V., Breda/Netherlands	100.0	-650
Einhell Italia s.r.l., Milan/Italy	100.0	4,215
Comercial Einhell S.A., Madrid/Spain	100.0	1,622
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	13,017
Einhell Hungaria Kft., Budapest/Hungary	100.0	241
Einhell Schweiz AG, Winterthur/Switzerland	100.0	3,390
Einhell UK Ltd., Birkenhead/Great Britain	100.0	1,162
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	-123
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	1,451
Einhell Croatia d.o.o., Lepajci/Croatia	100.0	4,158
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,588
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	1,094
Einhell Romania SRL, Bukarest/Romania	100.0	2,541
Einhell-Ukraine TOV, Kiev/Ukraine	100.0	-868
Svenska Einhell AB, Gothenburg/Sweden	100.0	-632
Einhell Holding Gesellschaft m.b.H., Vienna/Austria	100.0	163
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	100.0	2,198
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	85.0	1,245
Anxall Hellas A.E., Athens/Greece	97.2	1,624
Einhell Chile S.A., Santiago/Chile	90.0	1,188
Einhell Danmark ApS, Silkeborg/Denmark	100.0	-404
Einhell Middle East Trading FZC, Ras Al-Khaima/ United Arab Emirates	100.0	-243
Einhell Slovakia s.r.o., Pezinok/Slovakia	100.0	-422
Einhell France SAS, Villepinte/France	95.0	22
Einhell Australia PTY. Ltd., Victoria/Australia	90.0	-1,607
Einhell Brasil Com. Distr. Ltda, Campinas/Brazil	90.0	1,532
Einhell Norway AS, Larvik/Norway	100.0	-15
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	1,613
kwb tools GmbH, Stuhr/Germany	100.0	1,760
KWB-RUS OOO, Moscow/Russia	100.0	263
Hans Einhell Ukraine TOV, Kiev/Ukraine	100.0	175
Einhell Holding Australia Pty. Ltd., Melbourne/Australia	100.0	13,537
Einhell Colombia S.A.S., Bogota/Columbia	100.0	610
Ozito Industries Pty Ltd, Bangholme/Australia	100.0	9,640

9. Executive bodies

9.1 The Board of Directors

In financial year 2013 the Board of Directors of Einhell Germany AG comprised:

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

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

9.2 Supervisory Board

In financial year 2013 the Supervisory Board of Einhell Germany AG comprised:

• Josef Thannhuber, Landau a. d. Isar, businessman	Chairman
• Univ.-Prof. Dr.-Ing. Dr.-Ing. E.h. Dieter Spath, Sasbachwalden, until 30 September 2013: Head of the Fraunhofer Institute for Industrial Engineering (IAO), Stuttgart Since 1 October 2013: Chairman of the Board of Wittenstein AG, Igersheim	Deputy Chairman
• Maximilian Fritz, Wallersdorf - Haidlfing, Call Centre team leader	Employee representative

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

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

Landau a. d. Isar, 27 March 2014

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 2013

	Acquisition and manufacturing cost						
	1.1.2013	Additions	Changes in companies included in the consolidation	Re-classifications	Disposals	Currency differences	31.12.2013
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets							
1. Acquired intangible assets	8.033	12.074	-	-	-17	-84	20.006
2. Self-developed intangible assets	5.032	189	-	-	-	-	5.221
3. Acquired goodwill	11.222	6.100	-	-	-	-	17.322
	24.287	18.363	-	-	-17	-84	42.549
II. Property, plant and equipment							
1. Land and buildings in company assets	26.823	7	-	150	-	-64	26.916
2. Technical equipment and machinery	5.015	72	-	-	-	-13	5.074
3. Other equipment, operating and office equipment	16.064	2.205	1.885	8	-914	-368	18.880
4. Prepayments and assets under construction	176	135	-	-158	-	-	153
	48.078	2.419	1.885	-	-914	-445	51.023
III. Financial assets (securities)	366	115	-	-	-110	-	371
	72.731	20.897	1.885	-	-1.041	-529	93.943

Statement of non-current assets in the financial year 2012

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

Cumulated depreciation						Book Value	
1.1.2013	Depreciation in financial year	Changes in companies included in the consolidation	Disposals	Currency differences	31.12.2013	31.12.2013	31.12.2012
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
6.706	1.292	-	-1	-58	7.939	12.067	1.327
5.024	-	-	-	-	5.024	197	8
2.107	-	-	-	-	2.107	15.215	9.115
13.837	1.292	-	-1	-58	15.070	27.479	10.450
17.295	387	-	-	-21	17.661	9.255	9.528
1.978	219	-	-	-13	2.184	2.890	3.037
10.844	1.991	856	-546	-254	12.891	5.989	5.220
-	-	-	-	-	-	153	176
30.117	2.597	856	-546	-288	32.736	18.287	17.961
4	-	-	-1	-	3	368	362
43.958	3.889	856	-548	-346	47.809	46.134	28.773

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

Einhell Germany AG, Landau a. d. Isar

Group Management Report for the financial year 2013

1. <u>Business activities, structure, management and goals of the Einhell Group</u>

1.1 General operations and business segments

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

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

The subsidiaries comprise sales companies mainly in Europe, but also distribution companies in South America and trading companies in Asia. The Asian subsidiaries are also responsible for product sourcing and procurement. As production is carried out in Asia, this is also were quality assurance takes place. Einhell employs around 1,400 employees worldwide. Group revenue amounted to EUR 416 million in financial year 2013.

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

Operational responsibility for each of the business units or segments, respectively, lies with the divisional heads or Managing Directors of the subsidiaries. Allocation of sales responsibilities is constantly revised for this management level and is based on the segment classification into ‘Tools’ and ‘Garden & Leisure’. The Einhell Group implemented the group-wide roll-out of the Business Unit concept in 2013, whereby responsibilities are extended beyond sales to such areas as product management and procurement.

1.2 Legal structure and management of the Group

Legal structure and changes to Group structure

Einhell Germany AG, Landau/Isar, holds direct and indirect shareholdings in a total of 42 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 holds all the shares in the global sales companies.

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

With respect to the responsibilities of the Einhell Group companies, all activities that can be centralised are carried out at just one location. By way of example, product processing, the search for factories, auditing, certification, procurement, service, controlling, financing, IT and other administrative activities are centralised in Group companies in Germany and China. This organisational structure within the Group allows all sales companies to focus on their core functions. Einhell is also in a position to press ahead with international expansion as each sales company has a similar structure and the business model can be efficiently rolled out in 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 2013 financial year:

Under the purchase agreement of 1 July 2013, the Einhell Group took over 100% of shares in Ozito Industries Pty Ltd, Bangholme, Victoria, Australia and its affiliates. The shares in Ozito Industries Pty Ltd were acquired directly by the new entity Einhell Holding Australia Pty Ltd Melbourne, Australia, a fully owned subsidiary of Einhell Germany AG. The property, plant and equipment of the Chinese activities were taken over by Hans Einhell

(Shanghai) Trading Co. Ltd. by way of an asset deal. The main activities that a carried out there pertain to procurement, order processing, quality assurance and quality control.

