Einhell Germany AG

FINANCIAL REPORT 2014

Einhell Germany AG

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Einhell Germany AG, Landau a. d. Isar

Consolidated statement of financial position as of 31 December 2014

Assets	Notes	31.12.2014	31.12.2013
		€ thousand	€ thousand
Intangible assets	(2.2)	23.989	27.479
Property, plant and equipment	(2.3)	18.618	18.287
Non-current financial assets	(2.4)	375	368
Deferred tax assets	(2.5)	6.228	6.835
Other non-current assets	(2.9)	1.800	2.287
Non-current assets		51.010	55.256
Inventories	(2.6)	110.400	105.973
Trade receivables	(2.7)	62.474	64.415
Other financial assets	(2.8)	13.251	4.977
Other current assets	(2.9)	20.125	20.415
Cash and cash equivalents		36.254	59.006
Current assets		242.504	254.786
Total assets		293.514	310.042

Equity and liabilities	Notes	31.12.2014	31.12.2013
		€ thousand	€ thousand
Subscribed capital	(2.10)	9.662	9.662
Capital reserve		26.677	26.677
Retained earnings		122.575	123.851
Other reserves	(2.11)	-927	-4.403
Equity of shareholders of Einhell Germany AG		157.987	155.787
Minority interest	(2.12)	1.601	2.464
Equity		159.588	158.251
Pension provisions	(2.13)	2.567	1.909
Provisions for other risks	(2.14)	750	696
Non-current financial liabilities	(2.15)	30.000	30.000
Deferred tax liabilities	(2.5)	5.828	4.484
Other non-current liabilities	(2.17)	7.749	11.365
Non-current liabilities		46.894	48.454
Trade payables		55.269	52.601
Provisions for income taxes		1.043	1.102
Provisions for other risks	(2.14)	9.500	8.673
Current financial liabilities	(2.15)	212	21.449
Other financial liabilities	(2.16)	2.803	1.579
Other current liabilities	(2.17)	18.205	17.933
Current liabilities		87.032	103.337
Total equity and liabilities		293.514	310.042

Einhell Germany AG, Landau a. d. Isar

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

	Notes	2014	2013
		€ thousand	€ thousand
Revenues	(3.1)	416.363	416.287
Other operating income	(3.2)	7.117	11.495
Cost of materials	(3.3)	-289.974	-296.011
Personnel expenses	(3.4)	-55.426	-54.326
Depreciation and amortisation costs	(3.5)	-4.970	-3.889
Other operating expenses	(3.6)	-64.665	-66.924
Financial result	(3.7)	-3.369	-2.610
Profit before income taxes		5.076	4.022
Income taxes	(3.8)	-3.438	-2.521
Consolidated net profit		1.638	1.501
Minority interest share of consolidated net profit/loss		37	-585
Share of consolidated net profit of shareholders of Einhell Germany AG		1.601	2.086

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2014

	2014	2013
	€ thousand	€ thousand
Consolidated net profit	1.638	1.501
Items of other comprehensive income that were or can be reclassified to profit or loss		
Unrealised gains (previous year: losses) from currency translation	1.073	-3.322
Unrealised gains from available-for-sale financial assets	3	1
Unrealised gains from derivative financial instruments	2.808	1.733
	3.884	-1.588
Items of other comprehensive income that will not be reclassified to profit or loss in future periods		
Employee benefits (IFRS 19 revised)	-453	48
Other comprehensive income, after taxes	3.431	-1.540
Thereof share of other comprehensive income attributable to minority interest, after taxes	-45	-119
Thereof share of other comprehensive income attributable to shareholders of Einhell Germany AG, after taxes	3.476	-1.421
Consolidated comprehensive income	5.069	-39
Thereof share of consolidated comprehensive income due to minority interest	-8	-704
Thereof share of consolidated comprehensive income due to shareholders of Einhell Germany AG	5.077	665

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity for the financial year 2014

				Other reserves						
	Subscribed capital	Capital reserve	Retained earnings	Adjustment from currency translation	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 2013	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
Comprehensive income	-	-	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
Consolidated net profit	-	-	1.601	-	-	-	-	1.601	37	1.638
Unrealised gains/losses	-	-	-	1.118	3	-647	5.765	6.239	-45	6.194
Deferred taxes on unrealised gains/losses	-	-	-	-	-	194	-2.957	-2.763	-	-2.763
Comprehensive income	-	-	1.601	1.118	3	-453	2.808	5.077	-8	5.069
Dividends	-	-	-1.384	-	-	-	-	-1.384	-680	-2.064
Other changes	-	-	-1.493	-	-	-	-	-1.493	-175	-1.668
31 December 2014	9.662	26.677	122.575	-3.171	31	-1.067	3.280	157.987	1.601	159.588

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for financial year 2014

		2014	2013
		€ thousand	€ thousand
Net cash flows from/used in operating activities			
Profit before taxes		5.076	4.022
+	Depreciation and amortisation of intangible assets and property, plant and equipment	4.970	3.889
-	Interest income	-215	-263
+	Interest expenses	1.458	1.712
+/-	Other non-cash expenses and income	1.861	1.703
Operating profit before changes in net working capital		13.150	11.063
+/-	Decrease/increase in trade receivables	1.829	1.121
+/-	Decrease/increase in inventories	-4.969	30.281
+/-	Decrease/increase in other assets	-173	-1.093
+/-	Increase/decrease in non-current liabilities	1.123	-899
+/-	Increase/decrease in current liabilities	1.205	-1.089
+/-	Increase/decrease in trade payables	-892	12.988
Net cash generated from operating activities		11.273	52.372
-	Taxes paid	-3.064	-2.622
+	Interest received	122	134
-	Interest paid	-1.426	-1.592
Net cash from/used in operating activities		**6.905**	**48.292**
Cash flows from/used in investing activities			
-	Payments to acquire assets	-3.684	-2.903
-	Payments for acquisition of consolidated companies	0	-9.900
+	Proceeds from disposal of assets	161	274
+/-	Increase/decrease in goodwill	0	126
Net cash from/used in investing activities		**-3.523**	**-12.403**
Cash flows from/used in financing activities			
+	Proceeds from taking out loans	0	19.593
-	Payments for repayment of loans	-21.237	0
-	Payments for acquisition of equity investments	-5.735	-754
+	Proceeds from non-controlling interests	20	174
-	Dividend payments to shareholders of Einhell Germany AG	-1.384	-2.139
-	Dividend payments to minority shareholders	-701	0
-	Payments for liabilities for finance leases	0	-4
Net cash used in financing activities		**-29.037**	**16.870**
Changes to cash and cash equivalents due to currency exchange		2.903	629
Net decrease/increase in cash and cash equivalents		**-22.752**	**53.388**
Cash and cash equivalents at beginning of reporting period		59.006	5.618
Cash and cash equivalents at end of reporting period		**36.254**	**59.006**

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 2014

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 26 March 2015 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 2014. The Group has applied the following standards and amendments to standards to be adopted for the first time from 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 and IFRS 12 “Transition Guidance”; effective for annual periods beginning on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 12 and IAS 27 “Investment Entities”; effective for annual periods beginning on or after 1 January 2014.
- 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.

All standards that had to be adopted for the first time in 2014 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 2014 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.

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

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

- Amendments to IAS 19 “Defined Benefit Plans: Employee Contributions”; effective for annual periods beginning on or after 1 July 2014.
- Improvements to IFRS 2010-2012; effective for annual periods beginning on or after 1 July 2014.
- IFRS 14 “Regulatory Deferral Accounts”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 10, IFRS 12 and IAS 28 “Investment Entities: Applying the Consolidation Exception”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”; effective for annual periods beginning on or after 1 January 2016.

- Amendments to IFRS 11 “Accounting for Acquisitions of Interests in Joint Ventures”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 1 “Disclosure Initiative”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 38 “Clarification of Acceptable Methods of Depreciation and Amortisation”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 16 and IAS 41 “Agriculture: Bearer Plants”; effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 27 “Equity Method in Separate Financial Statements”; effective for annual periods beginning on or after 1 January 2016.
- Improvements to IFRS 2012-2014; effective for annual periods beginning on or after 1 January 2016.
- IFRS 15 “Revenue from Contracts with Customers”; effective for annual periods beginning on or after 1 January 2017.
- IFRS 9 “Financial Instruments”; effective for annual periods beginning on or after 1 January 2018.

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 the consolidated companies is 31 December; Ozito Industries Pty Ltd acquired in 2013 and Einhell Holding Australia Pty Ltd founded in 2013 have different financial years (30 June). Ozito Industries Pty Ltd and Einhell Holding Australia Pty Ltd prepare an interim financial statement as of 31 December. The 31 December is the reporting date of the parent company.

Capital consolidation is made 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 40 (previous year 42) fully consolidated companies.

The Einhell Group acquired 10% of shares from the local Managing Director of Einhell Australia PTY. Ltd. and 10% of shares from the local Managing Director of Einhell Brasil Com. Distr. Ltda. in financial year 2014. The Group further acquired 15% of shares from the local Managing Directors of Einhell Intratek Mühendislik ve Dis Ticaret A.S. Einhell Germany AG now holds 100% of shares in the three aforementioned distribution companies. Einhell Slovakia s.r.o. was sold, while Einhell Middle East Trading FZC was closed in the financial year.

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 in other comprehensive income and as an adjustment for currency conversion and in the difference (part of other reserves).

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

		Reporting date rate		Average rate	
		31.12.2014	31.12.2013	2014	2013
Australia	AUD	1.4841	1.5396	1.4724	1.4574
Brazil	BRL	3.2410	3.2519	3.1228	2.8669
China	CNY	7.5550	8.3314	8.1883	8.1655
Hong Kong	HKG	9.4373	10.6753	10.3052	10.3018
Poland	PLN	4.2902	4.1508	4.1845	4.1971
Switzerland	CHF	1.2024	1.2267	1.2146	1.2309
Turkey	TRY	2.8327	2.9450	2.9070	2.5329
USA	USD	1.2166	1.3767	1.3288	1.3282

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 usually for no more than three years. The realisable amount of development costs is estimated if there are indications of impairment of the asset or indications that previous impairment losses recognised in previous financial years no longer exist.

Goodwill from company acquisitions is the difference between the purchase price and the ratio of fair value to stated equity at the time of the purchase. Goodwill is allocated to cash generating units and tested annually for impairment. When the carrying amount of the net assets of a cash-generating unit exceeds the realisable value, impairment is made in accordance with the provisions of IAS 36. The cash generating units are the individual companies.

