Annual Report 2006
Condensed Version

LEIFHEIT brands – a world of welcome at home

LEIFHEIT
AKTIENGESELLSCHAFT

Contents

Key data (group)

			2006	2005[1]	Change %
Turnover	– Household Products	€ m	206	214	-3.7
	– Bathroom Furnishings	€ m	71	71	–
	– Group	€ m	277	285	-2.8
Foreign share		%	58	58	
EBIT[1]		€ m	4.9	5.1	-3.9
EBT[1]		€ m	2.8	3.1	-9.7
Net profit for the period		€ m	4.5	-0.3	
Net return on sales[2]		%	1.6	0.3	
EPS		€	0.95	-0.07	
Cash flow from operating activities		€ m	5.1	8.5	-40.0
Cash flow per share[3]		€	1.08	1.79	-39.7
Dividend per share		€	0.60[4]	0.60	
Employees (annual average)			1,491	1,862	-19.9
Employees at year-end	– Household Products		920	1,225	-24.9
	– Bathroom Furnishings		513	549	-6.6
	– Group		1,433	1,774	-19.2
Investment in tangible assets		€ m	4	7	-42.9
Depreciation on tangible assets		€ m	7	8	-12.5
Total assets, equity and liabilities		€ m	204	227	-10.1
Equity[5]		€ m	107	115	-7.0
Equity-balance sheet total ratio[5]		%	52	51	

1) turnover and results adjusted for the disposal of the SOEHNLE industrial scales business, earnings after minority interests and reclassification of interest expense on pension liabilities to net interest income/expense.

2) before minority interests

3) exc. redeemed treasury shares

4) proposal to the General Meeting

5) 2005 including minority interests

LEIFHEIT brands – a world of welcome at home

We at the LEIFHEIT group develop innovative and creative answers for every area of the home and bathroom. With competence that is the fruit of many years, we generate new and creative product ideas that help make many chores more pleasant and efficient.

For us, the focus of our activities in the past financial year was on expanding and strengthening our brands. In the Household Products division we and our LEIFHEIT, SOEHNLE and DR. OETKER BAKEWARE brands are among the leading European suppliers in our industry. The LEIFHEIT brand stands for innovative and timesaving solutions in the kitchen and around the home. The SOEHNLE brand has for generations stood for exact weighing and measuring, appealing to people for whom wellbeing and balance are important. Almost every consumer – in Germany, 96 per cent – knows the DR. OETKER brand, under which we offer a range of bakeware to meet every desire.

We are also following a consistent brand philosophy in our Bathroom Furnishings division, aimed at consumers who are rediscovering the taste for quality. Our KLEINE WOLKE brand offers modern design concepts for premium bathroom and bedroom environments, while the SPIRELLA brand focuses mainly on creative, young textiles and accessories for fun and fashion in the bathroom. Our MEUSCH brand is also creating design and quality trends in the market.

One thing all our brands have in common is that they contribute to everyday wellbeing in the home – leaving more time for the really important things in life.

The economic situation

World economy on uptrend - economic renaissance in Europe

The world economy grew extremely vigorously in 2006, at around 5 %. The unexpected easing in oil prices provide additional stimulus in the last four months. For the first time in some considerable while, global economic growth was no longer fuelled by just the "young" industrialised nations in Asia, South America and eastern Europe, together with the USA. After a long lean period, European economic growth finally revived last year. With growth in GDP of 2.7 % (twice the previous year's level), the Eurozone nations showed a return to economic strength. Germany – long the tail ender in the table – also made a substantial contribution with growth of 2.7 % (three times the 2005 level), and in absolute terms regained its position as the driving force in the European economy.

German exports strong, consumer spending restrained

Besides increased domestic investment, growth in Germany's Eurozone neighbours was also powered by an increase of around 2 % in private consumer spending. By contrast, exports continued to be the decisive factor in German growth. Although the Federal Government's Annual Economic Report showed strong real growth of 5.3 % in domestic investment in plant and machinery, consumer spending underperformed significantly with real growth of 0.6 %. According to figures published by the Federal Statistical Office, retail sales were virtually stagnant, rising only 0.1 %. The rush to buy in advance of the increase in VAT which had been generally anticipated in the fourth quarter clearly failed to materialise to any significant extent, at least in the consumer goods sector.
A report by the Nuremberg Market Research Institute GfK of consumer euphoria at the end of the year accordingly proved illusory.

Consumers return to branded articles

Regardless of other trends, a fundamental structural change made itself felt in 2006 in nonfood consumer goods. While the quantitative behaviour of German consumers has been slow to change, there has definitely been a change in quality. As recent market research shows, consumer trust in branded products has significantly increased within a year. Almost 60 % of consumers again believe that "branded articles have better quality than nonbranded products[1)]". At the same time, the "penny pinching pays" mentality which has been dominant for so long is losing ground and credence. This turnaround is now apparent in the statistics: while a study of the branded goods industry by McKinsey shows that turnover in branded articles has been recovering for some time, nonfood sales of some major discounters slumped in 2006.

1) Source: Consumer analysis Imagery 6

The course of business

LEIFHEIT responding early to market changes

With its finger on the market's pulse, LEIFHEIT is responding quickly to the switch in consumer demand – away from discounter offers and back to high quality branded articles. After the far-reaching group reorganisation in 2005 to secure our long-term international competitiveness, we put all our efforts in 2006 into strengthening our prominent brands and further promoting their market position. The goal of this strategy is to hone group brand profiles, use an innovation drive to expand the core product groups, and consolidate LEIFHEIT's position as a strong partner to the trade. At the same time, we have very selectively abandoned low-margin special offer deals in the discounter segment, which – as noted above – is in any event showing signs of market saturation.

2006: encouraging, but not without difficulties

The trend over the year under review clearly confirms our strategic shift – giving priority to brands over special discounter offers – was right, and even inevitable in terms of securing profitable growth. To this extent, 2006 was an encouraging year for the LEIFHEIT group, although the upheaval described above in the private label and discounter business led to unexpected difficulties.

Household Products: divergent trend in turnover

The changes in the market outlined earlier have been reflected in divergent ways in the Household Products division. Turnover in our core business with the LEIFHEIT, SOEHNLE and DR. OETKER BAKEWARE brands grew substantially by around € 6 million, which we see as full confirmation by the market of our brand philosophy. The other side of this picture is the unexpectedly drastic drop in income from special offers with discounters and private label stores, which fell around € 12 million from the previous year. Given our strategic intention to pull back from low-margin special offers, we had expected a decrease in turnover from the start, but also expected it would be more than offset by the success of our brand business. However, we had not expected a sharp slide of this magnitude in both discounter and private label campaigns.

As a result, total turnover of the Household Products division in 2006 fell to € 206 million (previous year: € 214 million). In the management report, figures for the previous year are adjusted for the disposal of the SOEHNLE industrial scales business.

Bathroom Furnishings division: brand policy bears fruit

The Bathroom Furnishings division maintained its strong performance in the 2006 financial year, with turnover of € 71 million slightly up on the previous year despite a generally stagnant European market for bathroom furnishings. The strategy for the period after the successful reorganisation of using innovative products to focus exclusively on strengthening the established SPIRELLA, KLEINE WOLKE and MEUSCH brands is proving increasing fruitful.

The collapse in the discounter and private label business had only a minor effect on the Bathroom Furnishings division. The resulting decrease in turnover was more than offset by the particularly strong growth in the SPIRELLA accessories product group. In the past financial year the Bathroom Furnishings division again proved its strength as one of the key pillars in the group's results.

Consolidated turnover of the LEIFHEIT group in the 2006 financial year was € 277 million (previous year: € 285 million). The foreign share was unchanged at 58 %.

Earnings, assets and financial situation

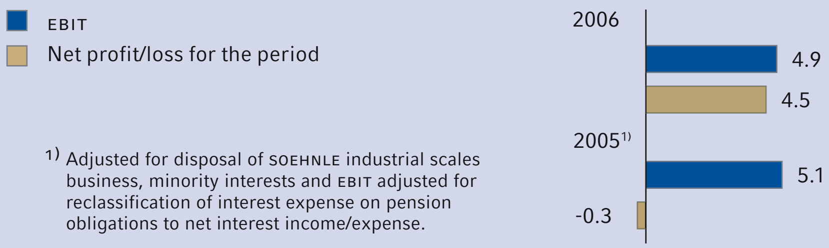
Accounting to IFRS

The consolidated financial statements for LEIFHEIT AG for the 2006 financial year were prepared in accordance with the International Financial Reporting Standards (IFRS), as in the previous years.

Starting with the 2006 financial year, we have reclassified interest expense for pension obligations under net interest income/expense, transferring it from EBIT to EBT. This brings us into line with the standard classification used by companies preparing financial statements to IFRS. Not only does this provide a more accurate picture of operating earnings, it also makes comparison with key ratios of other companies easier.

The strategic reorientation with the focus on strengthening our brands and the active management of key balance sheet figures are both reflected very positively in key ratios for our company.

Key figures from the income statement (€ m)



1) Adjusted for disposal of SOEHNLE industrial scales business, minority interests and EBIT adjusted for reclassification of interest expense on pension obligations to net interest income/expense.

Gross return rises to 40.1 %

Our gross return, for example, rose 1.9 percentage points to 40.1 %. This ratio describes the internal earnings power of our business.

However, the improvement was not enough to offset the € 8 million decrease in turnover and resulting reduction in cover for overheads and the negative impact of exchange rate movements, which totalled € 2.2 million.

EBIT fell from € 6.9 million to € 4.9 million, although after adjusting for minority interests the decrease was only € 0.2 million.

As described above, the figure for financial income includes interest expense on pension obligations (€ 1.8 million) for the first time.

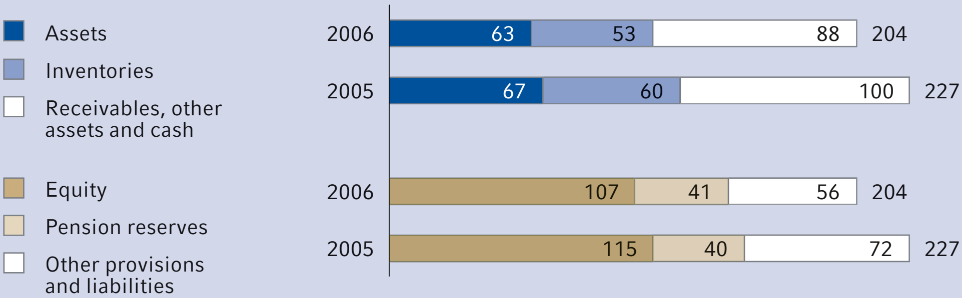
Income statement (summary) € m	2006	2005 1)	2005 2)
Turnover	277	285	296
EBIT	4.9	6.9	5.5
- after minority interests	**4.9**	**5.1**	**3.7**
Financial income	-2.1	-2.1	–
EBT	2.8	4.8	5.5
- after minority interests	2.8	3.1	3.7
Income taxes	1.7	-3.9	-4.1
- after minority interests	1.7	-3.3	-3.5
Profit after income taxes	4.5	0.9	1.3
- after minority interests	**4.5**	**-0.3**	**0.1**

1) Adjusted for disposal of SOEHNLE industrial scales business and EBIT adjusted for reclassification of interest expense on pension obligations to net interest income/expense.

