Einhell Germany AG, Landau a. d. Isar

Consolidated statement of financial position as of 31 December 2018

Assets	Note	31.12.2018	31.12.2017
		EURk	EURk
Intangible assets	(2.2)	16.490	17.861
Property, plant and equipment	(2.3)	25.948	22.104
Non-current financial assets	(2.4)	715	713
Deferred tax assets	(2.5)	9.055	8.498
Other non-current financial assets	(2.8)	278	0
Other non-current assets	(2.9)	521	517
Non-current assets		53.007	49.693
Inventories	(2.6)	188.547	180.138
Trade receivables	(2.7)	88.121	82.303
Other financial assets	(2.8)	4.498	4.623
Other current assets	(2.9)	23.483	21.607
Cash and cash equivalents		14.097	14.400
Current assets		318.746	303.071
Total assets		371.753	352.764

Equity and liabilities	Note	31.12.2018	31.12.2017
		EURk	EURk
Subscribed capital	(2.10)	9.662	9.662
Capital reserve	(2.10)	26.677	26.677
Retained earnings	(2.10)	173.356	151.918
Other reserves	(2.11)	-13.208	-8.726
Equity of shareholders of Einhell Germany AG		196.487	179.531
Non-controlling interest	(2.12)	2.141	2.041
Equity		198.628	181.572
Provisions for pensions	(2.13)	3.375	3.116
Provisions for other risks	(2.14)	1.026	894
Liabilities from debt capital	(2.15)	25.038	0
Deferred tax liabilities	(2.5)	3.110	3.138
Other liabilities	(2.17)	100	0
Non-current liabilities		32.649	7.148
Trade payables		68.483	85.439
Provisions for income taxes		3.023	6.074
Provisions for other risks	(2.14)	19.146	21.794
Liabilities from debt capital	(2.15)	21.618	22.427
Other financial liabilities	(2.16)	2.664	1.102
Other current liabilities	(2.17)	25.542	27.208
Current liabilities		140.476	164.044
Total equity and liabilities		371.753	352.764

The Group applied IFRS 15 and IFRS 9 for the first time as of 1 January 2018. The application of IFRS 15 was based on the modified retrospective approach. According to this method, comparative information is not restated, except for certain requirements for certain hedges and a separate presentation of the impairment losses from trade receivables and assets.

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of income (IFRS)
for the period from 1 January to 31 December 2018

	Note	2018	2017
		EURk	EURk
Revenue	(3.1)	577.903	553.352
Other own work capitalised	(3.2)	264	0
Other operating income	(3.3)	10.983	7.828
Cost of materials	(3.4)	-380.240	-361.931
Personnel expenses	(3.5)	-76.243	-72.357
Depreciation	(3.6)	-4.839	-5.244
Other operating expenses	(3.7)	-88.928	-83.136
Financial result	(3.8)	-2.703	-2.788
Profit before income taxes		36.197	35.724
Income taxes	(3.9)	-9.900	-14.165
Consolidated net profit		26.297	21.559

Thereof share of minority shareholders in consolidated net profit/loss	263	314
Thereof share of shareholders of Einhell Germany AG in consolidated net profit/loss	26.034	21.245

The Group applied IFRS 15 and IFRS 9 for the first time as of 1 January 2018. The application of IFRS 15 was based on the modified retrospective approach. According to this method, comparative information is not restated, except for certain requirements for certain hedges and a separate presentation of the impairment losses from trade receivables and assets.

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of comprehensive income for the period from 1 January to 31 December 2018

	Note	2018	2017
		EURk	EURk
Consolidated net profit		26.297	21.559
Items of other comprehensive income that were or can be reclassified to profit or loss			
Unrealised losses (previous year: losses) from currency translation		-3.264	-3.277
Unrealised losses (previous year: gains) from the disposal of available-for-sale financial assets	(2.11)	-5	1
Unrealised losses (previous year: gains) from derivative financial instruments	(2.11)	-1.114	1.617
		-4.383	-1.659
Items of other comprehensive income that will not be reclassified to profit or loss in future periods			
IAS 19 revised - Employee Benefits		-124	26
Other comprehensive income, after tax		-4.507	-1.633
Thereof share of other comprehensive income attributable to minority interests, after tax	(2.12)	-25	45
Thereof share of other comprehensive income attributable to shareholders of Einhell Germany AG, after tax	(2.11)	-4.482	-1.678
Consolidated comprehensive income		21.790	19.926
Thereof share of consolidated comprehensive income attributable to non-controlling interest		238	359
Thereof share of consolidated comprehensive income attributable to shareholders of Einhell Germany AG		21.552	19.567

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of changes in equity for financial year 2018

	Note	Subscribed capital	Capital reserve	Retained earnings	Other reserves: Adjustment from currency translation	Other reserves: Financial assets available for sale	Other reserves: Remeasurement reserve pursuant to IAS 19	Other reserves: Derivative financial instruments	Equity of shareholders of Einhell Germany AG Equity	Share of non-controlling interest	Total equity
		EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk
1 January 2017		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	(2.11)	-	-	-	-3.322	1	39	2.001	-1.281	45	-1.236
Deferred taxes on unrealised gains/losses	(2.11)	-	-	-	-	-	-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
Adjustments resulting from first-time application of IFRS 9, after tax	(1.3)	-	-	-100	-	-	-	-	-100	-	-100
Adjustments resulting from first-time application of IFRS 15, after tax	(1.3)	-	-	-92	-	-	-	-	-92	-4	-96
1 January 2018		9.662	26.677	151.726	-9.612	33	-1.080	1.933	179.339	2.037	181.376
Consolidated net profit		-	-	26.034	-	-	-	-	26.034	263	26.297
Unrealised gains/losses	(2.11)	-	-	-	-3.239	-5	-178	-1.227	-4.649	-25	-4.674
Deferred taxes on unrealised gains/losses	(2.11)	-	-	-	-	-	54	113	167	-	167
Comprehensive income		-	-	26.034	-3.239	-5	-124	-1.114	21.552	238	21.790
Dividends	(2.10)	-	-	-4.404	-	-	-	-	-4.404	-200	-4.604
Other changes		-	-	-	-	-	-	-	-	66	66
31 December 2018		9.662	26.677	173.356	-12.851	28	-1.204	819	196.487	2.141	198.628

Einhell Germany AG, Landau a. d. Isar

Consolidated statement of cash flows for financial year 2018

		Note	31.12.2018	31.12.2017
			EURk	EURk
Cash flows from/used in operating activities				
Profit before income taxes			36.197	35.724
+	Depreciation and amortisation of intangible assets and property, plant and equipment	(3.6)	4.839	5.244
-	Interest income	(3.8)	-164	-199
+	Interest expenses	(3.8)	1.505	2.208
+/-	Other non-cash expenses and income		925	3.214
Operating profit before changes in net working capital			43.302	46.191
+/-	Decrease/increase in trade receivables		-9.033	-16.885
+/-	Decrease/increase in inventories		-10.725	-56.380
+/-	Decrease/increase in other assets		-3.138	-3.467
+/-	Decrease/increase in assets held for sale		0	1.982
+/-	Increase/decrease in non-current liabilities		502	-746
+/-	Increase/decrease in current liabilities		-2.291	14.734
+/-	Increase/decrease in trade payables		-16.978	18.727
+/-	Increase/decrease in liabilities in connection with assets held for sale		0	-358
Cash flows generated from operating activities			1.639	3.798
-	Taxes paid		-14.278	-11.921
+	Interest received		148	211
-	Interest paid		-1.270	-1.276
Net cash from/used in operating activities			**-13.761**	**-9.188**
Cash flows from/used in investing activities				
-	Payments to acquire assets		-8.026	-6.352
-	Payments for acquisition of consolidated companies		-738	-8.060
+	Proceeds from disposal of assets		29	191
+	Proceeds from disposal of consolidated companies		600	0
-	Payments associated with disposal of consolidated companies		0	-695
-	Payments for investments in financial assets		-170	0
+/-	Increase/decrease in goodwill		0	0
Net cash used in investing activities			**-8.305**	**-14.916**
Cash flows from/used in financing activities				
+	Proceeds from taking out loans		48.968	22.744
-	Payments for repayment of loans		-22.427	-33.158
+	Proceeds from non-controlling interest		73	0
-	Dividend payments to shareholders of Einhell Germany AG		-4.404	-2.894
-	Dividend payments to non-controlling interests		-200	-200
Net cash used in financing activities			**22.010**	**-13.508**
Changes to cash and cash equivalents due to currency exchange			-247	-2.692
Net decrease/increase in cash and cash equivalents			**-303**	**-40.304**
Cash and cash equivalents at beginning of reporting period			14.400	54.704
Cash and cash equivalents at end of reporting period			**14.097**	**14.400**

Additional details are shown in the notes under item 5.

The Group applied IFRS 15 and IFRS 9 for the first time as of 1 January 2018. The application of IFRS 15 was based on the modified retrospective approach. According to this method, comparative information is not restated, except for certain requirements for certain hedges and a separate presentation of the impairment losses from trade receivables and assets.

Einhell Germany AG, Landau a. d. Isar

Notes to the Consolidated Financial Statements for Financial Year 2018

1. Principles and Methods

1.1 General information

Einhell Germany AG and its subsidiaries manufacture and sell manually operated, petrol powered 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). They are also consistent with the 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.

On 29 March 2019, the Board of Directors released the consolidated financial statements to be passed on to the Supervisory Board and approved them for publication.

1.2 Basis of preparation

Standards applied

The accounting and valuation policies used in the consolidated financial statements are in accordance with the International Financial Accounting Standards applicable in the European Union as of 31 December 2018. The Group has applied the following standards and amendments to standards to be adopted for the first time from 1 January 2018.

- IFRS 9 “Financial Instruments”; effective for annual periods beginning on or after 1 January 2018.
- IFRS 15 “Revenue from Contracts with Customers”; effective for annual periods beginning on or after 1 January 2018.
- Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”; effective for annual periods beginning on or after 1 January 2018.
- 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.

- Amendments to IFRS 15 “Clarifications to IFRS 15”; effective for annual periods beginning on or after 1 January 2018.
- Amendments to IAS 40 “Transfers of Investment Property”; effective for annual periods beginning on or after 1 January 2018.
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”; effective for annual periods beginning on or after 1 January 2018.
- Improvements to IFRS 2014-2016 “Amendments to IFRS 1 and IAS 28”; effective for annual periods beginning on or after 1 January 2018.

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 2018 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 3 “Definition of a Business”; effective for annual periods beginning on or after 1 January 2020. 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 1 and IAS 8 “Definition of Material”; effective for annual periods beginning on or after 1 January 2020. 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 19 “Plan Amendment, Curtailment or Settlement”; 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 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.
- Framework “Amendments to References to the Conceptual Framework in IFRS”; effective for annual periods beginning on or after 1 January 2020. 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.

- 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 material 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 material effects on net assets, financial position and results of operations as presented in the consolidated financial statements.

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

- IFRS 16 “Leases”; effective for annual periods beginning on or after 1 January 2019

  The standard introduces a uniform accounting model under which leases are recognised in the lessee’s statement of financial position. Lessees recognise a right-of-use asset, which represents their right to use the underlying asset, and the lease liability, which represents their obligation to make the lease payments. Exceptions are made for short-term leases and leases of low-value assets. The lessor’s accounting is similar to the current standard, as lessors continue to classify leases as finance or operating leases.

  IFRS 16 replaces the existing standards governing leases, including IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement Contains a Lease”, SIC-15 “Operating Leases – Incentives”, and SIC-27 “Evaluating the Substance of Transactions in the Legal Form of a Lease”.

  The Group will recognise new assets and liabilities for its operating lease contracts. The nature of the expenses in connection with these leases will change, as the Group now recognises depreciation for right-of-use assets and interest expenses on lease liabilities.

  Previously, the Group recognised expenses from operating leases on a straight-line basis over the lease term and recognised assets and liabilities only to the extent that there was a time difference between the actual lease payments and the recognised expenses.

  In addition, the Group will no longer recognise provisions for operating lease contracts that are considered onerous. Instead, the Group will recognise the payments owed under lease contracts as a lease liability.

  No material effects on finance lease contracts are expected.

  Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of EUR 11.5 million as of 1 January 2019.

  The Group intends to apply IFRS 16 for the first time as of 1 January 2019, using the modified retrospective method. As a result, the cumulative effect of applying IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings as of 1 January 2019. Comparative information from previous periods will not be restated.

  The Group intends to make use of the simplified approach concerning the definition of a lease contract when transitioning to the new standard. This means that the Group will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

Presentation

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

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

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

1.3 Changes in significant accounting policies

The Group applied IFRS 15 and IFRS 9 for the first time as of 1 January 2018. A number of other standards also came into force as of 1 January 2018; however, these have no material effect on the consolidated financial statements.

Because of the transition methods adopted by the Group in applying these standards, the comparative information in these financial statements has not been restated to conform to the requirements of the new standards, except for certain hedges and separately disclosed impairment losses on trade receivables and contract assets.

The effects of the first-time application of these standards are mainly attributable to the following factors:

- earlier recognition of revenues from sales contracts with right of return
- increase in impairment losses on financial assets

IFRS 15 “Revenue from Contracts with Customers”

IFRS 15 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”. In accordance with IFRS 15, revenue is recognised when a customer obtains control of goods or services. The decision of whether control is transferred at a point in time or over time is discretionary.

When transitioning to IFRS 15, the Group applied the modified retrospective method (without the simplification approach), according to which the cumulative adjustment amounts are recognised as of 1 January 2018. As a result, the comparative information for 2017 has not been restated, i.e. it has been presented as before in accordance with IAS 18, IAS 11 and the corresponding interpretations. In addition, the disclosure requirements in accordance with IFRS 15 were generally not applied to the comparative information.