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

	Useful life
Buildings	20-30 years
Technical equipment and machinery	3-20 years
Other equipment, operating and office equipment	3-10 years

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

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

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

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

Financial assets measured at fair value through profit or loss. Financial assets recognised at fair value through profit or loss comprise derivatives not recognised as collateral instruments in hedge accounting (financial assets held for 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 interest** (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 fair value of identifiable assets and liabilities at the time the affiliated company is acquired. Changes result from capital increases in which minority shareholders participate, distributions and shares of minority shareholders in profits, and from changes in exchange rates.

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

A discount factor for interest rates for future beneficiaries of 2.22% (previous year: 3.43%) was used, along with 1.39% (previous year: 2.78%) 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 DBO is not secured by a pension fund, but to some extent by reinsurance policies.

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

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

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

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

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

Financial liabilities measured at fair value through profit or loss. Financial liabilities valued at fair value through profit or loss comprise derivatives that are not used as a hedging instrument in hedge accounting (financial liabilities held for 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 consolidated net profit through 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. The change of deferred tax assets and liabilities is reflected in income taxes. Changes to be recognised in other comprehensive income are an exception to this rule.

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 2014, 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

2.1 Development in non-current assets

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

2.2 Intangible assets

	2014	2013
Acquired intangible assets (without goodwill)	10,395	12,067
Self-developed intangible assets	212	197
Acquired goodwill	13,382	15,215
	23,989	**27,479**

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 2014, expenses for product processing amounted to EUR 4.8 million (previous year: EUR 4.5 million). As in the previous year, none of these costs were capitalised as expenses in 2014. A total of 41 employees (previous year: 37 employees) were employed in this division.

Goodwill pertains to the following companies:

	2014	2013
	€ thousand	**€ thousand**
Ozito Industries Pty Ltd, Bangholme/Australia	5,720	5,975
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	1,886	3,013
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	2,117	2,141
Einhell Export-Import GmbH, Tillmitsch/Austria	2,145	2,238
Einhell Romania SRL, Bucharest/Romania	971	1,137
KWB-RUS OOO, St. Petersburg/Russia	229	397
kwb Germany GmbH, Stuhr/Germany	314	314
	13,382	**15,215**

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 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:

	2014	2013
	%	%
Terminal growth rate	1.25	1.25
Base rate	2.00	2.75
Market risk premium	6.75	6.00

The pre-tax discount rate is determined from figures such as weighted equity costs, loan capital costs after tax, base rate, market risk premium and a specific country risk.

The base rate was adjusted to the current interest rate.

A country-specific risk premium was considered in the calculation of the discount rate after taxes for each individual cash generating unit (CGU). In addition, the calculation of the discount rate is also based on the country-specific tax rate. An individual discount rate is therefore calculated for every CGU.

The follow country-risks and tax rates were considered for the main CGUs:

	Country risk	Tax rate
Ozito Industries Pty Ltd	0.00%	30.0%
Einhell Intratek Mühendislik ve Dis Ticaret A.S.	2.50%	20.0%
Einhell-Unicore s.r.o.	1.00%	19.0%
Einhell Export-Import GmbH	0.00%	25.0%

The annual impairment test in financial year 2014 did not reveal any impairment requirement for goodwill. If there is a significant change in general interest rates, this could have effects on the determination of assessment parameters.

Pursuant to IAS 21.47, goodwill of non-euro countries is converted at the reporting date exchange rate. Goodwill impairments were applied in non-euro countries in financial year 2014.

Goodwill of Einhell Export-Import GmbH is derived from the takeover of Einhell Croatia d.o.o., which is a fully-owned subsidiary of Einhell Export-Import GmbH.

2.3 Property, plant and equipment

	2014	2013
	€ thousand	€ thousand
Land and buildings in company assets	9,848	9,255
Technical equipment and machinery	2,762	2,890
Other equipment, operating and office equipment	5,834	5,989
Prepayments and assets under construction	174	153
	18,618	**18,287**

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

2.5 Deferred taxes

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

	Deferred tax assets		Deferred tax liabilities		Net amount	
	2014	2013	2014	2013	2014	2013
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Self-developed intangible assets and property, plant and equipment	269	48	2,754	3,548	-2,485	-3,500
Current assets	2,189	2,284	-72	266	2,261	2,018
Other financial assets (at their fair values)	10	426	3,118	578	-3,108	-152
Pension provisions	393	242	-12	-6	405	248
Provisions for other risks	1,218	466	33	93	1,185	373
Other liabilities	337	421	7	5	330	416
Tax losses carried forward	1,812	2,948	0	0	1,812	2,948
	6,228	**6,835**	**5,828**	**4,484**	**400**	**2,351**

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

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

- Capitalisation and amortisation of development costs;
- Increased tax depreciation on property, plant and equipment result in tax valuations falling under the carrying amounts;
- The valuation of trade receivables is different than in the tax base. This applies in particular to foreign group companies;
- Financial assets 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

	2014	2013
	€ thousand	€ thousand
Raw materials and supplies (at acquisition cost)	299	309
Finished goods (at cost less impairment)	109,209	104,423
Prepayments	892	1,241
	110,400	**105,973**

All in all, the company recognised impairments in the amount of EUR 3,720 thousand (previous year EUR 3,947 thousand). The carrying amount of impaired goods after impairment amounts to EUR 58,097 thousand (previous year EUR 51,985 thousand). No goods were transferred by way of security at the reporting date, as in the previous year. Inventory write-downs of EUR 2,281 thousand (schematically comparable prior-year value: EUR 2,912 thousand) were recognised in profit or loss in financial year 2014.

2.7 Trade receivables

Trade receivables are shown after deduction of impairment for bad debts. In financial year 2014, these impairments amounted to EUR 1,788 thousand (previous year: EUR 1,419 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 560 thousand (previous year: EUR 493 thousand) in the reporting period. The maximum default risk corresponds to the carrying amount of the receivables. Of the total gross receivables, 86% (previous year: 79%) are not yet due on the reporting date.

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

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

The maturity structure of trade receivables is as follows:

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

2013	Net receivables	Value adjustment	Gross amount
	€ thousand	€ thousand	€ thousand
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**

2.8 Other financial assets

	2014	2013
	€ thousand	€ thousand
Derivative financial instruments included in hedge accounting	11,459	3,844
Financial assets measured at fair value through profit or loss	1,792	1,133
	13,251	**4,977**

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

2.9 Other assets

	2014	2013
	€ thousand	€ thousand
Non-current		
Income tax claims	651	964
Other	1,149	1,323
	1,800	**2,287**

	2014	2013
	€ thousand	€ thousand
Current		
Income tax claims	1,242	1,817
Other	18,883	18,598
	20,125	**20,415**

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:

	2014 Number of shares	2014 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 2014 (previous year: EUR 1,384,096.00). The payout amount corresponds to a dividend of EUR 0.40 per preference share (previous year: EUR 0.40) and EUR 0.34 per ordinary share (previous year: EUR 0.34).

A minimum of EUR 0.15 per share must be paid out to the holders of preference shares and has preference over the dividend to ordinary shareholders. The dividend per preference share is EUR 0.06 higher than the dividend per ordinary share. If the 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 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and / or preference bearer shares without voting rights for cash on one or several occasions by a total amount of EUR 3,864,985.60 (authorised capital I). Here, the shareholders must be granted a subscription right. The Board of Directors is, however, authorised to exclude fractional amounts from the shareholders' subscription rights with the approval of the Supervisory Board and, where ordinary and preference shares are issued at the same time, to exclude shareholders of one class from subscribing to shares of the other class, provided the subscription ratio is the same for both classes. The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights in the distribution of profit or company assets.

Authorised capital II

The Board of Directors is authorised until 10 June 2019 to raise the share capital of the company with the approval of the Supervisory Board by issuing new ordinary bearer shares and / or preference bearer shares without voting rights for cash on one or several occasions by a total amount of EUR 966,246.40 (authorised capital II). Here, the shareholders must be granted a subscription right. The Board of Directors is, however, authorised to exclude fractional amounts from the shareholders' subscription rights with the approval of the Supervisory Board and, where ordinary and preference shares are issued at the same time, to exclude shareholders of one class from subscribing to shares of the other class, provided the subscription ratio is the same for both classes. The Board of Directors may further exclude the subscription right in general in order to issue new bearer preference shares without voting rights at an issue price that is not substantially below the stock market price (section 203 (2) and section 186 (3) sentence 4 of the German Stock Corporation Act (AktG)). The authorisation also includes the authority to issue further preference shares which have priority over or are equal with previously issued preference shares without voting rights in the distribution of profit or company assets.

2.11 Changes to other reserves

	2014			2013		
	Before taxes	Deferred taxes	After taxes	Before taxes	Deferred taxes	After taxes
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Unrealised gains/losses from currency translation	1,118	0	1,118	-3,203	0	-3,203
Unrealised gains/losses from available-for-sale financial assets	3	0	3	1	0	1
Unrealised gains/losses from derivative financial instruments	5,765	-2,957	2,808	2,642	-909	1,733
Unrealised gains/losses from employee benefits (IFRS 19 revised)	-647	194	-453	68	-20	48
Other comprehensive income	**6,239**	**-2,763**	**3,476**	**-492**	**-929**	**-1,421**

2.12 Non-controlling interest

	2014	2013
	€ thousand	€ thousand
1 January	2,464	3,017
Capital contributions	0	173
Disposals	-175	-22
Dividends	-680	0
Unrealised gains from currency translation (= share in other comprehensive income)	-45	-119
Share in consolidated net profit	37	-585
31 December	**1,601**	**2,464**

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 2014:

	2014	2013	2012	2011	2010
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
1 January	2,573	2,624	2,049	1,901	1,831
Current service expense (personnel expenses)	44	45	30	26	26
Interest expense (personnel expenses)	75	70	87	87	87
Actuarial losses and gains from changes in financial assumptions	647	-68	552	124	73
Pension payments	-104	-98	-94	-89	-87
Transfer/settlement	0	0	0	0	-29
31 December	**3,235**	**2,573**	**2,624**	**2,049**	**1,901**

Plan assets developed as follows in financial year 2014:

	2014	2013	2012	2011	2010
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
1 January	664	659	650	643	640
Interest income	4	5	9	7	3
31 December	**668**	**664**	**659**	**650**	**643**

	2014	2013	2012	2011	2010
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
Cash value of defined benefit obligations	3,235	2,573	2,624	2,049	1,901
Less fair value of plan assets	-668	-664	-659	-650	-643
Net obligations	**2,567**	**1,909**	**1,965**	**1,399**	**1,258**

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

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

Future payments

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

	from plan assets
	€ thousand
2015	106
2016	109
2017	113
2018	116
2019	119
	563

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 is 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.