Ozito is well-known among consumers and a long established brand in the price entrance segment in the power tool and garden tool section of the Australian and New Zealand markets. In these two markets, Ozito Industries Pty Ltd sells power tools and garden equipment under its own Ozito brand name, while the company also sells goods under private brands in other markets.

The integration of Ozito Industries Pty Ltd will enable the Einhell Group to establish itself as a strong DIY supplier in the Australia and New Zealand region. The main customer of Ozito Industries Pty Ltd is the Bunnings DIY chain that belongs to the Wesfarmers Group. Through this acquisition, Einhell buys a brand that is well known in the Australian market, thus facilitating access to Australia's most important DIY chain Bunnings. This enables Einhell to generate considerable additional revenue in a growing DIY market and benefit from the earnings potential in the Australian market.

Moreover, the Einhell Group acquired 1.2% in Anxall Hellas A.E. from the local Managing Director in financial year 2013. In addition, the Group founded Einhell Holding Australia Pty. Ltd., a fully owned subsidiary of Einhell Germany AG. A new company in Columbia was founded in the South America region. Einhell Germany AG holds 100% of shares in this new company. Einhell Rus OOO, which was founded in 2012, was sold.

Management and control

Responsibility for the business activities of the Einhell Group lies with the Board of Directors. This comprised three members at the time of preparation of the annual financial statements, consolidated financial statements and management report. The Board of Directors manages, organises and monitors strategies and operational business processes for the whole Group. Responsibilities within the Board of Directors are allocated based on the departments the individual member is in charge of. The Chairman of the Board of Directors is responsible for sales, procurement, marketing, product management and corporate strategy.

The Chief Financial Officer is responsible for finance and accounting, tax, legal, controlling, investor relations and personnel. The Chief Technical Officer is responsible for technology, product processing, quality control, service, 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 meetings and ensures an adequate level of communication and informational flows between the Board of Directors and the Supervisory Board.

Principles of the remuneration system for the Board of Directors

Members of the Board of Directors receive fixed and performance-based variable remuneration with short-term and medium-term components. The performance-based components depend on consolidated net profit, 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. 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 2013. There was no change to division of responsibilities between the members of the Board of Directors.

1.3 Management, objectives and strategy of the Einhell Group

Management

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

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

Trade receivables are constantly monitored on the basis 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.

Objectives

The Einhell Group promotes sustainable profitable growth of revenue and profit. Profitability takes priority over pure growth. The Group substantiated these objectives by stating the targets of a long-term stable pre-tax margin averaging at at least about 4-5%, and long- term stable dividend distributions. The Group managed to achieve and usually even exceed the long-term pre-tax margin target in recent years. Owing to the macroeconomic environment, the Group failed to meet the margin target in the short-term review of the last two financial years (2012 and 2013) and generated a return on sales ranging between 1-3% before taxes. This is a strong value compared to the rest of the DIY industry and demonstrates that the Group maintains its profitability even in a highly adverse economic environment. In the long-term perspective, the Group is optimistic that it will return to the long-term target corridor.

Strategy

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 most important strategic aim is the further internationalisation of the Group.

In addition to the expansion of 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 are also to be rolled out as an international service organisation. On the procurement side, the Einhell Group has minimized its dependence on specific procurement regions and established a world-wide sourcing model.

The marketing campaign already launched in the autumn of 2012, ‘EINHELL WELL DONE’, was an important strategic milestone in 2013.
The Einhell brand is still not recognised enough outside of Germany, i.e. outside of the German-speaking countries Germany, Austria and Switzerland (D/A/CH region), and does not yet match the recognition received by well-known A brands. Brand recognition is first to be strengthened in the D/A/CH region, as this is where the Einhell Group generates the largest sales volume. Outside of the D/A/CH region and outside of Europe, the Group’s subsidiaries first have to establish themselves in the market, as the brand is still rather unknown in markets such as South America, for instance. This is a major challenge for local sales teams in the relevant countries.

Due to recent developments with regard to stationary DIY stores, with the corresponding insolvencies of important customer groups (Praktiker and Max Bahr), the Einhell Group has added online trade to its strategy. While this trade channel had already existed before, it had not made a major revenue contribution - and the same applies to the Group’s customers. The Einhell Group wants to offset revenue declines originating from the above-mentioned customer closures with online business, and wants to establish itself with an attractive position in the online market; for this purpose, the Group will build up resources in this area.

1.4 Product processing, procurement and quality management

Product processing

Product processing expenses amounted to EUR 4.5 million (previous year: EUR 5.2 million) in financial year 2013. The segment has 37 employees (previous year: 42 employees) and is mainly sales-driven and customer-oriented. Therefore, cooperation with other departments, such as quality assurance, is important, as is communication with customers. Customer requirements are taken into account from the outset during the design of new products and versions. The customer is regarded as a partner. This allows the entire Einhell Group to consistently adapt to markets and meant that Einhell has become one of the fastest reacting companies in the industry. The positive feedback from our customers convinces us to retain this approach.

The ‘Blue’ and ‘Red’ product lines, which were already introduced at the end of 2008, are continually updated and have been well received by the DIY stores. The two product lines are differentiated by price and design. The “Blue” line designates the medium-priced product line and the “Red” line designates the higher price segment. Prices remain below those of the current market leaders but the products are distinguished in terms of design, exclusivity and customer service.

The path of ‘brand quality at top prices’ is to be consistently pursued. The standardised brand identity of Einhell is to become even more clear-cut at the point of sale to improve the orientation for end consumers. The Einhell Group has therefore decided to exclusively use the colour of red for the two product lines. The formerly blue line is now labelled ‘Home’ to provide end consumers with a more recognisable orientation, while the red line is labelled ‘Expert’ because of the sophisticated quality level and functionality of the tools.

Both lines maintain their positioning in the relevant market segments; this makes Einhell’s brand identity more striking, optimising brand presentation and image at the point of sale.

Procurement

In the procurement division, commodity prices in global trade are an important factor. In general, commodity prices showed a downward trend in 2013; merely the index for iron ore and scrap metal increased. The commodity price index published by the Hamburgisches Weltwirtschaftsinstitut (HWWI) decreased by 2.0% on a US dollar basis from the beginning of the year to the end of 2013; on a euro basis it fell by 5.1%.

According to the HWWI, the oil price was subject to strong fluctuations in 2013. Turbulent political developments in significant countries for global oil production or oil logistics have repeatedly led to oil price fluctuations in one or the other direction. The demand for coal has seen a further decline in 2013, driven by the strong increase in the exploration of unconventional gas resources in the USA.