The following table shows the effects of the transition to IFRS 15 on retained earnings and non-controlling interests as of 1 January 2018 after taxes.

	Effect of the application of IFRS 15 as of 1 January 2018
Retained earnings	
Sales contracts with right of return	-122
Tax effect	30
Effect as of 1 January 2018	**-92**
Non-controlling interest	
Sales contracts with right of return	-5
Tax effect	1
Effect as of 1 January 2018	**-4**

The following table summarises the effects of IFRS 15 on the affected items of the consolidated statement of financial position as of 31 December 2018 and the consolidated income statement for financial year 2018. There were no material effects on the consolidated cash flow statement for financial year 2018.

Effects on the consolidated statement of financial position:

	As reported	Adjustments	Amounts before application of IFRS 15
Assets			
Contract assets	729	729	0
Total assets	**729**	**729**	**0**
Equity			
Retained earnings	-332	-332	0
FX differences	3	3	0
Non-controlling interest	0	0	0
Total equity	**-329**	**-329**	**0**
Liabilities			
Current tax liabilities	3,023	-93	3,116
Contract liabilities	1,058	1,058	0
Total liabilities	**4,081**	**965**	**3,116**

Effects on the consolidated statement of income:

	As reported	Adjustments	Amounts before application of IFRS 15
Revenue	577,903	-1,061	578,964
Cost of goods sold	-380,240	754	-380,994
Other operating expenses	-88,928	-25	-88,903
Tax expenses	-9,900	93	-9,993
Effect	**98,835**	**-239**	**99,074**

The effects of the first-time application of this standard are mainly attributable to rights of return. Under IAS 18, revenue was recognised for these contracts if a reliable estimate of the returns could be made and if all other criteria were met. If a reliable estimate could not be made, recognition of revenue was deferred until the end of the return period or until a reliable estimate could be made of the returns. Under IFRS 15, revenue is recognised to the extent that it is highly probable that no material adjustment will be made to the cumulatively recognised revenue.

As a result, revenue for contracts for which the Group cannot make a reliable estimate of return is recognised earlier under IFRS 15 than under IAS 18. The effect of this transition on other items in the consolidated financial statements is a decrease in the liability for refunds, which is included in trade payables and other liabilities. In addition, a new asset is reported under other assets for the right to retrieve the products.

IFRS 9 "Financial Instruments"

IFRS 9 sets out the requirements for the recognition and measurement of financial assets, financial liabilities and certain contracts for the purchase or sale of non-financial contracts. The new standard supersedes IAS 39 "Financial Instruments: Recognition and Measurement".

Under IFRS 9, consequential changes to IAS 1 "Presentation of Financial Statements" must be implemented, according to which an impairment of financial assets must be reported in a separate item of the consolidated statement of comprehensive income. Previously, impairments of trade receivables had been recognised in other expenses. For reasons of materiality, the Einhell Group does not report impairment losses recognised in accordance with IAS 39 separately in the consolidated statement of comprehensive income; they are explained in the notes. Similar to the presentation under IAS 39, impairments of other financial assets are not reported separately in the consolidated statement of comprehensive income; they are recognised in the financial result.

The following table shows the effects of the transition to IFRS 9 on the opening balance of retained earnings after taxes:

	Effect of the application of IFRS 9 as of 1 January 2018
Retained earnings	
Recognition of expected credit losses in accordance with IFRS 9	-132
Related taxes	32
Effect as of 1 January 2018	**-100**

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three basic categories for the classification of financial assets: measured at amortised cost, measured at fair value through other comprehensive income (FVOCI) and measured at fair value through profit or loss (FVTPL). The classification of financial assets in accordance with IFRS 9 is based on the Company's business model for managing financial assets and the characteristics of contractual cash flows. IFRS 9 eliminates the previous categories of IAS 39: held to maturity, loans and receivables, and available-for-sale.

IFRS 9 largely keeps the existing requirements of IAS 39 for the classification of financial liabilities.

The first-time application of IFRS 9 had no material impact on the Group's accounting policies with respect to financial liabilities.

The following tables explain the original IAS 39 measurement category and the new IFRS 9 measurement category as of 1 January 2018 for each class of financial assets and financial liabilities the Group has recognised.

The effects of the first-time application of IFRS 9 on the carrying amounts of financial assets as of 1 January 2018 result exclusively from the new regulations on the recognition of impairment losses.

	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial assets				
Equity investments	Available for sale	Measurement at FVTPL is mandatory	319	319
Securities	Available for sale	FVOCI	396	396
Currency futures for hedging purposes	Fair value – hedging instrument	Fair value – hedging instrument	3,396	3,396
Other currency futures	Held for trading	Measurement at FVTPL is mandatory	1,227	1,227
Trade receivables and other receivables	Loans and receivables	Amortised cost	82,303	82,171
Cash and cash equivalents	Loans and receivables	Amortised cost	14,400	14,400
Total financial assets			**102,041**	**101,909**

	Measurement category under IAS 39	Measurement category under IFRS 9	Carrying amount under IAS 39	Carrying amount under IFRS 9
Financial liabilities				
Currency futures for hedging purposes	Fair value – hedging instrument	Fair value – hedging instrument	578	578
Other currency futures	Held for trading	Measurement at FVTPL is mandatory	524	524
Loans and overdrafts, secured	Other financial liabilities	Other financial liabilities	339	339
Loans and overdrafts, unsecured	Other financial liabilities	Other financial liabilities	22,088	22,088
Trade payables	Other financial liabilities	Other financial liabilities	85,439	85,439
Total financial liabilities			**108,968**	**108,968**

Trade receivables and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

With the transition to IFRS 9, an increase of EUR 132 thousand in the impairment of these receivables was recognised in retained earnings as of 1 January 2018.

The following table reconciles the carrying amounts of trade receivables under IAS 39 to the carrying amounts under IFRS 9 at the date of transition to IFRS 9 on 1 January 2018.

	Carrying amount under IAS 39 as of 31 December 2017	Remeasurement	Carrying amount under IFRS 9 as of 1 January 2018
Trade receivables			
Balance carried forward: Loans and receivables	82,303		
Remeasurement		-132	
Balance carried forward: Amortised cost			82,171
Total amortised cost	**82,303**	**-132**	**82,171**

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model of IAS 39 with an "expected credit loss" model. The new impairment model must be applied to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets that are subject to the impairment model under IFRS 9, the impairments are likely to be higher and more volatile. The Group has determined that the additional impairment losses of IFRS 9 as of 1 January 2018 are as follows:

	Carrying amount under IFRS 9 as of 1 January 2018
Impairment as of 31 December 2017 under IAS 39	**3,401**
Additional impairment losses as of 1 January 2018 of:	
Trade receivables as of 31 December 2017	132
Impairment as of 1 January 2018 under IFRS 9	**3,533**

1.4 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. 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.

1.5 Basis of consolidation

The companies included in the consolidation are Einhell Germany AG and a further 40 (previous year: 39) 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 financial year 2018, the Einhell Group closed and deconsolidated Einhell Norway AS and Einhell Ukraine GmbH. 49% of the shares in Einhell Nordic AS were sold in financial year 2018. Further, the Group founded ECOmmerce System GmbH, ECOmmerce System s.r.o. and Einhell US Holding Inc. Einhell Germany AG holds 100% of shares in the new companies; 90% of the shares in ECOmmerce System s.r.o. are held indirectly by Einhell Germany AG.

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).

1.6 Currency translation

The foreign subsidiaries 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 of the reporting date are valued at reporting date at the relevant daily exchange rate. Conversion differences from monetary transactions or the measurement of monetary line items of a company that vary from the exchange rates during the period in which they were originally valued, or in previous transactions, are recognised through profit or loss in the period in which they arose.

Financial statements of foreign subsidiaries are converted at the exchange rates applicable at the end of the year for the statement of financial position, and at average rates of exchange during the reporting year for the statement of income. All resulting translation differences are recognised in other comprehensive income and as an adjustment for currency conversion and in the difference (part of other reserves).

Since Argentina meets the criteria of a hyperinflationary economy under IAS 29, the financial statements of Einhell Argentina and the comparative figures for earlier periods were adjusted due to changes in the general purchasing power of the functional currency. The historical cost method was used for the financial statements. The overview below shows the price indices valid at the reporting date as well as changes in the index during the current and the previous period:

	Index: IPIM Nivel General	
	2018	2017
January	126.9887	101.5859
February	130.0606	103.6859
March	133.1054	106.1476
April	136.7512	108.9667
May	139.5893	110.5301
June	144.8053	111.8477
July	149.2966	113.7852
August	155.1034	115.3819
September	165.2383	117.5719
October	174.1730	119.3528
November	179.6388	120.9940
December	184.2552	124.7956

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

		Reporting date rate		Average rate	
		31.12.2018	31.12.2017	2018	2017
Australia	AUD	1.6247	1.5378	1.5799	1.4729
China	CNY	7.8426	7.8216	7.8074	7.6264
Hong Kong	HKD	8.9623	9.3867	9.2599	8.8012
UK	GBP	0.8981	0.8883	0.8848	0.8762
Switzerland	CHF	1.1266	1.1705	1.1549	1.1116
Turkey	TRY	6.0662	4.5493	5.6986	4.1214
USA	USD	1.1446	1.2010	1.1815	1.1293

1.7 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 manufacturing cost and amortised over their expected useful life. The period of use is usually three to five years.

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

- 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 five 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 contracts. Lease payments under these operating leases are taken into account on a straight-line basis over the term of the lease. For further details about lease obligations, see Section 7.1.

Inventories comprise raw materials and supplies, goods and 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 hedging instruments in hedge accounting (financial assets held for trading). Gains or losses from financial assets held for trading are recognised in profit or loss.

Non-derivative financial assets. The Group recognises impairment for expected credit losses (ECL) from financial assets measured at amortised cost and contract assets. The Group measures the impairment at the amount of the ECL over the term of the contract, except for the following impairments that are measured at the amount of the expected 12-month-credit loss such as bank balances, the default risk of which has not significantly risen since the initial recognition.

Impairments of trade receivables and contract assets are always measured at the amount of the expected credit loss over the term of the contract. In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, the Group considers appropriate and reliable information that is relevant and available without undue expense of time and money. This includes both quantitative and qualitative information and analyses based on the Group's past experience and sound estimates, including forward-looking information.

The Group considers a financial asset to be impaired if it is unlikely that the debtor will be able to pay its credit obligation in full, or if the financial asset is more than 360 days past due. The maximum period to be considered in estimating expected credit losses is the maximum contract period during which the Group is exposed to credit risk.

Measurement of expected credit losses Expected credit losses are the probability-weighted estimates of credit losses. Credit losses are measured as the present value of the defaults (i.e. the difference between the payments due to the company under the contracts and the payments expected to be received by the company).

Financial assets with impaired creditworthiness The Group assesses at each reporting date whether the creditworthiness of financial assets at amortised cost has been impaired. A financial asset's creditworthiness is impaired if one or more events with an adverse effect on the expected future cash flows of the financial asset occur. The following observable factors indicate that the creditworthiness of a financial asset is impaired:

- significant financial difficulties of the issuer
- a breach of contract such as default or amounts overdue by more than 360 days
- an active market for a security being eliminated due to financial difficulties

Presentation of the impairment for expected credit losses in the statement of financial position Impairments of financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment of financial assets The gross carrying amount of a financial asset is written down if the Group believes based on reasonable assessment, that it will not be possible to realise all or part of the financial asset. The Group writes off the gross carrying amount if the financial asset is more than 360 days past due; this is applied for all customers and based on experience in the realisation of such assets. In addition, the Group makes different adjustments for insured and uninsured receivables. Specific country risks are also considered in the calculation.

Equity investments at FVOCI. These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend is clearly covering some of the costs of the investment. Other net gains or losses are recognised in other comprehensive income, and are never reclassified to profit or loss.

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.

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

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

The percentage of equity allocated to **non-controlling interests** (minority shareholders) is recognised under equity in the statement of financial position. The allocable consolidated net profit and allocable other comprehensive income is recognised separately in the consolidated statement of income or in the consolidated 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 2.14% (previous year: 2.16%) was used, along with 1.60% (previous year: 1.46%) 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 measurement 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, 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, 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 throughout the 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.

For reasons of simplification, the Einhell Group continues to apply the provisions of IAS 39 to derivative financial instruments.

Revenue recognition. Revenue is recognised from the point in time when the goods are delivered to and accepted by the customer at the customer's premises (transfer of control). For contracts with customers that allow returns, revenue is recognised to the extent that it is highly probable that no material adjustment will have to be made to the cumulative revenue recognised. The amount of revenue recognised is therefore adjusted for expected returns estimated on the basis of historical data. In these cases, a reimbursement liability and an asset for the right to retrieve the products are recognised. The asset for the right to retrieve the products is measured at the previous carrying amount of the product less expected costs of retrieval. The reimbursement liability is included in other liabilities, and the right to retrieve the products is included in other assets. The Group reviews its estimates of expected returns at each reporting date and updates the amounts of assets and liabilities accordingly.

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.

1.8 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 policies 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 under IFRS, including the level in the fair value hierarchy to which this information is to be classified.