		€ thousand
Einhell Germany AG		
Actuarial interest rate +0.5%	2.72% future beneficiaries, 1.89% pensioners	2,866
Actuarial interest rate -0.5%	1.72% future beneficiaries, 0.89% pensioners	3,409
Life expectancy +1 year		3,274
iSC GmbH		
Actuarial interest rate +0.5%	2.72% future beneficiaries	104
Actuarial interest rate -0.5%	1.72% future beneficiaries	128
Life expectancy + 1 year		120

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

	Warranties	Other	Total
	€ thousand	€ thousand	€ thousand
1 January 2014	4,571	4,798	9,369
Claims	-3,309	-2,294	-5,603
Reversals	-118	-2,759	-2,877
Additions	3,429	5,885	9,314
Currency translation effects and other changes	32	15	47
31 December 2014	**4,605**	**5,645**	**10,250**

	Warranties	Other	Total
	€ thousand	€ thousand	€ thousand
31 December 2014			
Non-current	0	750	750
Current	4,605	4,895	9,500
31 December 2013			
Non-current	0	696	696
Current	4,571	4,102	8,673

2.15 Financial liabilities

	2014	2013
	€ thousand	€ thousand
Non-current		
Loans, secured	0	0
Loans, unsecured	30,000	30,000
	30,000	**30,000**

	2014	2013
	€ thousand	€ thousand
Current		
Loans and overdrafts, secured	10	1,439
Loans and overdrafts, unsecured	202	20,010
	212	**21,449**
Thereof non-current loans maturing in the short term	0	20,012
Thereof loans and overdrafts maturing in the short term	212	1,437

Collateral in the total amount of EUR 10 thousand was furnished to secure financing liabilities pertaining to property, plant and equipment.

The Einhell Group utilised the favourable interest level in financial year 2013 for refinancing. The Group concluded long-term bilateral loan agreements totalling EUR 30.0 million with several banks, securing long-term financing until 2018 at vary favourable conditions. The original long-term loans totalling EUR 20.0 million were paid back in June 2014 as scheduled. 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 2014. The risk resulting from changes in interest rates is hedged using derivative financial instruments in the form of interest cap and interest swap agreements. These agreements expired in financial year 2014. On account of the low interest level and the current market forecasts, Group management decided not to extend the terms of these hedging instruments.

2.16 Other financial liabilities

	2014	2013
	€ thousand	€ thousand
Derivative financial instruments included in hedge accounting	1,074	1,414
Financial liabilities measured at fair value through profit or loss	1,729	165
	2,803	**1,579**

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

2.17 Other liabilities

	2014	2013
	€ thousand	€ thousand
Non-current	7,749	11,365
Current	18,205	17,933
	25,954	**29,298**

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 2014, the other liabilities item also includes the contingent purchase price payment from the takeover of Ozito Industries Pty Ltd in the amount of EUR 9,848 thousand. The purchase price payment, which is due in 2015, is shown in current liabilities.

3. Notes to the consolidated statement of income

3.1 Revenue

Segments	2014		2013		Change	
	€ thousand	%	€ thousand	%	€ thousand	%
Tools	256,582	61.6	259,037	62.2	-2,455	-0.9
Garden & Leisure	159,781	38.4	157,250	37.8	2,531	1.6
	416,363	**100.0**	**416,287**	**100.0**	**76**	**0.0**

Regions	2014		2013		Change	
	€ thousand	%	€ thousand	%	€ thousand	%
D/A/CH region	164,472	39.5	197,812	47.5	-33,340	-16.9
Other Europe	133,489	32.1	125,038	30.0	8,451	6.8
Asia	15,284	3.7	16,217	3.9	-933	-5.8
South America	21,817	5.2	24,959	6.0	-3,142	-12.6
Other	81,301	19.5	52,261	12.6	29,040	55.6
	416,363	**100.0**	**416,287**	**100.0**	**76**	**0.0**

3.2 Other operating income

	2014	2013
	€ thousand	€ thousand
Income from the release of warranty provisions	118	226
Commission income	1,030	1,520
Income from costs for inspection of goods charged to suppliers	424	349
Income from the receipt of receivables that had been written off and from the reversal of impairments for bad debts	560	493
Proceeds from disposal of fixed assets	34	104
Income from the release of other provisions	2,759	1,288
Income from purchase price adjustments	512	222
Other income	1,680	7,293
	7,117	**11,495**

3.3 Cost of materials

	2014	2013
	€ thousand	€ thousand
Expenses for raw materials and supplies and purchased goods	289,819	295,690
Expenses for purchased services	155	321
	289,974	**296,011**

3.4 Personnel expenses

	2014	2013
	€ thousand	€ thousand
Wages and salaries	46,408	45,588
Social security contributions	8,892	8,616
Expenses for old-age pensions	126	122
	55,426	**54,326**

Number of employees (annual average)	2014	2013
	Amount	Amount
D/A/CH region	571	594
Other Europe	325	357
South America	80	74
Asia	275	262
Other countries	69	83
	1,320	**1,370**

3.5 Depreciation

	2014	2013
	€ thousand	€ thousand
Amortisation of intangible assets (without goodwill)	2,213	1,292
Depreciation of property, plant and equipment	2,757	2,597
	4,970	**3,889**

As in the previous year, financial year 2014 did not see any extraordinary depreciation. The purchase price allocation entails amortisation of intangible assets in the amount of EUR 1,643 thousand (previous year: EUR 823 thousand) and depreciation of property, plant and equipment amounting to EUR 56 thousand (previous year: EUR 29 thousand).

3.6 Other operating expenses

Other operating expenses pertain primarily to expenses for the shipping of goods, warranty, customer service, rent expenses, advertising and product design. Expenses for impairment of trade receivables were EUR 1,788 thousand (previous year EUR 5,796 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.

3.7 Financial result

	2014	2013
	€ thousand	**€ thousand**
Interest income	215	263
Interest expenses	-1,458	-1,712
Gains/losses from currency translation	-2,126	-1,161
	-3,369	**-2,610**
thereof interest income from hedging instruments	84	145
thereof interest expenses for hedging instruments	-69	0
thereof currency translation gains from hedging instruments	1,792	1,133
thereof currency translation losses from hedging instruments	-1,729	-165

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

	2014	2013
	€ thousand	**€ thousand**
Imputed tax expenses	7,159	4,213
Deferred taxes	-3,721	-1,692
Reported tax expenses	**3,438**	**2,521**

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 10 thousand (previous year EUR 426 thousand), while the corresponding deferred tax liabilities come out to EUR 3,056 thousand (previous year EUR 539 thousand). Further deferred tax liabilities in the amount of EUR 2,739 in equity refer to the initial consolidation of Ozito Industries Pty Ltd. in 2013.

The subsidiaries capitalised deferred taxes from loss carryforwards in the amount of EUR 1,812 thousand (previous year EUR 2,948 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 2014, no deferred tax assets were recognised for loss carryforwards in the amount of EUR 21,024 thousand.

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

	2014	2013
	€ thousand	€ thousand
Expected tax expenses	1,523	1,207
Tax expenses/income from intra-Group income/expenses	273	0
Other non-tax-deductible expenses	4,572	3,476
Different tax rates in other countries	-1,682	-822
Tax free income	-2,079	-1,815
Changes in loss carryforwards	-172	-860
Other	1,003	1,335
Reported tax expenses	**3,438**	**2,521**

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% (2013: 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 normal market conditions.

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

2013	Tools	Garden & Leisure	Total segments	Reconciliation	Einhell Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
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
Interest income	144	119	263	0	263
Interest expenses	-1,149	-563	-1,712	0	-1,712
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
Depreciation of inventories	1,730	1,182	2,912	0	2,912

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.

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

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

The largest part of revenue in the South America region is generated by the subsidiaries in Chile, Argentina and Brazil. The revenue of the Hong Kong subsidiaries of EUR 32.7 million includes most of the Asia revenue. Other countries includes Ozito's revenue in the amount of EUR 73.2 million.

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

2013	D/A/CH region	Other Europe	Asia	South America	Other countries	Reconcili-ation	Einhell Group
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
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.

The largest 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 includes Ozito's revenue in the amount of EUR 37.9 million.

In 2013, the share of non-current assets pertaining to Germany amounted to EUR 12,619 thousand.

None of the customers accounted for more than 10% of the Einhell Group's revenue in financial year 2013. In the past financial year 2014, EUR 72,553 thousand was generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. This revenue was generated in both the Garden & Leisure and the Tools segments.

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 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.

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 inflow from operating activities mainly results from profit before taxes as well as accrued depreciation and amortisation of intangible assets and property, plant and equipment.

Investing activities

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

Financing activities

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

Changes in cash and cash equivalents

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

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 pertain to DIY chains, specialist traders and discounters and amount to EUR 62.5 million (previous year EUR 64.4 million). In the financial year 2014 there were no significant receivables for which new payment targets were agreed.

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

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

The positive market value of all derivative financial instruments as of the reporting date is EUR 13,251 thousand.

Bank balances amounted to EUR 36.3 million on the reporting date (previous year EUR 59.0 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 when required by using derivative financial instruments such as interest caps and interest swaps. The Group-wide treasury department manages interest risk for the Group, in order to optimise interest income and expenses for the Group and to minimise total interest rate risk. This also includes Group-wide interest overlay management, which is designed to directly connect fixed interests from concluded hedge transactions and the earmarked funds that are tied up in assets and liabilities.

The Group uses 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 interest hedges of EUR 60,000 thousand that expired in financial year 2014 were not extended.

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 60 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 effectively managing net working capital and cash as well as access to conventional credit lines from well-known banks. At the reporting date, the Group had about EUR 50.5 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 2014 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.

	2015	2016	2017-2019	2019 and after
	€ thousand	€ thousand	€ thousand	€ thousand
Non-current liabilities to banks	525	525	30,963	0
Trade payables	55,269	0	0	0
Other current liabilities	21,008	0	0	0

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

Current liabilities to banks are not shown separately.