2) Figure in 2005 annual report before adjustment and reclassification.

Due to the operating results of our subsidiaries in France and Switzerland, income tax of € 2.4 million is due. The net positive balance for consolidated income tax is due to nonrecurring effects. Besides a deferred tax asset, recognition of the discounted corporation tax credit (€ 6.4 million) also reduces the tax liability. The basis for this tax refund is the "Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften" SEStEG (Act on Tax Measures accompanying the Introduction of the European Company and amending other Tax Regulations). A conservative revaluation of deferred tax assets on loss carryforwards led to a write-down of € 3.4 million. For LEIFHEIT AG shareholders, the result for the 2006 financial year was accordingly € 4.5 million (previous year: € -0.3 million).

Consolidated balance sheet structure (€ m)



Equity-balance sheet ratio rises to 52 %

Strategic measures resulted in a reduction of around 10 % (€ 22 million) in the balance sheet total. The main reasons are the elimination from the portfolio of the industrial scales business, and – particularly – specific measures to reduce working capital and tangible assets. Despite the decrease in equity due to the takeover of minority interests and the dividend, the equity-balance sheet ratio accordingly rose further to 52 %.

Reflecting the drastic reduction in depth of production, fixed assets decreased to € 63 million (previous year: € 67 million). The ratio of equity to assets increased to an outstanding level of 169 %.

Trade receivables were reduced to € 64 million (previous year: € 67 million). Inventories were trimmed by € 7 million to € 53 million (previous year: € 60 million). Other current assets fell, primarily due to the investment of liquid assets in the money market recognised in this position in the previous year.

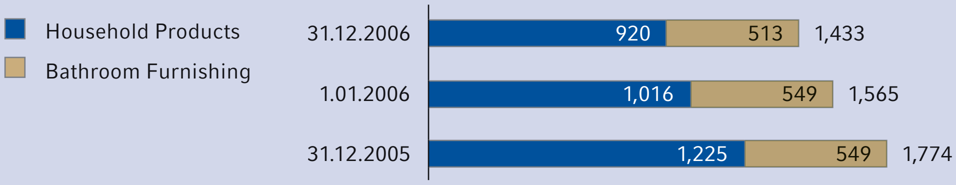
Trade payables were reduced in line with the decrease in inventories to 47 million (previous year: € 56 million).

Consolidated cashflow from operating activities totalled € 5.1 million (previous year: € 8.5 million). This figure reflects the adverse impact of severance payments from social plans in 2005.

Cash flow from financing activities includes the costs of acquiring the remaining shares in the BIRAMBEAU companies and the dividend distributions for the 2005 financial year.

Consolidated cash flow statement (summary) € m	2006	2005
Cash flow from operating activities	5.1	8.5
Cash flow from investment activities	-1.4	-5.6
Cash flow from financing activities	-12.9	-0.6
Effects of exchange rate differences	-0.2	0.1
Current funds at year-end	5.8	15.1
Change in cash	-9.3	2.4

Employment



Employees

The focus in our personnel work in the 2006 financial year was on increased activities for human resources development and the restructuring of variable compensation for specialists and management.

Clear decrease in employment

The reorganisation of the Household Products division which was completed in 2005 resulted in a decrease of 209 in the number of employees at the start of 2006, as their employment ended on 31 December 2005.

Location	31.12.2006	1.01.2006	31.12.2005
Germany	652	709	918
Czech Republic	430	509	509
France	148	158	158
Switzerland	145	136	136
Other countries	58	53	53
Group	**1,433**	**1,565**	**1,774**

At the close of 2006, there were 1,433 employees in the LEIFHEIT group, 341 fewer than the previous year. This represents a decrease of 19 % in employment. The Household Products division had 920 employees, Bathroom Furnishings had 513.

If we ignore the effects of the structural measures in 2005, the number of employees decreased by 132 over the course of 2006. This is primarily due to the disposal of the SOEHNLE industrial scales business and workload-related fluctuations at the Blatná plant in the Czech Republic.

Average employment in the group fell from 1,862 to 1,491. Personnel costs in 2006 totalled € 54 million (previous year: € 64 million), a decrease of 16 %.

At the Zuzenhausen facility we have now increased the working week from 35 to 39 hours without any increase in wages. This is an important step towards ensuring our competitiveness.

To secure our future as a supplier of innovative and high quality products, we again succeeded in attracting a number of experienced personnel for LEIFHEIT in 2006. Specifically, these are highly qualified specialists and managers in development, supply chain management, marketing and administration.

Variable compensation system for management

In 2006, we restructured the variable compensation system for our specialists and managers not covered by collective bargaining agreements. Overall, compensation is now tied more closely to the company's results. This promotes the company's performance by agreeing challenging goals and encouraging entrepreneurial thinking and action on the part of employees. The particular incentive is that our employees share suitably in the company's success, creating the possibility of evaluating and rewarding their personal contributions on an individual basis.

We have further strengthened our activities in further training and qualification for our employees in all areas.

In the year under review, 74 employees celebrated their 30th, 25th or 10th year with the company. The number of people celebrating long-service anniversaries is a tribute to the strong loyalty of our employees. LEIFHEIT benefits from a balance between long-serving employees and new employees, bringing together experience and fresh ideas, pooling knowledge to solve tasks and projects together.

Vocational and professional training have a future at LEIFHEIT

The Koblenz Chamber of Industry and Commerce again recognised our outstanding training activities in 2006. Thanks to our well-organised training concept, the overwhelming majority of trainees scored excellent results in the examinations. The hard work of our trainers, constant encouragement and the positive attitude of the trainees all paid off once again.

LEIFHEIT is a "Fair Company"

Our strong commitment to promoting young employees also bore fruit in the award and quality of our internships (more than 70 in the past three years). LEIFHEIT has been recognised as a "Fair Company". This is the title awarded by the "karriere" magazine to companies offering university graduates real opportunities for professional development. The title involves a commitment by "Fair Companies" not to fill full-time slots with interns and to pay graduate interns appropriately.

Management trainee programme further expanded

Our management trainee programme for university graduates not only enhances our appeal as an employer but also enables us to attract talented future managers at an early stage, creating our own talent pool. With a programme of different assignments in Germany and abroad, a management trainee can gain profound insight into company processes in a relatively short time, taking responsibility quickly through integration in various projects. The programme is supplemented by a customised range of seminars.

We launched a programme in July 2006 focusing on distribution, and in 2007 we will take on more management employees in marketing and controlling.

Thanks to our employees

We know that our employees again faced heavy challenges in 2006 in all areas. We should like to thank you here for your motivated, creative and loyal efforts. We also wish to thank our works council members for their fair and constructive cooperation and contribution to the growth of our company.

Investment

As a result of the drastic decrease in depth of production, total additions to fixed assets in the LEIFHEIT group were significantly lower in 2006 at € 4.9 million than in the previous year (€ 8.1 million), with tangible assets accounting for € 4.3 million. As a result the investment ratio was only 2.3 % in terms of the historical of purchasing and manufacturing cost of plant and equipment. Investment was matched by depreciation on plant and equipment totalling € 7.3 million. The continuing reduction in the net investment ratio led to a decrease in tangible assets of € 3.7 million on the previous year.

We invested € 3.1 million in tangible assets in the Household Products division (previous year: € 4.6 million), mainly in tools for new products, logistical infrastructure and software.

Investment in the Bathroom Furnishings division totalled € 1.2 million (previous year: € 1.9 million).

Procurement and logistics

Supply chain management lays the foundation for an efficient supply of goods

The changed processes in the supply chain as a result of the strategic reorientation were again analysed and improved in the year under review by supply chain management.

Newly introduced performance indicators are continuously monitoring the company’s efficiency in the individual areas of the supply chain. Ongoing monitoring of the indicators has made it possible to identify disruptions in the supply chain at an early stage and take timely countermeasures. This has made our high delivery standards even more efficient and reliable.

In future, LEIFHEIT will focus even more on successful management all along the supply chain, as a contribution to offering our customers worldwide optimal service.

Supplier portfolio further optimised

Raw material prices for steel and plastics continued at the previous year's very high levels in 2006. Market prices for materials important to LEIFHEIT, such as nickel, copper and zinc, actually set new historic highs in the past year. The dramatic rise in aluminium prices in particular significantly impacted earnings. Thanks to our increased use of project teams crossing divisional and company boundaries, with specialists from logistics, purchasing, development and production, we were able to partly offset raw material price increases in individual segments through rationalisation, particularly since we have also integrated our strategic suppliers into this process.

The competence and know-how of the LEIFHEIT purchasing organisation in Guangzhou, China, were further expanded. We gave intensive training in quality management to both existing and newly hired personnel. This made it possible to transfer quality testing for important product areas and processes in stages from external service providers to our own employees and to expand it further. This has reduced both expense on quality assurance in the Far East and costs of flaws in subsequent processes.

As we are concentrating intensively on ensuring that our suppliers meet the high LEIFHEIT product and process quality standards, there has recently been a significant improvement in the delivery services of our distribution centres.

Another focus is on strengthening and increasing the flexibility of the supplier portfolio by adding new suppliers in Bulgaria, Lithuania and Turkey. For 2007 LEIFHEIT expects healthy competition between eastern European and Chinese suppliers. Shorter reorder periods, flexible delivery strategies and resulting lower logistics costs for deliveries from eastern Europe compete with the continuing Chinese advantage on labour costs.

For strategic purchasing, the emphasis in 2007 will be on the global expansion of our supplier network and supplier development, in order to further optimise our delivery service and reduce total procurement costs.

Developing the Zuzenhausen facility into a modern logistics centre

After intensive analysis of existing material and information flows, we have defined new logistical concepts and processes which will transform the Zuzenhausen facility into the new modern logistics centre for the LEIFHEIT group. For this, we had to implement completely new warehouse management software in order to implement the new procedures in goods inward, restocking and dispatch and introduce a shipment assembly system designed for the changed order structures. The entire process chain is now more transparent and efficient in all areas, with the help of modern wireless and scan technology. This new infrastructure has given LEIFHEIT the basis for meeting the increasingly complex demands of logistics.

Supply process optimised for the Blatná plant

To further strengthen the international competitiveness of production at the Czech Blatná plant, the entire logistics supply process was optimised. For this purpose, we expanded our procurement base to give more weight to eastern European suppliers, and consolidated flows of goods from western European suppliers through a logistics platform. The production lines have also been supplied since July 2006 from an external warehouse in the direct vicinity. This concept enabled us to create additional production area, shorten throughput times and link the supply process flexibly to the production line.

Development and innovation

In a market environment where brands are again becoming increasingly important, it is essential for us to continue to develop innovative products which not only meet consumers' high expectations but also offer new and superior performance in terms of functionality, quality and design, compared to our competitors.