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

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

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

- Section 6 Risk report and financial instruments

Impairment of cash generating units. Estimates are made as part of impairment tests for non-financial assets in order to determine the realisable amount of a cash-generating unit. The main assumptions refer to future cash inflows and outflows for the planning period and for subsequent periods. The estimations refer mainly to future market shares and growth in the respective markets. Impairment tests were conducted for all companies with goodwill in 2018. 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 present value of defined benefit pension obligations. Discount factors are determined on the basis of returns 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 changes in non-current assets in financial year 2018

	Acquisition and manufacturing cost							Cumulated depreciation						Carrying amounts	
	1.1.2018	Additions	Change in consolidation	Re-classifications	Disposals	Currency differences	31.12.2018	1.1.2018	Depreciation in financial year	Changes in companies included in the consolidation	Disposals	Currency differences	31.12.2018	31.12.2018	31.12.2017
	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk	EURk
I. Intangible assets															
1. Acquired intangible assets	21.494	330	-6	61	-45	-62	21.772	16.496	1.237	-6	-	-55	17.672	4.100	4.998
2. Self-developed intangible assets	5.782	354	-	-	-	-	6.136	5.256	204	-	-	-	5.460	676	526
3. Acquired goodwill	14.747	-	-	-	-	-639	14.108	2.410	-	-	-	-16	2.394	11.714	12.337
	42.023	684	-6	61	-45	-701	42.016	24.162	1.441	-6	-	-71	25.526	16.490	17.861
II. Property, plant and equipment															
1. Land and buildings in company assets	32.873	674	-	605	-9	-60	34.083	19.465	747	-	-7	-19	20.186	13.897	13.408
2. Technical equipment and machinery	6.489	697	-	-	-10	-7	7.169	3.224	398	-	-7	-5	3.610	3.559	3.265
3. Other equipment, operating and office equipment	25.685	2.975	-39	-50	-383	-514	27.674	20.455	2.253	-39	-274	-300	22.095	5.579	5.230
4. Assets under construction	201	3.329	-	-616	-1	-	2.913	-	-	-	-	-	-	2.913	201
	65.248	7.675	-39	-61	-403	-581	71.839	43.144	3.398	-39	-288	-324	45.891	25.948	22.104
III. Financial assets (securities)	716	6	-	-	-4	-	718	3	-	-	-	-	3	715	713
	107.987	8.365	-45	-	-452	-1.282	114.573	67.309	4.839	-45	-288	-395	71.420	43.153	40.678

Statement of changes in non-current assets in financial year 2017

	Acquisition and manufacturing cost							Cumulated depreciation						Carrying amounts	
	1.1.2017	Additions	Change in 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

2.2 Intangible assets

	2018	2017
	EURk	EURk
Acquired intangible assets (without goodwill)	4,100	4,998
Self-developed intangible assets	676	526
Acquired goodwill	11,714	12,337
	16,490	**17,861**

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 2018, costs amounting to EUR 354 thousand (previous year: EUR 371 thousand) were capitalised for self-developed software that is to support the optimisation of service procedures within the Einhell Group. Expenses for product processing amounted to EUR 7.7 million (previous year: EUR 6.9 million) in financial year 2018. As in the previous year, none of these costs were capitalised as development expenses in 2018. 57 employees (previous year: 49 employees) were employed in this business unit.

Goodwill pertains to the following companies:

	2018	2017
	EURk	EURk
Ozito Industries Pty Ltd, Melbourne/Australia	5,225	5,520
Einhell Turkey Dis Ticaret Anonim Sirketi, Istanbul/Turkey	880	1,174
Einhell Export-Import GmbH, Tillmitsch/Austria	2,219	2,207
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	2,282	2,300
Einhell Romania SRL, Bucharest/Romania	914	912
Einhell LLC, St. Petersburg/Russia	194	224
	11,714	**12,337**

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 respective 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 cash generating units:

	2018	2017
	%	%
Terminal growth rate	1.25	1.25
Base rate	1.30	0.90
Market risk premium	7.00	6.60

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:

	2018	2017
	%	%
Ozito Industries Pty Ltd, Melbourne/Australia	10.03	8.95
Einhell Turkey Dis Ticaret Anonim Sirketi, Istanbul/Turkey	13.71	11.93
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	9.68	8.89

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 2018. 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

	2018	2017
	EURk	EURk
Land and buildings in company assets	13,897	13,408
Technical equipment and machinery	3,559	3,265
Other equipment, operating and office equipment	5,579	5,230
Advance payments and assets under construction	2,913	201
	25,948	**22,104**

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 4 thousand (previous year: EUR 1 thousand). The expected yield on securities ranges between 0% and 1% p.a.

The investment of EUR 319 thousand was made in 10% of the shares in Zhejiang Neo Energy Technology Co., Ltd., Ningbo/China.

2.5 Deferred taxes

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

	Deferred tax assets		Deferred tax liabilities		Net amount	
	2018	2017	2018	2017	2018	2017
Self-developed intangible assets and property, plant and equipment	6	7	1,452	1,591	-1,446	-1,584
Current assets	3,690	3,486	291	215	3,399	3,271
Other financial assets (at their fair values)	437	272	1,143	1,091	-706	-819
Provisions for pensions	534	504	0	0	534	504
Provisions for other risks	2,831	2,666	69	50	2,762	2,616
Other liabilities	440	377	155	191	285	186
Tax losses carried forward	1,117	1,186	0	0	1,117	1,186
	9,055	**8,498**	**3,110**	**3,138**	**5,945**	**5,360**

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 measurement 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 measurement 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

	2018	2017
	EURk	EURk
Raw materials and supplies (at acquisition cost)	461	343
Finished goods (at acquisition cost less impairment)	188,020	178,125
Advance payments	66	1,670
	188,547	**180,138**

In 2018, EUR 343 thousand (previous year: EUR 311 thousand) in raw materials and supplies, consisting primarily of packaging materials, were recognised as expense.

In summary, Einhell recognised impairments of EUR 8,260 thousand (previous year: EUR 6,328 thousand). No goods were transferred by way of security at the reporting date, as in the previous year. In financial year 2018, inventory write-downs of EUR 4,429 thousand (previous year: EUR 4,868 thousand) were recognised through profit or loss in the statement of income.

2.7 Trade receivables

Trade receivables are stated net of allowances for bad debts. In financial year 2018, these impairments amounted to EUR 527 thousand (previous year: EUR 478 thousand).

IFRS 9 replaces the “incurred loss” model of IAS 39 with an “expected credit loss” (ECL) model. The new impairment model was applied to trade receivables. The application of the ECL-model resulted in reversals of impairment losses of EUR 156 thousand in financial year 2018.

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 231 thousand (previous year: EUR 1,081 thousand) in the period under review. The maximum default risk corresponds to the carrying amount of the receivables. Of the total gross receivables, 85% (previous year: 89%) are not yet due on the reporting date.

Changes in impairments	2018	2017
	EURk	EURk
Amount at the beginning of the year	**3,401**	**4,350**
Impairments for bad debts	-51	-810
Amounts received for receivables written off	-12	-14
Currency difference	360	-125
Amount at the end of the year	**3,698**	**3,401**

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

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

The maturity structure of trade receivables is as follows:

2018	Net receivables	Value adjustment	Gross receivables
	EURk	EURk	EURk
Receivables not due and due in 1-120 days	87,331	327	87,658
Receivables due in 121-360 days	790	578	1,368
Receivables due in more than 360 days	0	2,793	2,793
	88,121	**3,698**	**91,819**

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**

2.8 Other financial assets

	2018	2017
	EURk	EURk
Non-current derivative financial instruments included in hedge-accounting	278	0
Financial assets measured at fair value through profit or loss	0	0
	278	**0**

	2018	2017
	EURk	EURk
Current derivative financial instruments included in hedge-accounting	3,290	3,396
Financial assets measured at fair value through profit or loss	1,208	1,227
	4,498	**4,623**

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

	2018	2017
	EURk	EURk
Non-current		
Income tax claims	0	0
Other	521	517
	521	**517**

	2018	2017
	EURk	EURk
Current		
Income tax claims	1,012	706
Contract assets	729	0
Other	21,742	20,901
	23,483	**21,607**

Contract assets include the claims of the Group to recover goods already delivered in the following year.

The other assets item also includes VAT receivables amounting to EUR 14,617 thousand (previous year: EUR 13,254 thousand). The highest 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:

	2018	2018
	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 5,158,496.00 for financial year 2018 (previous year: EUR 4,403,616.00). The distribution amount corresponds to a dividend of EUR 1.40 per preference share (previous year: EUR 1.20) and EUR 1.34 per ordinary share (previous year: EUR 1.14).

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 that 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 that have priority over or are equal with previously issued preference shares without voting rights in the distribution of profit or company assets.

Capital reserve

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

Retained earnings and consolidated net profit

This item includes the Group's accumulated net profit from previous years less dividend payments. The Annual General Meeting on 22 June 2018 resolved to pay a dividend in the total amount of EUR 4,403,616.00. 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

	2018			2017		
	EURk Before tax	EURk Tax	EURk After tax	EURk Before tax	EURk Tax	EURk After tax
Unrealised gains/losses from currency translation	-3,239	0	-3,239	-3,322	0	-3,322
Unrealised gains/losses from available-for-sale financial assets	-5	0	-5	1	0	1
Unrealised gains/losses from derivative financial instruments	-1,227	113	-1,114	2,001	-384	1,617
Unrealised gain/losses from IAS 19 revised – employee benefits	-178	54	-124	39	-13	26
Other comprehensive income	**-4,649**	**167**	**-4,482**	**-1,281**	**-397**	**-1,678**

2.12 Non-controlling interest

	2018	2017
	EURk	EURk
31 December	**2,041**	**1,882**
Adjustments resulting from first-time application of IFRS 15, after tax	-4	0
1 January	**2,037**	**1,882**
Capital contributions (incl. consolidation effects of EUR 7 thousand)	66	0
Disposals	0	0
Dividends	-200	-200
Unrealised gains from currency translation (= share in other comprehensive income)	-25	45
Share in consolidated net profit	263	314
31 December	**2,141**	**2,041**

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 2018:

	2018	2017	2016	2015	2014
	EURk	EURk	EURk	EURk	EURk
1 January	4,996	5,681	5,129	3,235	2,573
Current service expense (personnel expenses)	181	138	120	249	44
Interest expense (personnel expenses)	72	69	85	75	75
Actuarial losses and gains from changes in financial assumptions	174	-58	448	-217	647
Pension payments	69	-645	-147	-283	-104
Payments from employees	57	39	32	40	0
Other changes	0	-78	0	1,827	0
Currency difference	71	-150	14	203	0
31 December	**5,620**	**4,996**	**5,681**	**5,129**	**3,235**

Plan assets developed as follows in financial year 2018:

	2018	2017	2016	2015	2014
	EURk	EURk	EURk	EURk	EURk
1 January	1,880	2,467	2,367	668	664
Interest income	0	2	88	41	4
Other changes	310	-466	0	1,493	0
Currency difference	55	-123	12	165	0
31 December	**2,245**	**1,880**	**2,467**	**2,367**	**668**

	2018	2017	2016	2015	2014
	EURk	EURk	EURk	EURk	EURk
Present value of defined benefit obligations	5,620	4,996	5,681	5,129	3,235
Less fair value of plan assets	-2,245	-1,880	-2,467	-2,367	-668
Net obligations	**3,375**	**3,116**	**3,214**	**2,762**	**2,567**

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 1.7 Accounting and valuation principles.

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

Plan assets comprise

	2018	2017
	EURk	EURk
Pension funds	664	673
Qualified insurances	1,581	1,207
	2,245	**1,880**

Future payments

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

	Payments on plan assets
	EURk
2019	158
2020	162
2021	166
2022	170
2023	173
	829

Employer payments into plan assets will amount to around EUR 59 thousand in 2019.

In Germany, the weighted average term of defined benefit obligations for pensions is 17.7 years (previous year: 15.0 years), in Switzerland it is 16.7 years (previous year: 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%	2.64% future beneficiaries, 2.10% pensioners	3,221
Actuarial interest rate -0.5%	1.64% future beneficiaries, 1.10% pensioners	3,842
Life expectancy +1 year		3,688
iSC GmbH		
Actuarial interest rate +0.5%	2.64% future beneficiaries, 1.64% pensioners	53
Actuarial interest rate -0.5%	1.64% future beneficiaries, 1.10% pensioners	64
Life expectancy +1 year		61
Einhell Schweiz AG		
Actuarial interest rate +0.25		1,974
Actuarial interest rate -0.25		2,137
Life expectancy +1 year		2,091
Life expectancy -1 year		2,013

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 2018	7,616	15,072	22,688
Claims	3,450	6,292	9,742
Reversals	287	2,991	3,278
Additions	3,485	7,331	10,816
Currency translation effects and other changes	-246	-66	-312
31 December 2018	**7,118**	**13,054**	**20,172**

	Warranties	Other	Total
	EURk	EURk	EURk
31 December 2018			
Non-current	0	1,026	1,026
Current	7,118	12,028	19,146
31 December 2017			
Non-current	0	894	894
Current	7,616	14,178	21,794

Other provisions mainly comprise provisions for personnel and customer bonuses. The interest effect from discounting non-current provisions with a remaining term of more than one year is immaterial.

Non-current provisions contain primarily provisions for severance payments of Hans Einhell Österreich GmbH (EUR 101 thousand), Einhell Italia (EUR 816 thousand), Einhell France (EUR 69 thousand) and Einhell Turkey (EUR 40 thousand). The last cash outflow is expected in 2039.

2.15 Liabilities from debt capital

	2018	2017
	EURk	EURk
Non-current		
Loans, secured	38	0
Loans, unsecured	25,000	0
	25,038	**0**

	2018	2017
	EURk	EURk
Current		
Loans and overdrafts, secured	240	339
Loans and overdrafts, unsecured	21,378	22,088
	21,618	**22,427**
Thereof non-current loans maturing in the short term	17	0
Thereof loans and overdrafts maturing in the short term	21,601	22,427

Collateral in the total amount of EUR 278 thousand consisting mainly of cheques was furnished to secure liabilities from debt capital.