At the reporting date there were open foreign exchange contracts for which we anticipate cash inflows corresponding to about EUR 347.2 million and cash outflows corresponding to about EUR 334.1 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 25,370 thousand or EUR -22,743 thousand; due to the application of cash flow hedge accounting, this would be shown in equity. The derivative financial instruments are generally 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 292 thousand or EUR -357 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 2014	Gross amount shown	Offsetting amount	Net amount shown
	€ thousand	€ thousand	€ thousand
Derivatives with positive market values	13,251	0	13,251
Derivatives with negative market values	2,803	0	2,803

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

Financial instruments with a positive market value to cash flow hedge	Nominal volume		Market value	
	2014	2013	2014	2013
	€ thousand	€ thousand	€ thousand	€ thousand
Currency futures	145,110	131,381	10,148	3,932
Options	0	0	0	0
	145,110	**131,381**	**10,148**	**3,932**

Financial instruments with a negative market value to cash flow hedge	Nominal volume		Market value	
	2014	2013	2014	2013
	€ thousand	€ thousand	€ thousand	€ thousand
Currency futures	101,008	76,682	1,223	1,285
Options	0	0	0	0
	101,008	**76,682**	**1,223**	**1,285**

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.

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

2013 in € thousand	Book value Held for trading	Measured at fair value	Fair value - hedge in-struments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Fair value 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**				

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 7.5% to 12.5% p.a. before adjustment for the risk that key account relations might end) • Risk of termination of key account relations (2014/15: 0%, increase by 5 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.
Currency futures 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 2013 and 2014 in either direction.

c) Fair values in level 3

Reconciliation of fair values in level 3

Contingent consideration	€ thousand
As of 1 January 2013	0
Acquired in the scope of a merger	14,529
Loss recognised in borrowing expenses	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**
Earnout payment Ozito Industries Pty Ltd	-4,264
Adjustment of earnout liabilities Ozito Industries Pty Ltd	-512
Loss recognised in borrowing expenses	364
Currency translation effects recognised in exchange equalisation item	655
Accounting of earnout liabilities Einhell Intratek	1,303
As of 31 December 2014	**11,151**

There were no reclassifications from or to level 3.

Sensitivity analysis

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

Fair value of the contingent consideration Ozito Industries Pty Ltd	Change to	Change to	Change to	Change to
Exchange rate = 1.4841	**AUD thousand**	**AUD thousand**	**€ thousand**	**€ thousand**
31 December 2014				
Annual average revenue growth rate (change by 1 pp)	15,277	13,939	10,294	9,392
Risk of termination of key account relations (change by 10 pp each)	13,283	15,637	8,950	10,536
EBIT margin (change by 1 pp)	16,107	13,125	10,853	8,844
Discount rate (change by 1 pp)	14,158	15,094	9,540	10,170

Fair value of the contingent consideration Einhell Intratek	Change to	Change to
	€ thousand	€ thousand
31 December 2014		
Annual average revenue growth rate (change by 1 pp)	1,360	1,245
EBIT margin (change by 1 pp)	1,680	925
Discount rate (change by 1 pp)	1,255	1,318

7. Other notes

7.1 Other financial obligations

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

	Total	up to one year	one to five years	more than five years
	€ thousand	€ thousand	€ thousand	€ thousand
Obligations from rents	4,834	2,103	2,731	0
Obligations from leases	1,224	550	674	0
	6,058	**2,653**	**3,405**	**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 2014, the payments for operating leases amounted to EUR 570 thousand (previous year EUR 632 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 2014, 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 2014, 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 2014, the total remuneration of the Board of Directors of Einhell Germany AG amounted to EUR 1,634 thousand (previous year EUR 1,378 thousand). On 17 June 2011, the Annual General Meeting of Einhell Germany AG resolved to refrain from disclosing the remuneration of individual Board members for financial years 2011 until 2015. In addition, pension provisions for this group of persons totalling EUR 685 thousand were recognised in liabilities.

Pension provisions in the amount of EUR 2,065 thousand (EUR 1,786 thousand) were set aside for former members of the Board of Directors. Pension benefits in the amount of EUR 111 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 76 thousand (previous year EUR 83 thousand) in the past financial year.

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

7.5 Auditor fees

Auditors' fees in the amount of EUR 135 thousand were booked to expenses in the year under review for the auditor KPMG AG (previous year EUR 135 thousand). The fees pertain only to the auditing of the financial statements. Other services amounting to EUR 76 thousand (previous year: EUR 0) were rendered. No other assurance services or tax advisory 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.

8. Subsidiaries

	Share in capital	Equity 31.12.2014
	%	€ thousand
iSC GmbH, Landau a. d. Isar/Gremany	100.0	1,153
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	7,734
HAFE Trading Ltd., Hong Kong/China	100.0	1,465
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	1,455
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	3,584
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	965
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0	248
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	2,643
Einhell Benelux B.V., Breda/Netherlands	100.0	-1,146
Einhell Italia s.r.l., Milan/Italy	100.0	4,634
Comercial Einhell S.A., Madrid/Spain	100.0	1,744
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	6,590
Einhell Hungaria Kft., Budapest/Hungary	100.0	263
Einhell Schweiz AG, Winterthur/Switzerland	100.0	3,499
Einhell UK Ltd., Birkenhead/Great Britain	100.0	1,453
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	8
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	1,338
Einhell Croatia d.o.o., Lepajci/Croatia	100.0	4,960
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,696
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	1,067
Einhell Romania SRL, Bucharest/Romania	100.0	3,042
Einhell-Ukraine TOV, Kiev/Ukraine	100.0	60
Svenska Einhell AB, Gothenburg/Sweden	100.0	252
Einhell Holding Gesellschaft m.b.H., Vienna/Austria	100.0	143
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	100.0	1,655
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	100.0	3,923
Anxall Hellas A.E., Athens/Greece	97.2	1,588
Einhell Chile S.A., Santiago/Chile	90.0	468
Einhell Danmark ApS, Silkeborg/Denmark	100.0	-1,060
Einhell France SAS, Villepinte/France	95.0	-1,016
Einhell Australia PTY. Ltd., Victoria/Australia	100.0	-455
Einhell Brasil Com. Distr. Ltda, Campinas/Brazil	100.0	5,520

	Share in capital	Equity 31.12.2014
(continued)	**%**	**€ thousand**
Einhell Norway AS, Larvik/Norway	100.0	-231
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	2,806
kwb Germany GmbH, Stuhr/Germany	100.0	1,899
KWB-RUS OOO, St. Petersburg/Russia	100.0	608
Hans Einhell Ukraine TOV, Kiev/Ukraine	100.0	457
Einhell Holding Australia Pty. Ltd., Melbourne/Australia	100.0	17,370
Einhell Colombia S.A.S., Bogota/Columbia	100.0	252
Ozito Industries Pty Ltd, Bangholme/Australia	100.0	7,610

9. Executive bodies

9.1 The Board of Directors

In financial year 2014 the Board of Directors of Einhell Germany AG comprised:

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

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

9.2 Supervisory Board

In financial year 2014 the Supervisory Board of Einhell Germany AG comprised:

• Josef Thannhuber, Landau a. d. Isar, businessman	Chairman
• Univ.-Prof. Dr-Ing. Dr-Ing. E.h. Dr.h.c. Dieter Spath, Sasbachwalden, 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. Dr.h.c. Dieter Spath is a member of the following Supervisory Boards and Administrative Boards:

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

Landau a. d. Isar, 26 March 2015

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 2014

	Acquisition and manufacturing costs						
	1.1.2014	Additions	Change Companies included in the consolidation	Re-classifications	Disposals	Currency differences	31.12.2014
	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
I. Intangible assets							
1. Acquired intangible assets	20.006	484	-7	48	-	28	20.559
2. Self-developed intangible assets	5.221	36	-	-	-	-	5.257
3. Acquired goodwill	17.322	-	-	-	-	-1.833	15.489
	42.549	520	-7	48	-	-1.805	41.305
II. Property, plant and equipment							
1. Land and buildings in company assets	26.916	993	-	31	-	6	27.946
2. Technical equipment and machinery	5.074	75	-	-	-	98	5.247
3. Other equipment, operating and office equipment	18.880	2.186	-53	28	-530	170	20.681
4. Prepayments and assets under construction	153	128	-	-107	-	-	174
	51.023	3.382	-53	-48	-530	274	54.048
III. Financial assets (securities)	371	8	-	-	-1	-	378
	93.943	3.910	-60	-	-531	-1.531	95.731

Statement of non-current assets in the financial year 2013

	Acquisition and manufacturing costs						
	1.1.2013	Additions	Change 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

Cumulated depreciation						Carrying amounts	
	Depreciation in	Change Companies included in		Currency			
1.1.2014	financial year	the consolidation	Disposals	differences	31.12.2014	31.12.2014	31.12.2013
€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand	€ thousand
7.939	2.192	-7	-	40	10.164	10.395	12.067
5.024	21	-	-	-	5.045	212	197
2.107	-	-	-	-	2.107	13.382	15.215
15.070	2.213	-7	-	40	17.316	23.989	27.479
17.661	369	-	-	68	18.098	9.848	9.255
2.184	210	-	-	91	2.485	2.762	2.890
12.891	2.178	-53	-314	145	14.847	5.834	5.989
-	-	-	-	-	-	174	153
32.736	2.757	-53	-314	304	35.430	18.618	18.287
3	-	-	-	-	3	375	368
47.809	4.970	-60	-314	344	52.749	42.982	46.134

Cumulated depreciation						Carrying amounts	
	Depreciation in	Change Companies included in		Currency			
1.1.2013	financial year	the consolidation	Disposals	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

Einhell Germany AG, Landau a. d. Isar

Group Management Report for the financial year 2014

CONTENT

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

1.1 General operations and business segments

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

Einhell develops and markets products for DIY home improvers and craftspeople, for home, garden and leisure purposes. Its product policy is to react faster, more flexibly and with more innovation than its competitors. Einhell matches the global orientation of its customers with a high degree of internationalisation. Subsidiaries and associates across the world cement the 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 Australia and distribution 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 1,300 employees worldwide. Group revenue amounted to EUR 416 million in financial year 2014.

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.

1.2 Legal structure and management of the Group

Legal structure and changes to Group structure

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

In all subsidiaries where Einhell Germany AG does not hold all the shares, Einhell Germany AG has a direct or indirect majority shareholding. The minority shareholdings are almost exclusively held by the corresponding Managing Directors of the companies.