Our extensive revision of our product development process in 2005 had a positive effect in the year under review. Strategic cooperation with universities enabled us to focus our development efforts and develop new ideas which are in line with consumer behaviour and expectations.

To make our development efforts even more effective, we started building up a separate application technology department. This department studies and documents consumer habits and expectations, in order to measure new products against them. This is the only way to ensure that we choose the right ideas and turn them into innovative, superior products which give consumers yet another reason to trust our brands.

These efforts bore their first fruit in the past year at Ambiente, our most important consumer goods trade fair, where we presented 30 product premieres, twice as many as the previous year. Our customers' response to these innovations confirmed our sense that we were on the right track.

In 2006 the LEIFHEIT group had 49 employees in development, patents and product management. The overwhelming majority of these are graduates in business administration and marketing, engineers and technicians, design engineers and designers. We spent a total of € 6.3 million on product management, research and development.

Environmental protection

Although LEIFHEIT uses hardly any production processes which might pose an environmental threat, environmental protection is a high priority at all our production facilities. We are constantly developing our environmental protection measures on an ongoing basis, and have achieved a high level of awareness of this issue in all areas.

Our actions are governed by the principles of reducing energy consumption, noise and pollution and using increasingly scarce natural resources responsibly, and our entire management team keep these principles constantly in mind.

Risks and opportunities

In times when the economic environment and state of the industry are particularly dynamic, efficient risk management is particularly important. We regard efficient risk management as a strategic way of securing present and future potential success. With its global activities, LEIFHEIT is inevitably exposed to risks which help determine its commercial actions. The function of our risk management system is to identify and evaluate these risks in a timely manner, in order to take rapid countermeasures if necessary. It comprises the elements risk strategy, early warning system, risk identification, classification and management, controlling, and the monitoring and control system. In the course of medium term planning we analyse the development of the markets, consumer behaviour, our trade partners and competitors, and the procurement markets. The core of the risk management system is the risk inventory. In this, we use risk tables for regular documentation of the relevant risks in all areas of business, which we evaluate for their likelihood and impact on the company. The material risks are then reported and discussed at divisional, departmental, Board of Management and Supervisory Board meetings. Other elements of our risk management system are our planning processes, controlling and internal audit, which is handled throughout the group by external consultants.

ERNST & YOUNG AG examined the LEIFHEIT group risk management system in the course of their audit of the annual financial statements and found no reason for objection.

In the following sections we summarise the material risks known to us at present which may affect the development of the LEIFHEIT group.

General economic risks

The general risks of importance to LEIFHEIT include particularly those arising out of economic trends in our markets and the political environment. The state of the domestic economy and possible consumer reticence may continue to affect our business in 2007. However, we do not expect any material impact on the planned course of business.

There are no material risks currently apparent on the legislative or tax fronts or in the predicted trends in the capital markets.

Industry risks

The ongoing concentration and globalisation in the distributive trades present both opportunities and risks for LEIFHEIT. Pressure on selling prices and terms are matched by opportunities to grow internationally and exploit synergies with our trade partners.

The greatest risk to volume is weak consumer demand and a slump in prices driven by direct imports from the Far East.

Besides the strength of our brands, the decisive factor in our success is our innovative strength. Other factors are R&D and quality. For this reason, we give high priority to further developing our quality standards and continuously developing products with high consumer utility.

Risks associated with operating activities

The risks associated with operating activities can be broken down into three individual risks:

Production and procurement risks

In production the likelihood of an outage of production facilities is minimised by ongoing maintenance, fire protection and other precautionary measures. Insurance policies have been taken out for the group for major damage and loss of production. The risk of supplier outages is covered by identification of alternative competent suppliers. There are no risks to the company's existence currently identifiable in procurement, production, marketing, development and environmental production.

Risks from financing

There are no material risks from financing due to the above-average level of equity. Cash and foreign currency management and financing are handled centrally for the LEIFHEIT group. We offset foreign currency risks by hedging future payments flows.

Legal risks

We limit product, liability and environmental risks through quality assurance, as defined in our quality management manual. We also use insurance policies to limit the financial consequences of possible loss, injury or damage.

To limit possible risks from antitrust, patent and tax legislation and other regulations and statutes, we base our decisions on advice from outside experts.

Beyond this, there are no material legal risks identifiable which are not covered by balance sheet provisions.

Other risks

There are no further material risks identifiable.

Report under section 315 para. 2 (4) and para. 4 HGB

LEIFHEIT AG is the parent company of the LEIFHEIT group whose voting shares are traded on an organised market within the meaning of section 2 para. 7 of the Wertpapiererwerbs- und Übernahmegesetz WpÜG (Securities Acquisition and Takeovers Act), and accordingly reports under section 315 para. 2 (4) and para. 4 HGB.

Subscribed capital, restrictions on voting rights and shares with special rights

As at 31 December 2006 the capital stock of LEIFHEIT AG totalled € 15,000,000, divided into 5,000,000 no-par bearer shares. Each share carries one vote under art. 16 para. 1 of the LEIFHEIT AG articles of incorporation. As at 31 December 2006 LEIFHEIT AG held 240,384 treasury shares. No voting rights are exercised on treasury stock. The Board of Management is not aware of any further restrictions on voting rights or the transfer of shares, although these might arise out of agreements between shareholders. The shares further have no special rights which confer controlling power.

Equity investments and control of voting rights

Direct or indirect equity investments exceeding 10 % of the voting rights and accordingly required to be reported under the Securities Trading Act (WpHG) related to the 47.02 % investment in HOME Beteiligungen GmbH, Munich. There is no known case of voting rights control in the event that employees share in the equity and do not exercise their control rights.

Appointment and removal of members of the Board of Management

The Board of Management of LEIFHEIT AG currently has three members, each appointed by the Supervisory Board under section 84 of the German Joint Stock Corporations Act (AktG) for a term of at most five years. Reappointment is possible, as is extension of the term of office. However, such extension may not exceed the individual maximum term of five years. Extending the term of office requires a resolution of the Supervisory Board, which cannot be passed before one year before the end of the existing term. In urgent cases the Local Court can on application by anyone with a legitimate interest (e.g. the other members of the Board of Management) appoint a member of the Board of Management where there is a vacancy which must be filled (section 85 AktG). This appointment lapses as soon as the deficiency is made good, e.g. as soon as the Supervisory Board has appointed a member to fill the vacancy, A member of the Board of Management can only be removed for important reason (section 84 para. 3 sentences 1, 3 AktG). The important reasons include gross violations of duty, incapacity to manage business properly or a vote of no confidence by the General Meeting (unless the vote of no confidence was for obviously irrelevant reasons). Under art. 6 of the LEIFHEIT AG articles of incorporation, the Supervisory Board can appoint a Chairman and deputy members of the Board of Management. LEIFHEIT AG currently has a Chairman of the Board of Management, but no deputy members.

Authorisation for the Board of Management to issue shares

The powers of the Board of Management to issue shares are governed by art. 4 para. 3 of the articles of incorporation:

"The Board of Management is authorised with approval of the Supervisory Board to increase the capital stock one or more times up to 1 May 2011 by up to € 7,500,000 through the issue of new bearer shares for contributions in cash and/or in kind. The shareholders will be given a right to subscribe. However, with approval of the Supervisory Board the Board of Management is authorised to exclude shareholder subscription rights in the following circumstances:

- to even out fractional amounts,
- if the capital increase is for the purpose of acquiring enterprises, parts of enterprises or interests in enterprises by means of contributions in kind,
- if the shares are issued at a price which is not materially lower than the stock exchange price of the company's listed shares at the time the Board of Management sets the issue price and the exclusion of subscription rights only covers new shares not exceeding 10 % of the lower of the capital stock at the time of registration of the authorisation or 10 % of the company's capital stock at the time of the issue of the new shares.

The Board of Management is authorised with approval of the Supervisory Board to determine the other details of the implementation of capital increases from approved capital."

Authorisation for the Board of Management to buy back shares

The Board of Management is authorised by resolution of the General Meeting on 24 May 2006 to buy back treasury shares to up to 10 % of the capital stock up to 23 November 2007 for any permissible purpose within the statutory restrictions.

Compensation of the Board of Management

The members of the Board of Management currently receive compensation comprising fixed annual compensation, annual variable compensation and in one case long-term variable compensation.

The fixed annual compensation is paid monthly, and is based on the responsibilities and individual contribution of the member of the Board of Management in question; it is reviewed at regular intervals to see that it is in line with the market and appropriate.

The annual variable compensation is based on the LEIFHEIT group's EBT and is paid following adoption of the annual financial statements. A limit is set in all service contracts with members of the Board of Management.

One service contract with a member of the Board of Management includes long term variable compensation in the form of a compensation component based on the share price. Payment is in cash rather than shares. The amount of this component is tied to the change in the LEIFHEIT share price.

Besides compensation for their work as members of the Board of Management of LEIFHEIT AG, members also receive compensation in individual instances for their work at subsidiaries as members of management and Supervisory Boards.

The members of the Board of Management have also received a performance-based pension commitment. No fringe benefits are provided by the company beyond the use of company cars and reimbursement of travel expenses.

In the event of premature termination of the service contract, members of the Board of Management have no explicit severance package. However, a severance package may result from an individual termination agreement. Service contracts of members of the Board of Management do not include any “change of control” clause.

The General Meeting of LEIFHEIT AG resolved on 24 May 2006 to waive disclosure of compensation of individual members of the Board of Management for a five-year period, starting with the 2006 financial year.

In the past financial year, compensation of active members of the Board of Management totalled € 1,493,000. Of this, variable compensation accounting for € 110,000. Compensation of members of the Board of Management for activities in subsidiaries in the 2006 financial year amounted to € 178,000. The defined benefit obligation of pension promises to active members of the Board of Management as at 31 December 2006 totalled € 295,000.

Compensation of the Supervisory Board

Compensation of the Supervisory Board is governed by the LEIFHEIT AG articles of incorporation. In accordance with statute and the German Corporate Governance Code, it is based on the responsibilities and activities of the members of the Supervisory Board and the company’s performance. Besides fixed compensation, members of the Supervisory Board also receive variable compensation tied to the dividend.

Fixed compensation: in addition to reimbursement of expenses, including VAT on their remuneration, members of the Supervisory Board received fixed compensation of € 10,000 for each financial year.

Variable compensation: in addition, members of the Supervisory Board receive variable compensation for each financial year of € 100 for each € 0.01 per share dividend distributed to shareholders in the past financial year.

The Chairman receives twice these amounts and the Deputy Chairman 1.5 times these amounts. For membership of a committee of the Supervisory Board, each member of the Supervisory Board receives an additional 25 % of the fixed compensation for a member of the Supervisory Board. The Chairman of a committee receives twice this amount. Members of the Supervisory Board whose membership of the Supervisory Board or a committee lasts for only part of a financial year receive prorated compensation for each month or part thereof. Fixed compensation is paid in December of each financial year, variable compensation on the day of the General Meeting approving the acts of the members of the Supervisory Board for the past financial year.

Compensation of the members of the Supervisory Board totalled € 183,000 in the 2006 financial year.