The Einhell Group also has conventional lines of credit that were only partially utilised in financial year 2018. Cash and cash equivalents, as well as equity, stood at very good levels in the reporting year.

The financial planning for the next five years was updated in financial year 2018. Based on this financial planning, Einhell Germany AG concluded long-term loans with three banks totalling EUR 25 million in order to finance Group growth and to secure the current low interest level.

2.16 Other financial liabilities

	2018	2017
	EURk	EURk
Derivative financial instruments included in hedge-accounting	2,182	578
Financial liabilities measured at fair value through profit or loss	482	524
	2,664	**1,102**

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

	2018	2017
	EURk	EURk
Non-current	100	0
Current	25,542	27,208
	25,642	**27,208**

Other current liabilities include contract liabilities amounting to EUR 1,058 thousand. Contract liabilities refer to the Group's obligation to take back delivered goods in the following year.

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 effects from the first-time application of IFRS 15 on revenue from contracts with customers is described in item 1.3. Given the transition method chosen for IFRS 15, the comparative information was not adjusted to the new provisions. Revenue was reduced as at 31 December by EUR 1,061 thousand (previous year: EUR 400 thousand) due to the application of IFRS 15.

The Einhell Group only generates revenue from contracts with customers.

All revenue is realised at a point in time. Products and services, the revenue of which is generated over time, do not exist.

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	2018		2017		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	229,143	39.7	219,962	39.8	9,181	4.2
Western Europe	114,354	19.8	103,569	18.7	10,785	10.4
Eastern Europe	69,750	12.0	67,695	12.2	2,055	3.0
Overseas	126,468	21.9	135,408	24.5	-8,940	-6.6
Other	38,188	6.6	26,718	4.8	11,470	42.9
	577,903	**100.0**	**553,352**	**100.0**	**24,551**	**4.4**

3.2 Other own work capitalised

Own work capitalised amounts to EUR 264 thousand in the financial year (previous year EUR 0) and mainly refers to the development of own software solutions.

3.3 Other operating income

	2018	2017
	EURk	**EURk**
Income from the reversal of warranty provisions	287	101
Commission income	1,236	1,057
Income from costs for inspection of goods charged to suppliers	61	432
Income from costs charged to suppliers (waste disposal, freight)	468	883
Income from the receipt of receivables that had been written off and from the reversal of the allowance for doubtful receivables	231	1,081
Proceeds from disposal of fixed assets	32	97
Income from the reversal of other provisions	3,278	1,639
Income from the non-utilisation of expected costs set aside for streamlining the product range	2,173	0
Income from letting and leasing	214	247
Income from damage compensation	238	926
Income from PV plant	512	485
Other income	2,253	880
	10,983	**7,828**

3.4 Cost of materials

	2018	2017
	EURk	**EURk**
Expenses for raw materials and supplies and purchased goods	380,204	361,905
Expenses for purchased services	36	26
	380,240	**361,931**

3.5 Personnel expenses

	2018	2017
	EURk	**EURk**
Wages and salaries	64,921	62,138
Social security contributions	11,169	10,036
Expenses for old-age pensions	153	183
	76,243	**72,357**

Number of employees (annual average)	2018	2017
	Number	**Number**
D/A/CH region	638	587
Western Europe	145	139
Eastern Europe	252	247
Overseas	195	200
Other	339	305
	1,569	**1,478**

3.6 Depreciation and amortisation

	2018	2017
	EURk	**EURk**
Amortisation of intangible assets (without goodwill)	1,441	2,121
Depreciation of property, plant and equipment	3,398	3,123
	4,839	**5,244**

Purchase price allocation leads to amortisation of intangible assets of EUR 822 thousand (previous year: EUR 1,643 thousand).

3.7 Other operating expenses

	2018 EURk	2017 EURk
Rent expenses	3,329	3,155
Expenses for buildings including maintenance of fixed assets	2,247	2,251
Legal and consulting expenses	3,389	3,558
Expenses for external stock keeping	11,354	8,539
Expenses on freight outward	20,092	18,605
Advertising expenses	19,526	12,992
Commission expenses	2,895	2,836
Fleet expenses	2,361	2,252
Expenses from purchase price adjustments	0	2,176
Expenses from bad debts and valuation allowances on receivables	886	689
Expenses for hardware and software as well as office equipment	2,459	2,409
Insurance expenses	1,372	1,310
Travel costs	3,227	2,993
Fees and contributions	1,236	1,222
Waste disposal costs	1,426	1,373
Miscellaneous other operating expenses	13,129	16,776
	88,928	**83,136**

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.

3.8 Financial result

	2018 EURk	2017 EURk
Interest income	164	199
Interest expenses	-1,505	-2,208
Expenses/income from currency translation/hedging	-1,362	-779
	-2,703	**-2,788**
thereof interest income from hedging instruments	0	0
thereof interest expenses for hedging instruments	0	0
thereof expenses/income from hedging instruments	775	1,591

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 5,857 thousand and financial costs of EUR 8,560 thousand. The Group's financial income and financial costs refer to interest income, interest expenses and gains and losses from currency translation of financial assets and financial liabilities.

3.9 Income taxes

	2018	2017
	EURk	**EURk**
Actual tax expenses	10,372	16,273
Deferred taxes	-472	-2,108
	9,900	**14,165**

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 securities are only recognised in other comprehensive income. Deferred tax assets on changes in the fair value of cash flow hedges amount to EUR 437 thousand (previous year: EUR 272 thousand), while the corresponding deferred tax liabilities come out to EUR 1,143 thousand (previous year: EUR 1,091 thousand).

The subsidiaries capitalised deferred taxes from loss carryforwards of EUR 1,117 thousand (previous year: EUR 1,186 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 2018, no deferred tax assets were recognised for loss carryforwards of EUR 12,914 thousand (previous year: EUR 17,392 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 3,886 thousand as at the reporting date (previous year: EUR 3,321 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:

	2018	2017
	EURk	EURk
Expected tax expenses	10,859	10,717
Tax expenses/income from intra-Group income/expenses	-86	-169
Goodwill impairment	0	0
Other non-tax-deductible expenses	537	1,929
Differing foreign tax rates	-1,560	-2,858
Tax free income	-235	-1,015
Changes in loss carryforwards	69	-209
Taxes of previous years	316	5,770
Reported tax expenses	**9,900**	**14,165**

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% (2017: 30.0%).

In December 2017, several amendments to tax laws were adopted in the USA, including a reduction of the corporate tax rate from 35% to 21%. This change has no effects on the Einhell Group.

3.10 Earnings per share

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

4. Segment reporting

4.1 Segment reporting by region

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 reconciliation item almost exclusively reflects consolidation effects. The reconciliation of profit before income taxes also includes effects from purchase price allocation.

2018	Revenue by invoicing party	Revenue by invoice recipient	EBT	Depreciation and amortisation
	EURk	EURk	EURk	EURk
D/A/CH region	229,143	222,480	8,000	1,758
Western Europe	114,354	137,470	4,790	248
Eastern Europe	69,750	76,828	5,674	518
Overseas	126,468	137,036	13,046	756
Other countries	38,188	4,089	3,518	742
Reconciliation	0	0	1,169	817
Einhell Group	**577,903**	**577,903**	**36,197**	**4,839**

The German companies generated revenue of EUR 211.0 million. The companies with the strongest revenue in Western and Eastern Europe are Einhell France with EUR 34.5 million, Einhell UK with EUR 26.4 million and Einhell Italy with EUR 25.4 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 104.8 million. Revenue in Other countries was mainly generated by the procurement companies in Hong Kong.

2018	Financial result	Interest income	Interest expenses	Non-current assets excl. deferred tax assets
	EURk	EURk	EURk	EURk
D/A/CH region	1,209	3,636	-1,257	19,102
Western Europe	-1,130	1	-1,096	2,952
Eastern Europe	-1,131	62	-1,218	9,525
Overseas	-1,191	678	-2,009	10,042
Other countries	-161	238	-218	2,331
Reconciliation	-299	-4,451	4,293	0
Einhell Group	**-2,703**	**164**	**-1,505**	**43,952**

The share of non-current assets pertaining to Germany is EUR 16,760 thousand.

2018	Non-cash income	Non-cash expenses	Inventories	Depreciation of inventories
	EURk	EURk	EURk	EURk
D/A/CH region	-92	0	86,155	1,383
Western Europe	-65	103	47,488	1,107
Eastern Europe	-604	3	28,222	847
Overseas	-3	1,901	36,271	1,092
Other countries	0	0	793	0
Reconciliation	-481	163	-10,382	0
Einhell Group	**-1,245**	**2,170**	**188,547**	**4,429**

2017	Revenue by invoicing party	Revenue by invoice recipient	EBT	Depreciation and amortisation
	EURk	EURk	EURk	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**

In financial year 2017, EUR 125,086 thousand were generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. In the past financial year 2018, EUR 103,919 thousand were generated with one customer, corresponding to more than 10% of the Einhell Group's revenue. This revenue was generated in the Overseas region.

4.2 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.

5. Notes to the consolidated statement of cash flows

The consolidated statement of cash flows shows the development of cash flows by inflows and outflows 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 10,725 thousand at the end of the year and the decrease in trade payables of EUR 16,978 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 and advance payments.

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 2018	22,427	0	1,102	23,529
Cash changes	26,541	0	131	26,672
Non changes in cash	0	0	1,431	1,431
Changes from currency translation	-2,312	0	0	-2,312
31 December 2018	**46,656**	**0**	**2,664**	**49,320**

6. Risk report and financial instruments

6.1 Financial risk management

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

6.2 Default risk

Einhell's corporate policy is to minimise default risk from both 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 required collateral 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 88.1 million (previous year: EUR 82.3 million). In financial year 2018, there were no significant receivables for which new terms of payment were agreed. Whenever the term of payment was extended, sufficient collateral was furnished to eliminate the risk for the Einhell Group. The fair value of the collateral amounts to EUR 3.8 million.

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

The Group allocates each risk a default risk class, which is based on data that have been shown to be suitable for predicting the default risk. Default risk classifications are defined by means of qualitative and quantitative factors that indicate the default risk. Within in each of these default risk classes, the default risks are broken down by geographic region. A credit default rate representing the expected credit loss is calculated for each region based on the default status and actual credit losses over the last five years. These rates are multiplied by scaling factors in order to account for the differences between economic conditions. The following table contains information on the default risk and the expected credit losses for trade receivables as of 31 December 2018.

	Loss rate	Gross carrying amount	Value-adjustment	Creditworthiness impaired
	%	EURk	EURk	EURk
Low risk	0.84%	87,659	736	No
Medium risk	16.91%	760	129	No
Below average	22.91%	368	84	No
Doubtful	32.04%	239	77	Yes
Loss	95.67%	2,793	2,672	Yes
		91,819	**3,698**	

The default risk for trade receivables as of 31 December 2018, broken down by geographic region, is as follows:

	2018	2017
	EURk	EURk
D/A/CH region	27,501	24,619
Western Europe	27,961	27,519
Eastern Europe	18,562	19,418
Overseas	8,008	9,280
Other countries	6,089	1,467
Total	**88,121**	**82,303**

The default risk for trade receivables as of 31 December 2018, broken down by insured and not insured trade receivables, is as follows:

	2018	2017
	EURk	EURk
insured	44,529	38,102
not insured	43,592	44,201
Total	**88,121**	**82,303**

The following table shows a summary of the default risk for trade receivables and contract assets.

	2018	2017
	EURk	EURk
D/A/CH region	28,158	25,099
Western Europe	28,816	28,366
Eastern Europe	20,619	21,359
Overseas	8,137	9,411
Other countries	6,089	1,469
Total gross carrying amount	**91,819**	**85,704**
Impairment	-3,698	-3,401
Total net carrying amount	**88,121**	**82,303**

The analysis of the recoverability and maturity structure of trade receivables that are neither overdue nor impaired is as follows as of 31 December 2018:

	2018	2017
	EURk	EURk
neither overdue nor impaired	75,163	74,073
	75,163	**74,073**
overdue, but not impaired	0	0
Total non-impaired receivables	**75,163**	**74,073**

Derivatives are acquired from well-known financial institutions; therefore, the Group expects that the maximum default risk from derivatives is covered by their positive market value.

The positive market value of all derivative financial instruments as of the reporting date is EUR 4,776 thousand.

Bank balances amounted to EUR 14.1 million on the reporting date (previous year: EUR 14.4 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 supplier relationships, which are monitored continuously as a key element of quality management.

6.3 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. Because 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 76 thousand.

6.4 Liquidity risk

Liquidity risk is the possibility that a company will no longer be in a position to meet its financial obligations (such as repayment of financial liabilities or payment for orders). The Einhell Group limits this risk by using effective management of net working capital and cash and traditional credit lines from well-known banks. At the reporting date, the Group had approx. EUR 143.0 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 2018 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.

	2019	2020	2021-2023	2024 ff.
	EURk	EURk	EURk	EURk
Non-current liabilities to banks	193	2,537	9,778	13,491
Trade payables	68,483	0	0	0
Other current liabilities	28,206	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, Excel-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 450.5 million and cash outflows corresponding to about EUR 444.4 million were open. Sensitivities are specified under foreign currency risks.

6.5 Foreign currency risks

Due to the international nature of its operations, the Einhell Group is exposed to currency 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 mostly hedged, so there is no concentration of risk here. The hedging rate is determined on the basis of previously defined thresholds. This threshold changes constantly, and a percentage of the gross exposure is designated.