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 distribution companies to focus on their core functions. Einhell is also in a position to press ahead with international expansion as each distribution company has a similar structure and the business model can be efficiently rolled out in additional countries. As organic growth offers huge potential, the organisational structure and efficient set-up of the business model of the Einhell Group are one of the management's most important responsibilities.

The Group structure changed as follows during the 2014 financial year:

The Einhell Group acquired 10% of shares from the local Managing Director of Einhell Australia PTY. Ltd., Victoria/Australia and 10% of shares from the local Managing Director of Einhell Brasil Com. Distr. Ltda., Campinas/Brazil in financial year 2014. The Group further acquired 15% of shares from the local Managing Directors of Einhell Intratek Mühendislik ve Dis Ticaret A.S. Einhell Germany AG now holds 100% of shares in the three aforementioned distribution companies. Einhell Slovakia s.r.o. was sold, while Einhell Middle East Trading FZC was closed in financial year 2014.

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 and corporate strategy.

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

The Chief Technical Officer is responsible for technology, product management, product processing, quality control, 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 regular 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 2014. Some of the tasks were divided differently between the members of the Board of Directors.

1.3 Management, aims and strategy of the Einhell Group

Management

Management of the business activities of the Einhell Group is mainly based on the **financial performance indicators** revenue and operating earnings before taxes (EBT).

The Einhell Group also uses **key performance indicators** like the gross profit margin and the significant growth drivers of working capital, inventories and trade receivables to manage the Group. However, these key performance indicators are subject to strong country-specific variations and must therefore be interpreted within the context of the individual company.

Inventories are analysed on an on-going basis and monitored on the basis of stock turnover and inventory range with regard to possible impairment losses. Moreover, a sanity check is carried out on the order process for new goods involving checking and managing product availability and stock 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's basic objective is to generate sustainable and profitable growth of revenue and profit. Profitability takes priority over pure growth targets. The Group substantiated these objectives by stating the targets of a long-term stable pre-tax margin averaging at least 4%-5%, and long-term stable dividend distributions.

The Group managed to reach or even exceed the long-term pre-tax margin target in the years until 2011. Owing to the macroeconomic environment, the Group failed to meet the margin target in the last three financial years (2012, 2013 and 2014) and generated a return on sales ranging between 1% and 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. 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 will also 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 that has been underway since autumn of 2012, ‘EINHELL WELL DONE’, was an important strategic milestone. The campaign took off with the broadcast of TV ads in previous years and will now be continued online.

The marketing campaign is also being constantly rolled out at the point of sale via promotion events and new launches, thus contributing substantially to enhancing customer awareness of the brand.

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 and the 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 in the long run. Therefore, Einhell has built up resources in this field and set up a dedicated e-commerce team that consists of specialists in e-commerce sales, IT, legal aspects and e-commerce marketing.

1.4 Product processing, procurement and quality management

Product processing

Product processing expenses amounted to EUR 4.8 million (previous year: EUR 4.5 million) in financial year 2014. 41 employees (previous year: 37 employees) were employed in this division. The division is mainly sales-driven and customer-oriented. Therefore, cooperation with other departments, such as quality assurance, is important, as is communication with customers. Customer requirements are taken into account from the outset during the design of new products and versions. The customer is regarded as a partner. This allows the entire Einhell Group to consistently adapt to markets and meant that Einhell has become one of the fastest reacting companies in the industry.

This is also reflected in the launch of the Power X-Change concept, which is a master battery concept where a variety of tools can be operated with one and the same battery. Einhell's Power X-Change concept comprises devices in both the Tools and the Garden & Leisure segment, making it basically unique in the market.

Procurement

In the procurement division, commodity prices in global trade are an important factor. In 2014, the raw material prices continued to show a downwards trend. The commodity price index published by the Hamburgisches Weltwirtschaftsinstitut (HWWI) decreased by 7.0% on a US dollar basis from the beginning of the year to the end of 2014; on a euro basis it fell by 7.4%. This was caused primarily by the drop in the oil price, as crude oil plays an important role for the index.

Quality management

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

Since high priority is given to quality checks before shipping from China, this area is constantly monitored. In addition to strict shipping controls on site, there are also controls with regard to observance of customer-specific quality requirements, inspections of on-going production and optimisation of manufacturer processes.

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

1.5 Personnel and HR services

The number of employees decreased by 3.6% in the financial year 2014 in comparison with the previous year to an average of 1,320 (previous year: 1,370). Revenue per employee was EUR 315 thousand (previous year EUR 304 thousand).

Based on the employee survey with the focus areas of corporate culture, communication structure, work-life balance, processes, jobs and leadership culture conducted in 2013, the HR Relationship department derived a number of measures on which it will concentrate in 2014. Special attention will be paid to improving the internal flow of information and the communication between divisions and departments. The new intranet platform that covers a very wide scope was presented and released at the works meeting in September 2014. Including sections on current topics, product evaluations, works council, HR notifications, vacancies and an internal notice board, this modern communication tool was received very favourably. By integrating the ideas of persons in different departments, a further element of integration was created within the Group. Regular executive meetings and briefing events additionally enhance transparency and the acceptance of decisions regarding strategy and operations.

Forward-looking individual personnel development was already one of the main goals of HR in 2013. In 2014, these efforts were brought together in the Einhell Academy. The further expansion of this platform is a project to be implemented in the medium term, meaning that HR will continue to focus on it in the coming years. A number of cross-divisional measures were implemented in this respect in the period under review. HR offered lectures on dialectics, interviewing and negations as well as briefings on the company’s future positioning in e-commerce, all of which were very well attended. Installing a designated training room for e-learning and offering training for software packages that are used within the Group was another step towards modern personnel development that focuses on individual advancement. The excellent technical equipment of this room also offered the possibility to provide individual language training in virtual classrooms, reflecting the international nature of tasks at the company headquarters. By expanding the possibilities to further develop the skills of our staff we are laying the foundation for long-term company success, even in times when it will be more difficult to find the qualifications we need on the labour markets.

In the fields of occupational safety and protection we completed the compilation of structured danger assessments that was initiated in 2013; these were validated in full during a visit by the competent control officer from the employer's liability insurance association. In 2015, we will be dealing with the establishment of a continuous improvement process, which, in combination with the occupational health management that was likewise initiated in 2014, will pave the way for a long and healthy working life in our company. We understand occupational health management as an interactive system approach that goes beyond offering individual health-enhancing measures. Therefore, the Company is participating in a three-year project by the German Association for Small and Medium-sized Businesses (BVMW) and the Federal Ministry for Economic Affairs to establish a "systematic health management". A control group that also includes the works council has planned a number of phased events for executives and staff members in 2015.

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 the Einhell Group would like to express its sincere thanks to all Group employees.

2. Overview of business activities

General economic conditions

Global economy

In the assessment of the World Bank, the **global** economy has not yet fully recovered from the aftermath of the financial crisis. The World Bank was forced to adjust global growth downward again at the end of the year. Global economic growth increased 2.6% in 2014, whereas the World Bank had forecast 2.8%.

Even six years after the beginning of the financial crisis, unemployment figures are still rising all over the world. Apparently the main reason for this is that most economies are growing at a very low pace. According to the International Labour Organisation (ILO), young people are most affected. The ILO states that nearly 74 million people between 15 and 24 were looking for work in 2014.

Germany

In an annual average, the **German** economy proved to be stable overall in a difficult global environment in 2014. The gross domestic product rose by 0.7% in the final quarter compared to the prior-year period. The full year 2014 featured economic growth of 1.6%. The gross domestic product thus clearly exceeded the average of the last ten years (1.2%). In the two previous years, the gross domestic product had shown far weaker growth (2013: 0.1%; 2012: 0.4%). In 2014, the gross domestic product benefited primarily from strong domestic demand.

On the end-user side, consumer spending proved the most important growth driver for the German gross domestic product. Private consumer spending (price-adjusted) climbed 1.1%, while public spending rose 1.0%. Investment activity also showed an increase over the previous year.

On average, Germany was able to increase its foreign trade moderately in 2014, although the economic environment was difficult. On a price-adjusted basis, Germany exported 3.7% more products and services than in the previous year. Since imports increased nearly as strongly (+3.3%), the trade balance made only a comparably low contribution of 0.4% to GDP growth.

Last year, the German state generated the highest surplus since 2000. According to the Federal Statistical Office, the federal government, states, municipalities and social insurances generated a surplus of EUR 18 billion. The stable economic situation thus led to the highest surplus in years for the German state. The Federal Statistical Office states that the financing surplus amounted to 0.6% of the economic performance. In the two preceding years, Germany had been able to generate a small surplus of 0.1% each. The Maastricht Treaty provides for a maximum deficit ratio of 3.0% of the nominal gross domestic product.

In December, the unemployment rate in Germany fell to the lowest level since the reunification. The moderate economic recovery and the generally mild winter weather contributed positively to this trend. At 2.764 million, the number of unemployed persons has once again fallen below the previously lowest level. Even though the number of unemployed persons rose by 47,000 in December 2014, the increase was far less pronounced than in previous years. The unemployment rate increased by 0.1% to 6.4% in December compared to November.

According to the Federal Statistical Office, consumer prices have only risen by an average of 0.9% in 2014. The annual inflation rate is thus declining since 2011. Last year the inflation rate had still amounted to 1.5%. This is the lowest average annual inflation rate since 2009 (+0.3%). The moderate annual inflation rate in 2014 was due primarily to the low inflation rates in the second half of the year. The inflation rate in December 2014 - as measured by the consumer price index - stood at 0.2% compared to December 2013. The development in 2014 largely hinged on the decline of energy prices. Energy prices fell by 2.1%, mainly due to the oil price trend.

The harmonised index of consumer prices (HICP), which is calculated for European purposes, increased by an average of 0.8% year-on-year in Germany in 2014. In December 2014, the HICP increased by 0.1% compared to December 2013 and was thus, over the entire year, clearly below the two-percent threshold that is relevant for monetary policy.

