

FINANCIAL REPORT 2017



Einhell Germany AG, Landau a. d. Isar

Consolidated statement of financial position as of 31 December 2017

A s s e t s	Notes	31.12.2017	31.12.2016
		EURk	EURk
Intangible assets	(2.2)	17.861	19.752
Property, plant and equipment	(2.3)	22.104	19.884
Non-current financial assets	(2.4)	713	388
Deferred tax assets	(2.5)	8.498	6.688
Other non-current assets	(2.9)	517	424
Non-current assets		49.693	47.136
Inventories	(2.6)	180.138	127.738
Trade receivables	(2.7)	82.303	67.857
Other financial assets	(2.8)	4.623	3.314
Other current assets	(2.9)	21.607	20.532
Cash and cash equivalents		14.400	54.704
Assets held for sale		0	1.982
Current assets		303.071	276.127
Total assets		352.764	323.263

E q u i t y a n d l i a b i l i t i e s	Notes	31.12.2017	31.12.2016
		EURk	EURk
Subscribed capital	(2.10)	9.662	9.662
Capital reserve	(2.10)	26.677	26.677
Retained earnings	(2.10)	151.918	132.905
Other reserves	(2.11)	-8.726	-7.048
Equity of shareholders of Einhell Germany AG		179.531	162.196
Non-controlling interest	(2.12)	2.041	1.882
Equity		181.572	164.078
Provisions for pensions	(2.13)	3.116	3.214
Provisions for other risks	(2.14)	894	837
Liabilities from debt capital	(2.15)	0	30.000
Deferred tax liabilities	(2.5)	3.138	3.051
Other non-current liabilities	(2.17)	0	715
Non-current liabilities		7.148	37.817
Trade payables		85.439	70.344
Provisions for income taxes		6.074	2.938
Provisions for other risks	(2.14)	21.794	14.938
Liabilities from debt capital	(2.15)	22.427	3.158
Other financial liabilities	(2.16)	1.102	2.382
Other current liabilities	(2.17)	27.208	27.250
Liabilities in connection with assets held for sale		0	358
Current liabilities		164.044	121.368
Total equity and liabilities		352.764	323.263

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of income (IFRS) for the period from 1 January to 31 December 2017

	Notes	2017 EURk	2016 EURk
Revenue	(3.1)	553.352	487.211
Other operating income	(3.2)	7.828	6.193
Cost of materials	(3.3)	-361.931	-330.127
Personnel expenses	(3.4)	-72.357	-63.246
Depreciation	(3.5)	-5.244	-6.466
Other operating expenses	(3.6)	-83.136	-73.052
Financial result	(3.7)	-2.788	-3.531
Profit before income taxes		35.724	16.982
Income taxes	(3.8)	-14.165	-7.334
Consolidated net profit		21.559	9.648
Thereof share of minority shareholders in consolidated net profit/loss		314	306
Thereof share of shareholders of Einhell Germany AG in consolidated net profit/loss		21.245	9.342

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2017

	2017	2016
	EURk	EURk
Consolidated net profit	21.559	9.648
Items of other comprehensive income that were or can be reclassified to profit or loss		
Unrealised losses (previous year: losses) from currency translation	-3.277	-1.422
Unrealised gains (previous year: gains) from available-for-sale financial assets	1	2
Unrealised gains (previous year: gains) from derivative financial instruments	1.617	1.008
	-1.659	-412
Items of other comprehensive income that will not be reclassified to profit or loss in future periods		
IAS 19 revised - Employee Benefits	26	-302
Other comprehensive income, after taxes	-1.633	-714
Thereof share of other comprehensive income attributable to minority interests, after taxes	45	-26
Thereof share of other comprehensive income attributable to shareholders of Einhell Germany AG, after taxes	-1.678	-688
Consolidated comprehensive income	19.926	8.934
Thereof share of consolidated comprehensive income attributable to non-controlling interest	359	280
Thereof share of consolidated comprehensive income attributable to shareholders of Einhell Germany AG	19.567	8.654

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity for financial year 2017

				Other reserves				Equity of shareholders of Einhell Germany AG		
	Subscribed capital	Capital reserve	Retained earnings	Adjustment from currency translation	Financial assets available for sale	Remeasurement reserve pursuant to IAS 19	Derivative financial instruments	Share of non-controlling interest	Total equity	
	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	
1 January 2016	9.662	26.677	128.484	-4.894	30	-804	-2.876	156.279	1.655	157.934
Consolidated net profit	-	-	9.342	-	-	-	-	9.342	306	9.648
Unrealised gains/losses	-	-	-	-1.396	2	-493	1.295	-592	-26	-618
Deferred taxes on unrealised gains/losses	-	-	-	-	-	191	-287	-96	-	-96
Comprehensive income	-	-	9.342	-1.396	2	-302	1.008	8.654	280	8.934
Dividends	-	-	-2.139	-	-	-	-	-2.139	-100	-2.239
Other changes	-	-	-2.782	-	-	-	2.184	-598	47	-551
31 December 2016	9.662	26.677	132.905	-6.290	32	-1.106	316	162.196	1.882	164.078
Consolidated net profit	-	-	21.245	-	-	-	-	21.245	314	21.559
Unrealised gains/losses	-	-	-	-3.322	1	39	2.001	-1.281	45	-1.236
Deferred taxes on unrealised gains/losses	-	-	-	-	-	-13	-384	-397	-	-397
Comprehensive income	-	-	21.245	-3.322	1	26	1.617	19.567	359	19.926
Dividends	-	-	-2.894	-	-	-	-	-2.894	-200	-3.094
Other changes	-	-	662	-	-	-	-	662	-	662
31 December 2017	9.662	26.677	151.918	-9.612	33	-1.080	1.933	179.531	2.041	181.572

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for financial year 2017

	2017	2016
	EURk	EURk
Cash flows from/used in operating activities		
Profit before taxes	35.724	16.982
+ Depreciation and amortisation of intangible assets and property, plant and equipment	5.244	6.466
- Interest income	-199	-120
+ Interest expenses	2.208	2.115
+/- Other non-cash expenses and income	3.214	-88
Operating profit before changes in net working capital	46.191	25.355
+/- Decrease/increase in trade receivables	-16.885	-5.850
+/- Decrease/increase in inventories	-56.380	9.665
+/- Decrease/increase in other assets	-3.467	2.450
+/- Decrease/increase in assets held for sale	1.982	-1.982
+/- Increase/decrease in non-current liabilities	-746	-3.143
+/- Increase/decrease in current liabilities	14.734	14.558
+/- Increase/decrease in trade payables	18.727	9.177
+/- Increase/decrease in liabilities in connection with assets held for sale	-358	358
Cash flows generated from operating activities	3.798	50.588
- Taxes paid	-11.921	-7.031
+ Interest received	211	106
- Interest paid	-1.276	-1.745
Net cash from/used in operating activities	-9.188	41.918
Cash flows from/used in investing activities		
- Payments to acquire assets	-6.352	-5.036
- Payments for acquisition of consolidated companies	-8.060	-4.282
+ Proceeds from disposal of assets	191	228
- Payments associated with disposal of consolidated companies	-695	0
+/- Increase/decrease in goodwill	0	-315
Net cash used in investing activities	-14.916	-9.405
Cash flows from/used in financing activities		
+ Proceeds from taking out loans	22.744	1.010
- Payments for repayment of loans	-33.158	0
- Dividend payments to shareholders of Einhell Germany AG	-2.894	-2.139
- Dividend payments to non-controlling interests	-200	-100
Net cash used in financing activities	-13.508	-1.229
Changes to cash and cash equivalents due to currency exchange	-2.692	-886
Net decrease/increase in cash and cash equivalents	-40.304	30.398
Cash and cash equivalents at beginning of reporting period	54.704	24.306
Cash and cash equivalents at end of reporting period	14.400	54.704

Additional details are shown in the Notes in item 6.

Einhell Germany AG, Landau a. d. Isar

Notes to the Consolidated Financial Statements for Financial Year 2017

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 315e of the German Commercial Code (HGB) (consolidated financial statements in accordance with international accounting standards). It is also consistent with International Financial Reporting Standards (IFRS) and their interpretations, as applicable in the European Union.

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

The Board of Directors approved the consolidated financial statements on 29 March 2018 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 statement are in accordance with the IFRSs applicable as of 31 December 2017 in the EU. The Group has applied the following standards and amendments to standards to be adopted for the first time from 1 January 2017.

- Amendments to IAS 7 “Disclosure Initiative”; effective for annual periods beginning on or after 1 January 2017.
- Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealised Losses”; effective for annual periods beginning on or after 1 January 2017.
- Improvements to IFRS 2014-2016 “Amendments to IFRS 12”; effective for annual periods beginning on or after 1 January 2017.

All standards that had to be adopted for the first time in 2017 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 2017 and which have not been applied prematurely by the Einhell Group. The Einhell Group does not currently plan a premature adoption of standards, interpretations and amendments.

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

- IFRS 14 “Regulatory Deferral Accounts”; adoption date to be determined. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- IFRS 17 “Insurance Contracts”; effective for annual periods beginning on or after 1 January 2021. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”; effective for annual periods beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 9 “Prepayment Features with Negative Compensation”; effective for annual periods beginning on or after 1 January 2019. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”; adoption date to be determined. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”; effective for annual periods beginning on or after 1 January 2019. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Amendments to IAS 40 “Transfers of Investment Property”; effective for annual period beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”; effective for annual periods beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- IFRIC 23 “Uncertainty over Income Tax Treatments”; effective for annual periods beginning on or after 1 January 2019. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.
- Improvements to IFRS 2015-2017 “Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23”; effective for annual periods beginning on or after 1 January 2019. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.

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

- IFRS 16 “Leases”; effective for annual periods beginning on or after 1 January 2019. According to this standard, all leases are recognised as a liability for the payment obligation on the liabilities side and, at the same time, as a right of use for the leased asset on the assets side of the balance sheet. The asset will be depreciated on a straight-line basis, while the liability is reduced during its term through repayment and interest accruals. The Einhell Group has started analysing the potential effects of applying IFRS 16 on its consolidated financial statements. We assume that liabilities from debt capital and intangible assets will increase. So far, the Group has not decided which transition method to use.
- Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”; effective for annual periods beginning on or after 1 January 2018. The application of the amendments is expected to entail adjustments to the disclosures in the notes.
- Amendments to IFRS 15 “Clarifications to IFRS 15”; effective for annual periods beginning on or after 1 January 2018. The application of the amendments is expected to entail adjustments to the disclosures in the notes.
- Improvements to IFRS 2014-2016 “Amendments to IFRS 1 and IAS 28”; effective for annual periods beginning on or after 1 January 2018. We do not expect any effects on net assets, financial position and results of operations as presented in the consolidated financial statements.

The effects of the following standards on the consolidated financial statements of the Einhell Group have been analysed.

- IFRS 9 “Financial Instruments”; effective for annual periods beginning on or after 1 January 2018. The endorsement in EU law has already been completed in compliance with the standard EU process. The standard IFRS 9 issued in July 2014 replaces the existing guidelines in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 contains revised guidance on the classification and measurement of financial instruments, including a new model for expected defaults to calculate the impairment of financial assets, as well as new general hedge accounting provisions. It also replaces the guidelines for recognising and derecognising financial assets previously governed by IAS 39. We expect that IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets. The Einhell Group has analysed the effects of the transition. The classification and measurement rules of IFRS 9 will not lead to any significant changes in accounting. Impairments of financial assets will be accounted for in accordance with the expected loss model, while the simplified approach will be used for trade receivables. As the Einhell Group has had low bad debt rates in the past and serves customers with good creditworthiness, IFRS 9 will not lead to any significant changes in this respect either. The Group does not expect higher bad debt losses in the next years and counters the risk by taking out credit insurance and conducting efficient creditworthiness checks. The Einhell Group exercised its option right and decides to do hedge accounting in accordance with the old IAS 39 standard. The resulting transition effects from the expected loss model lead to an effect of about EUR 0.2 million in equity. The new standard will lead to more extensive disclosures in the notes to the financial statements.

- IFRS 15 “Revenue from Contracts with Customers”; effective for annual periods beginning on or after 1 January 2018. The endorsement in EU law has already been completed in compliance with the standard EU process. IFRS 15 “Revenue from Contracts with Customers” contains a comprehensive framework on when to recognise revenue in what amount. It replaces the existing guidelines on recognising revenue, including those in IAS 18 “Revenue”, IAS 11 “Construction Contracts” and IFRIC 13 “Customer Loyalty Programmes”. The Group is obliged to apply IFRS 15 from 1 January 2018 and has nearly completed its implementation programme for recognising revenue from contracts with customers. All significant contracts with customers of the Einhell Group were reviewed. The largest effects for the Einhell Group arise in the fields of potential refunds for product returns and out purchases from competitive articles. The changes are not expected to have any noteworthy impact on the earnings situation; they will merely result in minor reclassifications in individual items of the statement of financial position and the statement of income. The change in revenue resulting from the circumstances described above will amount to a maximum decline of EUR 0.5 million in recognised revenue in 2018. The Group has decided to use the modified retrospective method for the transition to IFRS 15. The new standard will lead to more extensive disclosures in the notes to the financial statements.

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 income statement is drawn up using the total cost method.

For clarity and comprehensibility of the consolidated financial statements, individual line 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 cut-off date for the companies included in the consolidated financial statements is 31 December. The 31 December is the reporting date of the parent company.

Capital consolidation is made using the purchase method by offsetting investment book values with the pro rata newly valued equity of the subsidiary at the time of acquisition (IFRS 3). Remaining asset-side balances are recognised as goodwill.

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

1.4 Basis of consolidation

The companies included in the consolidation are Einhell Germany AG and a further 39 (previous year: 40) fully consolidated companies.

Einhell Germany AG, Landau, prepares the consolidated financial statements for the smallest and for the largest group of companies. The financial statements are published in the Bundesanzeiger (German Federal Gazette).

In the 2017 financial year, the Einhell Group sold its subsidiary Einhell Brasil Com. Distr. Ltda.

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. They are therefore regarded as economically independent foreign entities. Their reporting currency is their relevant local currency.

In the individual financial statements of the companies in the Einhell Group, all foreign currency transactions are converted from the local currency into the reporting currency at the rate of exchange applicable at the time of the transaction. Monetary foreign currency holdings as at the reporting date are valued at reporting date at the relevant period-end exchange rate. Conversion differences from monetary transactions or the valuation of monetary line 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 designated as difference for currency conversion (part of other reserves).

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

		Reporting date rate		Average rate	
		31.12.2017	31.12.2016	2017	2016
Australia	AUD	1.5378	1.4617	1.4729	1.4886
China	CNY	7.8216	7.3443	7.6264	7.3496
Hong Kong	HKD	9.3867	8.1945	8.8012	8.5900
Poland	PLN	4.1786	4.4180	4.2563	4.3636
Switzerland	CHF	1.1705	1.0754	1.1116	1.0902
Turkey	TRY	4.5493	3.7288	4.1214	3.3428
USA	USD	1.2010	1.0568	1.1293	1.1066

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 financial years 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. Usually, the depreciation period does not amount to more than three years. The realisable amount of development costs is estimated if there are indications of impairment of the asset or indications that previous impairment losses recognised in previous financial years no longer exist.

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

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

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

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

The Einhell Group as lessee uses property, plant and equipment almost solely on the basis of operating lease agreements. Lease payments under these operating leases are taken into account on a straight-line basis over the term of the lease. For further details about lease obligations, see section 8.1.

Inventories comprise raw materials and supplies, goods and advance payments. 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 listed on an active market, such as trade receivables. After the first-time recognition, loans and receivables are valued at amortised cost using the effective interest method less impairment. Gains and losses are included in consolidated net profit when the loans and receivables are derecognised or impaired. Interest effects from the application of the effective interest method are also recognised in profit or loss.

Financial assets available for sale. Financial assets available for sale are non-derivative financial assets available for sale and not allocated to one of the above categories. This category includes shares in a money market fund. Following initial recognition, financial assets available for sale are valued at fair value, whereby non-realised gains or losses are recognised in other comprehensive income. Where there are objective indications of a value impairment, or if there are changes to the fair value of a loan instrument due to exchange rate fluctuations, they are taken into account in the consolidated net profit or loss.

Upon disposal of financial assets, cumulated gains or losses from the valuation at fair value that were recognised in other comprehensive income are recognised through profit or loss. Interest received from financial assets available for sale is usually taken into account through profit or loss as interest income derived from the application of the effective interest method.