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. An exchange rate fluctuation of 10% would lead to a currency translation gain or loss before tax of EUR 26,045 thousand or EUR -24,146 thousand, respectively, which, under cash flow hedge accounting, would be recognised 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 1,385 thousand or EUR -1,140 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 2018	Gross amount shown	Offsetting amount	Net amount shown
	EURk	EURk	EURk
Derivatives with positive market values	4,776	0	4,776
Derivatives with negative market values	2,664	0	2,664

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	
	2018	**2017**	**2018**	**2017**
Currency futures	172,040	157,053	3,568	3,396
	172,040	**157,053**	**3,568**	**3,396**

Financial instruments with a negative market value to cash flow hedge	Nominal volume EURk		Market value EURk	
	2018	**2017**	**2018**	**2017**
Currency futures	175,579	59,751	2,182	578
	175,579	**59,751**	**2,182**	**578**

The underlying transactions refer to contracted and planned purchases. Most of the cash flows are expected within a period of 12 months and are recognised in the acquisition cost of inventories. The ineffectiveness of cash flow hedges incorporated in hedge accounting is immaterial given the short-term nature of hedge accounting. Ineffectiveness may result from both over-hedges and under-hedges.

The nominal volume of derivatives that have a maturity of more than 12 months on the reporting date amounts to EUR 17,780 thousand. The market value of the derivatives amounts to EUR 278 thousand.

EUR 1,114 thousand in changes in the value of financial instruments in relation to the cash flow hedge were recognised in equity in 2018. The change in the value of the underlying hedged items is also EUR 1,114 thousand. Retired items from equity through profit or loss amounted to EUR 1,954 thousand. Derivatives no longer subject to hedge accounting in financial year 2018 have a market value of EUR 417 thousand. EUR 292 thousand were derecognised in other comprehensive income (OCI).

Cash flow hedging

The Group mainly controls and monitors these risks through its operating business and financing activities and uses derivative financial instruments whenever required. The Einhell Group only uses such instruments when needed to hedge financial risks resulting from the operating business or refinancing activities.

As of 31 December 2018, the Group held the following instruments to hedge against currency translation and interest rate risks.

Hedge against material currency translation risks	Maturity up to one year	more than one year
Currency futures		
Net risk in EURk	345,957	17,780
Hedge against material currency translation risks	**Delta reporting date rate vs. hedging rate in %**	
CNY	-3% to 9%	4% to 11%
USD	-31% to 16%	
GBP	-1% to 1%	
AUD	-1% to 1%	
Interest rate risk		
Interest rate swaps		
Net risk in EURk	(*)	(*)
Average fixed interest rate	(*)	(*)

(*) As at 31 December 2018, the portfolio contained no interest rate derivatives

6.6 Market values and carrying amounts of financial instruments

Pursuant to IAS 39, financial instruments (assets and liabilities) are allocated to different measurement categories. The allocation to a particular measurement category determines the recognition of the financial instrument at its 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.

2018 in EURk	Carrying amount								Fair value			
	Measurement at FVTPL is mandatory – others	Measured at fair value	Fair value – hedging instruments	Held to maturity	Financial assets at amortised cost	FVOCI – equity instrument	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value												
Currency futures used for hedging purposes			3,568					3,568		3,568		3,568
Hedging derivatives not subject to hedge accounting	1,208							1,208		1,208		1,208
Securities						396		396		396		396
Equity investments	319							319			319	319
	1,527		3,568			396		5,491				
Financial assets not measured at fair value												
Trade receivables					88,121			88,121				
Other assets					8,043			8,043				
Cash and cash equivalents					14,097			14,097				
					110,261			110,261				
Financial liabilities measured at fair value												
Currency futures used for hedging purposes			2,182					2,182		2,182		2,182
Hedging derivatives not subject to hedge accounting	482							482		482		482
Contingent consideration												
	482		2,182					2,664				
Financial liabilities not measured at fair value												
Loans and overdrafts, secured							278	278				
Loans and overdrafts, unsecured							45,430	45,430				
Trade payables							68,483	68,483				
							114,191	114,191				

2017 in EURk	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
	Carrying amount								Fair value			
Financial assets												
measured at fair value												
Currency futures												
used 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				
Financial assets												
not measured at fair value												
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												
used 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				

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 Turkey.

Net gains and net losses from financial instruments	2018	2017
	EURk	EURk
Mandatory measurement at FVTPL – others	775	1,591
of which interest result	0	0
Financial assets at amortised cost	-2,224	-488
of which interest result	-1,341	-1,903
Contingent consideration recognised at FVTPL	8	-2,020
of which interest result	0	-106

Fair value measurement

a) Valuation techniques and material, unobservable input factors

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

Financial instruments measured at fair value

Type	Valuation technique	Material unobservable input factors	Relation between material unobservable input factors and measurement at fair value
Contingent considera-tion	Discounted cash flows: The valuation model considers the present value of expected payments, discounted for a risk-adjusted discount rate.	N/A	N/A
Equity investments	*Market comparison method:* The valuation model is based on price quotes by brokers. Similar contracts are traded on an active market, and the price quotes reflect actual transactions for similar in-struments.	Adjusted price quote	The estimated fair value would rise (fall) if the quote were higher (lower)
Currency futures	Forward rate pricing: The fair value is determined by using forward rates quoted on the reporting date and net cash value calculations that are based on yield curves with strong creditworthiness in the corresponding currencies.	N/A	N/A
Interest rate swaps	Swap models: The fair value is calculated as the present value of estimated future cash flows. The estimates of cash flows from variable interest payments are based on quoted swap rates, future prices and interbank interest rates. The estimated cash flows are discounted by using a yield curve constructed on the basis of a similar source that reflects the relevant com-parable interbank interest rate that is used by market partici-pants to find the prices for in-terest swaps. The estimate of the fair value is adjusted for the credit risk that reflects the credit risk of the Group and the counterparty; this is calculated on the basis of credit spreads derived from credit default swap prices or bond prices.	N/A	N/A

Financial instruments not measured at fair value

Other financial liabilities (secured and unsecured bank loans, liabilities from finance leases)	*Discounted cash flows*	N/A	N/A

b) Reclassifications between level 1 and level 2

No reclassifications were performed in 2017 and 2018 in either direction.

c) Fair values in level 3

Reconciliation of fair values in level 3

Contingent consideration	
	EURk
As of 1 January 2017	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 borrowing expenses	106
Currency translation effects recognised in exchange equalisation item	-262
Earn-out payment Einhell Turkey	-523
Adjustment of earn-out liabilities Einhell Turkey	109
As of 31 December 2017	**746**
Earn-out payment Einhell Turkey	-738
Adjustment of earn-out liabilities Einhell Turkey	-8
As of 31 December 2018	**0**

The Group holds interests in Zhejiang Neo Energy Technology Co. Ltd., Ningbo/China, the fair value of which amounts to EUR 319 thousand on 31 December 2018. The fair value is classified as level 3. As this interest is considered immaterial, no sensitivity analysis was conducted as at 31 December 2018.

There were no reclassifications from or to level 3.

7. Other notes

7.1 Other financial obligations

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

	Total	up to one year	one to five years	more than five years
	EURk	EURk	EURk	EURk
Obligations from rental contracts	5,483	2,044	3,439	0
Obligations from leasing contracts	3,215	1,602	1,613	0
Obligations from marketing contracts	4,108	808	3,300	0
	12,806	**4,454**	**8,352**	**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 2018, the payments for operating leases amounted to EUR 613 thousand (previous year: EUR 625 thousand).

7.2 Corporate Governance Code

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

7.3 Related party disclosures

On 24 October 2002, Thannhuber AG, Landau a. d. Isar, submitted a notification pursuant to Section 21 (1) of the Securities Trading Act (WpHG) that its share of voting rights in Einhell Germany AG had exceeded the 75% threshold on 13 October 2002. Thannhuber AG is therefore the controlling shareholder of Einhell Germany AG. The following 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 and member of the Board of Directors 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 financial year 2018, Philipp Thannhuber and Dr Markus Thannhuber received remuneration for their activities in the executive bodies of Einhell Germany AG.

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

	Value of transactions		Outstanding balances as of 31 December	
	2018	**2017**	**2018**	**2017**
Consulting (*)	27	13	13	0

(*) 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. 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 sold small amounts of goods to Comedes GmbH. iSC GmbH shipped a small amount of palleted goods on behalf of Comedes GmbH. The revenue from these shipping and sales services is immaterial and was carried out at usual market conditions.

Einhell Germany AG and its subsidiaries did not carry out any legal transactions with Thannhuber AG and its related parties during financial year 2018 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.

7.4 Remuneration of the Board of Directors and Supervisory Board

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

	2018	2017
	EURk	**EURk**
Short-term payments	4,615	4,496
Payments after termination of employment	1,218	1,106
	5,833	**5,602**

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 2018, the total remuneration of the Board of Directors of Einhell Germany AG amounted to EUR 4,615 thousand (previous year: EUR 4,496 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 1,218 thousand were recognised in liabilities.

Pension provisions of EUR 1,875 thousand (previous year: EUR 1,909 thousand) were set aside for former members of the Board of Directors. Pension benefits in the amount of EUR 111 thousand were paid out to former members of the Board of Directors during the year under review.

The total remuneration of the Supervisory Board amounted to EUR 105 thousand (previous year: EUR 111 thousand) in the past financial year.

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

7.5 Auditor fees

Fees for the auditor KPMG AG entered as expense amount to EUR 179 thousand in the year under review (previous year: EUR 217 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.

8. List of shareholdings

	Capital share	Equity
	%	31.12.2018
iSC GmbH, Landau a. d. Isar/Germany	100.0	1,144
Hansi Anhai Far East Ltd., Hong Kong/China	100.0	5,211
HAFE Trading Ltd., Hong Kong/China	100.0	5,041
Hans Einhell China (Chongqing) Co. Ltd., Chongqing/China	100.0	1,361
Hansi Anhai Youyang Ltd., Chongqing/China	100.0	11,490
Hans Einhell (China) Trading Co., Ltd., Shanghai/China	100.0	2,370
Einhell Österreich Gesellschaft m.b.H., Vienna/Austria	100.0	3,215
Einhell Portugal – Comércio Int., Lda., Arcozelo/Portugal	100.0	3,694
Einhell Benelux B.V., Breda/Netherlands	100.0	707
Einhell Italia s.r.l., Milan/Italy	100.0	11,145
Comercial Einhell S.A., Madrid/Spain	100.0	3,889
Einhell Polska Sp.z o.o., Wroclaw/Poland	90.0	9,775
Einhell Hungaria Kft., Budapest/Hungary	100.0	1,547
Einhell Schweiz AG, Winterthur/Switzerland	100.0	2,908
Einhell UK Ltd., Merseyside/UK	100.0	1,997
Einhell Bulgarien OOD., Varna/Bulgaria	67.0	824
Einhell Export-Import GmbH, Tillmitsch/Austria	100.0	1,790
Einhell Croatia d.o.o., Sveti Križ Začretje/Croatia	100.0	6,882
Einhell BiH d.o.o., Vitez/Bosnia	66.7	2,630
Einhell d.o.o. Beograd, Belgrade/Serbia	100.0	2,161
Einhell Romania SRL, Bucharest/Romania	100.0	3,965
Svenska Einhell AB, Malmö/Sweden	100.0	171
Einhell Holding Gesellschaft m.b.H., Wels/Austria	100.0	148
Einhell-Unicore s.r.o., Carlsbad/Czech Republic	100.0	2,185
Einhell Turkey Dis Ticaret Anonim Sirketi, Istanbul/Turkey (formerly: Einhell Intratek Mühendislik ve Dis Ticaret Anonim Sirketi)	100.0	3,366
Anxall Hellas A.E., Athens/Greece	98.1	2,988
Einhell Chile S.A., Santiago/Chile	100.0	2,385
Einhell Nordic AS, Silkeborg/Denmark	51.0	-94
Einhell France SAS, Villepinte/France	100.0	3,605
Einhell Australia PTY. Ltd., Melbourne/Australia	100.0	-8
Einhell Argentina S.A., Buenos Aires/Argentina	100.0	1,058

	Capital share	Equity
	%	31.12.2018
kwb Germany GmbH, Stuhr/Germany	100.0	1,761
Einhell LLC, St. Petersburg/Russia (formerly: OOO KWB-RUS, St. Petersburg/Russia)	100.0	1,249
Hans Einhell Ukraine TOV, Kiev/Ukraine	100.0	761
Einhell Holding Australia Pty. Ltd., Melbourne/Australia	100.0	24,436
Einhell Colombia S.A.S., Bogota/Colombia	100.0	-99
Ozito Industries Pty Ltd, Melbourne/Australia	100.0	14,707
ECOmmerce System GmbH, Landau a. d. Isar/Germany	100.0	1,975
ECOmmerce System s.r.o., Prague/Czech Republic	90.0	395
Einhell US Holding Inc., Dover/USA	100.0	-90
Zhejiang Neo Energy Technology Co. Ltd., Ningbo/China	10.0	(*)

(*) So far, no annual financial statements have been presented for 2017 and 2018.

9. Executive bodies

9.1 The Board of Directors

In financial year 2018, 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 control, services, IT, maintenance and product management

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

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

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

9.2 Supervisory Board

In financial year 2018, 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 University of Stuttgart, Stuttgart President of acatech – National Academy of Science and Engineering e.V., Munich	Chairman
Philipp Thannhuber, Landau a. d. Isar Managing Director of Comedes GmbH, Wallersdorf and of WOTOX GmbH, Landau a. d. Isar Member of the Board of Directors Thannhuber AG, Landau a. d. Isar (since 12 December 2018)	Deputy Chairman
Maximilian Fritz, Wallersdorf - Haidlfing, Sales support	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

Landau a. d. Isar, 29 March 2019

Einhell Germany AG

The Board of Directors

Andreas Kroiss Jan Teichert Dr Markus Thannhuber

Einhell Germany AG, Landau a. d. Isar

Group Management Report for the financial year 2018

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

1.1 General operations and business segments

Einhell Germany AG, with its registered office in Landau an der Isar (Germany), is the parent company of the international Einhell Group. For 55 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, specialist stores, e-commerce platforms and other sales channels with a wide range of DIY products. The Group is increasingly taking 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”, Einhell has also set its focus 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 approx. 1,600 employees worldwide. Group revenue amounted to EUR 578 million in financial year 2018 (previous year: EUR 553 million).