The **DIY store sector** showed a satisfactory performance following the insolvency of the DIY store chains Praktiker and Max Bahr. Nevertheless, the missing sales areas are noticeable in the sector revenue figures. Total revenue of EUR 43.2 billion is forecast in financial year 2014 for the DIY (do-it-yourself) core market that includes construction and DIY stores and small business models. This corresponds to a moderate revenue decline of 0.5% year-on-year. Construction and DIY stores were able to generate EUR 20.7 billion in revenue, corresponding to a decline of 4.7%. The sector has not yet been able to fully compensate for the Praktiker and Max Bahr insolvencies. To date, only about 53% of the sales areas have been reactivated, 43% thereof by construction and DIY stores. About half the revenue generated by the Praktiker and Max Bahr DIY chains in 2013 was compensated for with existing sales areas, new openings and reopened DIY stores in 2014. On a like-for-like basis, the sector is expecting a 6.5% revenue increase at year-end 2014. For the current year, market researchers expect the DIY core market to generate about EUR 44.2 billion in revenue, corresponding to approximately 2.2% revenue growth.

Europe

The **European** economy experienced slightly positive growth in 2014. According to first estimates by the European statistical authority Eurostat, the gross domestic product rose by 1.4% on the previous year. In the eurozone, the economic performance also showed a moderately positive performance, generating year-on-year growth of 0.9%.

Unemployment has fallen to the lowest level in more than two years in the euro states, although the regional differences are substantial. In December 2014, the unemployment rate in the eurozone was 11.4%, the lowest ratio since August 2012. The unemployment rate in the European Union with its 28 member states decreased from 10.0% to 9.9%. This is the lowest level since October 2011. All in all, 24.06 million people were without employment.

The inflation rate was -0.2% in the eurozone in December 2014, down from 0.3% in November. This is the lowest level recorded since September 2009. In December 2013, the inflation rate had been 0.8%. The annual inflation rate for the European Union was -0.1% in December 2014, down from 0.3% in November. In the previous year, it had been 1.0%.

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.

Industrial production in the eurozone showed a stable performance in December 2014. The European statistical authority Eurostat states that production stagnated compared to the previous month. The annual comparison reveals that production dropped by 0.2%. In December, industrial production in the EU-28 rose by 0.1% compared to the previous quarter and 0.3% compared to the previous year's quarter.

Performance report

Einhell Group raises profitability with stable revenue

The Einhell Group managed to keep revenue stable in comparison with the previous year in a difficult market environment. Group revenue amounts to EUR 416.4 million in financial year 2014, compared to EUR 416.3 million in the previous year. The strategic acquisition of Ozito Industries Pty Ltd, Bangholme, Australia had a major impact on the revenue development. Ozito Industries Pty Ltd contributed EUR 73.2 million to Group revenue (previous year: EUR 37.9 million) in the financial year under review.

This means that the Einhell Group was not able to meet its forecast for financial year 2014, for which the Board of Directors had stated a moderate increase in revenue to about EUR 430 million at the beginning of 2014. The Einhell Group had long assumed that it would be able to meet that forecast. Only after the third quarter it became clear that the target of about EUR 430 million could not be reached. Following presentation of the figures for the third quarter, the forecast was adjusted to EUR 410 million due, inter alia, to weak revenue in the D/A/CH region.

In the first quarter, the Group generated a moderate revenue increase from EUR 102.1 million in the previous year's quarter to EUR 105.1 million, corresponding to growth of about 3%.

The revenue increase in the first quarter of 2014 was mainly driven by Ozito Industries Pty Ltd acquired in financial year 2013, which had not yet been consolidated in the previous year's figures. The core Einhell business reported a decline in revenue, as expected, which was mainly due to the Praktiker/Max Bahr insolvency. Additionally, a customer from the discounter business was no longer supplied in financial year 2014.

Revenue in the second quarter was only just at the previous year's level at about EUR 108 million. The revenue loss that was caused by the aforementioned circumstances was offset by the newly acquired Ozito Industries Pty Ltd.

In the third quarter, it became clear that the Einhell Group would not be able to further expand the business volume. The loss in revenue due to the Praktiker and Max Bahr insolvencies and the discontinuation of the cooperation with a discount customer were not sufficiently offset by other customers. In the third quarter, the Group suffered a revenue decline from about EUR 117 million in the previous year's third quarter to about EUR 113 million. The aforementioned causes were felt particularly strongly in the D/A/CH region.

In the fourth quarter, part of the revenue decline was compensated for by good revenue performance in other regions; finally, the Group generated consolidated revenue of EUR 416.4 million, which was more or less in line with the previous year, and even slightly above the adjusted forecast of EUR 410 million.

The regional development of revenues in financial year 2014 was as follows:

	2014		2013		Change	
	€k	%	€k	%	€k	%
D/A/CH region	164,472	39.5	197,812	47.5	-33,340	-16.9
Other Europe	133,489	32.1	125,038	30.0	8,451	6.8
Asia	15,284	3.7	16,217	3.9	-933	-5.8
South America	21,817	5.2	24,959	6.0	-3,142	-12.6
Other	81,301	19.5	52,261	12.6	29,040	55.6
	416,363	**100.0**	**416,287**	**100.0**	**76**	**0.0**

The **D/A/CH** region posted revenue of EUR 164.5 million (previous year: EUR 197.8 million) in financial year 2014. The revenue contribution of the D/A/CH region therefore amounts to 39.5%.

Revenue in **other Europe** fell in financial year 2014 compared to the previous year. Revenue growth amounted to 6.8% in total from EUR 125.0 million to EUR 133.5 million. Italy, Turkey and France are among the significant sales market in financial year 2014.

Revenue in the **Asia** region amounted to EUR 15.3 million in the reporting period (previous year: EUR 16.2 million).

The **other countries and South America** improved their revenue figures considerably (on a consolidated basis). Revenue increased year-on-year by EUR 25.9 million to EUR 103.1 million (previous year: EUR 77.2 million). The new South American subsidiaries as well as Ozito Industries Pty Ltd in Australia and New Zealand made the largest revenue contributions.

The Einhell Group fell short of its forecasts in the D/A/CH region and in South America. The revenue decline in these two regions was offset by Ozito Industries Pty Ltd acquired in financial year 2013.

Total output development of the two segments

The development of revenue by segment was as follows in financial year 2014:

	2014		2013		Change	
	€k	%	€k	%	€k	%
Tools	256,582	61.6	259,037	62.2	-2,455	-0.9
Garden & Leisure	159,781	38.4	157,250	37.8	2,531	1.6
	416,363	**100.0**	**416,287**	**100.0**	**76**	**0.0**

The Tools segment generated revenue of EUR 256.6 million in financial year 2014 (previous year: EUR 259.0 million). The share of Ozito Industries Pty Ltd amounted to EUR 49.8 million (previous year: EUR 26.2 million).

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

The Garden and Leisure segment generated revenue of EUR 159.8 million in 2014 (previous year: EUR 157.3 million). Revenue of the Garden and Leisure segment contains sales generated by Ozito Industries Pty Ltd of EUR 23.4 million (previous year: EUR 11.7 million).

The products 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.

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

3. Earnings

Despite the difficult market conditions, the Einhell Group was able to increase its profitability compared to the previous year. The Einhell Group generated operating earnings of EUR 5.1 million in financial year 2014 (previous year: EUR 4.0 million). The pre-tax margin is 1.2% (previous year: 1.0%).

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

	2014		2013		Change	
	€k	%	€k	%	€k	%
Tools	1,537	30.3	793	19.7	744	93.8
Garden & Leisure	3,539	69.7	3,229	80.3	310	9.6
	5,076	**100.0**	**4,022**	**100.0**	**1,054**	**26.2**

In the Tools segment, in particular, the figures reveal a significant improvement over the previous year. This is also due to Ozito Industries Pty Ltd acquired in the previous year that was only partly included in the previous year’s figures. Ozito Industries Pty Ltd generates the majority of its revenue and earnings in the Tools segment. The countries in South America that are still struggling with high start-up costs, are weighing on earnings in the Tools segment as their activities focus on this segment. Disproportionately high financial costs due to high local interest rates in countries with strong tool markets also had a negative effect on the earnings performance.

In the Garden & Leisure segment, a favourable season had a particularly positive impact on earnings, boosting them by about 10%.

Purchase price allocation (PPA) squeezes earnings by EUR 3.0 million. Adjusted for PPA effects, operating earnings amount to EUR 8.1 million and the pre-tax margin is 1.9%.

With regard to profitability, the Einhell Group had assumed at the beginning of financial year 2014 that the pre-tax margin could reach between 2% and 3%. This forecast was slightly adjusted mid-year to a margin of 2%.

After the presentation of the final figures for the third quarter, the forecast was again adjusted downwards. The pre-tax margin forecast was now 0.5% to 1.0% and this is also the level reached at the end of the year.

The earnings performance was positively influenced by the measures taken in the previous year and the year under review in the fields of margins and costs. In some regions, for instance, the Group was able to stabilise or even improve the gross profit margin. Furthermore, some regions like Southern and Eastern Europe underwent cost cutting programmes, which had a positive influence on earnings in these regions. The consolidation of Ozito Industries Pty Ltd in a full calendar year likewise improved earnings compared to the previous year.

Negative impacts on the earnings performance include, in particular, the insolvency of a major customer in mid-2013 and the discontinuation of the cooperation with a customer in the discounter business. It was not possible to fully offset the revenue losses with other customers. High losses in the South America region and the loss-making business of some of the companies in Turkey, France/Benelux and the Nordic region are likewise weighing on the Group performance.

In Germany, revenue and earnings fell short of expectations. Revenue with the former customers Praktiker and Max Bahr shifted to other customers, where the distribution system of Einhell is not as good as it was in the case of Praktiker and Max Bahr. Therefore, Einhell lost revenue although the overall market volume did not decline. This had a negative impact on earnings in the D/A/CH region.

Revenue in Eastern Europe, in turn, stabilised and even showed a slight increase on the previous year. On the back of cost cutting measures initiated in the previous year and a slight increase in revenue, the subsidiaries in Eastern Europe were, below the line, able to make positive earnings contributions again. Only one company in Turkey has not yet been able to join this trend, as it is suffering from high costs and an unsatisfactory calculation and margin situation, due, among other reasons, to the performance of the Turkish currency. Measures to remedy this situation will be enhanced under the 2015 budget.

Revenue in the region Western and Southern Europe stabilised and also showed a moderate increase. In this region, the companies in France and Benelux continued to place a burden on the Group as they are still incurring high losses despite the measures taken in 2014 to streamline their organisation. Against this backdrop, additional measures will be taken to cut costs in these countries. The companies in Spain and Portugal, in turn, were able to improve their earnings situation after their logistic organisations had been consolidated last year. The subsidiaries in Italy and the UK were likewise able to make highly positive earnings contributions that exceeded the previous year's figures.