Cash and cash equivalents. Cash and cash equivalents includes in particular cash in banks, checks and bank deposits with an original maturity of up to three months. Cash and cash equivalents corresponds with the respective figure in the consolidated statement of cash flows.

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

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

Assets held for sale. Non-current assets or disposal groups comprising assets and liabilities are classified as “held for sale” if it is most likely that they will be largely realised through disposal and not through continued use. In general, these assets or disposal groups are recognised at the lower of carrying amount and fair value less costs of disposal. A potential impairment loss is recognised in profit or loss when the asset is first classified as held for sale.

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

The percentage of equity allocated to **non-controlling interests** (minority shareholders) is recognised under equity in the statement of financial position. The allocable consolidated net profit and allocable other comprehensive income is recognised separately in the income statement or in the statement of comprehensive income. Non-controlling 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 2.16% (previous year: 2.03%) was used, along with 1.46% (previous year: 1.38%) for pensioners. As in the previous year, the rate for pension progression for commitments with adjustment guarantee was 3.00%. No rate of compensation increase was available for non-salary based obligations and for commitments without adjustment guarantee.

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

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

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

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

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

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

Financial liabilities measured at fair value through profit or loss. Financial liabilities valued at fair value through profit or loss comprise derivatives that are not used as a hedging instrument in hedge accounting (financial liabilities held for 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 tradeable derivatives corresponds to the positive or negative market value. If there is no market value available, they are calculated on the basis of generally accepted actuarial methods, such as discounted cash flow models or option pricing models. Derivatives are recognised as assets if their fair value is positive and as a liability if the fair value is negative. Derivative instruments are recorded in the Treasury system on the day of trading.

The fair value of currency futures is determined on the basis of the exchange rates applicable on the currency futures market at reporting date. For interest swaps, it is determined as the present value of estimated future cash flows. For all the above instruments, the Einhell Group's fair values are validated by financial institutions that have provided the Group with the relevant contracts.

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

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

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

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

Income taxes. Current income taxes are calculated on the basis of the relevant national taxable result for the year and national tax regulations.

They also include current taxes for the year and any adjustments for tax payments or credits for other years that have not yet been assessed. 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 7 Risk report and financial instruments

Impairment of cash generating units. Estimates are made as part of impairment tests for non-financial assets in order to determine the realisable amount of a cash-generating unit. The main assumptions refer to future cash inflows and outflows for the planning period and for subsequent periods.

The estimations refer mainly to future market shares and growth in the respective markets. Impairment tests were conducted for all companies with goodwill in 2017. The realisable values of all companies that were tested significantly exceed net asset values of the Group's cash generating units. No other impairment tests were conducted in addition to the aforementioned tests, as there was no specific need.

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. On every reporting date, the Einhell Group evaluates the recoverability of deferred tax assets on the basis of planned taxable income in financial years to come. If it is unlikely that taxable income will be available against which the deductible temporary difference can in fact be offset, the value of the deferred tax assets is adjusted accordingly.

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

2. Notes to consolidated statement of financial position

2.1 Changes in non-current assets

Changes in non-current assets (not including other non-current assets and deferred tax assets) are shown in the following table.

Einhell Germany AG, Landau a. d. Isar

Statement of non-current assets in the financial year 2017

	Acquisition and manufacturing cost							Cumulated depreciation					Carrying amounts			
	1.1.2017	Additions	Changes in companies included in the consolidation	Re-classifications	Disposals	Currency differences	31.12.2017	1.1.2017	Depreciation in financial year	Changes in companies included in the consolidation	Disposals	Currency differences	31.12.2017	31.12.2017	31.12.2016	
	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	
I. Intangible assets																
1. Acquired intangible assets	21.489	359	-146	-11	-38	-159	21.494	14.732	2.034	-146	-	-124	16.496	4.998	6.757	
2. Self-developed intangible assets	5.400	371	-	11	-	-	5.782	5.169	87	-	-	-	5.256	526	231	
3. Acquired goodwill	15.185	-	-	-	-	-438	14.747	2.421	-	-	-	-11	2.410	12.337	12.764	
	42.074	730	-146	-	-38	-597	42.023	22.322	2.121	-146	-	-135	24.162	17.861	19.752	
II. Property, plant and equipment																
1. Land and buildings in company assets	29.903	2.029	-	976	-	-35	32.873	18.931	589	-	-	-55	19.465	13.408	10.972	
2. Technical equipment and machinery	5.566	799	-	218	-14	-80	6.489	2.973	330	-	-11	-68	3.224	3.265	2.593	
3. Other equipment, operating and office equipment	24.369	2.587	-153	-89	-546	-483	25.685	19.162	2.204	-153	-370	-388	20.455	5.230	5.207	
4. Assets under construction	1.112	201	-	-1.105	-7	-	201	-	-	-	-	-	-	201	1.112	
	60.950	5.616	-153	-	-567	-598	65.248	41.066	3.123	-153	-381	-511	43.144	22.104	19.884	
III. Financial assets (securities)	391	325	-	-	-	-	716	3	-	-	-	-	3	713	388	
	103.415	6.671	-299	-	-605	-1.195	107.987	63.391	5.244	-299	-381	-646	67.309	40.678	40.024	

Statement of non-current assets in the financial year 2016

	Acquisition and manufacturing cost							Cumulated depreciation					Carrying amounts			
	1.1.2016	Additions	Changes in companies included in the consolidation	Re-classifications	Disposals	Currency differences	31.12.2016	1.1.2016	Depreciation in financial year	Changes in companies included in the consolidation	Disposals	Currency differences	31.12.2016	31.12.2016	31.12.2015	
	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	
I. Intangible assets																
1. Acquired intangible assets	21.187	544	-	-	-243	1	21.489	12.484	2.267	-	-	-19	14.732	6.757	8.703	
2. Self-developed intangible assets	5.400	-	-	-	-	-	5.400	5.094	75	-	-	-	5.169	231	306	
3. Acquired goodwill	15.254	-	-	-	-	-69	15.185	2.107	315	-	-	-1	2.421	12.764	13.147	
	41.841	544	-	-	-243	-68	42.074	19.685	2.657	-68	-	-20	22.322	19.752	22.156	
II. Property, plant and equipment																
1. Land and buildings in company assets	29.193	830	-	-	-	-120	29.903	18.548	440	-	-	-57	18.931	10.972	10.645	
2. Technical equipment and machinery	5.407	203	-	-	-	-44	5.566	2.786	228	-	-	-41	2.973	2.593	2.621	
3. Other equipment, operating and office equipment	22.730	2.345	-	20	-583	-143	24.369	16.473	3.141	-	-334	-118	19.162	5.207	6.257	
4. Assets under construction	27	1.106	-	-20	-	-1	1.112	-	-	-	-	-	-	1.112	27	
	57.357	4.484	-	-	-583	-308	60.950	37.807	3.809	-	-334	-216	41.066	19.884	19.550	
III. Financial assets (securities)	383	8	-	-	-	-	391	3	-	-	-	-	3	388	380	
	99.581	5.036	-	-	-826	-376	103.415	57.495	6.466	-	-334	-236	63.391	40.024	42.086	

2.2 Intangible assets

EURk	2017	2016
Acquired intangible assets (without goodwill)	4,998	6,757
Self-developed intangible assets	526	231
Acquired goodwill	12,337	12,764
	17,861	19,752

Acquired intangible assets include the customer base and the acquired Ozito brand value (EUR 3.3 million) from the acquisition of Ozito Industries Pty Ltd. The customer portfolio is systematically depreciated over five years.

Self-developed intangible assets mainly comprise expenses arising from the development of new products that are amortised over the expected life cycle of the product. In 2017, costs amounting to EUR 371 thousand (previous year: EUR 0 thousand) were capitalised for self-developed software that is to support the optimisation of service procedures within the Einhell Group. In financial year 2017, expenses for product processing amounted to EUR 6.9 million (previous year: EUR 6.1 million). As in the previous year, none of these costs were capitalised as development expenses in 2017. A total of 49 employees (previous year: 49 employees) were employed in this business unit.

Goodwill pertains to the following companies:

	2017	2016
	EURk	EURk
Ozito Industries Pty Ltd, Melbourne/Australia	5,520	5,808
Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	1,174	1,432
Einhell Export-Import GmbH, Tillmitsch/Austria	2,207	2,175
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	2,300	2,174
Einhell Romania SRL, Bucharest/Romania	912	936
KWB-RUS OOO, St. Petersburg/Russia	224	239
	12,337	12,764

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

The cash flow forecasts contain specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined on the basis of the Board of Directors' estimates for the average annual EBIT growth rate. The estimate is in line with the assumptions that a market participant would make.

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

Sensitivity analyses have shown that, despite potential changes in the underlying assumptions, the recoverable amounts exceed the relevant carrying amounts.

The recoverability of goodwill is verified in the scope of an annual impairment test. Any value adjustments on goodwill have no effect on tax. An impairment is recognised if the realisable amount falls below the carrying amount of the cash generating unit. 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:

	2017	2016
	%	%
Terminal growth rate	1.25	1.25
Base rate	0.90	1.00
Market risk premium	6.60	7.00

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

	2017	2016
	%	%
Ozito Industries Pty Ltd, Melbourne/Australia	8.95	10.26
Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	11.93	12.79
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	8.89	9.65

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

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

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 2017. 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

	2017	2016
	EURk	EURk
Land and buildings in company assets	13,408	10,972
Technical equipment and machinery	3,265	2,593
Other equipment, operating and office equipment	5,230	5,207
Advance payments and assets under construction	201	1,112
	22,104	19,884

2.4 Financial assets

There is no change to shares in a money market fund to hedge against pensions, holiday and flexible time entitlements that are recognised at fair value. Income from the fund amounts to EUR 1 thousand (previous year: EUR 2 thousand). The expected yield on securities is 0% to 1% p.a.

In addition, the Einhell Group bought 10% in Zhejiang Neo Energy Technology Co., Ltd. The purchase price for the 10 % share amounts to EUR 319 thousand and was not yet paid in financial year 2017. The purchase price debt was recognised on the liabilities side of the balance sheet.

2.5 Deferred taxes

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

EURk	Deferred tax as-sets		Deferred tax lia-bilities		Net amount	
	2017	2016	2017	2016	2017	2016
Self-developed intangible assets and property, plant and equipment	7	9	1,591	1,998	-1,584	-1,989
Current assets	3,486	2,327	215	115	3,271	2,212
Other financial assets (at their fair values)	272	340	1,091	773	-819	-433
Provisions for pensions	504	531	0	0	504	531
Provisions for other risks	2,666	2,053	50	64	2,616	1,989
Other liabilities	377	420	191	101	186	319
Tax losses carried forward	1,186	1,008	0	0	1,186	1,008
	8,498	6,688	3,138	3,051	5,360	3,637

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

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

- Capitalisation and amortisation of development costs.
- Increased tax depreciation on property, plant and equipment result in tax valuations falling under the carrying amounts.
- The valuation of trade receivables is different than in the tax base. This applies in particular to foreign group companies.
- Financial assets accounted for at fair value (available-for-sale assets and financial assets held for 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

	2017	2016
	EURk	EURk
Raw materials and supplies (at acquisition cost)	343	311
Finished goods (at acquisition cost less impairment)	178,125	127,071
Advance payments	1,670	356
	180,138	127,738

In 2017, EUR 311 thousand (previous year: EUR 323 thousand) in raw materials and supplies, consisting primarily of packaging materials, were recognised as expense.

All in all, Einhell recognised impairments in the amount of EUR 6,328 thousand (previous year: EUR 5,603 thousand). No goods were transferred by way of security at the reporting date, as in the previous year. In financial year 2017, inventory write-downs of EUR 4,868 thousand (previous year: EUR 2,943 thousand) were recognised in profit or loss in the statement of income.

2.7 Trade receivables

Trade receivables are shown after deduction of impairment for bad debts. In financial year 2017, these impairments amounted to EUR 478 thousand (previous year: EUR 1,898 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 1,081 thousand (previous year: EUR 809 thousand) in the reporting period. The maximum default risk corresponds to the carrying amount of the receivables. Of the total gross receivables, 89% (previous year: 86%) are not yet due on the reporting date.

Changes in impairments	2017	2016
	EURk	EURk
Amount at the beginning of the year	4,350	4,392
Impairments for bad debts	478	1,898
Unrecoverable amounts written off	-221	-875
Reversal of impairments for bad debts	-1,067	-702
Amounts received for receivables written off	-14	-107
Currency difference	-125	-256
Amount at the end of the year	3,401	4,350

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:

2017	Net receivables	Value adjustment	Gross receivables
	EURk	EURk	EURk
Receivables not due and due in 1-120 days	81,887	305	82,192
Receivables due in 121-360 days	416	335	751
Receivables due in more than 360 days	0	2,761	2,761
	82,303	3,401	85,704

2016	Net receivables	Value adjustment	Gross receivables
	EURk	EURk	EURk
Receivables not due and due in 1-120 days	67,539	366	67,905
Receivables due in 121-360 days	318	422	740
Receivables due in more than 360 days	0	3,562	3,562
	67,857	4,350	72,207

2.8 Other financial assets

	2017	2016
	EURk	EURk
Derivative financial instruments included in hedge accounting	3,396	3,044
Financial assets measured at fair value through profit or loss	1,227	270
	4,623	3,314

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

2.9 Other assets

	2017	2016
	EURk	EURk
Non-current		
Income tax claims	0	0
Other	517	424
	517	424

	2017	2016
	EURk	EURk
Current		
Income tax claims	706	1,734
Other	20,901	18,798
	21,607	20,532

The other assets item also includes VAT receivables amounting to EUR 13,254 thousand (previous year: EUR 12,731 thousand). Due to the large procurement volume at the end of the year, the largest VAT receivables have been recognised for our procurement company in China.

2.10 Equity

Subscribed capital

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

	2017	2017
	Number	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 4,403,616.00 for financial year 2017 (previous year: EUR 2,893,856.00). The distribution amount corresponds to a dividend of EUR 1.20 per preference share (previous year: EUR 0.80) and EUR 1.14 per ordinary share (previous year: EUR 0.74).

A minimum of EUR 0.15 per share must be paid out to the holders of preference shares and has preference over the dividend to ordinary shareholders.

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

Authorised capital I

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

Authorised capital II

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

Capital reserve

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

Retained earnings and consolidated net profit

This item includes the Group's accumulated net profit from previous years less dividend payments. The company's Annual General Meeting on 23 June 2017 resolved to pay out a dividend of EUR 2,893,856.00. Dividend payouts are based on the equity that is available pursuant to German commercial law provisions.

Capital management

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

2.11 Changes to other reserves

EURk	2017			2016		
	Before taxes	taxes	After taxes	Before taxes	taxes	After taxes
Unrealised gains/losses from currency translation	-3,322	0	-3,322	-1,396	0	-1,396
Unrealised gains/losses from available-for-sale financial assets	1	0	1	2	0	2
Unrealised gains/losses from derivative financial instruments	2,001	-384	1,617	1,295	-287	1,008
Unrealised gains/losses from IAS 19 revised - employee benefits	39	-13	26	-493	191	-302
Other comprehensive income	-1,281	-397	-1,678	-592	-96	-688

2.12 Non-controlling interest

EURk	2017	2016
	EURk	EURk
1 January	1,882	1,655
Capital contributions	0	0
Disposals	0	47
Dividends	-200	-100
Unrealised gains from currency translation (= share in other comprehensive income)	45	-26
Share in consolidated net profit	314	306
31 December	2,041	1,882

The total share of non-controlling interest in equity is insignificant at 1.1%.

2.13 Pension provisions

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

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

The defined benefit obligations (DBO) developed as follows in financial year 2017:

	2017	2016	2015	2014	2013
	EURk	EURk	EURk	EURk	EURk
1 January	5,681	5,129	3,235	2,573	2,624
Current service expense (personnel expenses)	138	120	249	44	45
Interest expense (personnel expenses)	69	85	75	75	70
Actuarial losses and gains from changes in financial assumptions	-58	448	-217	647	-68
Pension payments	-645	-147	-283	-104	-98
Payments from employees	39	32	40	0	0
Other changes	-78	0	1,827	0	0
Currency difference	-150	14	203	0	0
31 December	4,996	5,681	5,129	3,235	2,573

Plan assets developed as follows in financial year 2017:

	2017	2016	2015	2014	2013
	EURk	EURk	EURk	EURk	EURk
1 January	2,467	2,367	668	664	659
Interest income	2	88	41	4	5
Other changes	-466	0	1,493	0	0
Currency difference	-123	12	165	0	0
31 December	1,880	2,467	2,367	668	664

	2017	2016	2015	2014	2013
	EURk	EURk	EURk	EURk	EURk
Cash value of defined benefit obligations	4,996	5,681	5,129	3,235	2,573
Less fair value of plan assets	-1,880	-2,467	-2,367	-668	-664
Net obligations	3,116	3,214	2,762	2,567	1,909

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

The expected return on plan assets is between 0% and 1%.