Amendments to the Articles of Incorporation

The General Meeting is responsible for amendments to the articles of incorporation (section 179 para. 1 sentence 1 AktG). The General Meeting transferred authority to amend the wording of the articles of incorporation to the Supervisory Board under art. 18 para. 3 of the articles. Resolutions of the General Meeting are by simple majority of the votes cast (section 133 para. 1 AktG) unless a larger majority is required by statute.

Material agreements in the event of a takeover bid

LEIFHEIT AG has not entered into any agreements on the conditions of a change of control as a result of a takeover bid. There are currently no compensation agreements between LEIFHEIT AG and the members of the Board of Management or employees in the event of a takeover bid.

Forecast

Europe stabilises the global economy

The key economic forecasters are generally optimistic about continuing growth in the world economy in the near future. However, some include possible constraints due to a further rise in energy prices or economic problems in connection with global warming. The USA is an increasingly uncertain factor, as its enormous budget and current deficits could upset the economic equilibrium in the longer term. While the recession in the US economy many expected in 2006 as a result of its heavy borrowing failed to materialise, its appearance in 2007 could negatively impact the entire global economy. The OECD expects US economic growth to ease from 3.3 % in 2006 to just 2.4 %.

However, the experts agree that the recovery in the European economy has the potential to evolve into self-sustaining and lasting growth, making a significant contribution towards stabilising the world economy alongside the growth regions in Asia, South America and eastern Europe. The consensus estimate for the Eurozone predicts growth of 2.0 % in 2007 and 2.1 % in 2008.

Economic mood survives “VAT shock”

The German economy has apparently maintained the momentum of the 2006 upswing virtually unchanged in the current year. Growth forecasts for 2007 vie in optimism. After an initial meagre 1.4 %, experts like the DIHK are now predicting 2.3 % growth in GDP.

Opinions on the impact on consumer behaviour of the “VAT shock” and foreseeable additional costs due to health service reforms still differ widely between trade experts and economic forecasters. Reliable statements will probably have to wait until later in the year.

By contrast, we can be confident that the structural changes in the nonfood segment of the consumer goods market will accelerate even more in 2007. Supported by the continuing economic growth, consumers will not necessarily increase the volume of their purchases, but will shift demand to higher quality products. The effects of healthy economic growth will be reflected in the prospects of both the Household Products and Bathroom Furnishings divisions.

LEIFHEIT on track to profitable growth

With its strategy of further sharpening the profile of its brands and using innovative quality products to distinguish itself from its competitors, LEIFHEIT is absolutely in line with the current trend. In view of the trend towards a more cheerful market environment, we are confident that after the visible successes in the past year our consistent focus on our brands will bear even more fruit in 2007.

We expect a considerable boost over the course of the year from the 30 product innovations presented in February at the Ambiente consumer trade fair. Our efforts to improve the presentation of goods at our retail customers and offer customised solutions for the different distribution channels were intended to provide additional stimulus. In the event the response was extremely positive among our trade partners. The expansion in branded products to be expected as a result will probably offset the inevitable further slight decreases in the private label and discounter segment. Overall the Board of Management expects a moderate rise in consolidated turnover in 2007. The growth in demand for branded products should also continue in the following years. The Board of Management will consistently pursue the approach of developing group brands to ensure profitable growth in the medium term. Based on the this, there should be a significant improvement in EBIT after the progress made in 2006.

Report on events after the balance sheet date

Events after the end of the 2006 financial year

There were no events after the balance sheet date of particular importance for assessing the assets, financial situation and earnings of the LEIFHEIT group.

Turnover unchanged from the previous year

In the first two months of the 2007 financial year turnover € 48 million effectively matched the previous year’s € 49 million. Of this, € 19 million represents domestic turnover (previous year: € 22 million). With foreign turnover of € 29 million (previous year: € 27 million), the export ratio was 60 % (previous year: 55 %).

As in the previous year, the Household Products division contributed € 36 million to consolidated turnover. Of this, € 14 million represents domestic turnover (previous year: € 16 million).

The Bathroom Furnishings division reported turnover of € 12 million (previous year: € 13 million), of which € 5 million (previous year: € 5 million) was domestic.

Report of the Board of Management

The Board of Management of LEIFHEIT AG is responsible for the compilation, completeness and accuracy of the consolidated financial statements and the consolidated management report, together with the other information presented in the annual report. The consolidated financial statements for the period ending 31 December 2006 were prepared in accordance with International Financial Reporting Statements (IFRS) as applicable in the EU and the supplementary provisions of the Commercial Code (HGB) to be applied under section 315a para. 1 HGB. The consolidated management report was prepared in accordance with the principles of the German Accounting Standard DRS 15.

To ensure the accuracy and reliability of the information presented, the content of the consolidated financial statements is based on reporting in accordance with groupwide guidelines for all the companies included in the consolidated financial statements. The regularity of reporting and the risk management system is ensured through internal control systems established under the direction of the Board of Management. This ensures a true and fair picture of the assets, financial situation and earnings and the reports based on this. This approach further enables the Board of Management to identify potential risks and adverse developments at an early stage and if necessary take appropriate action.

Pursuant to the resolution of the 2006 General Meeting, the Supervisory Board engaged ERNST & YOUNG AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, as the independent auditors for the annual and consolidated financial statements and the management report and consolidated management report. At its meeting in March 2007 the Supervisory Board Financial Statements Committee discussed and examined the annual and consolidated financial statements in detail. At its financial statements meeting in March 2007 the Supervisory Board will review and explore the annual and consolidated financial statements, including the management report and consolidated management report and the auditor’s reports. The result of this review is stated in the report of the Supervisory Board.

Consolidated income statement for the period 1 January to 31 December 2006

€ 000	Notes	2006	2005
Turnover	1	276,551	296,155
Cost of sales		-165,613	-183,170
Gross profit		**110,938**	**112,985**
Research and development costs	5	-6,259	-5,705
Distribution costs	6	-83,094	-84,339
Administrative costs	7	-18,058	-18,642
Other operating income	8	2,652	2,970
Other operating expenses	9	-820	-2,054
Results of operating activity before reorganisation		**5,359**	**5,215**
Income from reorganisation	10	–	669
Results of operating activity		**5,359**	**5,884**
Investment income		61	22
Net other financial income	11	-505	1,604
EBIT		**4,915**	**7,510**
Net interest income	12	-2,095	-2,055
EBT		**2,820**	**5,455**
Income taxes	13	1,696	-4,132
Net profit for the period		**4,516**	**1,323**
Of which minority interests	14	161	1,192
Of which parent company shareholders		4,355	131
Earnings per share (undiluted and diluted)	**15**	**0.95**	**0.03**

Consolidated balance sheet as at 31 December 2006

€ 000	Notes	31.12.2006	31.12.2005
ASSETS			
Current assets			
Cash		5,814	10,063
Trade receivables		63,802	66,511
Inventories	16	53,312	60,064
Tax receivables		1,494	418
Other current assets	17	4,119	12,140
Total current assets		**128,541**	**149,196**
Noncurrent assets			
Financial assets	18	584	584
Tangible assets	19	49,890	53,604
Intangible assets	20	12,595	13,020
Deferred tax assets	13	6,282	9,764
Other noncurrent assets	21	6,562	395
Total noncurrent assets		**75,913**	**77,367**
Total assets		**204,454**	**226,563**
EQUITY AND LIABILITIES			
Short-term debt			
Trade accounts payable and other liabilities	22	47,211	56,402
Income tax liabilities		343	1,728
Provisions	23	3,712	5,277
Total short-term debt		**51,266**	**63,407**
Long-term debt			
Provisions and accruals	23	4,009	5,281
Employee benefit obligations	24	40,685	39,927
Deferred tax liabilities	13	1,493	2,726
Other long-term debt		371	402
Total long-term debt		**46,558**	**48,336**
Equity			
Share capital	25	15,000	15,000
Capital surplus	26	16,934	16,934
Treasury shares	38	-7,623	-7,629
Appropriated surplus		80,224	82,324
Translation reserve		2,095	1,922
Minority interests	27	–	6,269
Total equity		**106,630**	**114,820**
Total equity and liabilities		**204,454**	**226,563**

Changes in equity

€ 000	Share capital	Capital surplus	Treasury shares	Appro-priated surplus	Trans-lation reserve	Total	Minority interests	Total equity
	Share in equity of parent company shareholders							
As at 1.01.2005	**15,000**	**16,934**	**-7,638**	**80,253**	**1,648**	**106,197**	**5,707**	**111,904**
Other changes in minority interests	–	–	–	–	–	–	-630	-630
Issue of treasury shares	–	–	9	–	–	9	–	9
Net profit for the period	–	–	–	131	–	131	1,192	1,323
Offset badwill (first application of IFRS 3)	–	–	–	2,023	–	2,023	–	2,023
Offset retrospective adjustment to purchase price	–	–	–	-83	–	-83	–	-83
Differences from foreign currency translation	–	–	–	–	274	274	–	274
As at 31.12.2005	**15,000**	**16,934**	**-7,629**	**82,324**	**1,922**	**108,551**	**6,269**	**114,820**
Dividends	–	–	–	-2,856	–	-2,856	-520	-3,376
Acquisition of minority interests	–	–	–	-3,599	–	-3,599	-5,910	-9,509
Issue of treasury shares	–	–	6	–	–	6	–	6
Net profit for the period	–	–	–	4,355	–	4,355	161	4,516
Differences from foreign currency translation	–	–	–	–	173	173	–	173
As at 31.12.2006	**15,000**	**16,934**	**-7,623**	**80,224**	**2,095**	**106,630**	**–**	**106,630**

Segment reporting

Key figures by division		Household Products		Bathroom Furnishings		Eliminations		Unattributable assets/liabilities		Total	
		2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Turnover	€ m	206	225	71	71	–	–	–	–	277	296
EBIT[1]	€ m	1.5	1.5	3.4	4.2	–	–	–	–	4.9	5.7
Assets	€ m	160	189	47	49	-11	-11	8	–	204	227
Liabilities	€ m	95	105	31	36	-29	-31	–	2	97	112
Depreciation and amortisation	€ m	6	7	2	2	–	–	–	–	8	9
Investment	€ m	4	6	1	2	–	–	–	–	5	8
Employees (annual average)		954	1,315	537	547	–	–	–	–	1,491	1,862

[1] 2005 after minority interests

Key figures by region	Domestic		Europe (exc. Germany)		Rest of the world		Eliminations		Unattributable assets/ liabilities		Total	
€ m	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Turnover	115	124	142	150	20	22	–	–	–	–	277	296
Assets	126	154	76	81	3	3	-9	-11	8	–	204	227
Investment	3	5	2	3	–	–	–	–	–	–	5	8

Notes on segment reporting are shown in note 30.