The South America region suffered a revenue decline, which was due, among other reasons, to unfavourable exchange rate fluctuations. Furthermore, the subsidiary in Brazil is undergoing restructuring, in the course of which the customer groups are being analysed and the customer portfolio will be restructured by means of defined key performance indicators. The companies in South America are continuing to incur partly very high start-up losses that are still weighing on Group earnings. Restructuring in Brazil is in full swing, but extensive additional steps will be required to turn around the loss situation. Here, the Group is considering, for instance, to transfer its highly cost-intensive but nevertheless unsatisfactory warehousing processes via external logistics providers to an in-house warehouse/logistics organisation with own personnel.

Revenue in Australia performed well thanks to the acquisition of Ozito Industries Pty Ltd. This has a positive impact on consolidated net profit. Financial year 2014 is still affected by strong earnings burdens from the former Einhell distribution company in Australia; in the meantime, however, this company has been incorporated in the organisation of Ozito Industries Pty Ltd. Costs associated with the previously loss-making Einhell Australia PTY. Ltd. were thus reduced drastically, while the Einhell organisation was adjusted to the business volume and the market situation.

The Asian subsidiaries also showed a strong performance. Their earnings performances are determined substantially by the merchandise volume ordered by the distribution companies. Also the business where customers order directly and FOB from these companies, performed well.

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

The increase in personnel expenses by EUR 1,100 thousand to EUR 55,426 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. The previous year's figures only include part of the personnel expenses of Ozito Industries Pty Ltd.

Other operating expenses decreased by 3.4% year-on-year to EUR 64,665 thousand. The other operating expenses item in the previous year includes bad debt impairments on receivables from Praktiker AG amounting to EUR 4,377 thousand. Without considering these impairments in the previous year, the increase in other operating expenses would have amounted to EUR 2,118 thousand. This rise is mainly due to acquisitions.

The financial result deteriorated by EUR 0.8 million to EUR -3.4 million and was mainly characterised by global currency fluctuations. Especially the Russian rouble, the Ukrainian hryvnia, the Turkish lira and the South American currencies were subject to substantial fluctuation in 2014. The financial result is mainly derived from the interest result of EUR -1.2 million (previous year: EUR -1.4 million) and currency translation losses of EUR -2.1 million (previous year: EUR -1.2 million). The financial result is adversely impacted by higher financial costs in countries with a high inflation rate and a correspondingly high interest level for local financing.

Consolidated net profit after non-controlling interest fell from EUR 2.1 million to EUR 1.6 million in financial year 2014. The ROI[1], taking into account PPA effects, was 1.7% (previous year: 1.3%) at the reporting date. Before PPA effects, the ROI amounted to 2.8%.

The EBIT margin on revenue amounted to 2.0% in financial year 2014 (previous year: 1.6%).

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[1] ROI (Return on Investment) = Operating earnings / Total capital * 100

4. Assets and financial position

The main items in the statement of financial position for the financial years 2014 and 2013 are as follows:

in EUR million	31.12.2014	31.12.2013	Change
Assets	43.0	46.1	-3.1
Goods inventories	110.4	106.0	4.4
Trade receivables	62.5	64.4	-1.9
Cash and cash equivalents	36.3	59.0	-22.7
Equity	159.6	158.3	1.3
Liabilities to banks	30.2	51.4	-21.2

The balance sheet total decreased by EUR 16.5 million or 5.3% to EUR 293.5 million.

Investments and non-current assets

Investments amounted to EUR 3.9 million in financial year 2014. This refers primarily to intangible assets and property, plant and equipment.

Depreciation amounted to EUR 5.0 million in 2014 and is therefore up EUR 1.1 million year-on-year (previous year: EUR 3.9 million). The takeover of Ozito Industries Pty Ltd and resulting purchase price allocation effects had an impact on depreciation.

Current assets

Inventories increased from EUR 106.0 million to EUR 110.4 million as of the reporting date.

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

	2014		2013		Change	
	€k	%	€k	%	€k	%
Tools	72,582	65.7	68,784	64.9	3,798	5.5
Garden & Leisure	37,818	34.3	37,189	35.1	629	1.7
	110,400	**100.0**	**105,973**	**100.0**	**4,427**	**4.2**

Trade receivables fell by EUR 1.9 million to EUR 62.5 million (previous year: EUR 64.4 million). No factoring was carried out again in financial year 2014.

Following repayment of long-term loans amounting to EUR 20.0 million, cash and cash equivalents at reporting date decreased by EUR 22.7 million to EUR 36.3 million despite the positive operating cash flow. Their share in total assets amounts to 12.4% (previous year: 19.0%).

Debt capital taken out by the Einhell Group decreased to EUR 133.9 million (previous year: EUR 151.8 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, to some extent, supplier loans. Loans are largely denominated in euro. Supplier loans are mainly in USD or CNY. Anticipated cash flows from the payment of supplier liabilities are largely hedged with the corresponding hedge transactions.

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 54.4% - 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 Einhell Group utilised the favourable interest level in financial year 2013 for refinancing. The Group concluded long-term bilateral loan agreements totalling EUR 30.0 million with several banks, securing long-term financing until 2018 at extremely favourable conditions. The original long-term loans totalling EUR 20.0 million were paid back in July 2014 as scheduled. 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 2014. The risk resulting from changes in interest rates is hedged using derivative financial instruments in the form of interest cap and interest swap agreements. These agreements expired in financial year 2014. On account of the low interest level and the current market forecasts, Group management decided not to extend the terms of these hedging instruments.

As of the reporting date, the Group had about EUR 50.5 million in unsecured credit lines at its disposal for the operating business. Overall, the Einhell Group had credit balances of EUR 36.3 million with banks and liabilities from debt capital in the amount of EUR 30.2 million as of 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 of the financial position in the 2014 financial year:

in EUR million	2014	2013	Change
Cash flow from operating activities	6.9	48.3	-41.4
Cash flow from investing activities	-3.5	-12.4	8.9
Cash flow from financing activities	-29.0	16.9	-45.9
	-25.6	**52.8**	**-78.4**
Changes from currency translation	2.9	0.6	2.3
Net decrease (previous year increase) in cash and cash equivalents	**-22.7**	**53.4**	**-76.1**
Cash and cash equivalents at beginning of period	59.0	5.6	53.4
Cash and cash equivalents at end of period	**36.3**	**59.0**	**-22.7**

Cash inflow from operating activities mainly results from profit before taxes as well as the depreciation and amortisation of intangible assets and property, plant and equipment.

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

5. Overall economic situation

In summary, the Einhell Group achieved a satisfactory result in financial year 2014 given the continuing difficult market environment, the integration of the acquired Ozito Industries Pty Ltd and the establishment of subsidiaries in South America. Earnings also exceeded the previous year's level, supported by measures implemented in the financial year. Revenue was successfully held stable despite a difficult market environment.

The Einhell Group managed to increase its gross profit margin compared to the previous year. The gross profit margin amounts to 30.4% (previous year: 28.9%).

Moreover, the Einhell Group boasts an excellent equity ratio of 54.4% (previous year: 51.1%) as well as a net cash position of EUR 6,042 thousand (previous year: EUR 7,557 thousand).

6. Events after reporting date

No events that are significant with regard to reporting occurred between the end of the 2014 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 observes various guidelines and procedural rules that are aimed at all Group employees and are designed to avoid risks resulting from non-compliance with legal provisions. For example, compliance with legal requirements preventing insider trading is ensured by publication of insider trading rules governing trading with securities for executive body members and employees who have access to insider information. Company management practices underlying compliance are constantly monitored and amended.

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 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 risks, for instance by using organisational methods, and is therefore also referred to as risk reduction. A further method is transferring risk by means of insurance, contracts with suppliers etc. The remaining risk is deliberately taken on by the Einhell Group, depending on whether the risk/opportunity relation is appropriate.

The presentation of risk by the risk management software is arranged according to integration in the company hierarchy. In this way, it is possible to present the risks of each individual subsidiary and the parent company along with cumulative risks. There is also a company-specific classification into departments relevant to risk assessment: procurement, development, finances, IT, human resources, product management, sales and legal. The risks are monitored regularly and reported on a quarterly basis. The most important risks are also discussed at meetings of the Board of Directors. Opportunities are not recorded separately in the risk management system.

Elements of the internal control and risk management system

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

The internal control system comprises integrated process controls and internal control systems.

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

The actual figures from the individual companies are processed on a monthly basis. As a result, a complete consolidated statement of income is devised that compares the budgeted and actual figures and allows for their analysis. The development of order intake, margins etc. is also reported for all companies on a monthly basis. The comparison is discussed with the members of the Board of Directors and with the managers of the separate divisions and companies. The analysis of the budgeted and actual figures permits relevant measures to be developed and implemented.

The internal 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 principles for the companies in Germany and other countries that are included in the Einhell consolidated financial statements. In addition to general accounting principles and methods, there are also regulations regarding the statement of financial position, statement of income, notes, management report, cash flow statement and segment reporting in place that comply with the legal requirements in the EU.

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

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

Note on limitations

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

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

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.

Risks remain largely unchanged compared to the previous year.

Political risks

The Einhell Group is subject to global economic risks from its international operations. These can take the form of political and economic risks. Political decisions in the countries in which the Einhell Group operates today can affect the stability and economies of these countries. Also, policies in the countries in which the Einhell Group hopes to expand its operations can affect 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 investments in non-current assets, such as real estate, in such countries. This gives the Einhell Group maximum flexibility to react to unfavourable developments and to be able to have current assets available to take appropriate action in any country at any time.

Industry risks

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

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

8.2.2 Procurement risks

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

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

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

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 is being countered with the incremental introduction of two clearly defined product lines.

8.2.4 Strategic and expansion risks

Risks are also associated with implementation of the Einhell Group strategy. This may have the result that resources or elements required for strategy implementation are not available at a particular time or run up against realisation problems 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 conventional lines of credit that were only partially utilised in the financial year 2014. Cash and cash equivalents and also the equity provision stood at very good levels in the reporting year.

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

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

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

Default risk

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

The maximum default risk corresponds to the carrying amount of the receivables. Trade receivables pertain to DIY chains, specialist traders and discounters and amount to EUR 62.5 million (previous year EUR 64.4 million).