Plan assets comprise

	2017	2016
	EURk	EURk
Pension funds	673	671
Qualified insurances	1,207	1,796
	1,880	2,467

Future payments

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

	Payments on plan assets
	EURk
2018	154
2019	159
2020	163
2021	167
2022	171
	814

Employer payments into plan assets will amount to around EUR 43 thousand in 2018.

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

Sensitivity analysis for benefit obligations

Sensitivity analyses are usually performed using the following parameters:

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

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

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

		EURk
Einhell Germany AG		
Actuarial interest rate +0.5%	2.66% future beneficiaries, 1.96% pensioners	3,138
Actuarial interest rate -0.5%	1.66% future beneficiaries, 0.96% pensioners	3,747
Life expectancy +1 year		3,587
iSC GmbH		
Actuarial interest rate +0.5%	2.66% future beneficiaries, 1.96% pensioners	49
Actuarial interest rate -0.5%	1.66% future beneficiaries, 0.96% pensioners	60
Life expectancy +1 year		57
Einhell Schweiz AG		
Actuarial interest rate +0.25		1,458
Actuarial interest rate -0.25		1,589
Life expectancy +1 year		1,555
Life expectancy -1 year		1,486

Risks

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

Demographic/biometric risks

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

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

2.14 Provisions for other risks

	Warranties	Other	Total
	EURk	EURk	EURk
1 January 2017	6,395	9,380	15,775
Claims	3,007	3,339	6,346
Reversals	101	1,639	1,740
Additions	4,444	11,161	15,605
Changes in the consolidated group	-21	-100	-121
Currency translation effects and other changes	-94	-391	-485
31 December 2017	7,616	15,072	22,688

	Warranties	Other	Total
	EURk	EURk	EURk
31 December 2017			
Non-current	0	894	894
Current	7,616	14,178	21,794
31 December 2016			
Non-current	0	837	837
Current	6,395	8,543	14,938

Other provisions mainly comprise provisions for personnel and customer bonuses.

Long-term provisions contain primarily provisions for severance payments of Hans Einhell Österreich GmbH (EUR 90 thousand), Einhell Italia (EUR 718 thousand) and Intratek Mühendislik (EUR 85 thousand). The last cash outflow is expected in 2039.

2.15 Liabilities from debt capital

	2017	2016
	EURk	EURk
Non-current		
Loans, secured	0	0
Loans, unsecured	0	30,000
	0	30,000

	2017	2016
	EURk	EURk
Current		
Loans and overdrafts, secured	339	714
Loans and overdrafts, unsecured	22,088	2,444
	22,427	3,158
Thereof non-current loans maturing in the short term	0	0
Thereof loans and overdrafts maturing in the short term	22,427	3,158

Collateral in the total amount of EUR 373 thousand consisting mainly of cheques was furnished to secure liabilities from debt capital.

In the financial year under review, the Group prematurely repaid formerly non-current liabilities to banks in the amount of EUR 30.0 million that would not have been due before 2018. The Einhell Group also has conventional lines of credit that were only partially utilised in financial year 2017. Cash and cash equivalents and also the equity provision stood at very good levels in the reporting year.

The financial planning for the next five years was updated in 2017. Based on the financial planning, we are currently working on several options with regard to taking out new long-term loans in order to finance the further growth of the group and secure the currently lower interest level. Based on our positive performances in 2016 and 2017, we expect to be granted new long-term loans at improved terms and conditions.

2.16 Other financial liabilities

	2017	2016
	EURk	EURk
Derivative financial instruments included in hedge accounting	578	1,859
Financial liabilities measured at fair value through profit or loss	524	523
	1,102	2,382

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

2.17 Other liabilities

	2017	2016
	EURk	EURk
Non-current	0	715
Current	27,208	27,250
	27,208	27,965

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.

3. Notes to the consolidated statement of income

3.1 Revenue

The geographic allocation of the below-stated revenue to regions is based on the registered office of the invoicing party. Business activities of the Einhell Group focus exclusively on the distribution of goods.

Regions	2017		2016		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	219,962	39.8	201,419	41.3	18,543	9.2
Western Europe	103,569	18.7	81,995	16.8	21,574	26.3
Eastern Europe	67,695	12.2	60,665	12.5	7,030	11.6
Overseas	135,408	24.5	115,911	23.8	19,497	16.8
Other	26,718	4.8	27,221	5.6	-503	-1.8
	553,352	100.0	487,211	100.0	66,141	13.6

3.2 Other operating income

	2017	2016
	EURk	EURk
Income from the reversal of warranty provisions	101	336
Commission income	1,057	403
Income from costs for inspection of goods charged to suppliers	432	316
Income from the receipt of receivables that had been written off and from the reversal of the allowance for doubtful receivables	1,081	809
Proceeds from disposal of fixed assets	97	188
Income from the reversal of other provisions	1,639	1,672
Income from letting and leasing	247	313
Income from damage compensation	926	108
Income from PV plant	485	488
Other income	1,763	1,560
	7,828	6,193

3.3 Cost of materials

	2017	2016
	EURk	EURk
Expenses for raw materials and supplies and purchased goods	361,905	330,092
Expenses for purchased services	26	35
	361,931	330,127

3.4 Personnel expenses

	2017	2016
	EURk	EURk
Wages and salaries	62,138	53,483
Social security contributions	10,036	9,632
Expenses for old-age pensions	183	131
	72,357	63,246

Number of employees (annual average)	2017	2016
	Number	Number
D/A/CH region	587	562
Western Europe	139	123
Eastern Europe	247	228
Overseas	200	164
Other	305	287
	1,478	1,364

3.5 Depreciation and amortisation

	2017	2016
	EURk	EURk
Amortisation of intangible assets (without goodwill)	2,121	2,657
Depreciation of property, plant and equipment	3,123	3,809
	5,244	6,466

The purchase price allocation entails amortisation of intangible assets in the amount of EUR 1.643 thousand (previous year: EUR 1,643 thousand) and depreciation of property, plant and equipment amounting to EUR 0 thousand (previous year: EUR 29 thousand).

3.6 Other operating expenses

	2017	2016
	EURk	EURk
Rent expenses	3,155	3,498
Expenses for buildings including maintenance of fixed assets	2,251	2,004
Legal and consulting expenses	3,558	2,609
Expenses for external stock keeping	8,539	6,909
Expenses on freight outward	18,605	16,069
Advertising expenses	12,992	8,654
Commission expenses	2,836	2,635
Fleet expenses	2,252	2,144
Expenses from purchase price adjustments	2,176	2,045
Expenses from bad debts and valuation allowances on receivables	689	1,212
Impairment losses resulting from the remeasurement of the disposal group	0	1,571
Expenses for hardware and software as well as office equipment	2,409	1,910
Other selling expenses	6,556	3,558
Miscellaneous other operating expenses	17,118	18,234
	83,136	73,052

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

3.7 Financial result

	2017	2016
	EURk	EURk
Interest income	199	120
Interest expenses	-2,208	-2,115
Expenses/income from currency translation/hedging	-779	-1,536
	-2,788	-3,531
thereof interest income from hedging instruments	0	0
thereof interest expenses from hedging instruments	0	0
thereof expenses/income from hedging instruments	1,591	-1,525

The financial result also includes measurement results from derivative financial instruments not subject to hedge accounting and the ineffective share of value adjustments of hedging instruments that are subject to hedge accounting. The financial result includes financial income amounting to EUR 6,701 thousand and financial costs in the amount of EUR 9,489 thousand.

3.8 Income taxes

	2017	2016
	EURk	EURk
Actual tax expenses	16,273	7,967
Deferred taxes	-2,108	-633
	14,165	7,334

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 272 thousand (previous year: EUR 340 thousand), while the corresponding deferred tax liabilities come out to EUR 1,091 thousand (previous year: EUR 773 thousand). Further deferred taxes in equity in the amount of EUR 1,245 thousand (previous year: EUR 1,735 thousand) refer to the initial consolidation of Ozito Industries Pty Ltd. in financial year 2013.

The subsidiaries capitalised deferred taxes from loss carryforwards in the amount of EUR 1,186 thousand (previous year: EUR 1,008 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 calculation of deferred tax assets. In 2017, no deferred tax assets were recognised for loss carryforwards in the amount of EUR 17,392 thousand (previous year: EUR 25,119 thousand).

The temporary differences between the IFRS carrying amounts of interests in subsidiaries and the tax-related values of such interests (so-called outside basis differences) amount to EUR 3,321 thousand as at the reporting date (previous year: EUR 2,494 thousand) and did not give rise to the recognition of deferred taxes.

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:

	2017	2016
	EURk	EURk
Expected tax expenses	10,717	5,095
Tax expenses/income from intra-Group income/expenses	-169	878
Goodwill impairment	0	95
Other non-tax-deductible expenses	1,929	658
Differing foreign tax rates	-2,858	-1,334
Tax free income	-1,015	1,656
Changes in loss carryforwards	-209	286
Taxes of previous years	5,770	0
Reported tax expenses	14,165	7,334

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% (2016: 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. Sale of subsidiaries

The Einhell Group sold its subsidiary Einhell Brasil Com. Distr. Ltda on 19 October 2017.

4.1 Received consideration

	2017
	EURk
Received cash consideration	600
Future consideration	1,800
Total consideration	2,400

4.2 Derecognised assets and liabilities due to loss of control

	2017
	EURk
Current assets	
Cash and cash equivalents	1,295
Trade receivables and other assets	-34
Inventories	-100
Non-current assets	
Property, plant and equipment	0
Goodwill	0
Current liabilities	
Liabilities	-236
Non-current liabilities	
Loan liabilities	0
Deferred taxes	0
Net assets divested	925

4.3 Disposal loss from the sale of subsidiaries

	2017
	EURk
Total consideration	2,400
Abandoned net assets	-925
Cumulated losses from the changes in equity (recognised directly in equity) resulting from changes in proportionate investments and capital measures	-662
Cumulated translation loss in relation to the net assets of the subsidiary, which were reclassified from equity when control of the subsidiary was lost	-1,163
Disposal loss	-350

4.4 Net cash outflow from the sale of subsidiaries

	2017
	EURk
Selling price paid in cash	600
Cash disposed of in connection with the sale	-1,295
Total cash outflow in connection with the sale	-695

As the selling price is paid in tranches over several years, cash outflow in financial year 2017 amounts to EUR 695 thousand. Tranches payable in the future were capitalised as receivables.

5. Segment reporting

5.1 Segment reporting by region

Internal management reporting focused more strongly on the regions in the reporting year. In order to take account of the specific developments in the regions, the individual group companies were allocated to the regions D/A/CH, Western Europe, Eastern Europe, Overseas and Other countries. The allocation to the individual regions is based on the relevant group company's registered office. Companies regarded as homogenous based on their company structure, sales market and customer structure were bundled in regions. Internal reporting reflects these structures and is presented to the Board of Directors and the Supervisory Board on a regular basis.

The previous year's figures were adjusted to the new regional structure.

The reconciliation item almost exclusively reflects consolidation effects. The reconciliation in profit before income taxes also includes purchase price allocation effects and the repayment on the earn-out liability for Ozito.

2017	Revenue by invoicing party EURk	Revenue by invoice recipient EURk	EBT EURk	Depreciation and amortisation EURk
D/A/CH region	219,962	211,440	6,718	1,713
Western Europe	103,569	121,876	6,705	235
Eastern Europe	67,695	72,715	4,961	462
Overseas	135,408	142,365	15,363	787
Other countries	26,718	4,956	9,461	452
Reconciliation	0	0	-7,484	1,595
Einhell Group	553,352	553,352	35,724	5,244

The German companies generated revenue of EUR 204.7 million. The companies with the strongest revenue in Western and Eastern Europe are Einhell France with EUR 32.3 million, Einhell Italy with EUR 23.9 million and Einhell UK with EUR 20.2 million.

Revenue in the Overseas region was generated by the subsidiaries in South America and Australia. The largest contribution to revenue and earnings was made by Ozito Industries Pty Ltd with revenue of EUR 112.4 million. Revenue in Other countries was mainly generated by the procurement companies in Hong Kong.

2017	Financial result	Interest income	Interest expenses	Non-current assets excl. deferred tax assets
	EURk	EURk	EURk	EURk
D/A/CH region	293	2,979	-1,931	15,644
Western Europe	-583	15	-896	2,445
Eastern Europe	-1,058	18	-996	9,447
Overseas	-1,404	465	-1,665	11,474
Other countries	-106	239	-259	2,185
Reconciliation	70	-3,517	3,539	0
Einhell Group	-2,788	199	-2,208	41,195

The share of non-current assets pertaining to Germany is EUR 13,335 thousand.

2017	Non-cash income	Non-cash expenses	Inventories	Depreciation of inventories
	EURk	EURk	EURk	EURk
D/A/CH region	0	28	80,987	2,839
Western Europe	-18	0	42,577	610
Eastern Europe	-1	50	27,059	835
Overseas	-3	139	38,304	584
Other countries	-1	0	1,529	0
Reconciliation	-260	3,280	-10,318	0
Einhell Group	-283	3,497	180,138	4,868

2016	Revenue by invoicing party	Revenue by invoice recipient	EBT	Depreciation and amortisation
	EURk	EURk	EURk	EURk
D/A/CH region	201,419	194,117	5,932	3,138
Western Europe	81,995	99,973	2,735	310
Eastern Europe	60,665	63,264	4,391	417
Overseas	115,911	122,304	6,663	633
Other countries	27,221	7,553	4,852	293
Reconciliation	0	0	-7,591	1,675
Einhell Group	487,211	487,211	16,982	6,466

The German companies generated revenue of EUR 187.0 million. The companies with the strongest revenue in Western and Eastern Europe are Einhell France with EUR 27.5 million, Einhell Italy with EUR 19.5 million and Einhell UK with EUR 14.4 million.

Revenue in the Overseas region was generated by the subsidiaries in South America and Australia. The largest contribution to revenue and earnings was made by Ozito Industries Pty Ltd with revenue of EUR 93.0 million. Revenue in Other countries was mainly generated by the procurement companies in Hong Kong.

2016	Financial result	Interest income	Interest expenses	Non-current assets excl. deferred tax assets
	EURk	EURk	EURk	EURk
D/A/CH region	1,245	2,938	-1,223	13,623
Western Europe	-993	8	-817	2,343
Eastern Europe	-1,013	10	-888	9,505
Overseas	-2,588	527	-2,456	13,260
Other countries	-489	188	-149	1,717
Reconciliation	307	-3,551	3,418	0
Einhell Group	-3,531	120	-2,115	40,448

The share of non-current assets pertaining to Germany is EUR 11,337 thousand.

Impairment of property, plant and equipment and goodwill in financial year 2016 is attributable to the D/A/CH region.

2016	Non-cash income	Non-cash expenses	Inventories	Depreciation of inventories
	EURk	EURk	EURk	EURk
D/A/CH region	-6	315	62,185	1,458
Western Europe	-11	0	27,059	206
Eastern Europe	-1	33	22,124	536
Overseas	0	29	24,959	743
Other countries	-1	0	152	0
Reconciliation	-947	501	-8,741	0
Einhell Group	-966	878	127,738	2,943

In financial year 2016, EUR 92,299 thousand was generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. In the past financial year 2017, EUR 125,086 thousand was generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. This revenue was generated in the Overseas region.

5.2 Working capital

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 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 adequate hedge transactions.

6. Notes to the consolidated statement of cash flows

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

Operating activities

Cash inflow from operating activities results from profit before taxes as well as the accumulated depreciation and amortisation of intangible assets and property, plant and equipment. The increase in inventories of EUR 56,380 thousand at the end of the year and the increase in trade receivables of EUR 16,885 thousand had a negative effect on cash flow.

Investing activities

Cash outflows for investments in property, plant and equipment pertain primarily to capex for operating and office equipment. Moreover, the item also includes the payment of the last tranche of the earn-out liabilities from the takeover of Ozito Industries Pty Ltd. This had been recognised under cash flow from financing activities in the previous year. The figures for the previous year were adjusted accordingly.