The 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 40 subsidiaries that are all legally independent companies. It holds 100% of the shares in subsidiaries with a centralised or special function such as services, product sourcing/product processing, procurement/purchasing and quality control/quality assurance. The Group also usually fully owns the global distribution companies.

In all 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 2018:

In financial year 2018, the Einhell Group closed and deconsolidated Einhell Norway AS and Einhell Ukraine GmbH. 49% of the shares in Einhell Nordic AS were sold in financial year 2018. Further, the Group founded ECOmmerce System GmbH, ECOmmerce System s.r.o. and Einhell US Holding Inc. Einhell Germany AG holds 100% of shares in the new companies; 90% of the shares in ECOmmerce System s.r.o. are held indirectly by Einhell Germany AG.

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 2018:

Supervisory Board	2018
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 individual performance-based components depend on factors such as consolidated net profit, segment earnings in the previous financial year, the development of the Group's asset structure 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. Commitments were made to pay a pension to the members of the Board of Directors in the form of annuity payments that can be paid out as soon as the respective Board member turns 60 and the amount of which is based on the Board member's years of service. 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 2018. There was no major change to the division of responsibilities between the members of the Board of Directors.

1.3 Corporate strategy and management

Trends and challenges

As in previous years, the further establishment of the **EINHELL brand** will continue to be a major task. Next year we will extend our Austrian TV campaign to Germany, Switzerland and Poland. Moreover, we will strengthen our A brand positioning by further expanding our point of sale activities. In this context, we will implement a flagship store concept in some of the German markets with high brand awareness at the point of sale and initiate active promotion campaigns supported by merchandisers. In addition to an appealing presentation of the products at the point of sale, good service is crucial. In order to guarantee the best customer service in the DIY sector, we intend to further roll out the corresponding structures to certain additional countries.

One important factor for establishing a strong brand is a **product range policy** that is tailored to the customers' needs. We will continue to focus on our key product groups, where we are striving for market leadership. Products with a weak sales performance will be removed from the portfolio to avoid wasting resources outside of our core competencies. Supported by computerised product and portfolio management, product decisions can be made in a more sustainable manner in the future. In 2019, we will acquire international e-commerce data and calculate the market models within an international context. We are also planning to establish the same BI-based services for product and product range decisions in category management.

With our Power X-Change battery platform, we aim to become the strategic industry leader in the field of battery replacement systems. We are planning to provide at least 130 Power X-Change devices on our platform by the end of 2019. In addition to the partner we have already won for our battery system, we intend to open the platform for at least another two partners. In order to provide cutting edge cell and charging technology, we will enter into cooperation projects with research institutes.

In order to meet our forecasts, it must be guaranteed that we can procure the relevant goods and services. 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.

We will further expand our **international distribution network**. First, the existing distribution subsidiaries must seek to further exploit the existing potential on the market and, second, we intend to open up and expand additional new markets. In 2019, we will focus on establishing distribution activities in the USA, Scandinavia and Central/South America in the countries of Mexico, Costa Rica, Peru, Panama and El Salvador. In South Africa, we intend to tap into the market via a strong business partnership.

Digitalisation is a great challenge we believe offers just as many opportunities. On the one hand, we have already been actively pursuing the issue of digitalisation and, on the other hand, many digitalisation steps have already been implemented in the corporate processes or are being implemented at present. The agility of our organisation puts us in a position where we can incorporate digitalisation aspects with high value-added potential into our processes and thereby increase efficiency. In addition to our processes, we are also intensively working on using the advantages of digitalisation on our range of products and services.

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 2019 was drawn up, several strategic targets for the coming years were defined.

The **expansion of our distribution network** is an important strategic goal. Einhell US Holding Inc. was founded in 2018. After the end of the contract negotiations, the Company will have a defined option to acquire an interest in a newly founded company together with a strategic partner. The partner has a well-established distribution network in the USA and will be in charge of distributing our products. We are still continuing to focus also on countries in South and Central America and South Africa. At present, we are exploring the markets and searching for suitable cooperation partners. In addition, we will also further develop and expand our strategic partnerships in markets such as Denmark. The successful partnerships we have been setting up in more and more countries promote the strong market presence of our products. This year, too, we intend to enter into new partnerships.

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. The offering of our Einhell Academy will be further developed to prepare our staff for the current and future challenges in their day-to-day work. In this context, we will focus on a structured project management process. Another important objective is to share knowledge on all our key product groups with our employees via a central training platform and to teach them how to use the most important tools. To ensure efficient planning, management and control within the Group and across all subsidiaries in the long term, we will prepare a concept for our future ERP strategy. Moreover, we will further integrate and align our existing ERP systems.

In addition to these digitalisation plans, we see considerable efficiency enhancement potential in the field of **supply chain management**, which should have a positive effect on cash flows. In 2019, 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 as well as the implementation of a new warehouse management system at the Landau location.

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 2019. In addition to a manufacturer of household appliances, we intend to integrate further brand partners in our platform. In order to be able to develop cutting edge cell and charging technology and to further promote our Power X-Change system, we will enter into cooperation relationships with research institutes. We intend to get patents for the product advantages that directly benefit the consumer.

1.4 Product processing and quality management

Product processing

Product processing expenses amounted to EUR 7.7 million in financial year 2018 (previous year: EUR 6.9 million). 57 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.

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 in financial year 2018 compared to the previous financial year. On average, the Einhell Group had 1,569 employees (previous year: 1,478). Revenue per employee was EUR 368 thousand (previous year: EUR 374 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/de/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 2018, the price-adjusted gross domestic product (GDP) in Germany was 1.5% higher than in the previous year. The German economy has thus grown for nine years in a row, although the growth has lost some of its momentum.

On average, consumer prices in Germany increased by 1.9% year-on-year in 2018. According to the Federal Statistical Office, the 2018 inflation rate was thus slightly higher than in the previous year (2017: 1.8%). As measured by the consumer price index, the inflation rate decreased considerably in December 2018 compared to the preceding months, and fell to 1.7%.

The harmonised index of consumer prices (HICP), which is calculated for European purposes, increased by an average of 1.9% year-on-year in Germany in 2018. In December 2018, the HICP was 1.7% above the level seen in December 2017.

The German DIY trade companies continued their successful business in financial year 2018. The DIY sector's total gross revenue of EUR 18.75 billion translates into revenue growth of 1.6% in the past year. Even on a like-for-like basis, the sector achieved a solid growth rate of 1.3% despite the difficult weather conditions. In 2018, customer demand for DIY products via e-commerce sales channels further increased as it did in the last few years.

Western and Eastern Europe

Between October and December, the gross domestic product in the eurozone countries rose by 0.2% on the previous quarter. In the fourth quarter, Spain was the strongest national economy with 0.7% growth. France posted growth of 0.3%. In the Eastern and Western European markets that are relevant for the Einhell Group, economic performance showed the following trend:

Western Europe	2018	2017
	%	%
Spain	2.7	3.1
France	1.6	1.8
UK	1.4	1.7
Italy	1.2	1.5

Eastern Europe	2018	2017
	%	%
Croatia	2.8	2.8
Poland	4.4	4.6
Romania	4.0	7.0
Czech Republic	3.1	4.3

The unemployment rate in the eurozone still stood at the lowest level in ten years in December. According to the European statistical authority Eurostat, the unemployment rate amounted to 7.9% as in the previous month. However, the discrepancies between the national labour markets are still highly noticeable, and Greece and Spain continue to post double-digit unemployment rates.

Consumer prices in the eurozone rose by 1.6% year-on-year in December 2018. The lowest annual rates were recorded in Greece and Portugal (0.6%) and Denmark (0.7%), whereas the highest rates were reached in Estonia (3.3%), Romania (3.0%) and Hungary (2.8%).

The industrial sector cut back production more strongly than anticipated in December. Industrial production in the eurozone dropped by 4.2% in 2018 compared to the previous year, while economists had expected a decline of 3.0%.

Overseas

The Australian economy grew by 3.2% in 2018, another year of uninterrupted growth since 2007. 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 2018.

	2018	2017
	%	%
Argentina	-2.6	3.0
Colombia	2.8	2.0
Chile	4.0	1.0

Performance report

Einhell Group raises revenue and net income

The Einhell Group was able to raise its revenue sharply compared to the previous year. Group revenue amounts to EUR 577.9 million in financial year 2018, compared to EUR 553.4 million in the previous year.

This means that the Einhell Group was not able to meet its forecast for financial year 2018, for which the Board of Directors had stated an increase in revenue to approx. EUR 600 million at the beginning of 2018. During the first and second quarter, the revenue performance was still highly positive, prompting the Einhell Group to raise their forecast from EUR 600 million to EUR 610 to 615 million in June 2018. In the third quarter, however, revenue fell well short of expectations, whereupon the forecast was adjusted to EUR 575 to 585 million in October 2018.

Revenue of the Einhell group clearly exceeded the prior-year values in the first quarter. Revenue increased from EUR 137.2 million in the previous year's comparable quarter to EUR 153.7 million, equivalent to 12.0% growth.

In the second quarter, revenue amounted to EUR 155.9 million, which also clearly exceeded the prior-year level (EUR 143.3 million) with substantial increases in nearly all the regions where the Einhell Group is active.

The exceedingly warm summer then put a stop to the positive revenue trend in the third quarter. The Garden segment was hit particularly hard by the decline in unit sales, while currency translation effects additionally weighed on the revenue performance as compared to the previous year. In the third quarter, revenue decreased from EUR 143.5 million in the prior-year period to EUR 140.6 million.

In the fourth quarter, revenue showed a slightly negative development compared to the prior-year period, decreasing from EUR 129.4 million to EUR 127.7 million. Nevertheless, due to the exceptionally strong first half of the year, the Group generated a record revenue figure of EUR 577.9 million.

The regional development of revenue in financial year 2018 was as follows:

	2018		2017		Change	
	EURk	%	EURk	%	EURk	%
D/A/CH region	229,143	39.7	219,962	39.8	9,181	4.2
Western Europe	114,354	19.8	103,569	18.7	10,785	10.4
Eastern Europe	69,750	12.0	67,695	12.2	2,055	3.0
Overseas	126,468	21.9	135,408	24.5	-8,940	-6.6
Other countries	38,188	6.6	26,718	4.8	11,470	42.9
	577,903	**100.0**	**553,352**	**100.0**	**24,551**	**4.4**

The **D/A/CH** region generated revenue of EUR 229.1 million in financial year 2018 (previous year: EUR 220.0 million). The revenue contribution of the D/A/CH region therefore amounts to 39.7%.

Revenue in **Western Europe** increased significantly in financial year 2018 compared to the previous year. Overall, revenue growth amounted to 10.4%, from EUR 103.6 million to EUR 114.4 million. France, Italy and the UK are among the significant sales markets in financial year 2018.

Revenue in the **Eastern Europe** region amounted to EUR 69.8 million in the period under review (previous year: EUR 67.7 million).

In the **Overseas** region, revenue declined noticeably by EUR 8.9 million year-on-year to EUR 126.5 million (previous year: EUR 135.4 million). It was generated by the South American subsidiaries as well as our companies in Australia. The decline is primarily attributable to currency translation effects. Ozito Industries Pty Ltd. made the largest contribution to revenue in the region.

Revenue in **Other countries** was significantly above the previous year's level in 2018, with a revenue increase from EUR 26.7 million to EUR 38.2 million.

The Einhell Group succeeded in raising revenue in nearly all of the regions. Merely the Overseas region failed to see any revenue growth. Currency translation of various foreign currencies versus the euro, in particular the Argentine peso and the Australian dollar, led to a marked revenue decline in the Overseas region.

Further revenue growth is driven by the strong demand for the Power X-Change products that meanwhile account for a 19% share in Group revenue (previous year: 15%).

65% of revenue was contributed by the Tools segment, while the Garden & Leisure segment contributed 35%.

3. Earnings

The Einhell Group managed to maintain the same level of profitability as in the previous year and generated profit before taxes of EUR 36.2 million in financial year 2018 (previous year: EUR 35.7 million). The pre-tax margin is 6.3% (previous year: 6.5%).

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

	2018	2017	Change
	EURk	EURk	EURk
D/A/CH region	8,000	6,718	1,282
Western Europe	4,790	6,705	-1,915
Eastern Europe	5,674	4,961	713
Overseas	13,046	15,363	-2,317
Other countries	3,518	9,461	-5,943
Reconciliation	1,169	-7,484	8,653
	36,197	**35,724**	**473**

Purchase price allocation (PPA) effects resulting from acquisition of Ozito Industries Pty Ltd squeezed earnings by EUR 0.8 million. Adjusted for PPA effects, profit before taxes amounts to EUR 37.0 million and the pre-tax margin is 6.4%.

At the beginning of 2018, the Einhell Group had expected an increase in revenue to about EUR 600 million and a pre-tax margin of approx. 6.5% to 7.0%.

Following an excellent business performance in the first and second quarter of 2018, the revenue and earnings forecasts were lifted to expected revenue of approx. EUR 610 to 615 million and a pre-tax margin of 6.9% to 7.4%.

In October 2018, after the figures for the third quarter had been communicated, the forecast for the pre-tax margin had to be adjusted downwards. The Einhell Group now expected revenue of EUR 575 to 585 million and a pre-tax margin of approx. 6.0%.

The profit before taxes forecast of approx. EUR 34.5 to 35.1 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. Higher logistics costs due to the high inventories and increased marketing expenses had a negative effect on earnings.