Quality management

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

1.5 Personnel and HR services

The number of employees increased by 5.3% during the financial year 2013 in comparison with the previous year to an average of 1,370 (previous year: 1,301). Revenue per employee was EUR 304 thousand (previous year EUR 292 thousand). The increase in headcount was strongly driven by the acquisition of Ozito Industries Pty Ltd as well as the establishment of subsidiaries in South America. The takeover of Ozito added 106 employees to the Einhell Group.

The core of our human resource objectives in financial year 2013 was that the perception of our company as an attractive employer would be established and increased among the current workforce but also for potential new employees. An employee survey was carried out for this reason that explored the focus areas of corporate culture, communication structures, work-life balance, jobs and processes, but also leadership culture. With more than 70% of permanent staff participating in the survey, the analysis produced representative results. Based on intensive workshops at all management levels, a number of measures were defined that are currently being implemented.

Constant training of our staff provides the basis for successful future operations. Personnel training and development provided in 2013 comprised IT and language training courses as well as individual training courses and seminars. By expanding the skills and abilities of our employees, we are creating the foundation for long-term corporate success.

Content and structure of the internal vocational training programme were further improved with special emphasis on the integration of new trainees. The introduction of a mentoring system for new trainees led to an even smoother integration process. New cooperations with the universities in Landshut and Deggendorf were initiated to offer dual-system courses that offer a flexible and practice-oriented academic degree path with a clear regional orientation. These cooperations serve to gradually replace the cooperation with Baden-Württemberg Cooperative State University.

Activities in the field of occupational safety were restructured and documented in order to provide clear guidelines to employees, but mainly managers, and further reduce accident-related absences, which are quite low already. In addition, five defibrillators were bought for the site in Landau a.d. Isar, which serve to actively support our trained first aid helpers when life-saving measures are required.

The extraordinary commitment of each of its employees during a year that was anything but easy with local and international crises kept the Einhell Group on track. The Board of Directors of Einhell Germany AG would like to express its sincere thanks to all Group employees.

2. Overview of business activities

General economic conditions

Global economy

Prospects for the **global** economy have not been better for a long time, according to World Bank's assessment. While the emerging and development countries continued to show strong growth in 2013, the industrial states recovered somewhat from the years of crisis. According to World Bank, global economic growth amounted to 2.4% in 2013.

The global unemployment figure rose by five million in 2013. 202 million people were without a job in the past year, as calculated by the International Labour Organisation. The increase mainly affects young people: 74.5 million young people world-wide are without a job.

Germany

The **German** economy showed the slowest average annual growth since 2009 in 2013. The gross domestic products merely increased by 0.4%. In 2012 growth had still amounted to 0.7%. Quite obviously the German economy was burdened by the continuing recession in some European countries and a restrained global economic development. Strong domestic demand offset these developments to a limited degree.

The German economy owes its growth mainly to private consumer spending, which increased by 0.9% in 2013. Domestic demand showed a highly positive development in 2013. Private consumer spending rose by 0.9%, which is more than twice as high as GDP growth of 0.4%.

Export companies saw a disappointing trend in 2013. In an annual average for 2013, foreign trade, which had previously been so robust, lost momentum due to the difficult external economic environment: while Germany exported 0.6% more products and services than in 2012, imports increased by 1.3%.

Germany is the only euro country in 2013 that has almost balanced its budget. The state spent EUR 1.7 billion more than it collected. This corresponds to a deficit of 0.1% of the gross domestic product. One year before, there was a surplus of 0.1%. Germany is therefore in line with the deficit limit of 3% stipulated in the Maastricht agreement. Germany failed again to meet the second criterion, the sovereign debt level. Tax estimators assume that total state debt amounted to about 75% of economic performance.

The employment number in Germany has reached a new high in 2013. Growth is becoming more difficult, however. The eighth positive annual growth figure in a row was only half as high as in the two years before. According to the Federal Statistical Office, about 41.78 million men and women living in Germany were in employment in 2013. This corresponds to an increase of 0.6% compared to the previous year. At the turn of the year, about 2.896 million men and women were without a job. This is equivalent to an increase of about 90,000 compared to November and of about 55,000 compared to the previous year.

Economists expect a slight decrease in 2014, supported by the improved economic situation, which has a delayed effect on the labour market.

According to the Federal Statistical Office, consumer prices have only risen by an average of 1.5% in 2013. This means that the inflation rate was substantially lower in 2013 than in the two previous years (2012: +2.0%; 2011: +2.1%). This is the lowest average annual inflation rate since 2010. The rate of inflation picked up slightly towards the end of 2013. The European Central Bank (ECB) refers to stable prices when the inflation rate remains below 2 per cent.

The development in 2013 largely hinged on energy prices. Energy prices increased to a much lesser degree than in the previous years. Overall inflation was therefore slightly weaker.

The harmonised index of consumer prices (HICP), which is calculated for European purposes, increased by an average of 1.6% in 2013. In December 2013, the HICP was only 1.2% higher than in December 2012. The increase compared to the previous month of November amounted to 0.5% in December 2013.

After a mixed financial year 2012, the **DIY store sector** started the year 2013 with optimism. However, the DIY market in Germany suffered a decline in sales from January to June 2013. Compared to the prior-year period, the nominal shortfall in sales amounts to 5.2% in the first half of the year. This is primarily attributable to revenues in the first quarter of 2013. The sales decline, particularly with regard to garden products, was caused by extremely low temperatures and large amounts of rainfall. In April total revenue showed the first positive development, followed by a stabilisation of the revenue trend in May and June. In June, the industry managed to generate revenue growth of 0.6% with total gross revenue of EUR 1.69 billion on a like-for-like basis. The month of July saw considerable sales increases due to high temperatures and low rainfall compared to the previous year. This development was not sustainable until the end of the quarter because of strong rainfall, mainly in September. The third quarter had a positive effect on the overall performance and decreased the sales decline to a cumulated 3.4%. The DIY market also failed to see sales growth in the fourth quarter, with real-term sales 5.2% below the prior-year level.

Europe

Europe's economy is slowly returning to positive growth. While the reforms in European states would have set the basis for a recovery, high unemployment rates continue to burden the economic development. The EU Commission has forecast 1.1% growth for the eurozone in 2014 in its economic outlook. The gross domestic product of monetary union member states increased by 0.3% in the fourth quarter of 2013 compared to the previous quarter, adjusted for seasonal and work day related effects.

The unemployment rate in the 28 EU countries together amounted to 12.0% in December 2013. This value has not changed since October 2013. Eurostat estimates that a total of 26.20 million men and women were unemployed in the European Union in December 2013, out of which 19.01 million pertain to the eurozone. The unemployment rate adjusted for seasonal effects in the eurozone was 10.7% in December 2013, compared to 10.8% in November 2013.