Financing activities

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

Changes in cash and cash equivalents

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

Cash and non-cash changes in liabilities from debt capital

	Liabilities to banks	Lease obligations	Other financial liabilities	Liabilities from debt capital
	EURk	EURk	EURk	EURk
1 January 2017	33,158	0	2,382	35,540
Cash changes	-10,414	0	0	-10,414
Net changes in cash	0	0	-1,280	-1,280
Changes from currency translation	-317	0	0	-317
31 December 2017	22,427	0	1,102	23,529

7. Risk report and financial instruments

7.1 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.

7.2 Default risk

Einhell's corporate policy is to minimise default risk both from customers and suppliers by using instruments that are customary in international practice. These help Einhell 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, Einhell is sometimes using letters of credit. In the offer phase, the sales and finance departments jointly decide on security requirements and adjust these requirements when the orders are placed. Einhell also uses external information from banks and credit agencies to support the risk assessment process. To minimise the supplier default risk, both the procurement 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 stores and discounters and amount to EUR 82.3 million (previous year: EUR 67.9 million). In financial year 2017, there were no significant receivables for which new terms of payment were agreed.

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

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

The positive market value of all derivative financial instruments as of the reporting date is EUR 4,623 thousand.

Bank balances amounted to EUR 14.4 million on the reporting date (previous year: EUR 54.7 million). These assets are held at first-rate, well-known banks.

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

7.3 Interest risks

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

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

The Group is exposed to cash flow risk from variable interest positions. A change in market interest rates of 1% would have an effect on interests at the reporting date of EUR 80 thousand.

7.4 Liquidity risk

Liquidity risk is the possibility that a company will no longer be in a position to meet its financial obligations (such as repayment of financial liabilities or payment for orders). The Einhell Group limits this risk by using effective management of net working capital and cash and traditional credit lines from well-known banks. At the reporting date, the Group had about EUR 75.0 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 2017 for amortisation, repayments and interest for financial liabilities in the statement of financial position. Derivative financial instruments are shown at market value. It is not anticipated that actual cash flows will significantly differ from the expected cash flows with regard to the time of payment.

	2018	2019	2020-2022	2023 ff.
	EURk	EURk	EURk	EURk
Non-current liabilities to banks	0	0	0	0
Trade payables	85,439	0	0	0
Other current liabilities	28,310	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.

As of the reporting date, foreign exchange contracts for which we anticipate cash inflows corresponding to about EUR 380.7 million and cash outflows corresponding to about EUR 374.5 million were open. Sensitivities are specified under foreign currency risks.

7.5 Foreign currency risks

Due to the international nature of its operations, the Einhell Group is exposed to currency 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. Planned purchases in USD and CNY are hedged, so there is no concentration of risk here.

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

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

Given the short-term nature of the USD and CNY payment terms, the USD and CNY exposure from financial instruments pertains mainly to derivative financial instruments. A 10% change in exchange rates would result in pre-tax exchange rate gains/losses of EUR 16,739 thousand or EUR -15,638 thousand; on account of the application of cash flow hedge accounting, this would be shown in equity. The derivative financial instruments are only used to hedge the procurement of goods. A 10% change in exchange rates for derivative financial instruments that are not shown under hedge accounting would result in pre-tax exchange rate gains or losses of EUR 2.507 thousand or EUR -2.041 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 2017	Gross amount shown	Offsetting amount	Net amount shown
	EURk	EURk	EURk
Derivatives with positive market values	4,623	0	4,623
Derivatives with negative market values	1,102	0	1,102

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

Financial instruments with a positive market value to cash flow hedge	Nominal volume EURk		Market value EURk	
	2017	2016	2017	2016
Currency futures	157,053	124,135	3,396	2,336
	157,053	124,135	3,396	2,336

Financial instruments with a negative market value to cash flow hedge	Nominal volume EURk		Market value EURk	
	2017	2016	2017	2016
Currency futures	59,751	111,138	578	1,854
	59,751	111,138	578	1,854

The underlying transactions refer to contracted and planned purchases and sales. Most of the cash flows are expected within a period of 12 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.

Nominal volume of derivatives with a term of more than 12 months is EUR 1,136 thousand. The market value of the derivatives amounts to EUR -21 thousand.

EUR 1,617 thousand in changes in the value of financial instruments in relation to the cash flow hedge were recognised in equity in 2017. Retired items from equity through profit or loss amounted to EUR 316 thousand.

7.6 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. The fair values are provided by banks or determined on the basis of generally accepted measurement models. All hedging derivatives are measured by discounting future cash flows. The initial recognition parameters used in these models are the relevant observable market prices at the reporting date, such as volatilities and forward rates and interest rates. For current assets and liabilities, the carrying amounts provide a good indication of the fair value.

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

	Carrying amount							Fair value				
	Held for trading	Measured at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
2017												
in EURk												
Measured at fair value												
Other financial assets												
Currency futures for hedging purposes			3,396					3,396		3,396		3,396
Hedging derivatives not subject to hedge accounting	1,227							1,227		1,227		1,227
Financial instruments available for sale						394		394		394		394
	1,227		3,396			394		5,017				
Not measured at fair value												
Other financial assets												
Trade receivables					82,303			82,303				
Other assets					7,225			7,225				
Cash and cash equivalents					14,400			14,400				
					103,928			103,928				
Financial liabilities measured at fair value												
Currency futures for hedging purposes			578					578		578		578
Hedging derivatives not subject to hedge accounting	524							524		524		524
Contingent consideration		746						746			746	746
	524	746	578					1,848				
Financial liabilities not measured at fair value												
Loans and overdrafts, secured							339	339				
Loans and overdrafts, unsecured							22,088	22,088				
Trade payables							85,439	85,439				
							107,866	107,866				

	Carrying amount							Fair value				
	Held for trading	Measured at fair value	Fair value – hedging instruments	Held to maturity	Loans and receivables	Available for sale	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
2016												
in EURk												
Measured at fair value												
Other financial assets												
Currency futures for hedging purposes			3,044					3,044		3,044		3,044
Hedging derivatives not subject to hedge accounting	270							270		270		270
Financial instruments available for sale						388		388		388		388
	270		3,044			388		3,702				
Not measured at fair value												
Other financial assets												
Trade receivables					67,857			67,857				
Other assets					5,769			5,769				
Cash and cash equivalents					54,704			54,704				
					128,330			128,330				
Financial liabilities measured at fair value												
Currency futures for hedging purposes			1,859					1,859		1,859		1,859
Hedging derivatives not subject to hedge accounting	523							523		523		523
Contingent consideration		6,786						6,786			6,786	6,786
	523	6,786	1,859					9,168				
Financial liabilities not measured at fair value												
Loans and overdrafts, secured							714	714				
Loans and overdrafts, unsecured							32,444	32,444				
Trade payables							70,344	70,344				
							103,502	103,502				

Net gains and net losses from financial instruments

Net gains and net losses from financial instruments include measurement results, the recognition of impairment losses, results from currency translation and interest, and any other effects on profit or loss in connection with financial instruments. The line item contingent consideration measured at fair value through profit or loss in the statement of financial position refers to earnings effects from the earn-out liabilities of Ozito Industries and Einhell Intratek.

Net gains and net losses from financial instruments	2017	2016
	EURk	EURk
Derivative hedge instruments held for trading and not subject to hedge accounting	1,591	-1,525
thereof which interest result	0	0
Loans and receivables	-488	-2,940
thereof which interest result	-1,903	-1,837
Conditional consideration recognised at fair value through profit or loss	-2,020	-2,385
thereof which interest result	-106	-158

Fair value measurement

a) Valuation techniques and material unobservable input factors

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

Financial instruments measured at fair value

Type	Valuation technique	Material unobservable input factors	Relation between material unobservable input factors and measurement at fair value
Contingent consideration	<p><i>Discounted cash flows:</i> The valuation model considers the cash value of expected payments, discounted for a rate that takes account of the risks and maturities.</p> <p>The anticipated cash flow is determined by considering the possible scenarios for forecast profit before taxes, the amount to be paid in each of these scenarios and the likelihood of occurrence.</p>	<p><i>Einhell Intratek Mühendislik ve Dis Tic. A.S.:</i></p> <ul style="list-style-type: none"> • Earn-out liabilities of Einhell Intratek are based on already available figures • Material, unobservable input factors no longer exist 	<p>The estimated fair value would rise (fall) if:</p> <ul style="list-style-type: none"> • 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). <p>A change in the annual revenue growth rate automatically entails a change in the EBIT margin in the same direction.</p>

Type	Valuation technique	Material unobservable input factors	Relation between material unobservable input factors and measurement at fair value
Currency futures Financial instruments available for sale	<i>Market comparison method:</i> Fair values are based on price quotes by brokers. Similar contracts are traded on an active market, and the price quotes reflect actual transactions for similar instruments.	not applicable	not applicable

Financial instruments not measured at fair value

Other financial liabilities (secured and unsecured bank loans, liabilities from finance leases)	<i>Discounted cash flows</i>	not applicable	not applicable
-------------------------------------------------------------------------------------------------	------------------------------	----------------	----------------

b) Reclassifications between level 1 and level 2

No reclassifications were performed in 2016 and 2017 in either direction.

c) Fair values in level 3

Reconciliation of fair values in level 3

Contingent consideration	EURk
As of 1 January 2016	8,133
Earn-out payment Ozito Industries Pty Ltd	-3,266
Adjustment of earn-out liabilities Ozito Industries Pty Ltd	1,633
Loss recognised in financial expenses	158
Currency translation effects recognised in currency adjustment item	182
Earn-out payment Einhell Intratek	-466
Adjustment of earn-out liabilities Einhell Intratek	412
As of 31 December 2016	6,786
Earn-out payment Ozito Industries Pty Ltd	-7,537
Adjustment of earn-out liabilities Ozito Industries Pty Ltd	2,067
Loss recognised in financial expenses	106
Currency translation effects recognised in currency adjustment item	-262
Earn-out payment Einhell Intratek	-523
Adjustment of earn-out liabilities Einhell Intratek	109
As of 31 December 2017	746

There were no reclassifications from or to level 3.

8. Other notes

8.1 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
	EURk	EURk	EURk	EURk
Obligations from rental contracts	4,998	2,054	2,944	0
Obligations from leasing contracts	2,891	1,330	1,561	0
	7,889	3,384	4,505	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 2017, the payments for operating leases amounted to EUR 625 thousand (previous year: EUR 588 thousand).

8.2 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 Group's website at www.einhell.com.

8.3 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 shareholdings and interlocking directorships exist between Thannhuber AG and Einhell Germany AG:

- Philipp Thannhuber (Deputy Chairman of the Supervisory Board of Einhell Germany AG) is a shareholder of Thannhuber AG.
- Dr Markus Thannhuber (member of the Board of Directors of Einhell Germany AG) is a shareholder and Deputy Chairman of the Supervisory Board of Thannhuber AG.

In the financial year 2017, Philipp Thannhuber and Dr Markus Thannhuber received remuneration for their activities as director and member of the supervisory board of Einhell Germany AG.

The value of transactions and balances outstanding in connection with Thannhuber AG and its related parties break down as follows.

EURk	Value of transactions		Outstanding balances as of 31 December	
	2017	2016	2017	2016
Consulting (*)	13	26	0	13

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

Einhell Germany AG and its subsidiaries did not carry out any legal transactions with Thannhuber AG and its related parties during financial year 2017 that would have been to the disadvantage of Einhell Germany AG or its subsidiaries. Nor did Thannhuber AG take or fail to take any measures that would have negatively affected Einhell Germany AG or its subsidiaries.

8.4 Remuneration of the Board of Directors and Supervisory Board

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

	2017	2016
	EURk	EURk
Short-term payments	4,496	2,733
Payments after termination of employment	1,106	1,054
	5,602	3,787

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 members of the Board of Directors hold shares in Einhell Germany AG. There are no share option programmes or similar schemes. In financial year 2017, the total remuneration of the Board of Directors of Einhell Germany AG amounted to EUR 4,496 thousand (previous year: EUR 2,733 thousand). On 10 June 2016, the Annual General Meeting of Einhell Germany AG resolved to refrain from disclosing the remuneration of individual Board members for financial years 2016 until 2020. In addition, pension provisions for this group of persons totalling EUR 1,106 thousand were recognised in liabilities.

Pension provisions in the amount of EUR 1,909 thousand (previous year: EUR 1,973 thousand) were set aside for former members of the Board of Directors. Pension benefits in the amount of EUR 108 thousand were paid out to former members of the Board of Directors during the financial year.

The total remuneration of the Supervisory Board amounted to EUR 111 thousand (previous year: EUR 89 thousand) in the past financial year.

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

8.5 Auditor fees

Fees for the auditor KPMG AG entered as expense amount to EUR 217 thousand in the year under review (previous year: EUR 158 thousand). The fees pertain to the audit of the annual accounts and the consolidated financial statements carried out by KPMG AG. Fees for other services related to the audit of the system for compliance with requirements resulting from Section 20 (1) of the Securities Trading Act (WpHG) were recognised in the amount of EUR 13 thousand (previous year: EUR 13 thousand). No tax consulting or other services were rendered to the Einhell Group.

9. List of shareholdings

	Capital share	Equity
	%	31.12.2017
iSC GmbH, Landau a. d. Isar/Deutschland	100.0	1,150
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	4,441
HAFE Trading Ltd., Hong Kong/China	100.0	3,966
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	1,411
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	10,789
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	2,120
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0	1,974
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	3,408
Einhell Benelux B.V., Breda/Netherlands	100.0	257
Einhell Italia s.r.l., Milan/Italy	100.0	9,208
Comercial Einhell S.A., Madrid/Spain	100.0	3,201
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	8,884
Einhell Hungaria Kft., Budapest/Hungary	100.0	1,050
Einhell Schweiz AG, Winterthur/Switzerland	100.0	2,516
Einhell UK Ltd., Merseyside/UK	100.0	2,230
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	628
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	1,808
Einhell Croatia d.o.o., Sveti Križ Začretje/Croatia	100.0	6,567
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,671
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	2,320
Einhell Romania SRL, Bucharest/Romania	100.0	3,396
Einhell-Ukraine TOV, Kiev/Ukraine	100.0	0
Svenska Einhell AB, Malmö/Sweden	100.0	582
Einhell Holding Gesellschaft m.b.H., Wels/Austria	100.0	150
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	100.0	1,931
Einhell Intratek Mühendislik ve Dis Ticaret A.S., Istanbul/Turkey	100.0	4,667
Einhell Hellas A.E., Athens/Greece	98.1	2,845
Einhell Chile S.A., Santiago/Chile	100.0	1,839
Einhell Danmark ApS, Silkeborg/Denmark	100.0	-18
Einhell France SAS, Villepinte/France	100.0	3,043
Einhell Australia PTY. Ltd., Melbourne/Australia	100.0	-89
Einhell Norway AS, Saetre/Norway	100.0	16
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	1,455

	Capital share	Equity
	%	31.12.2017
kwb Germany GmbH, Stuhr/Germany	100.0	1,756
KWB-RUS OOO, St. Petersburg/Russia	100.0	1,018
Hans Einhell Ukraine TOV, Kiev/Ukraine	100.0	445
Einhell Holding Australia Pty. Ltd., Melbourne/Australia	100.0	24,336
Einhell Colombia S.A.S., Bogota/Colombia	100.0	-134
Ozito Industries Pty Ltd, Melbourne/Australia	100.0	11,409
Zhejiang Neo Energy Technology Co. Ltd., Ningbo/China	10.0	(*)

(*) The company was founded in the reporting year 2017. So far, no annual financial statements have been presented for 2017.

10. Executive bodies

10.1 The Board of Directors

In financial year 2017, the Board of Directors of Einhell Germany AG comprised:

The Board of Directors	
Andreas Kroiss, Linz/Austria (Chairman)	Sales and distribution, procurement, marketing, corporate strategy
Jan Teichert, Metten	Finance and accounting, taxes, internal audit, legal, controlling, investor relations, HR, supply chain management
Dr Markus Thannhuber, Landau a. d. Isar	Technology, product processing, quality management, services, IT and maintenance

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

Jan Teichert is Deputy Chairman of the Supervisory Board of SÜSS MicroTec SE, Garching.