The domestic market of the **D/A/CH** region performed well in the past financial year. This applies to physical 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 physical trade – Einhell intends to distinguish itself from its competitors.

Revenue in the **Western Europe** region increased considerably in financial year 2018. Earnings, in turn, were lower than in the previous year. Particularly the withdrawal of an important corporate costumer from the British market had a negative impact on earnings. We are currently in contact with the new owners to discuss how the business can be continued. We will support all strategic measures. The companies in Northern Europe were still unable to break even in financial year 2018.

The **Eastern Europe** region performed well in terms of both revenue and earnings. 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. Apart from the subsidiaries in Russia and Turkey, all Group companies in the **Eastern Europe** region were able to generate positive results.

The **Overseas** region, in particular, suffered declines in revenue and earnings compared to the previous year. Currency translation effects of the Australian dollar significantly diminished the revenue and earnings of the Australian Group companies. With the exception of Einhell Chile, none of the South American companies were able to make a positive earnings contribution in financial year 2018. The Argentinian company operates in a difficult market environment. The massive depreciation of the Argentinian peso and high financing costs are placing an enormous strain on the company.

Other countries with the procurement companies in Asia also made a significant contribution to consolidated net profit. However, in particular the Asian subsidiaries are struggling with declining gross profit margins, which is mainly due to the role of the Asian companies within the Group, as they actively support the strategic development of the sales companies. Increased sales and distribution measures in financial year 2018 such as marketing measures had a negative impact on the results of these companies.

Below the line, profit before taxes of the Einhell Group has developed positively. Individual companies are still facing challenges, but are actively working to improve their earnings situation.

The gross profit margin showed a moderate decline in the financial year under review, now amounting to 34.2% (previous year: 34.6%).

The increase in personnel expenses by EUR 3,886 thousand to EUR 76,243 thousand is due primarily to the higher headcount.

Other operating expenses increased by 7.0% year-on-year to EUR 88,928 thousand. This increase in mainly attributable to higher freight costs in connection with revenue growth. Other operating expenses are further burdened by higher logistics and storage costs due to the increase in inventories and higher marketing expenses.

The financial result improved by EUR 0.1 million to EUR -2.7 million. It mainly comprises the interest result of EUR -1.3 million (previous year: EUR -2.0 million) and losses/expenses from currency translation/currency hedging of EUR -1.4 million (previous year EUR -0.8 million).

Consolidated net profit after non-controlling interests increased from EUR 21.2 million to EUR 26.0 million in financial year 2018.

The EBIT margin on revenue amounted to 6.7% in financial year 2018 (previous year: 7.0%).

4. Assets and financial position

The main line items in the statement of financial position for the financial years 2018 and 2017 are as follows:

in EUR million	31.12.2018	31.12.2017	Change
Assets	43.2	40.7	+2.5
Goods inventories	188.5	180.1	+8.4
Trade receivables	88.1	82.3	+5.8
Cash and cash equivalents	14.1	14.4	-0.3
Equity	198.6	181.6	+17.0
Liabilities to banks	46.7	22.4	+24.3
Trade payables	68.5	85.4	-16.9

Total assets increased by EUR 19.0 million or 5.4% to EUR 371.8 million.

Investments and non-current assets

Investments amounted to EUR 8.4 million in financial year 2018. They pertain mainly to plant and office equipment and assets under construction. Capex primarily relate to the construction of a new modern customer centre including workshops and showrooms as well as the construction and expansion of the logistics centre in Landau/Isar.

Depreciation amounted to EUR 4.8 million in 2018 and is therefore down EUR 0.4 million year-on-year (previous year: EUR 5.2 million). Purchase price allocation effects of EUR 0.8 million from the takeover of Ozito Industries Pty Ltd are included in the depreciation item.

Current assets

Inventories increased from EUR 180.1 million to EUR 188.5 million as of the reporting date. Fortunately, no major problems were encountered on the Asian procurement markets in financial year 2018. Inventories increased in the second half of 2018 due to declining unit sales volumes.

Trade receivables increased to EUR 88.1 million (previous year: EUR 82.3 million).

Due to negative cash flow from the operating business, cash and cash equivalents as of the reporting date fell by EUR 0.3 million to EUR 14.1 million. Their share in total assets amounts to 3.8% (previous year: 4.1%).

Debt capital taken out by the Einhell Group increased to EUR 173.1 million (previous year: EUR 171.2 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 euro. 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 53.4% – the Board of Directors does not anticipate any problems with current business operations, nor does it foresee any financing problems for future business volume in connection with the further expansion of the Group.

The financial planning for the next five years was updated in financial year 2018. In line with this financial planning, Einhell Germany AG has concluded long-term loans totalling EUR 25 million with three different banks. The loans are subject to a subsidy programme provided by the German development bank KfW and have a term of 10 years. The first repayments will be made in June 2020, the last at the end of March 2028. The loan agreements also contain a financial covenant. This covenant refers to the interest cover ratio. The interest rates are fixed and do not include any variable components. Einhell Germany AG complied with this covenant in financial year 2018.

As of the reporting date, the Group had approx. EUR 143.0 million in unsecured credit lines at its disposal for the operating business. Overall, the Einhell Group had credit balances of EUR 14,097 thousand with banks and liabilities from debt capital in the amount of EUR 46,656 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 inventories and receivables are also free from third-party security interests.

The summarised cash flow statement shows the development of the financial position in financial year 2018:

	2018	2017	Change
	in EUR m	**in EUR m**	**in %**
Cash flow from operating activities	-13.8	-9.2	-50.0
Cash flow from investing activities	-8.3	-14.9	+44.3
Cash flow from financing activities	22.0	-13.5	+263.0
	-0.1	**-37.6**	**+99.7**
Changes from currency translation	-0.2	-2.7	+92.6
Net decrease/increase in cash and cash equivalents	**-0.3**	**-40.3**	**+99.3**
Cash and cash equivalents at beginning of period	14.4	54.7	-73.7
Cash and cash equivalents at end of period	**14.1**	**14.4**	**-2.1**

Despite the strong profit before income taxes in the amount of EUR 36,197 thousand, there has been cash outflow from operating activities. This is mainly related to the increase in inventories (EUR 10,725 thousand) as well as a decrease in trade payables (EUR 16,978 thousand).

Cash flow from financing activities includes mainly repayment of loans (EUR 22,427 thousand) and new loans (EUR 48,968 thousand) as well as the dividend distribution.

Cash flow from investing activities mainly pertains to capex for operating and office equipment and advance payments. The divestment of Einhell Brasil generated cash inflow of EUR 600 thousand in the reporting year. This corresponds to the second tranche of the purchase price agreement.

5. Overall economic situation

In summary, the Einhell Group managed to increase revenue and profit in financial year 2018. Due to higher logistics and marketing expenses, profit before taxes did not increase in line with revenue.

The gross profit margin of the Einhell Group showed a moderate decline on the previous year. The gross profit margin amounts to 34.2% (previous year: 34.6%).

Moreover, the Einhell Group has an excellent equity ratio of 53.4% (previous year: 51.5%) as well as net debt of EUR -32,559 thousand (previous year: EUR -8,027 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 German Commercial Code will be made available in the form of a non-financial group statement on the Einhell homepage at https://www.einhell.com/de/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. 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, investment controlling, finance, Group accounting and legal departments constitute the internal management system of the Einhell Group. The Einhell

Group companies make a forecast in the relevant financial year to budget the following financial year. Based on differentiated revenue planning, the corresponding 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 review the reconciliation between the reporting system and the consolidation system. 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 measurement 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 inventory-taking is 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 sets of templates. 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 organisational, control and monitoring structures established by the Einhell Group provide for an internal control and risk management system that 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. The implications of Britain’s withdrawal from the European Union are still fraught with uncertainty. We do not expect any direct negative impact from the UK leaving the European Union, as long as consumer spending in the UK does not collapse.

Industry risks

With respect to industry risks, the Einhell Group is subject to developments in the DIY sector and specialist stores as well as e-commerce 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.

Where possible, the Einhell Group counters risk of price increases, such as from changes in commodity prices, by concluding the corresponding procurement and sales agreements, i.e. by reflecting changes in procurement prices on the sales side with a minimal time lag. 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 trade 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 five 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 is compatible with the 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 investment control department, the legal department and, in individual cases, other Einhell Group departments, supported by external advisors.

8.2.5 Financial, interest and currency risks

The continuing growth of the Einhell Group is also associated with financing risks. The Einhell Group manages financing risks by combining short-term and long-term financing strategies.

The financial planning for the next five years was updated in financial year 2018. In line with this financial planning, Einhell Germany AG has taken out long-term loans of EUR 25 million from three different banks. The loans are subject to a subsidy programme provided by the German development bank KfW and have a term of 10 years. The first repayments will be made in June 2020, the last at the end of March 2028. The loan agreements also contain a financial covenant. This covenant refers to the interest cover ratio. The interest rates are fixed and do not include any variable components. Einhell Germany AG complied with this covenant in financial year 2018. The Einhell Group also has conventional lines of credit that were only partially utilised in financial year 2018. Cash and cash equivalents and also the equity base 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 2018 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 6 “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 sometimes uses 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 88.1 million (previous year: EUR 82.3 million).

Where possible, the Einhell Group uses trade 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 14,097 thousand on the reporting date (previous year: EUR 14,400 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 143.0 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. In addition, liability risks also include risk in connection with corruption. This risk is determined for each company based on the international corruption index.

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 intercompany 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 business incorporation, 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 best 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 summary, 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 2019. Some risks were adjusted compared with the previous year according to current trends and expectations.

We expect a slight increase in political risk in 2019. This assumption is based on the disputes between the USA and China concerning trade tariffs, the unforeseeable consequences of Britain’s withdrawal from the European Union, nationalist tendencies in some European countries and the difficult political constellation in Turkey.

We also consider the industry risk to be somewhat higher in 2019. Economic activity in China has cooled noticeably due to the trade dispute with the USA. In addition, the Chinese procurement markets are also difficult at the moment.

Following the marked increase in cyber-attacks in the past financial year, we also see higher IT-related risks. Cybercrime will continue to increase in the current financial year.

And the financial, interest rate and currency risk will also remain high in financial year 2019. In some countries, the risk of currency losses remains high. The instruments for hedging currency losses are either too expensive for these countries or completely unavailable.

Possible current effects on earnings of risks after taking measures

Possible effects concerning:	effects on earnings – 2019 +		incidence rate 2019	
Environment & Industry				
Political risks	□□□■■■		rare	12%
Industry risks	□□□□□■		rare	17%
Company-specific risks				
Procurement risks	□■■■■■		rare	14%
Sales market risks	□□■■■■		improbable	9%
Strategic and expansion risks	□□□□□■		rare	18%
Liability risks, Legal risks	□□□■■■		rare	10%
IT risks	□□■■■■		rare	14%
Human resources risks	□□□■■■		rare	10%
Other risks	□□□□■■		rare	13%
Finance				
Financial, interest and currency risks	□□□■■■		rare	28%
Default risks	□□□□■■		rare	12%
Liquidity risks	□□□□□■		rare	12%
Tax risks	□□□□■■		rare	21%

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.

The sharp fall in the price of the Argentinian peso had a negative impact on consolidated net profit. The devaluation of the currency in financial year 2018 was significantly higher than had been expected at the beginning of the year. Currency losses have an impact in all risk categories.

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

9. Forecast

9.1 Performance in the D/A/CH region

Expected development in %	2018	2019
GDP Germany	1.5%	1.0%

The **German** economy has grown steadily since 2009, in some years by 2.2%. While the dynamics have already slowed slightly from 2017 to 2018, economists expect economic growth to decline again in 2019. The German federal government expects economic growth of only 1.0% this year. The reasons for the economic slowdown include a shortage of qualified labour. Economic development is also hampered by the looming Brexit, as the implications of Britain's withdrawal from the European Union are still fraught with uncertainty. Growth dynamics are also burdened by trade conflicts between China and the USA, and between the USA and Europe.

According to the German Ministry of Labour and Social Affairs, the labour market continues to be strong. The unemployment rate is expected to drop to 4.9% this year – compared with 5.2% in the year before. The number of employed persons will rise to 45.2 million according to the Ministry.

9.2 Trends in the Western and Eastern Europe regions

The EU Commission has significantly lowered its growth forecast for the eurozone. According to the EU Commission, the gross domestic product in the 19 countries will increase by 1.3% in 2019. The reduced expectations for Germany, Italy and France were the main drivers behind the forecast revision. And it was also stated that the forecast is subject to considerable uncertainty due to international tensions and the looming Brexit chaos.

The unemployment rate in Europe continued to fall last year due to the sustained economic upturn. The International Labour Organization expects this trend to continue in 2019.

9.3 Trends 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	2019
	%	%
Argentina	-2.6	-1.6
Australia	3.2	2.8
Colombia	2.8	3.6
Chile	4.0	3.4

9.4 Expected growth in the markets relevant to the Einhell Group

As in the previous years, the expected development in 2019 depends on a number of external factors. Developments on the global markets continue to be extremely difficult to foresee in many respects. This applies to both economic changes and political developments. Political unrest and conflicts around the world such as in Syria, Ukraine, Turkey, Venezuela and other countries, some of which are also involved in the global oil business, can affect a whole range of areas and – besides the dramatic impact they have on the population of the affected regions – lead to negative effects on the global economy. In addition, autocratic tendencies can be observed in numerous countries, which are usually associated with profound economic interventions in the respective countries. Such political and economic developments can also be observed in some countries where the Einhell Group operates.