The inflation rate in the eurozone dropped more strongly than expected in 2013. According to the Federal Statistical Office, the rate amounted to 1.5%, after 2.0% and 2.1% in the two previous years. The inflation rate in December amounted to 0.8%, which was 0.1% lower than in November 2013. Countries such as Greece, Lithuania and Cyprus even saw falling prices.

The annual inflation rate is therefore below the target value issued by the European Central Bank (ECB); the ECB strives for a medium-term rate of just under two per cent. All this is pleasant for the consumers, but increasingly a cause for concern for the economists. Nevertheless, there is currently no risk of deflation.

Adjusted for seasonal effects, industrial production in the eurozone dropped by 0.7% in December 2013. Compared to the previous month, industrial production adjusted for work day effects increased by 0.5%. In financial year 2013, industrial production in the eurozone dropped by -0.8% compared to the previous year (2012: -2.5%).

Performance report

Strategic acquisition boosts Group revenue

The Einhell Group managed to increase its revenue in comparison with the previous year in a difficult market environment. Group revenue amounts to EUR 416.3 million in financial year 2013, compared to EUR 379.9 million in the previous year. The strategic acquisition of Ozito Industries Pty Ltd and its affiliated business activities had a major impact on the revenue development. Ozito Industries Pty Ltd (including its affiliated business activities) contributed EUR 40.9 million to Group revenue since July 2013. Without the revenue from the Ozito acquisition, revenue amounts to EUR 375.4 million, which corresponds to a slight decline compared to the previous year.

Revenue **in EUR million**	**2013**	**2012**	**Changes in**	**%**
Einhell	375.4	379.9	-4.5	-1.2
Ozito Industries Pty Ltd (including its affiliated business activities)	40.9	0	40.9	100.0
	416.3	**379.9**	**36.4**	**9.6**

This means that the Einhell Group was not able to meet its forecast for financial year 2013, for which the Board of Directors had stated a moderate increase in revenue to about EUR 400-420 million at the beginning of 2013. The revenue forecast was lifted to EUR 420-430 million in June 2013, after the acquisition of Ozito Industries Pty Ltd. The forecast issued in June 2013 and confirmed in September 2013 was not quite reached, especially due to the insolvency of Praktiker AG and Max Bahr. The Group had initially expected that the revenue losses would be recoverable with other customers. Due to the difficult market situation, however, the Group did not manage to offset the revenue losses. All in all, the Einhell Group suffered considerable revenue losses in the second half of the year (adjusted for the revenue contribution of Ozito).

The first quarter showed a strong revenue increase of 12.8% year-on-year. The revenue increase was mainly driven by the subsidiaries acquired or founded in financial year 2012, which had not yet been consolidated in the previous year's figures.

The difficult economic environment in the south and east of Europe, a drawn-out winter and higher rainfall in spring led to a revenue decline in the second quarter. A detailed analysis reveals a decline of 0.4% compared to the prior-year quarter, while cumulated sales growth amounted to 5.6% in the second quarter.

The business volume was further expanded towards the end of the third quarter with revenue growth of 8.1% compared to the prior-year period. The revenue increase is largely due to the new acquisition of Ozito Industries Pty Ltd, which generated revenue of EUR 17.1 million.

The development in the third and fourth quarter indicated that the markets in southern and eastern Europe are currently unable to generate higher revenues due to the sustained tension in the economic situation. Moreover, a major customer of the Einhell Group had liquidity problems. Praktiker AG and its Max Bahr subsidiary filed for insolvency and announced their inability to pay. The insolvency caused considerable revenue losses for the Einhell Group, which could not be sufficiently offset with other customers.

The regional development of revenues in financial year 2013 was as follows:

	2013		2012		Changes in	
	€k	%	€k	%	€k	%
D/A/CH region	197,812	47.5	180,718	47.6	17,094	9.5
Other Europe	125,038	30.0	148,656	39.1	-23,618	-15.9
Asia	16,217	3.9	18,266	4.8	-2,049	-11.2
South America	24,959	6.0	19,431	5.1	5,528	28.4
Other	52,261	12.6	12,791	3.4	39,470	308.6
	416,287	**100.0**	**379,862**	**100.0**	**36,425**	**9.6**

The **D/A/CH** region posted revenue of EUR 197.8 million (previous year: EUR 180.7 million) in financial year 2013. The revenue contribution of the D/A/CH region therefore amounts to 47.5%.

Here, one needs to consider that individual major customers made adjustments to their logistics in financial year 2013. A change to their billing policy means that invoices are now issued in Germany, which is why the respective revenue of EUR 22.9 million is now included in the D/A/CH figures. In the previous year's figures, this revenue was still shown in the other Europe item (EUR 22.9 million).

Revenue in **other Europe** fell in financial year 2013 compared to the previous year. The revenue decline amounted to 15.9% in total from EUR 148.7 million to EUR 125.0 million. Turkey, Italy and Spain are among the significant sales market in financial year 2013.

Revenue in the Asia region amounted to EUR 16.2 million in the reporting period (previous year: EUR 18.3 million).

The **other countries and South America** improved their revenue figures considerably with an increase of EUR 45.1 million to EUR 77.3 million (previous year: EUR 32.2 million). The new South American subsidiaries as well as Ozito Industries Pty Ltd in Australia and New Zealand made the largest revenue contributions.

Adjusted for the acquisitions, the Einhell Group fell short of its forecasts in all regions. This was due to the above-stated reasons. Merely the other countries region managed to realise revenue gains due to the Ozito acquisition.

Total output development of the two segments

The development of revenues by segment was as follows in financial year 2013:

	2013		2012		Changes in	
	€k	%	€k	%	€k	%
Tools	259,037	62.2	230,787	60.8	28,250	12.2
Garden & Leisure	157,250	37.8	149,075	39.2	8,175	5.5
	416,287	**100.0**	**379,862**	**100.0**	**36,425**	**9.6**

The ‘Tools’ segment generated revenue of EUR 259.0 million in financial year 2013 (previous year: EUR 230.8 million). The share of Ozito Industries Pty Ltd amounted to EUR 26.2 million.

The product groups hand-held tools, compressors and compressed air accessories, stationary tools, power generators and welding tools boasted a particularly strong sales performance within this segment.

The ‘Garden and Leisure’ segment generated sales of EUR 157.3 million in 2013 (previous year: EUR 149.1 million). Sales of the ‘Garden and Leisure’ segment contain sales generated by Ozito Industries Pty Ltd of EUR 11.7 million.

Key product groups with the strongest unit sales in this segment are lawnmowers, lawn care products, water technology products, tree and bush maintenance products as well as products from the fields of heating and climate.

The ‘Tools’ segment and the ‘Garden’ segment both fell short of expectations, adjusted for acquisitions. Because of the above-stated reasons, forecasts were not met here either.