Consolidated statement of cash flow for the period 1 January to 31 December 2006

€ 000	2006	2005
Net profit for the period	4,516	1,323
Adjustments for		
expense for the issue of employee shares	6	9
depreciation and amortisation	8,448	9,181
Decrease in provisions	-2,526	-8,430
Gain on disposal of fixed assets	-921	-534
Decrease in inventories, trade receivables and other assets not classified as investment or financial activities	3,230	3,669
Decrease/increase in trade payables and other liabilities not classified as investment or financial activities	-7,621	3,287
Cash flow from operating activities	**5,132**	**8,505**
Purchase costs for acquisition of an affiliate	–	-324
Acquisition of tangible and intangible assets	-4,885	-7,744
Investment in financial assets	–	-363
Proceeds from the disposal of fixed assets	3,523	2,842
Cash flow from investment activities	**-1,362**	**-5,589**
Dividends paid to parent company shareholders	-2,856	–
Dividends paid to minority interests	-520	-558
Reduction in equity of minority shareholders	-9,509	–
Cash flow from financing activities	**-12,885**	**-558**
Effects of exchange rate differences	**-204**	**117**
Net change in cash	**-9,319**	**2,475**
Current funds at the start of the period under review	**15,133**	**12,658**
Current funds at the end of the period under review	**5,814**	**15,133**
Income taxes paid	-4,536	-5,589
Interest paid	-179	-23
Interest received	87	177
Breakdown of current funds at the end of the period under review		
Cash	5,814	10,063
Available-for-sale securities	–	5,070
	5,814	**15,133**

Notes on the consolidated statement of cash flow shown in note 31.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDING 31 DECEMBER 2006

General principles of accounting and valuation

General

LEIFHEIT AG has its registered office in Nassau and concentrates on the development and distribution of innovative, functionally superior and high quality branded products in the sectors of non-electrical household articles and bathroom textiles and accessories.

LEIFHEIT AG drew up its consolidated financial statements for 2006 in accordance with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB). All the International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretation Committee (IFRIC) – previously the Standing Interpretations Committee (SIC) – required to be applied in the 2006 financial year were followed. The previous year's figures were calculated on the same principles.

The financial statements expressed in Euro are a fair presentation of the assets, financial situation and earnings of the LEIFHEIT group. Unless otherwise stated, all figures are in thousands of Euro.

The income statement was drawn up in accordance with the internationally prevailing cost of sales method. To draw up the consolidated financial statements in accordance with the IFRS, assumptions must be made for several items which affect recognition in the consolidated balance sheet or consolidated income statement and the statement of contingent assets and liabilities.

The consolidated financial statements are prepared in accordance with IFRS under section 315a (1) of the German Commercial Code (HGB) in combination with Art. 4 of EC Regulation 1606/2002. The annual report was submitted to the Supervisory Board for approval at the end of March and was then immediately published.

Consolidation principles

The consolidated financial statements include LEIFHEIT AG and the companies controlled by it. Control is present if the group directly or indirectly holds the majority of voting rights in a company and/or can govern the financial and operating policies of a company so as to obtain benefits from its activities. Minority interests and their share in net profit or loss for the period are shown separately in the balance sheet, equity and income statement as a use of the result (after tax).

The financial statements of subsidiaries are prepared using uniform accounting and valuation methods and the same balance sheet date as the financial statements of the parent company.

Acquisitions are accounted for using the purchase method. Assets and liabilities are measured at fair value at the time of acquisition. If the acquisition costs of the investments exceed the group share in the equity of the company measured in this way, the resulting goodwill must be capitalised. Previously undisclosed reserves and charges are carried, amortised or reversed during subsequent consolidation, depending on the corresponding assets and liabilities.

For all acquisitions on or after 31.03.2004, IFRS 3 (Business combinations) applies. As a result of applying IFRS 3, LEIFHEIT recognises assets and liabilities from an acquisition in full at fair value at the time of acquisition. Minority interests are recognised at their share in the fair value of the assets and liabilities. Application of LEIFHEIT and IAS 36 further led to LEIFHEIT discontinuing regular amortisation of goodwill, replacing it since 1.01.2005 by annual assessment for possible impairment of goodwill at the level of cash-generating units, if necessary writing it down to its fair value. Differences on the liabilities side of the balance sheet resulting before 31.03.2004 are offset after 1.01.2005 against retained earnings in accordance with IFRS 3. Differences resulting after 31.03.2004 are recognised in the income statement.

In addition, under IAS 38 each intangible asset must be classified as having a finite or indefinite useful life. If an intangible asset has a finite useful life, it must be amortised over that life. The amortisation periods and methods for intangible assets with finite lives are reviewed at least annually and whenever there are signs of impairment. Intangible assets with indefinite useful lives are not amortised, as no time limit can be set for the period during which the asset generates economic benefits to the company. However, intangible assets with indefinite lives are reviewed annually to ensure that the carrying amount of an asset does not exceed its recoverable value. This is done whether or not there are signs of impairment.

Acquired enterprises are included in the consolidated financial statements from the time of acquisition.

Intragroup balances and transactions and resulting unrealised intragroup profits and losses are eliminated in full. Provision is made for deferred taxes arising from temporary differences from consolidation as required in IAS 12. The same consolidation methods were used for the financial statements for 2006 and 2005.

Companies consolidated

The following domestic and foreign companies were included in the consolidated financial statements, in addition to LEIFHEIT AG: LEIFHEIT AG directly or indirectly held the majority of voting rights in these companies as at 31.12.2006

Company name	Date of initial consolidation	Share in equity and voting rights, 2006, in %
BTF Textilwerke GmbH, Bremen (D)	1.1.1989	100.0
KLEINE WOLKE AG, Berikon (CH)	1.1.1989	100.0
KLEINE WOLKE Textilgesellschaft mbH & Co. KG, Bremen (D)	1.1.1989	100.0
LEIFHEIT España S.A., Madrid (E)	1.1.1989	100.0
LEIFHEIT International (UK) Ltd., London (GB)	1.1.1989	100.0
SPIRELLA AG, Embrach (CH)	1.1.1989	100.0
SPIRELLA France s.a.r.l., Toulouse (F)	1.1.1989	100.0
SPIRELLA GmbH, Nassau (D)	1.1.1989	100.0
BTF Blatná s.r.o., Blatná (CR)	1.1.1995	100.0
LEIFHEIT International U.S.A. Inc., Melville, NY (USA)	1.1.1997	100.0
MEUSCH-Wohnen-Bad und Freizeit GmbH, Bremen (D)	1.9.1999	100.0
BIRAMBEAU S.A.S., Paris (F)	1.1.2001	100.0
LEIFHEIT-BIRAMBEAU S.A.S., Paris (F)	1.1.2001	100.0
SOEHNLE AG, Montlingen (CH)	1.1.2001	100.0
SOEHNLE Italia S.r.l. , Brescia (I)	1.1.2001	100.0

Business combinations

The minority interests in BIRAMBEAU S.A.S. (34 %) and LEIFHEIT-BIRAMBEAU S.A.S. (40 %) were taken over on 30.06.2006. The difference between the purchase price (€ 9,509,000) and the book value of the prorated equity share previously due to minority interests (€ 5,910,000) was not treated as goodwill but instead as a reduction in equity under ED IFRS 3 and IAS 27 (entity concept method). In exercising the option on choice of accounting and valuation methods under IAS 8.10 LEIFHEIT chose this option as it arises out of the entity concept embodied in IAS 27 under which minority interests are treated as part of the overall ownership interest in the group rather than as outside equity interest. The above transaction accordingly does not constitute an acquisition, but rather a reduction in the minority interest in equity.

Foreign currency translation

Where individual financial statements of consolidated companies are drawn up in local currencies, monetary items in foreign currencies (cash and cash equivalents, receivables, payables) are valued at the balance sheet date and exchange rate differences recognised in the income statement. Exceptions to this are translation differences for monetary items which in substance are part of net investment (e.g. long-term loan which replaces equity) in an independent foreign entity.

Translation of financial statements of consolidated companies drawn up in foreign currencies is done on the basis of the functional currency concept using the modified closing rate method in compliance with IAS 21.

As our subsidiaries and branches operate independently in financial, economic and organisational terms, their functional currency is identical in principle with the local currency. For inclusion in the consolidated financial statements, the assets and liabilities of the subsidiaries and branches are translated at the exchange rate at the balance sheet date, and income and expenses are translated at annual average exchange rates. The exchange difference arising out of translation is recognised in a separate reserve in equity. Exchange differences from the previous year's translation are taken to this translation reserve.

The exchange rates used for translation are shown in the following table:

Exchange rate (€ 1)	Average rate on balance sheet date		Annual average rate	
	31.12.2006	31.12.2005	2006	2005
Pound sterling	0.67	0.69	0.67	0.69
Swiss franc	1.61	1.56	1.57	1.55
Czech krone	27.44	28.99	28.37	29.84
US dollar	1.32	1.18	1.24	1.25
Japanese yen	156.65	139.13	145.25	136.84

Cash and cash equivalents
Cash includes cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Receivables
Receivables are recognised at the time revenue is realised or consideration received and valued at amortised cost, taking into account any necessary allowances.

Hedging transactions
Foreign exchange futures and options contracts are used to hedge against future exchange rate fluctuations. When entering into these hedging transactions, specific foreign exchange derivatives contracts are allocated to specific fundamental transactions, i.e. either to hedge the risk of a change in the fair value of a recognised asset or debt or to hedge the risk of fluctuations in cash flows which can be allocated to a specific risk associated with a recognised asset or debt or the risk associated with a planned transaction. Within the hedging context, the hedging instruments are recognised at market value; adjustment is made in the income statement as the formal requirement of explicit designation for hedge accounting is not met.

Inventories

Inventories are recognised at the lower of purchase or manufacturing cost and net realisable value. Cost is measured on the basis of the weighted average cost method.

Costs of manufacture include production-related full costs based on normal capacity utilisation. Costs of manufacture include direct costs directly attributable to products (e.g. material and labour) and fixed and variable production overheads (e.g. material and production overheads). Costs are specifically taken into account which are incurred by the specific cost centres. Borrowing costs are not capitalised as part of purchase or conversion costs but are expensed in the period in which they are incurred (IAS 23).

The risks in holding inventory due to reduced realisable value are taken into account through appropriate write-downs. The write-downs are calculated on the basis of the future production range or actual consumption. Depending on the individual inventory item, individual periods are applied which are reviewed and modified on the basis of objective evaluation criteria. In measurement, lower net realisable value on the balance sheet date is taken into account. If the circumstances which previously caused inventories to be written down no longer exist so that the net realisable value is increased, the resulting increase in value is recognised as a reduction in material cost.

Financial assets

Financial assets are carried at fair value and include equity investments and other financial assets. If fair value cannot be measured reliably, the assets are carried at amortised cost.

Tangible assets

Tangible assets are recognised at cost less cumulated regular depreciation and impairment. If tangible assets are sold or scrapped, the associated costs and cumulated depreciation are derecognised; any realised profit or loss from the disposal is recognised in the income statement.