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

10.2 Supervisory Board

In financial year 2017, the Supervisory Board of Einhell Germany AG comprised:

Supervisory Board	
Professor Dr-Ing. Dr-Ing. E.h. Dr h.c. Dieter Spath, Sasbachwalden, Director of Fraunhofer Institute for Industrial Engineering IAO and Director of Institute of Human Factors and Technology Management IAT at the Uni- versity of Stuttgart President of the National Academy of Science and Engineering	Chairman
Philipp Thannhuber, Landau a. d. Isar, Managing Director of Comedes GmbH, Wallersdorf and WOTOX GmbH, Landau an der Isar	Deputy Chairman
Maximilian Fritz, Wallersdorf – Haidlfing, Team Leader Call Center	Employee representative

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

- LIEBICH & PARTNER Management- und Personalberatung AG, Baden-Baden,
Chairman of the Supervisory Board
- Zeppelin GmbH, Garching, member of the Supervisory Board
- TÜV Rheinland AG, Cologne, member of the Supervisory Board (since 20 June 2017)

Landau a. d. Isar, 29 March 2018

Einhell Germany AG

The Board of Directors

Andreas Kroiss

Jan Teichert

Dr Markus Thannhuber

TABLE OF CONTENTS

- 1. Business activities, structure, management and goals of the Einhell Group..... 3**
 - 1.1 General operations and business segments 3**
 - 1.2 Legal structure and management of the Group 3**
 - 1.3 Corporate strategy and management 7**
 - 1.4 Product processing and quality management..... 10**
 - 1.5 Personnel and HR services 11**
- 2. Economic report 12**
- 3. Earnings..... 16**
- 4. Assets and financial position 20**
- 5. Overall economic situation 24**
- 6. Responsibility Statement of the Board of Directors 24**
- 7. Corporate Social Responsibility (CSR) 25**
- 8. Risk report..... 26**
 - 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 (4) of the German Commercial Code (HGB) 26**
 - 8.2 Description of risks..... 30**
 - 8.2.1 General economic and industry risks 30**
 - 8.2.2 Procurement risks 31**
 - 8.2.3 Sales market risks 32**
 - 8.2.4 Strategic and expansion risks 32**
 - 8.2.5 Financial, interest and currency risks 33**
 - 8.2.6 Liability risks, legal risks 35**
 - 8.2.7 IT risks 36**
 - 8.2.8 Human resource risks 37**
 - 8.2.9 Other risks 37**
- 9. Forecast 41**

9.1	Performance in the D/A/CH region	41
9.2	Performance in the Western and Eastern Europe regions	41
9.3	Performance in the Overseas region	42
9.4	Expected growth in the markets relevant to the Einhell Group	42
9.5	Aims and opportunities of the Einhell Group	45
9.6	Summary on expected developments	49
9.7	Forward-looking statements, assumptions, uncertainties and assessm methods	50

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.

For more than 50 years, Einhell has been one of the global market leaders in the development and marketing of house, garden and leisure solutions for DIY enthusiasts and professionals. Einhell supplies DIY stores and other sales channels with a wide range of DIY products. Under its guiding principle of “Brand quality at best price”, Einhell increasingly assumes a pioneering role in the development of new product and technology innovations that convince customers with their excellent value for money. In addition to strengthening its brand positioning “Brand quality at best prices”, the company’s focus is also on sustainable international growth. Subsidiaries and associates across the world ensure the proximity to Einhell Germany AG's globally operating customers.

The subsidiaries comprise distribution companies mainly in Europe but also in South America and Australia as well as trading companies in Asia. The Asian subsidiaries are also responsible for product sourcing, product processing and procurement. As production is carried out in Asia, this is also where quality assurance takes place. Einhell employs around 1,500 employees worldwide. Group revenue amounted to EUR 553 million in financial year 2017 (previous year: EUR 487 million).

Einhell Group’s organisational structure reflects the regions “DACH”, “Western Europe”, “Eastern Europe”, “Overseas” and “Other countries”. The operating responsibility for the respective Central Processing Unit lies with the Board of Directors of Einhell Germany AG as well as with the 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 39 subsidiaries that are all legally independent companies. It holds 100% of the shares in subsidiaries with a centralised or special function such as services, product sourcing/product

processing, procurement/purchasing and quality control/quality assurance. The Group also usually fully owns the global distribution companies.

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

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

The Group structure changed as follows during financial year 2017:

In financial year 2017, the Einhell Group sold its subsidiary Einhell Brasil Com. Distr. Ltda.

Management and control

Responsibility for the business activities of the Einhell Group lies with the **Board of Directors** of Einhell Germany AG. This comprised three members at the time of preparation of the annual financial statements, consolidated financial statements and management report. The Board of Directors manages, organises and monitors strategies and operational business processes for the whole Group. Responsibilities within the Board of Directors are allocated based on the functional area the individual member is in charge of.

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

The Chief Financial Officer is responsible for finance and accounting, tax, legal, internal audit, controlling, investor relations, human resources and supply chain management.

The Chief Technical Officer is responsible for technology, product management, product processing, quality control, services, IT and maintenance.

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

The **Supervisory Board** of Einhell Germany AG, comprising three members, monitors and provides advice to the Board of Directors in accordance with 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.

The composition of the Supervisory Board did not change in financial year 2017:

Supervisory Board	2017
Univ. Professor Dr.-Ing. Dr.-Ing. E.h. Dr. h.c. Dieter Spath	Chairman
Philipp Thannhuber	Deputy Chairman
Maximilian Fritz	Employee representative

Principles of the remuneration system for the Board of Directors

Members of the Board of Directors receive fixed and performance-based variable remuneration with short-term and medium-term components. The performance-based components depend on consolidated net profit, segment earnings in the previous financial year, growth of Group assets and personal targets. The evaluation system for variable remuneration components has essentially remained unchanged for several years and ensures transparent and sustainable accounting practices based on the Group's strategic aims. A pre-defined cap limits the impact of extraordinary one-off effects on the variable remuneration component. Members of the Board of Directors privately hold shares in Einhell Germany AG. There are no share option programmes or similar schemes. In the case of one of the members of the Board of Directors, an agreement exists, which stipulates that a proportion of the variable remuneration component must be used to purchase Einhell shares. If the employment contract of a member of the Board of Directors is not extended after twelve years, the relevant member receives one year's salary plus the average management bonus paid over the last three years. If the employment contract is terminated before the twelve-year threshold, the proportional remuneration is calculated on a pro rata temporis basis. Further information about the members of the Board of Directors' remuneration can be found in the Notes.

Personnel changes to the Board of Directors

There were no personnel changes to the Board of Directors in financial year 2017. There was no change to the division of responsibilities between the members of the Board of Directors.

1.3 Corporate strategy and management

Trends and challenges

We will focus on certain areas in the coming years to establish our **strong brand** with our customers. The look of the EINHELL brand at the point-of-sale must be consistent. We will also try to guarantee the best service for our customers. For this purpose, we will have to continuously improve our international service organisation. In the fields of public relations and social media, brand recognition is to be increased by various measures. In order to become the best digital provider in the DIY sector, we have to recognise the needs of our customers and the trends in the market at an early stage and react to these with suitable solutions. The organisational structure needed to implement this will be established in the course of 2018.

The basis for the path towards establishing a strong brand is formed by a **product range policy** that is tuned to customers' needs. Our main focus will be on our key product groups, with the objective of becoming market leader in individual markets. We will also streamline our product range more strongly in order to eliminate the use of resources outside of our core competences. Supported by portfolio management, product decisions can be made in a more sustainable manner in the future. The underlying model is to be further automated in 2018 and supplemented in a way that it reflects a global perspective.

If forecasts issued by the company are to be realised, the relevant goods and services need to be secured. Our **procurement market** in China currently comprises far more than 100 suppliers. In a similar way to our new product range management, we will also streamline our procurement market and focus on a small number of suppliers with well-founded expertise in our key product groups. We will try to form additional strategic partnerships in the future in order to establish key suppliers for all of our key product groups.

Group management

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

Further financial **performance indicators** are the gross profit margin and the significant growth drivers working capital, inventories and trade receivables. However, these key performance indicators are subject to strong country-specific variations and are therefore interpreted within the context of the individual company. Inventories are analysed on an ongoing basis and monitored on the basis of stock turnover and inventory range with regard to possible impairment losses. Moreover, a sanity check is carried out on the order process for new goods, involving checking and managing product availability and stock volumes. Trade receivables are constantly monitored on the basis of maturity structures and assessed according to standardised evaluation criteria. Receivables are usually limited to the extent of the receivables insurance or subject to management based on internally set limits. Accounts receivable targets are also subject to constant monitoring and are an important management parameter for the Group's working capital. Einhell does not use any non-financial performance indicators to manage the Group. At the level of individual Group companies, however, non-financial performance indicators like the number of technology projects at Einhell Germany AG and Einhell China, for instance, or employee satisfaction at Einhell Germany AG are used to manage the companies.

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 5%, and long-term stable dividend distributions.

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

Strategic orientation

In recent financial years, the long-term strategic objectives of the Einhell Group were drawn up by the Board of Directors in conjunction with management. The Board of Directors summarised these objectives and oversees and continually monitors the operational implementation of the strategy. When the bundle of objectives for 2018 was drawn up, several strategic targets for the coming years were discussed and defined in detail.

In order to improve the coordination of processes in the company and thus make them more efficient, the organisation must be structured as efficiently as possible to meet future digital challenges. The objective of setting up a **digital organisation** comprises measures such as the realignment of the IT organisation, where a dedicated process organisation will be established to secure performance and efficiency as well as making the organisation scalable in terms of resources. In addition, a centralised e-learning platform will be introduced to train staff in the use of the most important tools. The digital organisation will also have an effect on the price and distribution policy. We will introduce price and distribution systematics that are internationally coordinated and integrate them into the existing process universe. The internal control system will be expanded to make sure that all processes in the subsidiaries are structured consistently and standardised across the company. Sales activities are to be more consistent both within the company and with respect to external presentation. As already reported in the year before, we will further develop our Payment Factory to optimise international payment transactions.

We see considerable efficiency enhancement potential in the field of **supply chain management**. In 2018, our focus will be on topics such as master data management, supply chain digitalisation, further development and roll out of our disposition tools in four additional countries, conceptual design of a new order platform, digitalisation of logistics cost development, digitalisation of international transport management with the introduction of a software system to optimise the utilisation of carriers and the projection of freight rates based on models.

The further **expansion of our sales network** continues to be another key aspect of our work. Market entry in the USA is to be finalised in 2018. Moreover, we will initiate talks with potential companies in an additional target country. We also want to establish strategic trade partnerships with customers. We will try to realise this with selected customers in the course of the current year as well as further expanding existing partnerships.

Category leadership in certain areas is an important building block in order to be recognised as an A brand in the future. The basis for category leadership or setting standards in the market is the development of new technology and respective communication strategies. With our unique Power X-Change system, we want to be the largest battery-powered platform on the market by the end of 2018. We will establish cooperative ties with a newly founded research institute at a university and make sure to patent new concepts at an early stage to set successful standards for battery technology and further drive our Power X-Change system.

1.4 Product processing and quality management

Product processing

Product processing expenses amounted to EUR 6.9 million in financial year 2017 (previous year: EUR 6.1 million). 49 employees (previous year: 49 employees) were employed in this division. The division is mainly sales-driven and customer-oriented. Therefore, cooperation with other departments, such as quality assurance, is important, as is communication with customers. Customer requirements are taken into account from the outset during the design of new products and versions. The customer is regarded as a partner. This allows the entire Einhell Group to consistently adapt to markets and made Einhell one of the fastest reacting companies in the industry. This is also reflected in the launch of the Power X-Change concept, which is a master battery concept where a variety of tools can be operated with one and the same battery. Einhell's Power X-Change concept comprises devices in both product segments Tools and Garden & Leisure, which makes the system virtually unique in the market.

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 ongoing production and optimisation of manufacturer processes.

Supplier quality is optimised on an ongoing basis. Dependency on individual suppliers is avoided by maintaining an adequate number of suppliers and a broad distribution of orders. In order to create additional leeway for flexible procurement options, Einhell strives to further intensify its cooperation with select suppliers by forming strategic alliances in the field of product development.

1.5 Personnel and HR services

The headcount rose moderately in the 2017 financial year compared to the previous financial year. On average, the Einhell Group had 1,478 employees (previous year: 1,364). Revenue per employee was EUR 374 thousand (previous year: EUR 357 thousand).

In accordance with the CSR Directive Implementation Act, which went into effect in April 2017, we are disclosing the concepts we have pursued in the past financial year with regard to key non-financial matters relevant to Einhell Germany AG. The company decided to report on these matters in a separate non-financial report, which is not included in the management report. For further information about our HR and social matters, please refer to our Corporate Social Responsibility Report, continually available under <https://www.einhell.com/en/unternehmen/csr-report.html>.

Thank you to the employees:

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

2. Economic report

General economic conditions

D/A/CH region

In 2017, growth of the German economy was the strongest in six years. According to the German Bundesbank, the gross domestic product increased by 2.6%. This means that the gross domestic product increased for the eighth year running. The positive macroeconomic development also had a positive effect on the state budget. With EUR 38.4 billion, Germany saw the highest surplus ever since its reunification.

Consumer prices climbed again in the financial year under review, and consumers had to pay 1.8% more on an annual average than in the previous year. The inflation rate amounted to 1.7% in December 2017. The considerable increase in inflation in 2017 was mainly driven by energy prices.

The harmonised index of consumer prices (HICP), which is calculated for European purposes, increased by 1.7% year-on-year in Germany in 2017. In the months of December 2017, the HICP also showed a strong increase of 0.8% compared to the previous month of November 2017.

The larger German **DIY core market** (construction and DIY stores, specialist trade, small business formats and distance selling of DIY core products) was up 1.7% in 2017 compared to the previous year with total revenue of EUR 49.1 billion. Construction and DIY stores merely generated growth of 1.1% with total revenue of EUR 21.9 billion. Market researcher Klaus Peter Teipel expects the larger DIY core market to see further growth to around EUR 49.9 billion in 2018, which will also be reflected in revenue growth at the construction and DIY stores to an expected EUR 22.1 billion.

Western and Eastern Europe

Between October and December, the gross domestic product in the 19 eurozone countries rose by 0.6% on the previous quarter. In the fourth quarter, Spain was the strongest national economy with 0.7% growth. France and Germany each achieved growth of 0.6%. In the Eastern and Western European markets that are relevant for the Einhell Group, economic performance showed the following trend:

Western Europe	2017	2016
	%	%
Spain	3.1	3.3
France	1.8	1.2
UK	1.7	1.9
Italy	1.5	0.9

Eastern Europe	2017	2016
	%	%
Croatia	2.8	3.2
Poland	4.6	2.9
Romania	7.0	4.8
Czech Republic	4.3	2.6

Owed to the sustained economic upturn, the unemployment rate in Northern, Western and Southern Europe reached its lowest level since 2008. According to the International Labour Organization (ILO), it dropped from 9.2% to 8.5% compared to 2016.

Consumer prices in the eurozone have risen slightly again towards the end of 2017. In December 2017, the inflation rate in the common currency area was 1.4% higher than in the prior-year period, according to the European statistical authority Eurostat. This veered away again from the European Central Bank (ECB)'s target of nearly 2%. The inflation target has not been reached for several years in a row, which is why the central bank has massively eased its monetary policy.

Industrial production in the eurozone increased by 5.2% in December 2017 compared to the previous year. The increase exceeds analyst expectations by a significant margin, as they had expected a much lower increase.

Overseas

The Australian economy has meanwhile been growing for more than 26 years in a row. This is the longest economic upswing ever recorded worldwide. Since 2007, the economy has been growing by an average of 2.9% per year. High income was mainly driven by the boom in the commodity market and a strong domestic economy.

In the South American countries where the Einhell Group is active, the following growth rates were achieved in 2017.

	2017
	%
Argentina	3.0
Colombia	2.0
Chile	1.0

Performance report

Einhell Group increases revenue and profitability

The Einhell Group was able to raise its revenue sharply compared to the previous year. Group revenue amounts to EUR 553.4 million in financial year 2017, compared to EUR 487.2 million in the previous year.

This means that the Einhell Group clearly exceeded its forecast for financial year 2017, in which the Board of Directors had stated a moderate increase in revenue to about EUR 500 million at the beginning of 2017. After a positive revenue trend had already become visible in the first quarter, the Einhell Group increased its forecast from EUR 500 million to EUR 510-515 million in May 2017 and, after the half-year figures were available in July 2017, once again to EUR 525-535 million. After the third quarter also exceeded expectations, the forecast was lifted again in October 2017 to EUR 535-545 million.