3. Earnings

A difficult market environment as well as significant capital expenditure for the further development of the brand weighed on the earnings power. The Einhell Group generated operating earnings of EUR 4.0 million in financial year 2013 (previous year: EUR 10.7 million)*. The pre-tax margin is 1.0% (previous year: 2.8%)*.

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

	2013		2012		Changes in	
	€k	%	€k	%	€k	%
Tools	793	19.7	4,098	38.3	-3,305	-80.6
Garden & Leisure	3,229	80.3	6,611	61.7	-3,382	-51.2
	4,022	**100.0**	**10,709**	**100.0**	**-6,687**	**-62.4**

The gross margin decreased in both segments in financial year 2013 due to increasing margin pressure. Market pressure has also increased.

In the ‘Garden’ segment, promotional campaigns, mainly related to selling seasonal spring products, had a negative effect on the earnings development.

Disproportionately high financial costs due to strong currency fluctuations in countries with strong tool markets also had a negative effect on the earnings performance.

Purchase price allocation (PPA) effects took earnings down by EUR -2.0 million. Without PPA effects, operating earnings would have amounted to EUR 6.0 million and the pre-tax margin to 1.5%.

With regard to profitability, the Einhell Group had assumed that the pre-tax margin could reach between 3-4% at the beginning of financial year 2013. The outlook published in January 2013 had already been revised to a target margin of 2-3% based on the first quarterly figures. We adjusted the forecast again at the end of the year because of the acquisition of Ozito Industries Pty Ltd in summer 2013 and the resulting negative earnings

* Previous year’s figures were adjusted

effects from purchase price allocation. The pre-tax margin forecast was now 1% and this is also the level reached at the end of the year.

The slow earnings development was mainly down to the drawn-out winter weather at the beginning of 2013, the sustained difficult economic situation as well as the insolvency of a major customer.

In Germany and in the western European countries, revenue and earnings fell short of expectations. The long winter as well as high rainfall at the beginning of the year had an adverse effect on the revenue development. The pressure to accelerate the sale of seasonal products weighed on the profit performance.

It continues to be impossible to generate higher revenue in the southern and eastern European markets due to the difficult macroeconomic situation. The revenue development in some of the countries in both regions fell short of expectations.

While the future growth regions - especially South America - reported positive revenue growth, revenues in the European market declined. This means that the Einhell Group has lost profitable revenue. The new subsidiaries in South America, which are still being established and are therefore burdened by high start-up costs, have not yet been able to contribute positively to the consolidated net profit except for Einhell Chile.

Due to the difficult economic conditions, a major customer of the Einhell Group had liquidity problems. Praktiker AG and its Max Bahr subsidiary had to file for insolvency in 2013 and thus announced their inability to pay. The going concern of Praktiker AG and Max Bahr could no longer be secured. The outstanding receivables are insured to a large extent. However, earnings will be burdened by deductibles on the insurance in the medium six-digit range. The Einhell Group generated revenue of about EUR 20 million p.a. with this customer. It was not possible to fully offset the revenue losses with other customers.

The increase in personnel expenses by EUR 3,198 thousand to EUR 54,326 thousand is mainly due to the acquisition of Ozito Industries Pty Ltd. The acquisition of Ozito Industries Pty Ltd added 106 employees to the Einhell Group. Moreover, the previous year only included the personnel expenses of kwb tools GmbH and KWB-RUS OOO on a pro-rata basis.

Other operating expenses increased by 10.6% year-on-year to EUR 66,924 thousand. The increase in expenses is mainly owed to the newly founded or acquired companies and also driven by the impairment of trade receivables of Praktiker AG. The impairments amounted to EUR 4,377 thousand. On the other hand, the other operating income from expected reimbursements from the insurance amount to EUR 3,916 thousand.

The financial result deteriorated by EUR 0.6 million to EUR -2.6 million and was mainly characterised by global currency fluctuations. Especially the Turkish lira, the Australian dollar and the South American currencies were subject to substantial fluctuation in 2013. The financial result is mainly derived from the interest result of EUR -1.4 million (previous year: EUR -0.7 million) and currency translation losses of EUR -1.2 million (previous year: EUR -1.3 million).

Consolidated net profit after minority interest fell from EUR 6.2[*] million to EUR 2.1 million in financial year 2013. The ROI[1], taking into account PPA effects, was 1.3% (previous year: 4.1%)[*] at the reporting date. Before PPA effects, the ROI amounted to 1.9%.

The EBIT margin on revenue amounted to 1.6% in financial year 2013 (previous year: 3.3%)[*].

The Einhell Group failed to meet its profit trend expectations for financial year 2013. However, significant strategic projects were implemented and the Group invested in the future development of its businesses. The takeover of Ozito Industries Pty Ltd was an important strategic step for the Einhell Group and is a logical next step continuing the successful track record of recent years. The Einhell Group feels excellently positioned to cope very well with the challenges of the global development. Regarding the long-term development of the company, we are confident that the Einhell Group has proven for many

[*] Previous year's figures were adjusted
[1] ROI (Return on Investment) = Operating earnings / Total capital * 100
[*] Previous year's figures were adjusted

years, and will continue to do so in future, that it is well able to generate positive profits and cash flows on a long-term and sustainable basis.

4. Assets and financial position

The main items in the statement of financial position for the financial years 2013 and 2012 are as follows:

in EUR million	31.12.2013	31.12.2012	Changes
Assets	46.1	28.8	17.3
Goods inventories	106.0	125.7	-19.7
Trade receivables	64.4	66.3	-1.9
Cash and cash equivalents	59.0	5.6	53.4
Equity	158.3	160.3	-2.0
Liabilities to banks	51.4	32.2	19.2

Total assets increased by EUR 50.7 million or 19.5% to EUR 310.0 million.

Investments and non-current assets

Investments amounted to EUR 22.8 million in financial year 2013. This mainly comprised intangible assets and property, plant and equipment acquired along with the takeover of Ozito Industries Pty Ltd. The purchase price allocation also included the value of intangible assets to be recognised. Intangible assets are the acquired goodwill (EUR 6.0 million), the value of the Ozito brand (EUR 3.3 million) and the acquired, existing customer portfolio (EUR 8.2 million). The customer portfolio is systematically depreciated over five years.

The goodwill resulting from the transaction is based on the additions to the employee base as well as to expected synergy effects the Einhell Group has already compensated in the purchase price:

- the Ozito acquisition allows the Einhell Group to considerably expand revenues in Australia and New Zealand
- establishment of a distribution base for Einhell products
- the merger enables the Einhell Group to boost its purchasing power in China

EUR 1.3 million worth property, plant and equipment were taken over. Property, plant and equipment at Ozito and at the site in China comprise mainly leasehold improvements as well as furniture and office equipment. The fair value assessment, which is carried out on a regular basis, is based on the replacement costs at the reporting date, after depreciation. The purchase price allocation involved a remeasurement of furniture and office equipment according to a technical procedure. The remeasurement of Ozito's property, plant and equipment yields hidden reserves of about EUR 170 thousand.