	Years
Buildings	25-50
Other structures	10-20
Injection moulding machines	10
Plant and machinery	5-10
Injection moulding and diecasting tools	3-6
Vehicles	6
EDP equipment	3-5
Software	4-8
Furniture and fixtures and office equipment	3-13
Display and POS stands	3

The purchase or manufacturing cost of a tangible asset comprises the purchase price including import duties and non refundable purchase taxes, and any directly attributable costs of bringing the asset to its working condition and the location for its intended use. Subsequent expenses such as maintenance and repair costs incurred after the assets have been commissioned are recognised as expense in the period in which it is incurred.

Depreciation uses the straight line method based on the expected useful life.

The useful life and method of depreciation for tangible assets are reviewed periodically to ensure that the method of depreciation and depreciation period comply with the expected useful life of tangible assets. Depreciation based solely on tax regulations is not taken.

Plant under construction is classified as unfinished assets and recognised at cost. Plant under construction is depreciated from the time at which the relevant asset is completed and used in operation.

Leasing

A lease is classified as an operating lease if substantially all risks and rewards incident to ownership remain with the lessor. As LEIFHEIT acts exclusively as a lessee under operating leases, the corresponding assets are not recognised in the balance sheet. Lease payments are recognised as expense on a straight line basis over the term of the lease.

Intangible assets

Patents, licences and software

Expenses on patents and licences are capitalised and subsequently amortised over their likely useful life using the straight line method. The estimated useful life of patents and licences varies between 5 and 15 years. The carrying amount of assets is regularly reviewed.

Costs of new software and implementation are capitalised and treated as an intangible asset, unless these costs are an integral part of the associated hardware. Software is amortised over a period of four to eight years using the straight line method.

Brand names

Consideration paid for brand names is carried as an asset. Brand names are recognised under IAS 38 as intangible assets with indefinite useful lives. They are not amortised, as no time limit can be set for the period during which the asset generates economic benefits to the company. Brand names are assessed annually for possible impairment in accordance with IAS 36 and written down if necessary to their fair value.

Goodwill

The excess of the cost of an acquisition over the interest acquired on the day of purchase in the fair value of identifiable assets and liabilities is known as goodwill and is recognised as an asset.

In accordance with IFRS 3 in combination with IAS 36 and 38, goodwill is assessed annually and written down if necessary to the recoverable amount.

For the impairment test, the value of the asset at the time of acquisition is allocated to the cash-generating units at the lowest level in the company at which the asset is monitored for internal management.

Differences on the liabilities side of the balance sheet (badwill) arising after 31.03.2004 are taken to the income statement at the time they arise.

Impairment of tangible and intangible assets

Tangible and intangible assets are assessed for impairment if there are material reasons or a change in circumstances indicating that the carrying amount of an asset may not be recoverable (IAS 36). As soon as the carrying value of an asset exceeds the recoverable amount, an impairment loss is recognised in the income statement. The recoverable amount is the higher of the asset's net selling price and its value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction, less the costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. The recoverable amount is identified for each asset individually or, if this is not possible, for the cash-generating unit to which the asset belongs.

Research and development costs

Development costs for newly developed products are in accordance with IAS 38 capitalised if they are clearly attributable and both technical feasibility and marketing of the newly developed products are ensured. Development work must also generate probable future economic benefits. As not all these requirements are met in the LEIFHEIT group, development costs are not capitalised.

Research costs cannot be capitalised in accordance with IAS 38 and are accordingly recognised directly as an expense in the income statement.

Deferred taxes

Deferred taxes are accounted for using the balance sheet liability method for all temporary differences between the tax base of an asset or liability and its carrying amount in the consolidated balance sheet (temporary concept). In addition, deferred tax assets from loss carryforwards must be recognised.

The carrying amount of deferrals is the probable tax liability or asset in the following financial year based on the tax rate prevailing at the time of realisation.

Deferred tax assets whose realisation is or becomes improbable are not recognised.

Deferred taxes are recognised in separate items in the balance sheet.

Liabilities

Current liabilities are recognised at repayment or settlement amount. Non-current liabilities are carried at amortised cost. Differences between historic cost and settlement amount are taken into account using the effective interest rate method.

Provisions

Under IAS 37 provisions are recognised where there is a current obligation to third parties as a result of a past event which will probably lead to an outflow of resources and can be reliably estimated.

Provisions for warranty claims are recognised under IAS 37 on the basis of the previous or estimated future outflows for the warranty obligations on the products sold.

Other provisions are recognised under IAS 37 for all identifiable risks and uncertain obligations for the amount probably required to settle them and not offset against reimbursement claims.

Provisions which do not lead to an outflow of resources in the following year are recognised at the discounted amount required to settle the obligations at the balance sheet date. The discount is subject to market interest rates.

Employee benefit obligations, pension reserves

The actuarial valuation of the defined benefit obligation is based on the projected unit credit method required by IAS 19 for post/employment benefit obligations. Under this method the post-employment benefits and vested benefits are taken into account together with expected future increases in salaries and pensions. Actuarial gains and losses are recognised in the income statement if the balance of cumulated unrecognised actuarial gains and losses for each individual plan at the end of the preceding reporting period exceeds the higher of 10 % of the defined benefit obligation or 10 % of the fair value of the plan assets. These gains and losses are realised over the expected average remaining service of the employees covered by the plan.

Equity

Treasury shares reduce the equity recognised in the balance sheet. Acquisition of treasury shares is shown as a change in equity. No gain or loss is recognised in the income statement for the sale, issue or cancellation of treasury shares. Consideration received is recognised in the financial statements as a change in equity.

Provisions for currency translation are recognised for currency translation differences arising out of the consolidation of the financial statements of independent foreign subsidiaries or branches.

Currency translation differences from a monetary item which is essentially part of net investment by the company in an independent foreign entity, e.g. a long term loan, are recognised as equity in the consolidated financial statements up to the point of disposal or repayment. If the corresponding assets are sold the total revaluation or provision for currency translation is recognised as income or expense in the same period in which the gain or loss on the disposal is recognised.

Recognition of income and expense

Turnover and other operating income is only recognised when the service has been provided or the goods or products delivered, i.e. transfer of risk to the customer has taken place.

Income from assets for which there is a buy-back agreement with a subsidiary is only recognised when the assets have finally left the group. Up to this point it is recognised in inventories.

The cost of sales includes costs incurred to make sales and the purchase cost of merchandise purchased and held for resale. This heading also includes the cost of transfers to provisions for warranty obligations.

Distribution costs include labour and material costs and depreciation and amortisation for marketing, shipment, freight, advertising, sales promotion, market research and customer service costs.

General administrative costs include labour and material costs and the depreciation and amortisation attributable to administration.

Taxes like land tax and vehicle tax are attributed to production, sales or administrative costs on their assessment basis.

Contingent liabilities and assets

Contingent liabilities are not recognised in the financial statements. They are shown in the notes unless the probability of an outflow of resources embodying economic benefits is very low. Contingent assets are not recognised in the financial statements. However, they are shown in the notes if the inflow of economic benefits is probable.

Events after the balance sheet date

Events after the balance sheet date which provide additional information on conditions that existed at the balance sheet date (adjusting events after the balance sheet date) are taken into account in the financial statements. Non-adjusting events after the balance sheet date are shown in the notes, if they are material.

Material exercises of discretion, estimates and assumptions

Preparing the annual financial statements requires exercises of discretion and estimates and assumptions about the amounts of receivables, liabilities and provisions, deferred taxes, statement of contingent liabilities, impairment tests and recognised income and expenses. The actual results may be different. The most important assumptions and estimates in connection with review for possible impairment of assets are stated in note 20, the assumptions and estimates in connection with recognising pension liabilities in note 24.

New accounting standards required to be applied from 2006

The International Accounting Standard Board (IASB) has published several changes to existing IFRS as well as new IFRS and Interpretations of the International Financial Reporting Interpretation Committee (IFRIC) which companies are required to apply to all financial years starting on or after 1.01.2006.

On 16.12.2004 the IASB announced a change to IAS 19 “Employee benefits” regarding recognition of profits and losses from changes to actuarial assumptions for defined benefit pension plans. In addition to the existing recognition in the income statement and “corridor method” (IAS 19.92 and 93) the change permits recognition of unrealised actuarial profits and losses in equity (IAS 19.93 A). Using this method the current present value of pension obligations is recognised in the balance sheet. Deferred taxes arising out of application of this method are also recognised in equity. The Board of Management has decided not to exercise this option and to retain the corridor method. The changes to IAS 19 have also resulted in several additional required disclosures in the notes to the financial statements.

New accounting standards whose application will be mandatory in future

The IASB also published further IFRS and IFRIC, although companies are not required to apply these until later. The following section lists the standards and interpretations and their likely relevance for the LEIFHEIT group. While earlier application of these standards is permitted, LEIFHEIT is not yet choosing to do so.

On 18.08.2005 the IASB published IFRS 7 “Financial instruments: disclosures”. This replaces the existing IAS 30 and incorporates all the provisions of IAS 32 regarding disclosure. Changes and additions were also made to the capital disclosure requirements in IAS 1. The standard results in a thorough reorganisation of the disclosure requirements for financial instruments. Essentially, disclosure is required of management’s objectives, methods, risks, collateral and processes. Disclosure requirements under IFRS 7 and the revised capital disclosure requirements under IAS 1 must be applied to reporting period starting on or after 1.01.2007, although earlier application is recommended. Application of IFRS 7 is not expected to lead to any changes in valuation in future, and so is not expected to affect assets, income and the financial situation. However, further information and presentation will be required in the notes to the financial statements.

On 30.11.2006 the IASB published IFRS 8 “Operating segments”. IFRS 8 replaces IAS 14 “Segment Reporting”, which previously applied to segment reporting. With the exception of minor terminological changes, IFRS 8 adopts the entire wording of the corresponding US standard SFAS 131. IFRS 8 requires segment reporting following the “management approach”, where the segment information reported corresponds to the company’s internal reporting as used by management to take decisions. The disclosure provisions of IFRS 8 apply to reporting periods starting on or after 1.01.2009, but earlier application is recommended. Application of IFRS 8 is not expected to lead to any changes in valuation in future, and so is not expected to affect assets, income and the financial situation. In addition, no changes are expected to segment reporting, as this is already aligned with internal reporting.

The International Financial Reporting Interpretations Committee (IFRIC) published Interpretation IFRIC 10 “Interim Financial Reporting and Impairment” on 20.07.2006. The Interpretation responds to questions about additional depreciation and amortisation in connection with IAS 34 “Segment Reporting” and IAS 36 “Impairment of Assets” and IAS 39 “Financial Instruments: Recognition and Measurement”. Impairment to goodwill and specific financial instruments may not be reversed in later periods under IAS 36 or IAS 39. Under IAS 34 interim financial reporting must follow the same accounting and valuation methods as are used for annual or consolidated financial statements. However, the frequency of interim reporting should not have any influence on the annual or consolidated financial statements. IFRIC 10 aims to resolve the conflict over whether additional amortisation on goodwill and certain financial instruments in interim reports must be reversed in the annual or consolidated financial statements if there is no loss or a smaller loss at the balance sheet date than at the cut off date for the interim report. IFRIC 10 now states clearly that impairment of goodwill and certain financial instruments which may not be revalued under IAS 39 may not be reversed in subsequent periods. The interpretation rules under IFRIC 10 first apply in financial years starting after 1.11.2006. Application of IFRS 10 is not expected to lead to any changes in valuation in future, and so is not expected to affect assets, income and the financial situation.