Revenue of the Einhell Group exceeded the prior-year values in the first quarter. Revenue increased from EUR 120.1 million in the prior-year quarter to EUR 137.2 million, equivalent to 14.2% growth.

In the second quarter, revenue amounted to EUR 143.3 million, which also clearly exceeded the prior-year level (EUR 128.7 million) with substantial increases in nearly all the regions in which the Einhell Group is active.

The positive revenue development in the first half of the year was confirmed in the third quarter, when the Einhell Group managed to expand its business volume once again. In the third quarter, revenue climbed from EUR 125.1 million in the prior-year period to EUR 143.5 million.

In the fourth quarter, revenue also showed a positive development compared to the prior-year period. Revenue increased from EUR 113.3 million to EUR 129.4 million and as a result, overall group revenue amounted to EUR 553.4 million, which is substantially higher than in the previous year.

Internal management reporting focused more strongly on the regions in the reporting year. In order to take account of the specific developments in the regions, the individual subsidiaries were allocated to the regions D/A/CH, Western Europe, Eastern Europe, Overseas and Other countries. The allocation to the individual regions is based on the relevant subsidiary's registered office. Companies regarded as homogenous based on their company structure, sales market and customer structure were bundled in regions. Internal reporting reflects these structures and is presented to the Board of Directors and the Supervisory Board on a regular basis.

The geographic allocation of revenues was adapted correspondingly. The revenue performance is shown based on the registered office of the invoicing party and not of the invoice recipient. The figures for the previous year were adjusted accordingly.

The regional development of revenue in financial year 2017 was as follows:

	2017		2016		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	219,962	39.8	201,419	41.3	18,543	9.2
Western Europe	103,569	18.7	81,995	16.8	21,574	26.3
Eastern Europe	67,695	12.2	60,665	12.5	7,030	11.6
Overseas	135,408	24.5	115,911	23.8	19,497	16.8
Other countries	26,718	4.8	27,221	5.6	-503	-1.8
	553,352	100.0	487,211	100.0	66,141	13.6

The **D/A/CH** region generated revenue of EUR 220.0 million in financial year 2017 (previous year: EUR 201.4 million). The revenue contribution of the D/A/CH region therefore amounts to 39.8%.

Revenue in **Western Europe** increased significantly in financial year 2017 compared to the previous year. Overall, revenue growth amounted to 26.3%, from EUR 82.0 million to

EUR 103.6 million. France, Italy and the UK are among the significant sales market in financial year 2017.

Revenue in the **Eastern Europe** region amounted to EUR 67.7 million in the reporting period (previous year: EUR 60.7 million).

The **Overseas** region achieved substantial revenue growth with an increase of EUR 19.5 million to EUR 135.4 million year-on-year (previous year: EUR 115.9 million). Revenue was generated by the South American subsidiaries as well as our companies in Australia. Ozito Industries Pty Ltd. made the largest contribution to revenue in the region.

Revenue in **Other countries** was slightly below the previous year's level in 2017, with a slight drop from EUR 27.2 million to EUR 26.7 million.

The Einhell Group succeeded in raising revenue in nearly all of the regions. Merely the Other countries region failed to see any revenue growth. The reason for this is that some of our major customers have reduced their procurement volumes from the Asian companies, buying more from our European Group companies instead.

The dynamic revenue growth is driven by the great demand for the Power X Change products as well as a strong increase in revenue in the e-commerce business.

3. Earnings

The Einhell Group managed to boost its profitability significantly compared to the previous year. The Einhell Group generated profit before taxes of EUR 35.7 million in financial year 2017 (previous year: EUR 17.0 million). The pre-tax margin amounts to 6.5% (previous year: 3.5%).

The following table shows the development of profit before taxes by region:

	2017	2016	Change
	EURk	EURk	EURk
D/A/CH region	6,718	5,932	786
Western Europe	6,705	2,735	3,970
Eastern Europe	4,961	4,391	570
Overseas	15,363	6,663	8,700
Other countries	9,461	4,852	4,609
Reconciliation	-7,484	-7,591	107
	35,724	16,982	18,742

Purchase price allocation (PPA) effects resulting from Ozito Industries Pty Ltd squeezed earnings by EUR 1.7 million. Adjusted for PPA effects, profit before taxes amounts to EUR 37.5 million and the pre-tax margin is 6.8%.

At the beginning of 2017, the Einhell Group had expected an increase in revenue to about EUR 500 million and a pre-tax margin of approx. 3.6%.

After the final figures for the first quarter had been presented, the revenue forecast was slightly lifted. It now stated expected revenue of approx. EUR 510 to 515 million and a pre-tax margin of 4-4.5%.

In July 2017 – after the figures for the second quarter were available – the margin forecasts were again adjusted slightly upwards. The Einhell Group now expected revenue of EUR 525 to 535 million and a pre-tax margin of approx. 5.5%. In October, the forecast was slightly adjusted upwards again. The revenue forecast was lifted to EUR 535-545 million, and the pre-tax margin was raised to about 6.0%.

The profit before taxes forecast of EUR 32.0-33.0 million was exceeded again at the end of the financial year.

The earnings development benefited mainly from the strong revenue growth, which, in turn, was attributable to a consistent product range policy and strong, innovative products. The e-commerce business also contributed to revenue growth in financial year 2017. A positive performance of the gross profit margin on the back of the differentiation of the Einhell product range likewise had a positive effect on earnings. Moreover, we managed to reduce

freight costs due to internal logistics organisation projects, the consistent tendering of services and the use of IT instruments.

The domestic market **D/A/CH** performed well in the past financial year. This applies to stationary retail as well as online trading. With its product range, Einhell is able to differentiate itself strongly from its competitors. This has a positive effect on product range decisions made by customers of the Einhell Group as well as with regard to the perception of the end consumers. With highly individual and eye-catching point-of-sale appearances – both online and in stationary trade – Einhell distinguishes itself from its competitors.

We are still concerned about kwb Germany, which posted high losses again in 2017. With a new management team and subsequent restructuring, the losses are to be significantly reduced in 2018.

Revenues in the **Western and Eastern Europe** regions have increased significantly. The consolidation measures initiated in previous years and the adjustment of the product portfolio to market conditions allowed Einhell to significantly increase its gross profit margins in these regions. Group companies in Northern Europe did not manage to generate positive results, however.

Particularly the **Overseas** region achieved a significant improvement over the previous year. This was also supported by the divestment of Einhell Brasil, which had generated high losses in the previous year. The other South American companies as well as the companies in Australia achieved positive performances in 2017. The company in Colombia continues to suffer from high start-up losses that weigh on Group earnings but is expected to break even in 2018. The Argentinian company operates in a difficult market environment. The massive devaluation of the Argentinian peso in connection with high financing costs weighed massively on the company, but it still managed to generate positive results in the past financial year.

Other countries with the procurement companies in Asia also made a significant contribution to consolidated net profit.

Overall, profit before taxes in the Einhell Group thus showed a highly positive performance. Individual companies are still facing challenges, but we are actively working to improve their earnings situation.

At 34.6% (previous year: 32.2%), Einhell's gross profit margin improved again in financial year 2017.

The EUR 9,111 thousand increase in personnel expenses to EUR 72,357 thousand is mainly due to the general development of wages and salaries. In addition, a significant increase in profit also has an impact on potential provisions for variable remuneration of the staff.

Other operating expenses increased by 13.8% year-on-year to EUR 83,136 thousand. The increase is mainly due to an increase in revenue. In addition, expenses increased due to additions to earn-out liabilities in connection with purchase price payments for Ozito Industries and Einhell Intratek. The deconsolidation of Einhell Brasil also had a negative impact on other operating expenses of EUR 1,101 thousand.

The financial result improved by EUR 0.7 million to EUR -2.8 million. It mainly comprises the interest result of EUR -2.0 million (previous year: EUR -2.0 million) and losses/expenses from currency translation/currency hedging of EUR -0.8 million (previous year EUR -1.5 million).

Consolidated net profit after non-controlling interests increased from EUR 9.3 million to EUR 21.2 million in financial year 2017.

The EBIT margin on revenue amounted to 7.0% in financial year 2017 (previous year: 4.2%).

4. Assets and financial position

The main line items in the statement of financial position for the financial years 2017 and 2016 are as follows:

in EUR million	31.12.2017	31.12.2016	Change
Assets	40.7	40.0	+0.7
Goods inventories	180.1	127.7	+52.4
Trade receivables	82.3	67.9	+14.4
Cash and cash equivalents	14.4	54.7	-40.3
Equity	181.6	164.1	+17.5
Liabilities to banks	22.4	33.2	-10.8
Trade payables	85.4	70.3	+15.1

The balance sheet total increased by EUR 29.5 million or 9.1% to EUR 352.8 million.

Investments and non-current assets

Investments amounted to EUR 6.7 million in financial year 2017. They pertain mainly to plant and office equipment. In addition, the Einhell Group bought 10% in Zhejiang Neo Energy Technology Co., Ltd. The purchase price for the 10% is EUR 319 thousand and will only be paid in the current financial year.

Depreciation amounted to EUR 5.2 million in 2017 and is therefore down EUR 1.3 million year-on-year (previous year: EUR 6.5 million). Purchase price allocation effects of EUR 1.6 million from the takeover of Ozito Industries Pty Ltd are included in the depreciation item.

Current assets

Inventories increased from EUR 127.7 million to EUR 180.1 million as of the reporting date. Fortunately, no major problems were encountered on the Asian procurement markets in financial year 2017. The increase in inventories was related to the high revenue target for 2018.

Trade receivables increased as a result of higher revenue to EUR 82.3 million (previous year: EUR 67.9 million). As the years before, no factoring was carried out in financial year 2017.

Due to negative cash flow from the operating business, cash and cash equivalents at reporting date fell by EUR 40.3 million to EUR 14.4 million. Their share in total assets amounts to 4.1% (previous year: 16.9%).

Debt capital taken out by the Einhell Group increased to EUR 171.2 million (previous year: EUR 159.2 million).

Financing

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

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

Owing to the very healthy and solid financing structure of the Einhell Group – the Einhell Group traditionally has an excellent equity ratio that currently stands at 51.5% – the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financing problems for future business volume in connection with the further expansion of the Group.

In the financial year under review, the Group prematurely repaid what had been non-current liabilities to banks in the amount of EUR 30.0 million that would not have been due before 2018. We have borrowed these funds for the short term, thus achieving savings in interest.

The financial planning for the next five years was updated in 2017. Based on the financial planning, we are currently working on several options with regard to taking out new long-

term loans in order to finance the further growth of the group and secure the currently lower interest level. Based on our positive performances in 2016 and 2017, we expect to be granted new long-term loans at improved terms and conditions.

As of the reporting date, the Group had about EUR 75.0 million in unsecured credit lines at its disposal for the operating business. Overall, the Einhell Group had credit balances of EUR 14,400 thousand with banks and liabilities from debt capital in the amount of EUR 22,427 thousand on the reporting date.

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

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

The summarised cash flow statement shows the development of the financial position in the 2017 financial year:

	2017	2016	Change
	in EUR m	in EUR m	%
Cash flow from operating activities	-9.2	41.9	-122.0
Cash flow from investing activities	-14.9	-9.4 (*)	-58.5
Cash flow from financing activities	-13.5	-1.2 (*)	-1,025.0
	-37.6	31.3	-220.1
Changes from currency translation	-2.7	-0.9	-200.0
Net decrease/increase in cash and cash equivalents	-40.3	30.4	-232.6
Cash and cash equivalents at beginning of period	54.7	24.3	+125.1
Cash and cash equivalents at end of period	14.4	54.7	-73.7

(*) previous year was adjusted

Despite the extremely strong profit before income taxes in the amount of EUR 35,724 thousand, there has also been cash outflow from operating activities. This is mainly related to the increase in inventories (EUR 56,380 thousand) as well as an increase in trade receivables (EUR 16,885 thousand).

Cash flow from financing activities includes mainly repayments of loans (EUR 33,158 thousand) and new loans (EUR 22,744 thousand) as well as the dividend distribution.

Cash flow from investing activities mainly pertains to capex for operating and office equipment. Moreover, the item also includes the payment of the last tranche of the earn-out liabilities from the takeover of Ozito Industries Pty Ltd. This had been recognised under cash flow from financing activities in the previous year. The figures for the previous year were adjusted accordingly. The divestment of Einhell Brasil generated cash inflow of EUR 600 thousand in the reporting year. This corresponds to the first tranche of the purchase price agreement.

5. Overall economic situation

In summary, the Einhell Group managed to significantly increase revenue and profit in the 2017 financial year. The revenue and profit targets for 2017 were also exceeded clearly. Restructuring measures implemented at various Group companies in previous years continued to have a positive effect on profit performance. The innovative product range policy in particular led to higher revenues and contribution margins.

The Einhell Group managed to slightly increase its gross profit margin again compared to the previous year. The gross profit margin amounts to 34.6% (previous year: 32.2%).

Moreover, the Einhell Group has an excellent equity ratio of 51.5% (previous year: 50.8%) as well as net debt of EUR -8,027 thousand (previous year: EUR +21,546 thousand).

6. Responsibility Statement of the Board of Directors

The Responsibility Statement of the Board of Directors pursuant to Section 289f of the German Commercial Code (HGB) is available on the website of Einhell Germany AG (www.einhell.com) and is not included in the group management report.

Einhell Germany AG applies corporate governance practices to ensure compliance with legal regulations that go beyond statutory requirements. In particular, Einhell Germany AG observes various policies 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. Corporate governance practices with regard to compliance are constantly monitored and amended.

The provisions of the new European Market Abuse Directive, which came into force in 2016, were implemented consistently in the Group.

7. Corporate Social Responsibility (CSR)

The European Parliament and the EU member states adopted a directive in 2014 to expand the reporting of large, publicly traded companies, banks, financial services providers and insurance companies (CSR Directive). The directive's objective is in particular to increase transparency with regard to ecological and social aspects of companies in the EU. This concerns disclosures of environmental, social and employee matters as well as with regard to the respect of human rights and combating corruption and bribery.

Non-financial group statement

The non-financial group statement, which must be submitted in accordance with Sections 315b, 315c as well as Sections 289b-e will be made available in the form of a non-financial group statement on the Einhell homepage at <https://www.einhell.com/en/unternehmen/csr-report.html>. It includes information on the business model and disclosures on environmental, social and employee matters, on the respect of human rights and on combating corruption and bribery. The non-financial group statement is not included in the group management report.

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 Group 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 deliberately accepted.

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 (4) 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 Group bookkeeping and external reporting with respect to Group accounting processes, and serves in particular to identify possible risks at an early stage. Seizing business opportunities is associated with risks. In order to make these risks controllable, a risk management system is needed. The risk management process of the Einhell Group was updated in the reporting year. An Excel-based risk management reporting system collects all relevant information and allows corporate executives and others responsible for the management of the company to access the data in a compact and timely manner. It is designed to simplify data collection in the individual companies and to minimise the workload of the risk manager 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. In the Einhell Group, risks are identified by linking a bottom-up and a top-down approach. This means that centrally determined risks must be assessed. In addition, the

Einhell subsidiaries and the heads of department in the Group are called on to identify and assess specific risks for their relevant subject areas and departments. The identified risks are evaluated by multiplying the probability of the damage occurring and the maximum amount of damage. The evaluation focuses on net risk, i.e. the risk that remains after various preventative measures have been taken. The second step comprises risk consolidation, analysis and control by risk managers and corporate management.

Einhell 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. Remaining risks are deliberately taken by the Einhell Group, depending on whether the risk/opportunity ratio is reasonable.

Risks are constantly monitored 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, Group management, 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 items in the statement of financial position, the statement of income and cash flows 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 inventories, margins etc. is also reported for all companies on a monthly basis. The comparison is discussed with the members of the Board of Directors and with the managers of the separate divisions and companies. The analysis of the budgeted and actual figures permits relevant measures to be developed and implemented.