Depreciation amounted to EUR 3.9 million in 2013 and is therefore up EUR 1.2 million year-on-year (previous year: EUR 2.7 million). The takeover of Ozito Industries Pty Ltd and resulting purchase price allocation effects had an impact on depreciation.

Current assets

Inventories decreased from EUR 125.7 million to EUR 106.0 million. The decrease is mainly due to the consolidation of individual warehouses across Group companies. Moreover, more efficient material planning as well as an improved warehouse management had a positive effect on inventories.

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

	2013		2012		Changes in	
	€k	%	€k	%	€k	%
Tools	68,784	64.9	82,093	65.3	-13,309	-16.2
Garden & Leisure	37,189	35.1	43,622	34.7	-6,433	-14.7
	105,973	**100.0**	**125,715**	**100.0**	**-19,742**	**-15.7**

Trade receivables fell by EUR 1.9 million to EUR 64.4 million (previous year: EUR 66.3 million). No factoring was carried out in financial year 2013.

As a result of significantly positive cash flow from the operating business as well as the restructuring of long-term financing, cash and cash equivalents at reporting date increased by EUR 53.4 million to EUR 59.0 million. Their share in total assets amounts to 19.0% (previous year: 2.2%).

Debt capital taken out by the Einhell Group decreased to EUR 92.8 million (previous year: EUR 93.5 million).

Financing

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 supplier loans to some extent. 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.

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 51.0% - the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financing problems for future business volume during the further expansion of the Group.

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

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 on extremely favourable conditions. The existing long-term loans worth EUR 20.0 million that mature in mid-2014 are supposed to be likewise extended upon maturity. 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 does not expect any problems in financing future business.

The loan agreements contain financial covenants and the creditors are entitled to terminate the loans prematurely during the term if these covenants are not met. The governance ratios are equity ratio, debt coverage ratio and interest coverage ratio. All covenants were met in financial year 2013. The risk resulting from changes in interest rates is hedged using derivative financial instruments in the form of interest cap and interest swap agreements.

At the reporting date, the Group had about EUR 62.5 million in unsecured credit lines at its disposal for the operating business. Overall, the Einhell Group had credit balances of EUR 59,006 thousand with banks, and financing liabilities in the amount of EUR 51,449 thousand on the reporting date.

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 entirely free from third party security interests.

The summarised cash flow statement shows the development in the financial position in the 2013 financial year:

in EUR million	**2013**	**2012**	**Changes**
Cash flow from operating activities	48.3	-11.9	60.2
Cash flow from investing activities	-12.4	-3.5	-8.9
Cash flow from financing activities	16.9	7.3	9.6
	52.8	-8.1	60.9
Changes from currency translation	0.6	0.0	0.6
Net increase in cash and cash equivalents	53.4	-8.1	61.5
Cash and cash equivalents at beginning of period	5.6	13.7	-8.1
Cash and cash equivalents at end of period	59.0	5.6	53.4

Cash inflows from operating activities result primarily from decreases in inventories and increases in trade payables.

Cash flow from financing activities is mainly attributable to new loan liabilities and dividend payments for financial year 2012.

5. Overall economic situation

In summary and in comparison with other companies in the same industry, the Einhell Group achieved a satisfactory result in the financial year 2013 given the difficult market environment, the takeover of Ozito Industries Pty Ltd and the establishment of subsidiaries in South America, although the result fell short of the previous year and expectations. Revenue adjusted for acquisitions remained more or less stable. The increase in other operating expenses and additional expenses at the newly established or acquired subsidiaries in particular, is owed to the ongoing expansion and further development of the company. The insolvency of Praktiker AG/Max Bahr caused considerable revenue losses for the Einhell Group, which could not be sufficiently offset with other customers.

The Group likewise managed to successfully continue its strategic process for the coming years, a fact that, in the view of the Board of Directors, will add considerably to ensuring sustainable business success.

6. Events after reporting date

No events that are significant with regard to reporting occurred between the end of the 2013 financial year and the preparation of the management report.

7. Responsibility Statement of the Board of Directors

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

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

8. Risk report

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.

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

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 risks by the risk management software is arranged according to 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 for risk: procurement, development, finances, IT, human resources, product management, sales and legal department. The risks are monitored regularly and reported on a quarterly basis. The most important risks are also discussed at Board meetings. Opportunities are not recorded separately in the risk management system.

Elements of internal control and risk management systems

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 current 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 corresponding measures to be developed and implemented.

The internal control system comprises integrated process controls and process-independent controls. 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 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 policies for the companies from 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 Group'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.

8.2 Description of risks

8.2.1 General economic and industry risks

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

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 Einhell operates today can affect the stability and economies of these countries. Also, policies in the countries in which Einhell hopes to expand its operations can affect Einhell's business strategy. This risk extends, for example, to the currency policies of countries or to import and customs duties regulations and their practical application. The same also applies to procurement countries where Einhell sources its products. The Einhell Group seeks to keep abreast of general political risks by way of Group management maintaining close contacts with responsible local managers in order to constantly 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 relevant 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 services 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.

Hardly any competitor on the market offers a comparable product range to Einhell in conjunction with an 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.
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 Einhell concluding timely supply-side transactions to cover demand-side requirements. A corresponding product mix, a wide customer base and a strong procurement structure support this process.

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 has been countered with the incremental introduction of two clearly defined product lines.

8.2.4 Strategic and expansion risks

Risks are also associated with the implementation of the Einhell Group strategy. This may have the result that resources or elements required for strategy implementation are not available at a particular time or run up against realisation problems due to either personnel or technical reasons.
The establishment and acquisition of subsidiaries also carries fundamental risks. Einhell seeks to counter these risks by undertaking a fundamental definition and investigation of the target country before it begins to identify new sales areas. This includes 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 classic lines of credit that were only partially utilised in the financial year 2013. Both cash reserves and equity provision stood at good levels in the reporting year.

The Einhell Group is also expanding its netting system and cash pool that was set up 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 loan 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 subsidiary.

Risks from interest rate changes and fluctuations are managed with derivative financial instruments such as non-current interest swaps and interest caps. Risks from currency fluctuation are mainly managed by using conventional 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.

Default risk

Company policy is to minimise default risk from both 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, the purchase and project management team works 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 64.4 million (previous year EUR 66.3 million).

The Einhell Group seeks to manage the creditworthiness risk by concluding Euler Hermes credit insurance where possible.

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 fair values.