LEIFHEIT does not expect any effects on the consolidated financial statements from the first application of IFRIC 7 “Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies” to financial years starting after 1.03.2006, IFRIC 8 “Scope of IFRS 2” to financial years starting after 1.05.2006, IFRIC 9 “Reassessment of Embedded Derivatives” to financial years starting after 1.06.2006, IFRIC 11 “IFRS 2 - Group and Treasury Share Transactions” to financial years starting after 1.03.2007 or IFRIC 12 “Service Concession Arrangements” to financial years starting after 1.01.2008.

Notes on the income statement

1 Turnover

Turnover by region € 000	2006	2005
Domestic	114,822	124,314
Europe (exc. Germany)	142,014	149,480
Rest of the world	19,715	22,361
	276,551	**296,155**

Consolidated turnover in other European countries totalled € 142.0 million (previous year: € 149.5 million), broken down between € 115.0 million (previous year: € 121.6 million) in the 24 EU partner countries and € 18.4 million (previous year: € 20.1 million) in Switzerland. “Rest of the world” includes the USA as the largest single market, accounting for € 11.5 million (previous year: € 13.7 million).

In the segment reporting, consolidated turnover is broken down between the Household Products and Bathroom Furnishings divisions.

2 Cost of materials

€ 000	2006	2005
Cost of raw materials, consumables and goods for resale	128,831	136,332
Cost of purchased services	8,808	7,973
	137,639	**144,305**

3 Deprectiation and amortisation

€ 000	2006	2005
Tangible assets		
Cost of sales	3,918	4,702
Research and development costs	132	147
Distribution costs	2,388	2,185
Administrative costs	850	758
	7,288	**7,792**
Intangible assets		
Cost of sales	135	261
Research and development costs	65	64
Distribution costs	736	749
Administrative costs	224	315
	1,160	**1,389**
Total depreciation and amortisation	**8,448**	**9,181**

4 Personnel costs, employment

€ 000	2006	2005
Wages and salaries	42,174	49,772
Social security contributions and employee benefits	10,375	12,363
Expense on post-employment benefits	1,925	1,410
	54,474	**63,545**

Due to the lower number of employees, personnel costs in the group fell 14 % to € 54,474,000.

Employees (annual average)	2006	2005
Industrial workers	993	1,138
Salaried employees	443	652
Trainees	55	72
	1,491	**1,862**

The decrease of 20 % in average annual employment in the group to 1,491 was almost entirely the result of the closure of domestic production of consumer scales at the Murrhardt plant, the conversion of the Zuzenhausen facility as a logistics centre, the relocation of production lines to the Czech plant at Blatná in the course of 2005, and the disposal of the SOEHNLE Industriewaagen business.

5 Research and development costs

€ 000	2006	2005
Labour costs	3,348	3,246
Cost of materials	282	273
Depreciation and amortisation	197	212
Other research and development costs	2,432	1,974
	6,259	**5,705**

6 Distribution costs

€ 000	2006	2005
Labour costs	25,879	26,457
Outgoing freight	16,308	16,540
Advertising costs	13,983	14,449
Commissions	8,109	8,943
Depreciation and amortisation	3,124	2,934
Fees and bought-in services	3,120	3,524
Costs of cars, travel and entertainment	2,859	2,871
Rent	2,732	2,077
Office and other overheads	1,445	1,227
Maintenance	1,062	746
Post and telephone costs	591	659
Insurance	527	511
Royalties	428	571
General operating and administrative costs	427	376
Payments to customers	274	493
Allowances on receivables	153	168
Other distribution costs	2,073	1,793
	83,094	**84,339**

7 Administrative costs

€ 000	2006	2005
Labour costs	10,119	10,067
Fees and bought-in services	2,614	2,980
Depreciation and amortisation	1,074	1,074
Maintenance	515	529
Costs of cars, travel and entertainment	509	599
Rent	476	506
Post and telephone costs	416	459
Office and other overheads	338	523
Insurance	223	187
General operating and administrative costs	180	182
Other administrative costs	1,594	1,536
	18,058	**18,642**

8 Other operating income

€ 000	2006	2005
Income from disposal of assets	1,066	979
Rent income	212	1
Royalties	205	27
Commission income	144	136
Income from sale of shares	–	466
Income from insurance claims	–	165
Other operating income (less than € 200,000)	1,025	1,196
	2,652	**2,970**

Income from the disposal of fixed assets relate primarily to the disposal of the SOEHNLE Industriewaagen business (SOEHNLE Professional) effective 1.01.2006. Rent income is from the leasing of the property in Murrhardt. Income from sales of shares in the previous year relates to the disposal of shares in Dual System Deutschland.

9 Other operating expenses

€ 000	2006	2005
Costs of payments transactions	187	222
Losses on disposal of assets	144	445
Other operating expense (less than € 300,000)	489	1,387
	820	**2,054**

The decrease in other operating expenses relates primarily to the absence of expenses for patent infringements.

10 Income from reorganisation

€ 000	2006	2005
Income from reorganisation	–	**669**

In the 2005 financial year unused provisions totalling € 669,000 for the reorganisation decided in 2004 and carried out in 2005 were reversed.

11 Net other financial income

€ 000	2006	2005
Foreign currency losses/gains	**-505**	**1,604**

The decrease in net other financial income is due to lower exchange rate gains from the liquidation of foreign currency futures transactions, valuation of receivables and liabilities in foreign currencies and exchange rate gains and losses arising out of exchange rate changes between the recording and settlement of receivables and liabilities in foreign currencies.

12 Net interest income

€ 000	2006	2005
Interest income	128	174
Interest expense	-2,223	-2,229
	-2,095	**-2,055**

Interest expense relates primarily to the interest expense on pension obligations, shown for the first time under this item.

This reclassification resulted in the following adjustments to the preceding year’s figures:

€ 000	2006	2005
Cost of sales	523	552
Research and development costs	235	228
Distribution costs	557	542
Administrative costs	938	896
Other operating expenses	-340	-197
Net interest income/expense	-1,913	-2,021
	–	–

13 Income taxes

€ 000	2006	2005
Corporation tax (Germany)	6,406	298
Municipal trade tax (Germany)	–	-405
Foreign income tax	-2,421	-3,225
Deferred tax on income	-2,289	-800
	1,696	**-4,132**

As a result of the amendment to section 37 of the Corporation Tax Act in the ”Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften“ SEStEG (Act on Tax Measures accompanying the Introduction of the European Company and amending other Tax Regulations). LEIFHEIT AG's corporation tax credit of € 8.1. million will be paid out in ten equal annual instalments unrelated to dividend payments on 30 September of each year, starting in 2008. This receivable was recognised at present value at 31.12.2006 (€ 6.4 million) and results in nonrecurring tax income.

The tax rate for LEIFHEIT AG for corporation tax and municipal trade tax in Germany was 37.3 % in 2006 (previous year: 37.2 %).

Derivation of the theoretical income tax liability that would result from applying the prevailing tax rate in the parent company's domicile is shown below:

€ 000	2006	2005
EBT	2,820	5,455
Taxes assuming the tax rate applying to the parent company	-1,052	-2,029
Losses by group companies with no tax effect	-975	-470
Effects of the LEIFHEIT AG tax audit	–	-136
Tax reduction due to corporation tax credit	6,353	506
Different foreign tax rates	501	527
Taxes in earlier years	-103	-640
Adjustment of rate for deferred tax assets from earlier years	-3,441	-1,775
First recognition of deferred tax assets from tax loss carryforwards	608	–
Other	-195	-115
Tax load	**1,696**	**-4,132**

€ 000	2006	2005
Actual tax expense	-2,347	-3,198
Actual income tax for other periods	-21	-640
Reduction in actual tax due to tax credits	6,353	506
Deferred tax from temporary differences and their reversal	124	1,469
Other valuations for deferred tax	-2,413	-2,269
Tax load	**1,696**	**-4,132**

Deferred taxes are recognised for all material temporary differences between the tax base and carrying amount. The deferred taxes have the following breakdown:

€ 000	31.12.2006		31.12.2005	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Fixed assets	105	3,540	562	3,353
Inventories	465	434	351	445
Balance sheet date exchange rate, receivables	91	753	74	861
Pensions	3,769	–	3,465	–
Provisions for part-time working by older employees	276	–	657	–
Other provisions and accruals	263	174	188	501
Impairment/write-up on treasury stock	–	–	600	661
Balance sheet date exchange rate, liabilities	253	65	364	91
Tax loss carryforwards	3,096		5,798	
Gross value	**8,318**	**4,966**	**12,059**	**5,912**
Offset	-3,026	-3,026	-3,186	-3,186
Consolidation	990	-447	891	–
Balance sheet amounts	**6,282**	**1,493**	**9,764**	**2,726**

Deferred tax assets amounting to € 11,109,000 from tax loss carryforwards were not recognised or revalued (previous year: € 8,309,000) because it is assumed that it is extremely unlikely that LEIFHEIT will be able to make use of these over the next five years.

14 Minority interests

Minority interests relate to minority interests of one shareholder in BIRAMBEAU S.A.S. and LEIFHEIT-BIRAMBEAU S.A.S. up to 30.06.2006. These interests were acquired in the course of the purchase of the remaining shares by LEIFHEIT in 2006.

15 Earnings per share

Earnings per share are calculated by dividing the share in net profit or loss of the shareholders of LEIFHEIT AG by the weighted average number of shares in circulation during the financial year. No financial or compensation instruments were used which lead to a dilution of the earnings per share.

		2006	2005
Shares issued	000 shares	5,000	5,000
Weighted average number of treasury shares	000 shares	241	241
Weighted average number of shares at 31.12.	**000 shares**	**4,759**	**4,759**

		2006	2005
Net profit for the period	€ 000	4,516	131
Weighted average number of shares at 31.12.	000 shares	4,759	4,759
Undiluted earnings per share	**€**	**0.95**	**0.03**

Notes on the balance sheet

16 Inventories

€ 000	31.12.2006	31.12.2005
Raw materials, consumables and supplies	7,801	7,955
Unfinished products and services	1,949	2,012
Finished products and goods purchased and held for resale	42,659	49,184
Payments on account	903	913
	53,312	**60,064**

€ 000	31.12.2006	31.12.2005
Raw materials, consumables and supplies at fair value	794	912
Raw materials, consumables and supplies not written down	7,007	7,043
Total, raw materials, consumables and supplies	**7,801**	**7,955**
Work in progress at fair value	215	178
Work in progress not written down	1,734	1,834
Total work in progress	**1,949**	**2,012**
Finished products at fair value	8,225	14,829
Finished products not written down	34,434	34,355
Total finished products	**42,659**	**49,184**

The reduction in inventories is due primarily to the reduction in stocks of finished products and goods for resale, which had risen disproportionately in the previous year due to the change in procurement strategy.