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 occurrences of external shocks. The forecasts of the Einhell Group with its international activities are still 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. If the trade war between the USA and China gets even worse and no solution is found, this will probably lead to enormous global economic repercussions, some of which are already being felt. The currencies of numerous countries have already been affected. Emerging market currencies in particular have already depreciated against the USD and will suffer further losses, in our assessment. Global tariffs also show serious distortions caused by the trade war, and uncertainty regarding their further development continues to prevail.

The Einhell Group expects revenue amounting to about EUR 605 million in financial year 2019. With regard to profit before taxes, the Einhell Group expects a pre-tax margin of around 6.6%. However, this is based on the assumption that the global macroeconomic environment does not deteriorate dramatically because of the above-described trends. In order to achieve the announced target, financial year 2018's loss-making subsidiaries in Colombia, Denmark, the UK, Argentina and Russia will have to return to the profit zone. The subsidiary kwb Germany GmbH, which had been making losses in previous years, took important positive steps towards organisational restructuring in 2018 and achieved breakeven. The company must now switch to growth mode in 2019 and raise its revenue. The subsidiary in Argentina, which is suffering severely from the effects of exorbitantly high inflation in the country, will have to manage the 2019 financial year with limited financial resources and make every effort to avoid losses. Global economic trends and the effects on the emerging markets will have a significant impact on the achievement of these goals.
The Einhell Group has grown very strongly in the last few years and is confronted with capacity limits in some areas. Extensive investments and expansion measures were initiated in 2018 in order to build up the required capacity. This initially resulted in expenses for the increase in headcount against the backdrop of a tense labour market, particularly in the parent company of the Group and the subsidiaries in China. In 2019, personnel will only be added selectively in certain areas. Capex will continue to be dominated by construction costs and IT expenses in 2019. As a result of the positive economic situation in the construction sector and the high capacity utilisation at IT companies, we will continue to face scarce resources on the market side and a limited choice of suppliers and service providers.

The Group is also planning to heavily invest in the market and in establishing the Einhell brand name. The expected capex for these measures has been priced into the budget of the Einhell Group and must be taken into account when looking at the margin. These measures will include in particular the cooperation with BMW i Motorsport in Formula E and the planned TV campaigns in Germany, Austria, Switzerland and Poland.

In the D/A/CH region, capex on property, plant and equipment primarily relates to the construction of a new modern customer centre including workshops and a showroom as well as the construction and expansion of the logistics centre in Landau/Isar.

Expected development in EUR million	2018		2019	
	Revenue	Profit before taxes	Revenue	Profit before taxes
Regions				
D/A/CH region	229.1	8.0	232.0	9.1
Western Europe	114.3	4.8	119.7	5.9
Eastern Europe	69.8	5.7	74.2	6.5
Overseas	126.5	13.0	129.8	12.3
Other countries	38.2	3.5	49.3	7.0
Reconciliation	0.0	1.2	0.0	-0.8
	577.9	**36.2**	**605.0**	**40.0**

For the **D/A/CH** region, the Einhell Group expects revenue of EUR 232.0 million, which is slightly above the previous year's level. Profit before taxes is expected to improve to EUR 9.1 million. According to our assessment, revenue in e-commerce and Power X-Change will continue to rise.

In **Western Europe and Eastern Europe**, we expect revenue to rise by EUR 9.8 million to EUR 193.9 million. In the current financial year, we expect earnings to increase, as Einhell UK's earnings in the past financial year were negatively affected by the withdrawal of a Group customer from the market. Furthermore, the earnings performance of the Northern European countries will stabilise. In Russia, a number of restructuring measures were initiated in 2018, which should have a positive impact on earnings in the current financial year.

In the **Overseas** region, we expect revenue and profit before income taxes in financial year 2019 to be at the previous year's level.

In the **Other countries**, we forecast an EUR 11.1 million revenue increase to EUR 49.3 million. The anticipated higher revenue will also boost profit before taxes, which we expect to climb by EUR 3.5 million to about EUR 7.0 million. The primary goal of the Asian procurement companies is to stabilise gross profit margins by scaling down promotional campaigns, which had previously been used intensively, to a few selected and targeted purposes.

Expected financial market trends

The performance of the financial markets in 2019 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 2019. 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 continues its slight uptrend. Plans by the ECB to scale back its bond purchasing programme could indicate a turnaround in ECB policy.

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 physical 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 trajectory, 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 2019, provided that the economic situation of our Chinese suppliers does not deteriorate materially due to the weak Chinese economy. Relations between the USA and China have deteriorated somewhat, which may well lead to distortions on the procurement side.

9.5 Aims and opportunities of the Einhell Group

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.

One of the most important strategic goals is the further development and increase in recognition of the **Einhell brand**. We see this as an opportunity to set ourselves apart from our competitors in the long term and to sustainably promote consumer awareness of and trust in the Einhell brand. Our battery platform Power X-Change forms the core of our brand communication. In 2019, we intend to increase awareness of the Einhell brand by charging the brand even more with positive emotions. The brand positioning follows the guiding principle of “freedom and autonomy”. Our measures include the expansion of our TV campaign, which has already been run successfully in Austria, to Germany, Switzerland and Poland. The cooperation with BMW i Motorsport in Formula E will also have a very positive effect on the brand image.

Another strategic goal is the implementation of our sustainable **product range policy**. We are focusing our attention on clearly defined key product groups and see this as an opportunity to become the market leader for those, or at least number two in the individual markets. Our target for 2019 is to generate 45% of Group sales with key product groups. As part of our sustainable product range policy, it is also our goal in 2019 to acquire international e-commerce data for the calculation of market models in an international context. We see this as an opportunity to make more sustainable product decisions in the future with the help of BI-based portfolio management. We are also planning to establish the same BI-based services for product and product range decisions in category management.

With our **Power X-Change**, we strive to become a category leader in battery platforms. We see this as an opportunity to make ourselves known with our customers as the household name for battery exchange systems. In 2019, we will expand the platform to up to 130 Power X-Change devices and open the platform to at least two further partners in addition to a manufacturer of household appliances we have already established a partnership with. Revenue with Power X-Change products will already account for 25% of Group sales in 2019. We will also enter into cooperation with research institutes and see this as an opportunity to successfully develop cutting edge cell and charging technology.

The Einhell Group will continue its **expansion** strategy in 2019. The North American market including Canada and Mexico accounts for more than half the global DIY volume. The Einhell Group regards these markets as very good business opportunities. The Group has thoroughly reviewed the respective market environments and searched for business partners with whom to enter these markets. As a result, Einhell US Holding Inc. was founded in financial year 2018. After the contract negotiations have been finalised, the company is to be equipped with a defined option to invest in a new company together with a strategic partner. This new company shall take over the distribution activities for Einhell products via the various distribution channels in the USA. The partner has a well-established distribution network in the USA and will be in charge of distributing our products. We are still continuing to focus also on countries in South and Central America and South Africa. In addition, we will also further develop and expand our strategic partnerships in markets such as Denmark. The successful partnerships we have been setting up in more and more countries promote the strong market presence of our products. This year, too, we intend to enter into new partnerships.

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. In addition, we will further develop the local service organisations by rolling out standardised, software-supported service processes and thus reduce 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 2019. We 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. The financial planning for the next five years was updated in financial year 2018. Based on this financial planning, Einhell Germany AG concluded long-term loans with three banks totalling EUR 25 million in order to finance Group growth and to secure the low interest level.

Expected investments

Construction work began in financial year 2018 on a new showroom with demonstration workshops and training rooms at the Landau / Isar site. The new showroom is expected to be operational in mid-2019. The investment volume amounts to EUR 5.5 million.

The expansion of the logistics centre in Landau / Isar is already in the planning stage. The first phase of the planned project, which comprises the construction of a new incoming goods terminal, is to be completed in financial year 2019. The costs for this project amount to approximately EUR 8.7 million. The second phase of the project provides for a high-bay warehouse for about 50,000 spaces and a new warehouse management system with a capex volume of EUR 1.1 million.

At the beginning of financial year 2019, a neighbouring plot of land including a warehouse was acquired at the Landau / Isar site. The warehouse is to be renovated in the current financial year and integrated into the Einhell site.
Because of the large number of extensions and improvements, an additional computer centre with a capex volume of approximately EUR 0.3 million will be required. Furthermore, capex of EUR 1.6 million has been budgeted for hardware and software.

9.6 Summary on expected developments

Outlook for financial year 2019

The Einhell Group with its international activities will encounter rather mixed trends in the individual markets in financial year 2019.

General market sentiment in the German DIY sector, Einhell's domestic market, is mixed at the moment. Private consumer spending has become a driving force of economic growth in Germany and the low inflation rate and high employment levels mean that consumers have more money to spend, which in turn leads to increased purchasing power. Nevertheless, consumer demand for DIY products is not necessarily felt in stationary retail. Trends differ here depending on the retail chain. Some physical retailers have already adapted to the new market environment and the growing significance of e-commerce in the DIY sector. Some retail chains are still in the process of finding their position and defining their strategies in this area. Revenue growth in the e-commerce market is expected to continue in 2019. DIY retailers are also increasingly focusing on e-commerce, which is likely to provide for even stronger growth in this area.

The Western European market is generally set to carry on its positive development from 2018 in financial year 2019. However, this depends on whether and how political developments such as the protests in France or the developments around Brexit affect the purchasing behaviour of the consumers. We do not expect any direct negative impact from the UK leaving the European Union, as long as consumer spending in the UK does not collapse. Italy showed a very positive development in the past financial year and will probably continue to do so unless political decisions by the EU-sceptical government in Italy have an impact on the country's economy and cause consumer spending to deteriorate significantly. The economic forecasts for Southern Europe have somewhat brightened. The upswing of the economies in Eastern Europe is expected to be more broadly based, while the economic development in Turkey is set 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.

The Australian economy has been on a steady growth course for many years. However, the latent risk remains that the ailing Chinese economy, which is so important for the raw material industry, will negatively impact the economy in Australia. Moreover, the number of home sales in Australia fell considerably in 2018. We therefore expect the Australian DIY market to cool slightly in 2019, as the number of home sales is an important indicator for the DIY sector in the country. As it is still in its early stages, the impact of Amazon entering the Australian market cannot be reliably assessed yet.

Except for Chile, the situation on the South American markets continues to be rather difficult. In Argentina in particular, positive political developments failed to have an immediate positive effect on the economy. Major uncertainties remain regarding political and economic structures. Inflation is at a record level. And the situation is not expected to improve in financial year 2019 either.

The procurement market in China has lost some stability due to the trade war with the USA, and economic growth in China has slowed down. The Chinese industry is currently struggling with declining capacity utilisation in the manufacturing sector. This may force some participants to drop out of the market and lead to further consolidation on the procurement markets.

Due to the mixed picture, but also due to some fundamentally positive trends in important markets such as Europe, the Einhell Group expects a positive revenue and earnings trend. Taking all influencing factors into account, the Group expects revenue growth to approx. EUR 605 million. With regard to profitability, the Einhell Group forecasts a pre-tax margin of about 6.6%.

The Einhell Group expects the following revenue and profit performance in the individual regions in 2019:

in EUR million	2019	
	Revenue	Profit before taxes
D/A/CH region	232.0	9.1
Western Europe	119.7	5.9
Eastern Europe	74.2	6.5
Overseas	129.8	12.3
Other countries	49.3	7.0
Reconciliation	0.0	-0.8
	605.0	**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 2019

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 2018, 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 2018 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 2018. In accordance with German legal requirements, we have not audited the contents of the non-financial group statement and the responsibility statement of the board of directors, both of which are referred to in the group management report.

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 2018, and of its financial performance for the financial year from 1 January to 31 December 2018, and

– the group management report as a whole provides 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. Our audit opinion on the group management report does not extend to the contents of the above-mentioned non-financial group statement and the responsibility statement of the board of directors.

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 2018. 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 "1.7 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 188.0 million are recognised in the statement of financial position as at 31 December 2018; this includes impairments in the amount of EUR 8.3 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 "1.7 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 2018 amounts to EUR 577.9 million.

The Group recognises revenue from the point in time when the goods are delivered to and accepted by the customer at the customer's premises (transfer of control). For contracts with customers that allow returns, revenue is recognised to the extent that it is highly probable that a material adjustment to the cumulative revenue recognised will not occur. The amount of revenue recognised is therefore adjusted for expected returns estimated on the basis of historical data.

The key markets of the Group are in Europe, Australia and Asia. The group companies make different agreements with customers that govern international deliveries of products, some of which contain complex contractual provisions.

As different contractual arrangements are made for different markets and discretionary decisions are made to determine and assess the time of transfer of control, there is a risk that revenues are not delimited correctly in the financial statements with regard to the cut-off date.

OUR AUDIT APPROACH

In order to audit whether revenues have been recognised in the period in which they arise, we have assessed the design, implementation and effectiveness of internal controls with respect to order acceptance, goods dispatch and invoicing, and audited in particular the definition and review process of the correct or actual transfer of control.

As IFRS 15 was applied for the first time, we have focused our audit on evaluating the interpretation and weighting of the indicators used by the legal representatives to assess the timing of the transfer of control. For this purpose, we have taken the requirements of the Group-wide accounting policy into account.

In addition, we assessed the timing and amount of revenue recognised by matching invoices with related purchase orders, external proof of delivery, and payments received. We selected revenue to be reviewed on the basis of a mathematical-statistical procedure. These revenues were recorded in a fixed period prior to the reporting date. 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. We also carried out random checks of credit notes that were issued after the reporting date and verified that the corresponding sales revenues were actually generated.

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 the 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 net assets, financial position and results of operations of the Group. Furthermore, the legal representatives are responsible for such internal controls as they determine 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 period under review 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 22 June 2018.
We received our mandate from the Supervisory Board on 25 October 2018. 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 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Hanshen Auditor	Schwarzhuber Auditor