Bank balances amounted to EUR 59,006 thousand on the reporting date (previous year EUR 5,618 thousand). The assets 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 through access to conventional credit lines from well-known banks. At the reporting date, the Group had about EUR 62.5 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 clear organisational and operational structures.
This creates clear lines of responsibility and communication that are supported by written documentation of recall plans and checklists. The 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 standardised international IT standards that are designed to ensure the effectiveness, efficiency and continuity of IT processes within a framework of corporate and statutory requirements.
A fixed part of these standards is the implementation of suitable measures within the area of physical security, use of high-performance and reliable hardware components, operation of carefully selected infrastructure and business applications, and provision of high-quality services and processes for the operation and further development of the entire information and communications structure.
The organisation of IT processes is designed around an ITIL process framework. Required specialist know how, such as in the area of local compliance requirements, is provided by qualified service partners, for whom the scope and extent of performance is contractually defined and who work closely with the IT organisation.
Applications are operated in line with their criticality for business operations in highly dependable system environments and are subject to adequate business continuity mechanisms. IT-based precautions that are regularly checked and updated, in conjunction with the use of qualified staff and corresponding roles and legal concepts, ensure the most effective possible protection for confidential data.
The Einhell Group's IT strategy is closely linked to the business strategy and is subject to regular controls and adjustments to take account of the business environment.

8.2.8 Legal risks

The Einhell Group is exposed to legal risks. These may arise from conclusion of company contracts with suppliers, customers and other business partners. Einhell is 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.

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

Possible effects concerning:	effects on EBT – 2014 +		incidence rate 2014	
Environment & Industry				
Political risks	□□□□■		probable	10 %
Industry risks	■■■■■		probable	10 %
Company-specific risks				
Procurement risks	□□□□■		improbable	
Sales market risks	■■■■■		probable	20 % - 30 %
Strategic and expansion risks	□□□■■		probable	10 %
Liability risks	□□□□■		probable	10 %
IT risks	□□□□■		improbable	
Legal risks	□□□■■		probable	10 %
Finance				
Financial, interest and currency risks	□□□■■		probable	10 % - 20 %
Default risks	□□□□■		probable	10 % - 20 %
Liquidity risks	□□□□■		improbable	

<u>Effects on EBT:</u>

□□□□■ < 1 million €
□□□■■ ≥ 1 million € < 2 millionen €
□□■■■ ≥ 2 millionen € < 3 millionen €
□■■■■ ≥ 3 millionen € < 4 millionen €
■■■■■ ≥ 4 millionen €

<u>Incidence rate:</u>

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

9. Forecast

9.1 Global economic development

Following an increase in global economic growth of 2.4% in 2013, the **global economy** will grow 3.2% in 2014 according to World Bank projections. The main reason for the optimistic view is the trend in the industrialised countries, which have been suffering from the consequences of the financial and economic crisis in the last few years. Apparently, austerity programs and political uncertainty will no longer affect the individual economies as strongly. According to World Bank, there are indications of a sustainable recovery being under way in the wealthier nations. These could now become the second driver of growth alongside the emerging countries. Economic performance in the developed economies is set to grow more strongly with the corresponding positive effect on growth in the developing countries. World Bank forecasts that the emerging and developing countries will reach growth of 5.7%.

On the other hand, the organisation also cautions against global risks. Especially a rise in interest rates caused by a more restrictive monetary policy on the part of the central banks could prove to be a problem for the emerging countries, who would suffer most from such a policy as they heavily depend on foreign capital.

Gross domestic product forecast:

in %	2014
Brazil	2.0
Australia	2.8
China	7.4

Despite the slight recovery of the global economic situation, the number of unemployed is set to rise further in the next few years according to the International Labour Organization (ILO). The specialized UN agency projects a rise in the number of unemployed from currently just over 202 million to 206 million in 2014.

9.2 Developments in Europe

The economy of the **eurozone** recorded positive growth in the fourth quarter of 2013. The gross domestic product of the monetary union increased by 0.3% compared to the previous quarter, adjusted for seasonal and work day related effects. Economic Affairs Commissioners believe that the European economy has reached the turning point. While the reforms in European states would have set the basis for a recovery, high unemployment rates continue to burden the economic development.

The United Nations believe that the end of the recession in Europe is having a particularly positive effect on global growth forecasts. According to the UN, the guidelines on the potential acquisition of government bonds by the European Central Bank led to a more optimistic outlook for the eurozone. After years of recession, the euro states can now expect 1.1% growth this year and 1.4% in 2015.

Spain and Italy might manage to return to positive growth in the current year, but the economic performance of Greece and Cyprus will continue to shrink according to the United Nations.

The situation in Europe thus remains tense and demand in the region is extremely low. Companies, financial institutes and private households will seek to further consolidate.

The high unemployment in Europe will only be reduced very slowly, as economic growth is too weak to trigger substantial employment effects.

Forecasts by the International Monetary Fund (IMF) state that the inflation rate in the eurozone is still falling. After 1.5% in 2013, the IMF expects inflation rates of 1.1% and 1.4% in 2014 and 2015. According to the projections, the European Central Bank's price stability target of 2.0% will be missed. Low inflation rates increase the pressure on the central banks to ease their monetary policies even further. However, the President of the German central bank (Bundesbank) states that we are not yet facing a risk of deflation.

9.3 Developments in Germany

The **German** economy was able to post moderate growth of 0.4% in financial year 2013, due to the negative performance in Europe and the eurozone in particular. German Bundesbank forecasts indicate that Germany will see economic growth of 1.7% in the current year and 2.0% in 2015.

According to market researchers, the current figures imply that consumer spending will continue to contribute significantly to overall economic growth in 2014. GfK relates that people expect the good economic situation to bring up salaries in the current year. The GfK indicator reached 46.2 points, corresponding to a 6.7 point increase. Since the inflation will presumably show a moderate trend, consumers will have more money in real terms with the corresponding positive effect on spending power.

In contrast to expectations, German exports dropped in 2013, showing a surprising 0.2% decline compared to the previous year. However, as imports fell at the same time, the trade surplus reached a record value of EUR 198.9 billion. Given the better business prospects on the domestic European market, experts believe that exports will grow again in 2014.

9.4 Expected growth in the markets relevant to the Einhell Group

Forecasts for developments in 2014 are still fraught with high uncertainty as the trends on the global markets remain extremely fragile and hard to foresee. This applies to both economic changes and political developments. Political upheaval like in Turkey or Ukraine for example leads to unpredictable and mostly negative impacts on the global economy. The extremely fast speed of today's information technology has also proven to decrease 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.

Based on a stable economic market environment, the Einhell Group anticipates revenue of about EUR 430 million in financial year 2014. This figure includes about EUR 30 million from kwb tools acquired in financial year 2012 and about EUR 75 million from Ozito Industries acquired in financial year 2013. With regard to profit before taxes, the Einhell Group expects a pre-tax margin of around 3%, which would represent a clear improvement in earnings quality. This, however, requires that the international economic environment does not deteriorate further and that the planned measures for increasing revenue and improving the cost structure can be implemented as scheduled in basically all subsidiaries and thus achieve the desired success.