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

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

Use of IT systems

Accounting transactions are recorded based on individual accounts in the accounting programme Microsoft Business Solutions Navision or, in few exceptional cases, in local accounting systems. When drawing up the consolidated financial statements of Einhell Germany AG, the financial statements of the individual group companies are supplemented by further information in standard reporting packages, which are recorded centrally at Einhell Germany AG in the consolidation system KONSIS. The Group auditors regularly check the interfaces between the reporting system and the consolidation system and any reconciliation. The consolidation system KONSIS 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 employees 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 Einhell'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, for instance, 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 Einhell'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 certainty 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 its business strategy. This risk extends, for example, to the currency

policies of countries or to import and customs duties regulations and their practical application. The same also applies to procurement countries where Einhell sources its products. The Einhell Group seeks to keep abreast of general political risks by way of Group management maintaining close contacts with responsible local managers in order to constantly keep up to date with current developments. The Einhell Group also pursues a strategy of limiting investment in non-current assets, such as real estate, in such countries. This gives the Group maximum flexibility to react to unfavourable developments and to be able to have current assets available to take appropriate action in any country at any time.

Industry risks

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

Changes in the sector, such as market concentration of customers, may therefore affect Einhell's business. Einhell seeks to minimise dependence on such factors by expanding its strong international market position. The establishment of a strong product range and customer friendly 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 market shares from Einhell, or existing competitors may affect the Group's market position. Einhell seeks to counter such changes by establishing a relatively wide product range, extending from Tools to Garden & Leisure, and also driving its international expansion. It is very hard to find a competitor in the market that offers a comparable product range in conjunction with an international presence comparable to Einhell's.

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. With 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 regularly coordinated with the sales division, reconciled and planned via an internet-based order system. We also use a new disposition software that improves the coordination between procurement and sales in determining quantities and further consolidates orders. In order to enhance the transparency of order processing over the entire supply chain from the supplier to the national warehouses, we work with a newly implemented transport management system.

The risk of price increases, such as from changes in commodity prices, is countered where possible on the supply-side and demand-side by means of the Einhell Group concluding timely supply-side transactions to cover demand-side requirements. A corresponding product mix, a wide customer base and a strong procurement structure support this process.

8.2.3 Sales market risks

The Einhell Group sees the main sales market risks in loss of receivables and sales volume. Where possible, the Einhell Group uses Euler-Hermes credit insurance to counter credit risk. Innovative products that meet customer requirements in terms of design, functionality and value for money diminish the risk of a reduction in sales volume. This risk is being countered with the incremental introduction of two clearly defined product lines. One of the customers accounted for more than 10% of the Einhell Group's revenue in the last four financial years. Nevertheless, the management has not identified any risk of dependency on this customer.

8.2.4 Strategic and expansion risks

Risks are also associated with implementing the Einhell Group strategy. They can result, for instance, from the fact that resources or elements required to implement the strategy are not available at a particular time or run up against realisation problems. The reasons for this could be related to personnel or technology issues.

The establishment and acquisition of subsidiaries also carries fundamental risks. Einhell seeks to counter these risks by conducting a fundamental investigation of the target country before it begins to identify new sales areas. This includes an assessment of 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. Einhell seeks to reduce these risks in that the takeover candidates are usually long-term partners of the Group. This ensures that new Group companies are integrated into 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 Group management 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 manages financing risks by combining short-term and long-term financing strategies.

In the financial year under review, the Group prematurely repaid what had been non-current liabilities to banks in the amount of EUR 30.0 million that would not have been due before 2018. The Einhell Group mainly has conventional lines of credit that were only partially utilised in financial year 2017. 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 loan structures in the Group. The parent company has set up internal credit lines for the subsidiaries, the amount of which is determined by the budget and the expected business volume of the corresponding subsidiaries.

Risks from interest rate changes and fluctuations are managed, if required, with derivative financial instruments such as non-current interest swaps and interest caps. No need was identified in financial year 2017 to enter into interest rate derivatives. Risks from currency fluctuation are mainly managed by using standard 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 7 “Risk report and financial instruments”, for more information on interest, financial and currency risks.

Default risk

Einhell’s corporate policy is to minimise default risk both from customers and suppliers by using instruments that are customary in international practice. These help Einhell 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, Einhell is sometimes using letters of credit. In the offer phase, the sales and finance departments jointly decide on security requirements and adjust these requirements when the orders are placed. Einhell also uses external information from banks and credit agencies to support the risk assessment process. To minimise the supplier default risk, both the procurement 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 stores and discounters and amount to EUR 82.3 million (previous year: EUR 67.9 million).

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

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

Bank balances amounted to EUR 14,400 thousand on the reporting date (previous year: EUR 54,704 thousand). These assets are held at first-rate, well-known banks.

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

Liquidity risk

Liquidity risk is the possibility that a company will no longer be in a position to meet its financial obligations (such as repayment of financial liabilities or payment for orders). The Einhell Group limits this risk by using effective management of net working capital and cash and traditional credit lines from well-known banks. At the reporting date, the Group had about EUR 75.0 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.

Tax risks

In many countries, the Group is subject to the respective national tax provisions. Risks may arise from changes to local tax law or legal rulings and disparate interpretations of existing provisions. These risks can thus affect our tax expenses and income as well as tax receivables and liabilities.

8.2.6 Liability risks, legal 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 locally, 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.

The Einhell Group is exposed to legal risks. These may arise from conclusion of inter-company agreements 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,

for example in the event of a business creation, 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.

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. Given the rising speed and complexity of digitalisation, the dependency on IT systems also continues to increase. Resulting risks, such as the non-availability of systems or data, can never be fully eliminated and have a tremendous impact on business operations if an incident occurs. The Group takes diverse and innovative measures to minimise the likelihood of such risks occurring (incidence rate) to the greatest possible degree. 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 Human resource risks

The Group has a number of instruments in place to counter economic risks, such as changes in the market or competitive environment, which help us to react flexibly to fluctuations in the order situation, particularly seasonal fluctuations. This includes working time accounts that are filled by working overtime and reduced by taking the corresponding leave. Another instrument for reacting more flexibly to fluctuations are temporary workers. All these measures help the Einhell Group to maintain a stable permanent workforce while reacting to changes in the order situation.

The professional expertise and individual commitment of our employees are important prerequisites for the success of the Einhell Group. Our strategic and holistic personnel development approach offers employees attractive opportunities for further training and career development.

In addition to offering vocational training on the basis of a dual system (part school, part practical work), we also offer dual university courses to ensure we have young talent to source from. We provide extensive and highly specific qualification measures to address risks resulting from fluctuation and loss of experience when older employees retire.

8.2.9 Other risks

In addition to the risks described above, some external factors are unforeseeable and may have consequences that are very difficult to control. Such factors may, if they actually occur, impact the further development of the Einhell Group. These risks include natural hazards, epidemics and terrorist attacks.

In conclusion, we currently do not see any risks that could endanger the future of the Einhell Group as a going concern.

To be able to effectively measure and control the identified risks, we evaluate them on the basis of the parameters "incidence rate" and the "effect on EBT" in the case of occurrence. Here, we rely on empirical data and forward-looking assumptions. The following table

shows all the risks we have identified with their potential effects on EBT and the incidence rate. This enables us to take suitable risk mitigation measures.

The Einhell Group does not expect any major changes in risks in 2018. Some risks were adjusted compared with the previous year according to current trends and expectations.

We believe the industry risk to be slightly lower in 2018. Industry performance was highly positive in the last few years and has adapted to the changed market conditions. The political situation in the markets in which the Einhell Group is active has slightly stabilised in our assessment; especially the situations in Russia, Argentina and Ukraine seem to be less critical. The Chinese procurement market continues to be fraught with a certain degree of risk. Chinese producers are confronted with an ailing Chinese economy and massive competition from abroad.

Possible current effects on earnings of risks after taking measures

Possible effects concerning:	effects on earnings – 2018 +	incidence rate 2018
Environment & Industry		
Political risks	□□□■	improbable 4%
Industry risks	□□□□■	rare 12%
Company-specific risks		
Procurement risks	□□■	rare 16%
Sales market risks	□□■	improbable 6%
Strategic and expansion risks	□□□□■	rare 15%
Liability risks, Legal risks	□□□□■	improbable 2%
IT risks	□□□■	rare 14%
Human resources risks	□□□■	improbable 5%
Other risks	□□□□■	improbable 2%
Finance		
Financial, interest and currency risks	□□□■	rare 20%
Default risks	□□□□■	rare 12%
Liquidity risks	□□□□■	improbable 2%
Tax risks	□□□□■	rare 17%

Effects on earnings:

□□□□■	< 1.5 million €
□□□□■	≥ 1.5 million € < 3.0 million €
□□□■	≥ 3.0 million € < 6.0 million €
□□■	≥ 6.0 million € < 12.0 million €
□■	≥ 12.0 million € < 21.0 million €
■	≥ 21.0 million €

Incidence rate:

≥ 0 % < 10 %	improbable
≥ 10 % < 50 %	rare
≥ 50 % < 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 of risks after taking measures

Possible effects concerning:	effects on earnings		incidence rate	
	-	2017 +		2017
Environment & Industry				
Political risks	□□□■		rare	20%
Industry risks	□□■		rare	10%
Company-specific risks				
Procurement risks	□□□■		rare	20%
Sales market risks	□■		rare	20%
Strategic and expansion risks	□□■		rare	20%
Liability risks, Legal risks	□□□■		rare	10%
IT risks	□□□□■		improbable	2%
Human resources risks	□□■		improbable	5%
Other risks	□□□□■		improbable	2%
Finance				
Financial, interest and currency risks	□□□■		rare	15%
Default risks	□□□□■		rare	15%
Liquidity risks	□□□□■		improbable	2%
Tax risks	□□■		rare	2%

Effects on earnings:

□□□□■	< 1.5 million €
□□□■	≥ 1.5 million € < 3.0 million €
□□■	≥ 3.0 million € < 6.0 million €
□■	≥ 6.0 million € < 12.0 million €
■	≥ 12.0 million € < 21.0 million €
■■■■■	≥ 21.0 million €

Incidence rate:

≥ 0 % < 10 %	improbable
≥ 10 % < 50 %	rare
≥ 50 % < 70 %	probable
≥ 70 %	very probable

9. Forecast

9.1 Performance in the D/A/CH region

Expected development in %	2017	2018
GDP Germany	2.6%	2.5%

The **German** economy experienced strong growth of 2.6% in 2017. The German Bundesbank expects the gross domestic product to amount to 2.5% in 2018. According to the forecast, the German economy benefits from strong demand for industrial goods from abroad, while the excellent labour market is driving private consumption and residential housing construction.

At the end of 2017, the unemployment rate dropped to the lowest rate since the German reunification. The head of the German Federal Labour Office believes that it will be possible to considerably reduce the number of long-term unemployed persons in 2018.

Market researcher Klaus Peter Teipel expects the larger DIY core market to see further growth to around EUR 49.9 billion in 2018, which will also be reflected in revenue growth at the construction and DIY stores to an expected EUR 22.1 billion.

9.2 Performance in the Western and Eastern Europe regions

The economy in the **eurozone** is in a better state than it has been in a long time. The EU Commission expects the gross domestic product (GDP) in the 19 euro states to grow by 2.1% in the current financial year. The eurozone is thus set to possibly achieve the strongest economic growth in more than a decade.

Owed to the sustained economic upturn, the unemployment rate in Northern, Western and Southern Europe reached its lowest level since 2008. The International Labour Organization stated that this trend will continue through 2018 and expects an unemployment rate of 8.1%.

9.3 Performance in the Overseas region

The following economic growth rates are expected in Australia and the South American countries, in which the Einhell Group is active:

	2018	2017
	%	%
Argentina	4.3	3.0
Australia	2.5	2.9
Colombia	2.0	2.0
Chile	2.2	1.0

9.4 Expected growth in the markets relevant to the Einhell Group

Again, the expected performance in 2018 depends on a number of external factors. The trends on the global markets remain fragile and hard to foresee in many respects. This applies to both economic changes and political developments. Especially political unrest and conflicts like in Syria, for example, can affect numerous areas and may – besides the dramatic impact they have on the inhabitants of the affected region – lead to mostly negative effects on the global economy. Technical progress and digitalisation are also taking up speed. The last years have shown that the extremely fast developments in today's information technology also decrease the intervals between the occurrence of external shocks. The forecasts of the Einhell Group with its international activities are also clearly marked by the aforementioned uncertainty. Also the currencies that are relevant for the Einhell Group's procurement activities are hard to predict. The Federal Reserve System (FED) is expected to raise the interest rates in the USA, which could strengthen the US dollar. The economic problems in China, like the high credit volume in relation to the gross national product, on the other hand, may lead to a further depreciation of the CNY. The situation is further intensified by the erratic policy-making of the US administration, whose guidance plays an important role worldwide. In the event of a trade and currency war between the USA and China, this would in all likelihood have an enormous impact on the global economy.

The Einhell Group expects revenue amounting to about EUR 600 million in financial year 2018. With regard to profit before taxes, the Einhell Group expects a pre-tax margin in the range of 6.5% to 7%, which would represent another improvement in earnings quality. This, however, requires a stable international economic environment. In order to reach the announced target, kwb Germany GmbH and the subsidiaries in Colombia and Russia, which generated losses in financial year 2017, will have to start generating profits again. The Einhell Group has grown very strongly in the last few years and is confronted with capacity limits in some areas. Extensive investment and expansion measures will pave the way in 2018 for building up the required capacity. The measures entail expenditure for increasing the headcount, for construction measures and for IT. The Group is also planning to heavily invest in the market and in establishing the Einhell brand name. The expected expenditure for these measures has been priced into the budget of the Einhell Group and must be taken into account when looking at the margin. The measures refer to the D/A/CH region, where a new modern customer service centre with workshops and a show room will be built, and all other regions. In the UK, for instance, the logistics centre, the service area and the offices will move to new premises to accommodate the increased business volume. The office in France will also move to a larger location to account for the stronger revenue growth. Einhell Italy will continue to invest in the expansion of its service systems. In Portugal, an expansion of the logistics hub for Spain and Portugal will take up operations. In Hungary, the Company is acquiring a new building that will house the offices and service centre of Einhell Hungary. Another floor was rented in the existing building in the business park in China to expand the capacity of Einhell China.

Expected development in EUR million	2017		2018	
	Revenue	Profit before taxes	Revenue	Profit before taxes
Regions				
D/A/CH region	220.0	6.7	235.0	9.1
Western Europe	103.6	6.7	108.0	6.0
Eastern Europe	67.7	5.0	72.0	5.7
Overseas	135.4	15.4	152.0	18.5
Other countries	26.7	9.5	33.0	11.5
Reconciliation	0	-7.6	0	-10.8
	553.4	35.7	600.0	40.0

In the **D/A/CH** region, the Einhell Group anticipates revenue growth of EUR 15.0 million to EUR 235.0 million and profit before taxes of about EUR 9.1 million. We assume that revenue in e-commerce and Power X-Change will continue to rise. Following several loss-making years, we expect kwb Germany GmbH to reach breakeven.

In **Western Europe** and **Eastern Europe**, we anticipate a stable performance with a moderate increase in revenue and profit before taxes at the previous year's level.

In the **Overseas** region, we expect the earnings situation to improve. The sale of Einhell Brazil eliminates a loss-making subsidiary in the current 2018 financial year. In addition, we expect our subsidiary in Colombia to break even after the initial losses.

In the **Other countries**, we forecast a EUR 6.3 million revenue increase to EUR 33.0 million. The anticipated higher revenue will also boost profit before taxes, which we expect to climb by EUR 2.0 million to about EUR 11.5 million.

Expected financial market trends

The performance of the financial markets in 2018 depends strongly on the monetary policy of the world's largest issuing banks in the USA, Europe and China. The US dollar is slated to continue moving sideways in the course of 2018. It currently still seems rather unlikely that the ECB will raise its interest rate, even though the inflation rate as one of the ECB's key indicators is on a slight uptrend. Plans by the ECB to scale back its purchasing programme could indicate a turnaround in ECP policy but are as yet unconfirmed.

Expected sales market trends

The DIY store sector has undergone a successful stabilisation and growth process in the last few years. Intensive price competition in both online and stationary stores continues to pose a major challenge. It is therefore imperative for companies to achieve a relevant position, sharpen the brand image and constantly adjust their business models and their range of products and services to the customers' needs. The online sales channel, in particular, will continue on its growth course, and digitalisation will radically change the retail business in all aspects. The crucial factor for companies to succeed in these times of change is their ability to adjust to the new environment and conditions.

Expected procurement market trends

We do not expect any general bottlenecks on the procurement side in 2018, provided that the economic situation of our Chinese suppliers does not deteriorate materially due to the weak Chinese economy. In order to avoid potential bottlenecks on the supplier side, the Einhell Group seeks to conclude strategic supplier partnerships. In 2017, the Group acquired a 10% share in Zhejiang Neo Energy Technology Co., Ltd. We will try to form additional strategic partnerships in the future in order to establish key suppliers for all of our key product groups.