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

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

Bank balances amount to EUR 36.3 million as of the reporting date (previous year EUR 59.0 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.

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. As of the reporting date, the Group had about EUR 50.5 million in unsecured credit lines at its disposal for the operating business. The Group also keeps a constant eye on the financial markets for financing opportunities in order to secure the financial flexibility of the Einhell Group and limit excessive refinancing risks.

8.2.6 Liability risks

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

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

8.2.7 IT risks

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

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

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

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

8.2.8 Legal risks

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

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

In conclusion, there are no risks that endanger the future of the company as a going concern in our assessment.

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

The Einhell Group does not expect any major changes in risks in 2015. Some risks were adjusted compared with the previous year according to current trends and expectations.

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

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

Effects on EBT:
□□□□■ < 1 million €
□□□■■ ≥ 1 million € < 2 million €
□□■■■ ≥ 2 million € < 3 million €
□■■■■ ≥ 3 million € < 4 million €
■■■■■ ≥ 4 million €

Incidence rate:
≥ 0 % < 10 % improbable
≥ 10 % < 70 % probable
≥ 70 % very probable

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

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

Possible effects concerning:	effects on EBT – 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	

Effects on EBT:
□□□□■ < 1 million €
□□□■■ ≥ 1 million € < 2 million €
□□■■■ ≥ 2 million € < 3 million €
□■■■■ ≥ 3 million € < 4 million €
■■■■■ ≥ 4 million €

Incidence rate:
≥ 0 % < 10 % improbable
≥ 10 % < 70 % probable
≥ 70 % very probable

The sales market risk in the D/A/CH region proved to have been assessed correctly. The Einhell Group fell significantly short of its revenue and profit expectations in the region. This was mainly due to the fact that the Group was unable to offset revenue losses caused by the insolvency of two customers.

9. Forecast

9.1 Global economic development

Following an increase in global economic growth of 2.6% in 2014, the **global economy** will grow 3.0% in 2015 according to World Bank projections. Falling raw material prices, low interest rates and a weak world trade will have a positive impact on global economic growth in the current year. World Bank forecasts 4.8% growth for the developing countries.

Gross domestic product forecast:

in %	2015
Brazil	0.5
Australia	2.7
China	7.0

Despite slight global economic growth, global unemployment will continue to increase in the coming years. The International Labour Office (ILO) expects unemployment figures to rise by three million people in 2015.

9.2 Developments in Europe

The economy in the **eurozone** experienced slightly positive growth in 2014. According to the forecasts, the economy in the euro countries will grow more strongly than previously expected in the current year. The EU Commission expects economic growth of 1.3% in the 19 euro states in 2015. The more optimistic forecast is apparently due to the decrease in oil prices and the weakness of the euro.

This trend will also have a positive effect on the labour markets. The unemployment rate is expected to fall slightly to 11.2%.

Forecasts by the International Monetary Fund (IMF) state that the inflation rate in the eurozone is still falling. The European Union expects the eurozone to slide into deflation in the current year. The EU Commission expects consumer prices to fall by 0.1% in the eurozone.

9.3 Developments in Germany

The **German** economy saw moderate growth of 1.5% in financial year 2014. The federal government expects the gross domestic product to stay at 1.5% in 2015.

The forecast improved because of the lower oil prices, benefiting both consumers and the corporate sector, as well as the weaker euro, driving export and investment activities due to lower interest rates. Consumer spending and exports are expected to grow even more rapidly than in the previous year.

The forecast for the labour market is rather restrained, despite the improvement in economic outlook. While employment figures will continue to grow in 2015, growth will be slower than in the previous year. Moreover, the past has frequently shown that an increase in employment levels does not necessarily reflect positively in the unemployment figures.

9.4 Expected growth in the markets relevant to the Einhell Group

Forecasts for developments in 2015 are still fraught with high uncertainty as the trends on the global markets remain extremely fragile and hard to foresee in many respects. This applies to both economic changes and political developments. Political upheaval like in Russia or Ukraine, for example, leads to unpredictable and mostly negative impacts on the global economy. Moreover, the extremely fast speed of today’s information technology has 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.

Assuming a stable economic market environment, the Einhell Group anticipates revenue of about EUR 420 million in financial year 2015. This figure includes revenue contributions of about EUR 32 million from kwb tools acquired in financial year 2012 and about EUR 79 million from Ozito Industries Pty Ltd acquired in financial year 2013. With regard to profit before taxes, the Einhell Group expects a pre-tax margin of around 2.0% to 2.5% (EUR 8.4 million to EUR 10.5 million), which would represent another improvement in earnings quality. This, however, requires that the international economic environment does not deteriorate further and that the planned measures to increase revenue and improve the cost structure in some of the subsidiaries can be implemented as scheduled and thus achieve the desired success.

For the **Tools segment**, the Einhell Group expects total revenue of about EUR 258 million. Revenue of kwb Germany GmbH and KWB-RUS OOO is included in the Tools segment, as both are suppliers of power tools accessories.

For the **Garden segment**, the Einhell Group expects total revenue of about EUR 162 million.

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 consistent approaches as well as investment in required resources.

The employees are in the front line of implementing our goals. Einhell will expand its pool of specially qualified staff over the next few years and invest 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 in full swing and is pushed forward consistently across all segments.

Entry into the South American market has already taken place. Business activities in the important strategic region of South America are to be further expanded despite enormous economic challenges. Distribution companies have already been established in recent years in Chile, Brazil, Argentina and, most recently, Columbia. The Columbian subsidiary commenced operations in financial year 2013 and performed according to plan in financial year 2014. 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 subsidiaries poses great challenges for the Einhell Group, requiring both high financial and human resources. Nevertheless, in contrast to Europe, this region is generally a growing DIY market, which is why the Group believes investments in the development and expansion of this region are justified from today's perspective, as the company intends to establish a global market position and reduce dependence on Europe.

In Australia, the Einhell Group was able to establish itself in an extremely strong market position by acquiring Ozito Industries Pty Ltd. 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.

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 Germany 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 foreign subsidiary to offer our customers appropriate and high-quality complementary products as addition to our product portfolio. kwb will also be able to use a global sales structure that already has direct market access to the relevant areas. Investments in the establishment of this structure are therefore not required. The Einhell Group therefore believes that the roll-out of kwb's international distribution activities offers an excellent opportunity to further increase kwb's revenue and enhance its international footprint.

The sales markets are experiencing a significant transformation. Stationary retail is increasingly losing market shares to online trading. The Einhell Group is also recording revenue growth in the e-commerce segment. Business with leading providers in particular has already been successful for the Einhell Group. Leading online traders position Einhell as premium supplier, which underlines the quality as well as the attractiveness of its product portfolio. Based on the positive experience made here so far, the Einhell Group intends to establish a strategic positioning in this market. The Group continues its efforts and investments in the further expansion of this area, in terms of both human resources and product range.

9.6 Summary on expected developments

Outlook for financial year 2015

For the internationally oriented Einhell Group the financial year 2015 continues to show an uneven economic situation in the markets in which it operates.

The general sentiment on the German market for product groups relevant to the Einhell Group is currently positive. This pertains to stationary retail as well as online trading. Great uncertainty prevails, however, with regard to the assessment of the second half of 2015. The strong increase in USD and CNY will lead to a general increase in prices. The effects on the distribution of products in the retail sector are not yet foreseeable.

The challenge for Einhell is now to adequately participate in the positive trends experienced by some major DIY store chains that in turn benefit from the Praktiker/Max Bahr insolvency. Einhell also wants to improve its positioning in the growing online market in order to boost its revenue in the segment.

After having slumped significantly due to the sovereign debt crises in the individual countries, the markets in southern Europe are now starting to show signs of a slight recovery.

Despite a continuing difficult economic environment, Eastern Europe is also showing first positive signs of a recovery in consumer spending.

The markets in South America, on the other hand, can be generally referred to as growing. Here the Einhell Group has gained a strategic positioning in recent years with new subsidiaries and has already generated impressive revenue, which 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 in the last 2-3 years, whilst revenues in South America are not yet generating profits as these subsidiaries still have start-up costs to write off or are facing difficult structural challenges such as in Brazil. This situation will continue in financial year 2015.

The Einhell Group expects that the revenue performance in Einhell's core business will be challenging again. Nevertheless, positive trends in some markets in combination with stepping up sales efforts and launching highly attractive new products such as the Power X-Change are likely to provide for revenue growth in 2015.

Taking these circumstances into account and including the revenue of kwb and Ozito Industries Pty Ltd, the Group expects to slightly increase revenue to about EUR 420 million.

With regard to profitability, the Einhell Group forecasts a pre-tax margin in the range of 2.0%-2.5%. This would be a margin level above those reached in the previous year, driven mainly by revenue growth and the successful turnaround or improvement of the loss-making situation at individual subsidiaries.

The Einhell Group expects the following revenue and profit performance for the two segments in 2015:

in EUR million	2015	
	Revenue	**Margin**
Tools	258	2% - 2.5%
Garden & Leisure	162	2% - 2.5%
	420	2% - 2.5%

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

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

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

Einhell proceeds as follows in order to control planning and forecast uncertainties during planning of budgetary figures. First, Einhell plans revenue. These plans are drawn up for each Group company at segment level (Tools and Garden & Leisure), and also in detail by product group. Revenues are also budgeted at customer group level and checked against article groups for plausibility. In the same way gross profit margins for each Group company are forecast at segment level, article group level and customer group level.

Detailed costs are derived from revenue plans on the basis of type of cost and cost centre or reporting entity. Costs are checked for plausibility on the basis of the prior-year figures and checked for adequacy on the basis of relation to net revenues. Specific assumptions are made with respect to changes in costs, such as increases in salaries or changes in freight costs.

General uncertainties related to market developments, price trends for important commodities or the development of other important cost categories are estimated and budgeted according to the principles of commercial prudence.

Landau a. d. Isar, 26 March 2015

Einhell Germany AG
The Board of Directors

Andreas Kroiss   Jan Teichert   Dr Markus Thannhuber

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

AUDITOR’S REPORT

We have audited the consolidated financial statements prepared by the Einhell Germany AG, Landau a. d. Isar, comprising consolidated balance sheet, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, Notes to the Consolidated Financial Statements and Group Management Report, together with the group management report for the business year from 1 January 2014 to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Munich, 26 March 2015

KPMG AG
Audit firm

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