The Einhell Group forecasts total revenue of about EUR 275 million in the **Tools segment** (including kwb tools GmbH).
This revenue target is based on the assumption that the economic situation in the relevant markets will stabilise and also includes a safety discount due to the instability on the global markets. This safety discount does not account for the financially tense situation of individual customers, who cannot guarantee that they will purchase the goods of the Tools segment in the planned quantities.

As a supplier of accessories for electric tools, kwb tools that was acquired in financial year 2012 is reported in the Tools segment.

For the **Garden segment**, the Einhell Group expects total revenue of about EUR 155 million.
This revenue target is based on the assumption that the economic situation in the relevant markets will stabilise and also includes a safety discount due to the instability on the global markets. This safety discount does not account for the financially tense situation of individual customers, who cannot guarantee that they will purchase the goods of the Garden & Leisure segment in the planned quantities.

9.5 Aims and opportunities of the Einhell Group

The aims of the Einhell Group were defined in a strategy paper in the last couple of years. The core issue is international expansion and the development of the Einhell brand with all associated measures. Einhell sees opportunities for the future in implementing this clearly defined strategy. The implementation of the strategy requires consistency in actions as well as investment in required resources.

The employees are in the front line of implementing our goals. Einhell will expand its pool of specially qualified staff over the next few years and invest substantially in staff development. This is the only way to ensure that we can seize opportunities for further international expansion and exploit them in an efficient and profitable manner.

The implementation of the strategy is already under way and is being consistently applied in all areas, which has also led to increased expenses within the Group.

Entry into the South American market has already taken place. This strategically important region, a growth driver for the future, will also be expanded in coming years. After the previous years saw the establishment of distribution companies in Chile, Brazil and Argentina, the company now also entered the Columbian market. The Columbian subsidiary commenced operations in financial year 2013 and is performing as planned. In the longer term, additional countries like Mexico and Peru are on the agenda for South and Central America.

All in all, the sales-related development of the entire region and the organisational set-up of the local subsidiary poses great challenges for the Einhell Group, requiring both high financial and human resources. Nevertheless, in contrast to Europe, this region is a growing DIY market, which is why the Group believes investments in the development and expansion of this region to be essential for gaining a world-wide market position and to reduce the dependence on Europe.

In Australia, the Einhell Group was able to establish itself in an extremely strong market position by acquiring Ozito Industries. Among others, Ozito supplies the DIY market leader Bunnings, who also posts strong growth and is pushing ahead with its expansion in Australia and New Zealand. In addition, the Australian DIY market is growing in contrast to the European market, meaning that Einhell is thus reducing its dependence on the currently shrinking European market.

With regard to other regions, the Einhell Group is contemplating market entry in Russia for example. Here, Einhell is using the sales organisation of kwb tools in St. Petersburg/Russia, which it acquired together with kwb tools.
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 promising opportunity for the Einhell Group is to expand the distribution of kwb tools GmbH's accessory range through the international subsidiaries. This is the ideal addition to the existing product range and generates a considerable benefit though the comprehensive utilisation of Einhell's existing international sales network. The takeover puts Einhell in the position of being able to offer a top quality full accessories range for all power tools, making it an attractive partner for DIY stores and specialist retailers together with kwb. The global distribution system allows each individual country company to offer our customers appropriate and high-quality complementary products as addition to our product portfolio. Also available is the global sales structure of kwb tools that already has direct market access to the relevant areas. Investment in the establishment of this structure is therefore not required. The Einhell Group believes that the roll-out of the international distribution of kwb tools offers an excellent opportunity to further increase the revenue of kwb tools and enhance its international positioning.

9.6 Summary on expected developments

Outlook for financial year 2014

For the internationally oriented Einhell Group the financial year 2014 continues to show an uneven economic situation in the markets in which it operates.

Some markets remain relatively stable, such as the German market, although it is also showing declines in the classes of merchandise that are relevant for Einhell. Other markets, such as southern Europe, have fallen further apart due to the debt crises in the respective countries and are still showing declines in the relevant classes of merchandise. Eastern Europe is also still suffering from extremely difficult general conditions paired with extremely weak consumer spending in the eastern European countries.

The markets in South America, in turn, are showing growth. Here the Einhell Group has gained a strategic positioning in recent years with new subsidiaries, and has already generated remarkable revenue growth that has in part been able to balance out weaker revenues in other countries. With regard to earning power, however, the Einhell Group has lost profitable revenue in Europe, whilst revenues in South America and Australia are not yet generating profits as these are new subsidiaries that still have start-up costs to write off. This situation will continue in 2014.

Therefore the Einhell Group expects to be facing a highly challenging revenue performance in the traditional Einhell businesses; given the insolvency of two important customers and the termination of the relations with a customer in the discount segment, the Group might even see a revenue decline, depending on whether Einhell manages to compensate for the lost customers with revenue from other customers. Considering the difficult circumstances and including the revenue of kwb tools and of Ozito Industries, the Group expects to increase revenue to about EUR 430 million.

With regard to profitability, the Einhell Group assumes a pre-tax margin in the range of 3%. This figure would exceed the prior-year figure, but still falls short of the margin in earlier years that had ranged between 5 and 6%.

In financial year 2014, the Einhell Group anticipates the following revenue and earnings performance in the two segments:

in EUR million	2014	
	Revenue	Margin
Tools	275	3%
Garden & Leisure	155	3%
	430	**3%**

The expected margin is about 3% for both segments.

The Group is also planning to save costs, in particular by consolidating parts of some of the subsidiaries.

This is to be achieved in particular by merging storage locations for subsidiaries that no longer reach a critical sales volume in their countries due to the economic crisis. Einhell France and Einhell Benelux were already merged in 2013. In 2014, the Group will merge the storage/logistics facilities of Spain and Portugal. As from 2014, Einhell Germany AG will be responsible for all administrative work like the office-based sales force, financial accounting and the entire storage and logistics management of Einhell Austria. Presumably, these measures will only lead to cost savings in later financial years, as some of these measures will incur one-off costs.

The international expansion is to slow down considerably as from financial year 2014. The Group has no plans for new subsidiaries.

Instead, the Einhell Group intends to concentrate on the integration of kwb tools and Ozito Industries that were acquired in the last two years. The Einhell Group also wants to concentrate on restructuring the subsidiaries in the crisis-ridden countries. Here, additional consolidation measures or even closure of subsidiaries that no longer generate a critical revenue volume is not ruled out.

With regard to the internationalisation, the Einhell Group will stick to its strategy in 2014, look for suitable partners in promising target countries and seek to integrate these into the Group as subsidiaries at a later stage if appropriate.

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

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

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

Einhell proceeds as follows in order to control planning and forecast uncertainties during planning of budgetary figures. 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 revenue. 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.

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