9.5 Aims and opportunities of the Einhell Group

Last year, the Board of Directors embarked on a structured strategy development process together with the heads of divisions and departments to define and communicate the objectives and values of the Einhell Group. Einhell has the vision that every household with a garden will eventually own a Power X-Change battery. Einhell is the brand for all work to be done around the house and the garden. The unique cordless Einhell Power X-Change system provides customers with freedom and comfort and is thus set to become the “synonym” for rechargeable battery systems.

The Einhell Group’s primary objective is to generate sustainable and profitable revenue and profit growth. Profitability takes priority over pure growth targets. The long-term pre-tax margin is to average at least 5%, guaranteeing a stable dividend payout ratio.

Supporting the European subsidiaries in particular with regard to opening up digital distribution channels continues to be high on the agenda in 2018. To this end, a comprehensive set of measures, sales support and training courses for the subsidiaries have been defined. Particular focus is placed here on the subsidiaries in the UK, France and Italy, as these markets offer high potential – especially with regard to online sales of DIY and garden products. The Group wants to concentrate on intensive and cooperative partnerships with strategic multi-channel and online distribution partners. It also plans to involve all of the subsidiaries in a long-term support and personnel development programme that focuses on online

marketing and distribution topics. Einhell thus intends to consistently use the growth opportunities resulting from digitalisation processes, which provide faster access to new markets and customers, also in an international environment.

Future orientation

The Einhell Group will continue to push ahead with its **expansion** strategy in 2018. The North American market including Canada and Mexico accounts for more than half the global DIY volume. The Einhell Group is currently analysing the market environment, as it sees good business opportunities here and is planning to launch its market entry in the USA in 2018. Moreover, we will initiate talks with a potential company in an additional target country.

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

The Einhell Group succeeded again in generating increases in **online** revenue in the last financial year and will systematically continue on its path towards digital leadership. Various projects and measures are planned to promote future revenue growth, which will increasingly be driven by digital distribution channels. The emphasis will be placed on data & analysis, customers & dialogue, content as well as the expansion and further development of our digital communication channels.

Expected financial situation

Efficient liquidity management remains a top priority of the Einhell Group in financial year 2018. We will concentrate on constantly forecasting cash flows from operating activities, as this is our main source of liquidity. Liquidity is forecast by means of a liquidity plan that covers a period of twelve months. In financial year 2017, we repaid what had been long-term liabilities amounting to EUR 30.0 million that would usually have been due at the end of 2018 and cut the interest burden by taking out temporary short-term financing. We prepared an updated financial plan for the next five years in 2017. Based on this financial plan, we are currently working on several options with regard to taking out long-term loans in order to finance the further growth of the Group and secure the low interest level. We do not expect the financing measures to have a material impact on liabilities in the statement of financial position.

Restructuring of kwb Germany GmbH

Following difficult years with high losses, the company started restructuring in 2017. Such a process also requires the corresponding structures at management level, which is why two new managing directors were appointed in financial year 2017. The delivery problems of the last few years, which were owed to a non-functioning facility, have meanwhile been eliminated.

Expected investments

The construction of a new logistics hall at the Landau an der Isar site, which will be used by the subsidiary iSC GmbH in order to actively optimise its processes, was completed in financial year 2017. Moreover, the planning phase for the construction of a new showroom with demo workshops and training premises has begun. The Group initiated an architects' competition for this, which is expected to provide for an attractive, future-oriented and sustainable solution. The tendering process for all the different trades involved has already started and construction is expected to commence in the course of 2018. Moreover, a concept is currently being developed for the expansion of the logistic centre at the Landau/Isar site. The concept provides for optimising the flow of goods, creating larger spaces for interim storage and for gearing up the storage management system to meet the rising requirements, for instance in the field of e-commerce. In a next step, the Group intends to invest in the automation of container handling and additional storage capacity.

Einhell Hungary will acquire a building in 2018 where the company can handle the increasing revenue, especially with specialist retailers, in an optimal and future-proof way. Einhell Portugal will complete the expansion of its logistics hall and will be thus improve its positioning for deliveries to Spain and Portugal. In addition to construction-related capex, the Einhell Group will also heavily invest in IT infrastructure and IT systems to be able to meet the demanding requirements resulting from higher business volumes. Investments will continue to focus on IT in the next few years and will even be increased to maintain the extremely high standard and facilitate the realisation of major projects.

9.6 Summary on expected developments

Outlook for financial year 2018

The Einhell Group with its international activities will benefit from rather favourable trends in the individual markets in financial year 2018.

General market sentiment in the German DIY sector, Einhell's domestic market, is positive at the moment. Private consumer spending has become a driving force of economic growth in Germany. The low inflation rate and high employment levels mean that consumers have more money to spend, which in turn leads to increased purchasing power. Revenue growth in the e-commerce sector is expected to continue in 2018. DIY retailers are also increasingly focusing on e-commerce, which is likely to provide for even stronger growth in this sector.

The European market will maintain the positive trend seen in financial year 2017. We do not expect a major negative impact from the UK leaving the European Union, as long as consumer spending in the UK will not go down dramatically. France and Italy showed a very strong performance in the past financial year and are expected to continue this positive trend. The economic forecasts for Southern Europe have increased once again. The upswing of the economies in Eastern Europe is expected to be more broadly based, while the economic development in Turkey is expected to deteriorate due to the developments in the country. These generally positive trends in Europe are, nevertheless, countered by some risks arising from the global developments that might result in economic crises or downturns.

Economic growth in Australia has been steadily on the rise for many years, but there is a latent risk of the ailing Chinese economy, which is so important for the raw material industry, negatively impacting the economy in Australia.

The South American markets remain difficult and, despite some positive tendencies, uncertainty regarding especially Argentina's political and economic structures remains. This situation is not expected to improve in financial year 2018.

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

Given the highly positive development, the Einhell Group expects a positive performance of revenue and profit. Taking all influencing factors into account, the Group expects revenue growth to approx. EUR 600 million. With regard to profitability, the Einhell Group forecasts a pre-tax margin in the range of 6.5%-7%. This forecast is slightly higher once again than the margins generated in the last few years. This margin, however, can only be reached if the Group generates revenue growth and manages to successfully dispose of the remaining loss-making subsidiaries.

The Einhell Group expects the following revenue and profit performance in the individual regions in 2018:

in EUR million	2018	
	Revenue	Profit before taxes
D/A/CH region	235.0	9.1
Western Europe	108.0	6.0
Eastern Europe	72.0	5.7
Overseas	152.0	18.5
Other countries	33.0	11.5
Reconciliation	0.0	-10.8
	600.0	40.0

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. The revenue plans are drawn

up in detail for each Group company based on product groups. Revenues are also budgeted at customer group level and checked against product groups for plausibility. In the same way, gross profit margins for each Group company are forecast at product 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, 29 March 2018

Einhell Germany AG
The Board of Directors

Andreas Kroiss

Jan Teichert

Dr Markus Thannhuber

Unqualified Report by the Independent Auditor

to Einhell Germany AG, Landau a. d. Isar

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements prepared by Einhell Germany AG and its subsidiaries (the Group) comprising the consolidated statement of financial position as at 31 December 2017, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2017 as well as the notes to the consolidated financial statements and a summary of significant accounting policies. We further audited the group management report of Einhell Germany AG for the financial year from 1 January to 31 December 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and
- as a whole provide an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Section 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No 537/2014, hereinafter referred to as "EU Audit Regulation") and in compliance with German Generally

Accepted Standards for Financial Statement Audits promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon; we do not provide a separate opinion on these matters.

The recoverability of goods

Further details on this matter in connection with the financial year are provided in the sections “1.6 Accounting and valuation principles” as well as “2.6 Inventories” in the notes to the consolidated financial statements and the section “Group management” in the group management report.

RISK IN CONNECTION WITH THE FINANCIAL STATEMENTS

Goods amounting to EUR 178.1 million are recognised in the statement of financial position as at 31 December 2017; this includes impairments in the amount of EUR 6.3 million.

The value of goods, which are initially measured at acquisition cost (including ancillary costs of acquisition), must be adjusted, in particular, if their expected net realisable value no longer meets the acquisition cost.

Discretionary leeway must be exercised in order to determine the net realisable values that form the value ceiling. The net realisable value is based, in part, on forward-looking estimates regarding the amounts that are likely to be realised when selling the goods. Further, the age of the goods plays an important role when inventories have short technological life cycles.

The risk in connection with the financial statements is that goods might be overvalued if the need to recognise impairments was not identified.

OUR AUDIT APPROACH

Based on the knowledge we gained of the processes, we evaluated the implementation, design and effectiveness of the identified internal controls, in particular with respect to the determination of the expected net realisable values.

We evaluated the selling prices underlying the calculation of the net realisable value on the basis of sales prices directly after the reporting date. We also evaluated the company's inventory coverage analyses and verified on the basis of the company's empirical data whether the impairments recognised are appropriate.

We further reviewed the correctness of the calculations for determining the net realisable value and for determining the impairment amounts for select inventories that were chosen based on their risk profile.

AUDITOR'S RESPONSE

The assumptions and data underlying the net realisable value are appropriate.

■ Accrual of revenue

Further details on this matter in connection with the financial year are provided in the sections "1.6 Accounting and valuation principles" as well as "3.1 Revenue" in the notes to the consolidated financial statements.

RISK IN CONNECTION WITH THE FINANCIAL STATEMENTS

The group's revenue in financial year 2017 amounts to EUR 553.4 million.

The group recognises revenue from the sale of goods when the conditions as per IAS 18 are met. This is the case when the significant risks and rewards of ownership of the sold products have been transferred to the buyer.

The group's main markets are located in Europe (divided into the D/A/CH region and Western and Eastern Europe), and Overseas (Australia and South America). The group companies negotiate different Incoterms for the delivery of the products.

The Incoterms define the time the risk passes and thus the time of revenue recognition.

Given the use of different Incoterms and varying transport times and a very high number of deliveries, the risk in connection with the financial statements is that revenues are not delimited in accordance with the accounting period on the reporting date.

OUR AUDIT APPROACH

In order to verify whether revenue is recognised in a timely manner, we evaluated the design, implementation and effectiveness of internal controls with respect to customer orders, goods dispatch and invoicing and, in particular, with respect to correctly determining and verifying when the risk actually passes.

We further verified correct and timely revenue recognition by comparing the booked outgoing invoices with the associated orders and external delivery notes.

We used a mathematical statistical method to analyse select trade receivables as at 31 December 2017. We further used a mathematical statistical method to analyse select revenue bookings over a fixed period before and after the reporting date with respect to correct accrual by comparing external delivery notes for these random sample revenue bookings with the time of revenue recognition. Additionally, we analysed all revenue bookings within a certain period before the reporting date that were made by select users who were chosen on a risk-oriented basis. Furthermore, we examined credits for and cancellations of receivables and revenue for a certain period after the reporting date to identify any revenue wrongly recognised in financial year 2017.

AUDITOR'S RESPONSE

Einhell Germany AG's approach for correct and timely revenue recognition is appropriate.

Other information

The legal representatives are responsible for the other information. The other information comprises the annual report, which is expected to be provided to us after the date of this independent auditor's report, with the exception of the audited consolidated financial statements, the group management report and our independent auditor's report.

Our opinions on the consolidated financial statements and the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information is materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of the legal representatives and the supervisory board for the consolidated financial statements and the group management report

The legal representatives are responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. Furthermore, the legal representatives are responsible for such internal controls as they deter-

mine necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, the legal representatives are responsible for the assessment of the Group's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to the continuation of the Group as a going concern. In addition, they have responsibility for accounting on the basis of the going concern principle, unless there is the intention to liquidate the Group or to discontinue operations or there is no realistic alternative.

The legal representatives are also responsible for preparing the group management report, which as a whole provides an accurate picture of the Group's position, is consistent in all material respects with the consolidated financial statements, complies with German law and adequately depicts the opportunities and risks related to the future performance. Furthermore, the legal representatives are responsible for the precautions and measures (systems) which they have deemed necessary to enable the preparation of a group management report in accordance with German statutory requirements and to provide sufficient suitable evidence for the statements in the group management report.

The Supervisory Board is responsible for monitoring the Group's accounting process for the preparation of the consolidated financial statements and the group management report.

Responsibility of the statutory auditor for the audit of the consolidated financial statements and the group management report

Our objective is to obtain reasonable assurance as to whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and whether the group management report as a whole provides an accurate picture of the Group's position and, in all material respects, is in accordance with the consolidated financial statements and the findings of our audit and German statutory provisions, and accurately depicts the opportunities and risks related to the future performance, and to issue an audit report that includes our audit opinion on the consolidated financial statements and the group management report.

Reasonable assurance represents a high degree of certainty, but no guarantee that an audit conducted in accordance with Section 317 German Commercial Code (HGB) and the EU Audit Regulation as well as the German Generally Accepted Standards for Financial Statement Audits promulgated by the German Institute of Public Auditors (IDW) will always reveal a material misstatement. Misstatements may result from infringements or inaccuracies and are considered material if it could reasonably be expected that they will, individually or collectively, influence the economic decisions of addressees made on the basis of these consolidated financial statements and the group management report.

During our audit we exercise professional judgement and due scepticism. Moreover,

- we identify and assess the risks of material misstatements, whether due to fraud or error, in the consolidated financial statements and the group management report, plan and perform

audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to form the basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

- we obtain an understanding of the internal control system relevant to the audit of the consolidated financial statements and the arrangements and measures relevant to the audit of the group management report that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- we express an opinion on the appropriateness of the accounting policies used by the legal representatives and the reasonableness of the accounting estimates and related disclosures made by the legal representatives.
- we draw conclusions about the appropriateness of the going concern principle applied by the legal representatives and assess, based on the audit evidence obtained, whether there is material uncertainty in connection with events or circumstances that could raise significant doubts about the Group's ability to continue as a going concern. If we come to the conclusion that there is material uncertainty, we are obliged to draw attention to the relevant information in the consolidated financial statements and the group management report in our audit report or, if this information is inadequate, to modify our auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may cause the Group to cease to continue as a going concern.
- we express an opinion on the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and assess whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with the IFRS applicable within the EU and the additional requirements of German law in accordance with Section 315e (1) German Commercial Code (HGB).
- we obtain sufficient suitable audit evidence for the accounting information of the companies or business activities within the Group to enable us to express an opinion on the consolidated financial statements and the group management report. We are responsible for guiding the audit of the consolidated financial statements, its supervision and execution. We have sole responsibility for our audit opinions.
- we assess the consistency of the group management report with the consolidated financial statements, its compliance with the law and the picture it portrays of the Group's position.
- we conduct audit procedures on the forward-looking statements presented by the legal representatives in the group management report. Based on sufficient, appropriate audit evidence, we retrace in particular the significant assumptions underlying the forward-looking statements made by the legal representatives and assess the appropriate derivation of the forward-looking statements from these assumptions. We do not issue a separate audit opinion on the forward-looking statements and the underlying assumptions. There is significant unavoidable risk that future events could differ materially from the forward-looking statements.

We discuss with those charged with governance issues such as the planned scope and timing of the audit and significant audit findings, including any deficiencies in the internal control system that we identify during our audit.

We make a statement to those charged with governance that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that can reasonably be expected to affect our independence, and the safeguarding measures taken in this respect.

From the matters that we discussed with those charged with governance, we determine those matters that were most significant in the audit of the consolidated financial statements for the current reporting period and are therefore considered key audit matters. We describe these matters in the auditor's report, unless laws or other statutory provisions prohibit a public disclosure of such information.

Other statutory and regulatory requirements

Other disclosures in accordance with Article 10 of the EU Audit Regulation

We were appointed statutory auditors of the consolidated financial statements by the Annual General Meeting on 23 June 2017. We received our mandate from the Supervisory Board on 20 November 2017. We have been in continuous practice as statutory auditors of the consolidated financial statements of Einhell Germany AG since the 2002 financial year.

We state that the audit opinions contained in this auditor's report are consistent with the additional report to the Audit Committee in accordance with Article 11 of the EU Audit Regulation (audit report).

Responsible statutory auditor

The statutory auditor responsible for the audit is Johannes Hanshen.

Munich, 29 March 2018

KPMG AG
Audit firm

Hanshen
Auditor

Schwarzhuber
Auditor



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