2006		Cost of purchase or production					
€ 000		1.01.2006	Foreign currency differences	Additions	Disposals	Reclassi-fications	31.12.2006
18	**Financial assets**						
	Participations	1,249	–	–	–	–	1,249
	Other financial assets	441	–	–	–	–	441
		1,690	**–**	**–**	**–**	**–**	**1,690**
19	**Tangible assets**						
	Land and buildings	67,636	240	636	41	657	69,128
	Plant and machinery	62,257	207	408	3,938	-6,343	52,591
	Other fixtures and fittings, tools and equipment	57,344	-53	2,319	6,804	7,224	60,030
	Payments on account and assets under construction	1,351	7	905	119	-1,668	476
		188,588	**401**	**4,268**	**10,902**	**-130**	**182,225**
20	**Intangible assets**						
	Brands	7,210	–	–	–	–	7,210
	Goodwill	3,299	–	–	–	–	3,299
	Other intangible assets	15,032	-11	617	537	130	15,231
		25,541	**-11**	**617**	**537**	**130**	**25,740**

17 Other current assets

€ 000	31.12.2006	31.12.2005
VAT receivables	1,781	3,335
Current prepayments and accrued income	1,075	876
Balances in our favour with creditors	417	918
Receivables from supplier discounts passed on	248	155
Receivables from royalties	130	–
Receivables from employees	126	232
Receivables from costs passed on	71	317
Receivables for other taxes	19	129
Available-for-sale securities	10	5,096
Receivables from disposal of fixed assets	–	150
Receivables from commissions passed on	–	131
Other current assets (less than € 100,000)	242	801
	4,119	**12,140**

The available-for-sale securities in the previous year included investment of cash and cash equivalents in money market funds. These are not subject to material fluctuation in market value.

Cumulated depreciation and amortisation						Net book value	
1.01.2006	Foreign currency differences	Increases	Disposals	Reclassi-fications	31.12.2006	31.12.2006	31.12.2005
1,074	–	–	–	–	1,074	175	175
32	–	–	–	–	32	409	409
1,106	**–**	**–**	**–**	**–**	**1,106**	**584**	**584**
32,958	3	1,881	28	–	34,814	34,314	34,678
53,975	39	1,902	3,543	-6,361	46,012	6,579	8,282
47,921	-26	3,489	6,302	6,399	51,481	8,549	9,423
130	–	16	118	–	28	448	1,221
134,984	**16**	**7,288**	**9,991**	**38**	**132,335**	**49,890**	**53,604**
2,407	–	–	–	–	2,407	4,803	4,803
–	–	–	–	–	–	3,299	3,299
10,114	-5	1,160	493	-38	10,738	4,493	4,918
12,521	**-5**	**1,160**	**493**	**-38**	**13,145**	**12,595**	**13,020**

2005		Cost of purchase or production					
€ 000		1.01.2005	Foreign currency differences	Additions	Disposals	Reclassifi-cations	Offset against retai-ned earnings
18	**Financial assets**						
	Participations	1,249	–	–	–	–	–
	Other financial assets	80	–	363	2	–	–
		1,329	**–**	**363**	**2**	**–**	**–**
19	**Tangible assets**						
	Land and buildings	67,959	326	8	1,672	1,015	–
	Plant and machinery	74,775	255	164	14,695	1,758	–
	Other fixtures and fittings, tools and equipment	71,198	25	2,589	16,499	31	–
	Payments on account and assets under construction	307	1	3,780	101	-2,636	–
		214,239	**607**	**6,541**	**32,967**	**168**	**–**
20	**Intangible assets**						
	Brands	7,231	–	–	–	-21	–
	Badwill	-2,023	–	–	–	–	2,023
	Goodwill	3,088	–	294	–	–	-83
	Other intangible assets	14,576	-5	909	301	-147	–
		22,872	**-5**	**1,203**	**301**	**-168**	**1,940**

Additions to intangible assets in the previous year were primarily due to software.
The cumulated scheduled amortisation of goodwill and badwill up to 31.12.2004 was offset against the relevant goodwill and badwill on 1.01.2005 in accordance with IFRS 3. Badwill was subsequently offset against retained earnings in application for the first time of IFRS 3.

Impairment test of goodwill and intangible assets with indefinite life

Goodwill and brand names acquired in a business combination were attributed to the following two cash-generating units for the purposes of impairment tests:

- ”Management Division BIRAMBEAU“ and
- ”Brand SOEHNLE“

The cash-generating units are based on internal management reporting.

The recoverable amount for each cash-generating unit is determined on the basis of calculating a value in use based on cash flow forecasts for a five year horizon. Assumptions are made for future trends in turnover and costs. If material assumptions differ from the actual values, this could lead to impairment in future which would have to be recognised in the income statement. The pre-tax discount rate used for the cash flow forecasts is

	Cumulated depreciation and amortisation						Net book value	
31.12.2005	**1.01.2005**	**Foreign currency differences**	**Increases**	**Reversals**	**Reclassi-fications**	**31.12.2005**	**31.12.2005**	**31.12.2004**
1,249	1,074	–	–	–	–	1,074	175	175
441	32	–	–	–	–	32	409	48
1,690	**1,106**	**–**	**–**	**–**	**–**	**1,106**	**584**	**223**
67,636	32,132	39	1,842	1,616	561	32,958	34,678	35,827
62,257	64,870	156	2,286	13,038	-299	53,975	8,282	9,905
57,344	60,365	2	3,664	16,015	-95	47,921	9,423	10,833
1,351	130	–	–	–	–	130	1,221	177
188,588	**157,497**	**197**	**7,792**	**30,669**	**167**	**134,984**	**53,604**	**56,742**
7,210	2,423	–	–	–	-16	2,407	4,803	4,808
	–	–	–	–	–	–		-2,023
3,299	–	–	–	–	–	–	3,299	3,088
15,032	9,172	-3	1,389	293	-151	10,114	4,918	5,404
25,541	**11,595**	**-3**	**1,389**	**293**	**-167**	**12,521**	**13,020**	**11,277**

12.2 % and is based on the average capital costs of 8.5 %, assuming a risk-free interest rate of 4.5 %, a market risk premium of 6.0 % and a beta factor of 0.8. There was no effect due to borrowing costs due to the absence of interest-bearing debt. A growth rate of 1 % was assumed after the end of the planning horizon.

Carrying amount at the balance sheet date

€ 000	Goodwill		Brand rights	
	2006	**2005**	**2006**	**2005**
Management Division BIRAMBEAU	3,299	3,299	–	–
Brand SOEHNLE	–	–	4,803	4,803

The impairment test at the balance sheet date showed no need for amortisation.

21 Other noncurrent assets

As a result of the amendment to section 37 of the Corporation Tax Act in the ”Gesetz über steuerliche Begleitmaßnahmen zur Einführung der Europäischen Gesellschaft und zur Änderung weiterer steuerlicher Vorschriften” SEStEG (Act on Tax Measures accompanying the Introduction of the European Company and amending other Tax Regulations), the corporation tax credit is capitalised in 2006 (present value: € 6,353,000). This credit relates to retained earnings which were subject to taxes on retained earnings for the years before 2001 under the old corporation tax system, and which have been subject since 2001 to corporation tax at the prevailing rate of 25 % or the alternative dividend tax for old retained earnings at the former rate of 30 %. This credit was previously available by distributing such old retained earnings as dividend after 31.12.2006. This has now been replaced by payment in equal amounts of the corporation tax credit over a ten-year period other than as dividends, from 2008-2017 (€ 807,000 a year).

The presentation of the pension liability insurance reserves in the previous year (€ 447,000) was changed: these are now included in the item “Employee benefit obligations”.

22 Trade or other payables

Remaining term up to 1 year, € 000	31.12.2006	31.12.2005
Trade payables	17,847	21,306
Customer discounts	7,067	8,408
Employees	6,562	9,384
Advertising cost subsidies	3,569	3,298
Amounts owed to debtors	1,872	1,484
Outstanding invoices	1,815	2,888
Other taxes (but not income taxes)	1,744	3,022
Customer payment discounts	1,030	924
Social security contributions	839	1,803
Commission due	474	474
Severance payments to sales representatives	128	131
Other payables (less than € 100,000)	4,264	3,280
	47,211	**56,402**

Payables to employees relate specifically to December wages paid in January and bonuses. In the previous year this included severance payments under the reorganisation, which were paid in January 2006.

23 Provisions

€ 000	31.12.2006			31.12.2005		
	Total	of which current	of which noncurrent	Total	of which current	of which noncurrent
Warranties	3,657	2,920	737	3,349	2,230	1,119
Long-service recognition	798	–	798	861	–	861
Part-time work by older employees	1,985	–	1,985	2,733	–	2,733
Threatening losses	417	220	197	536	222	314
Litigation and legal costs	9	9	–	180	180	–
Other provisions and accruals	855	563	292	2,899	2,645	254
	7,721	**3,712**	**4,009**	**10,558**	**5,277**	**5,281**

"Other provisions" in the previous year primarily included provisions for the reorganisation which were completely used in 2006.

€ 000	1.01. 2006	Foreign currency diffe- rences	Use	Release	Transfer	Reclassi- fication	Reduc- tion from removal from con- solidation	31.12. 2006
Current provisions								
Warranties	2,230	-6	189	–	650	261	26	2,920
Threatening losses	222	–	–	–	–	–	2	220
Litigation and legal costs	180	–	28	115	5	–	33	9
Other current provisions	2,645	-10	1,765	673	366	–	–	563
	5,277	**-16**	**1,982**	**788**	**1,021**	**261**	**61**	**3,712**
Noncurrent provisions								
Warranties	1,119	–	19	26	–	-261	76	737
Long-service recognition	861	–	60	7	63	–	59	798
Part-time work by older employees	2,733	–	661	–	117	–	204	1,985
Threatening losses	314	–	118	–	–	–	–	196
Other noncurrent provisions	254	–	13	–	52	–	–	293
	5,281	**–**	**871**	**33**	**232**	**-261**	**339**	**4,009**

24 Employee benefit obligations

There are various defined benefit pension plans in the LEIFHEIT group. Provisions have been recognised for retirement and survivor benefits to be paid.

In accordance with generally accepted practice in Germany, the pension plans are not secured by a pension fund. Pension reserves are calculated on the basis of an independent actuarial opinion. The amount and scope of the benefits are based on length of service and salary. The pension plans are insured.

The obligations under defined benefit pension plans are measured using the projected unit credit method. Gains and losses not yet recognised from changes in actuarial assumptions are recognised as income (expense) over the entire expected remaining service of active employees.

The presentation in the previous year was adjusted for the value of the pension liability insurance (€ 447,000) which is now recognised in this position.

The following table shows the changes in pension obligations in the relevant reporting periods:

€ 000	31.12.2006	31.12.2005
Present value of defined benefit obligations (DBO) not funded by plan assets	46,685	47,472
Plan assets at fair value	-135	–
Actuarial losses not yet recognised	-6,635	-8,303
Recognised net liability from pension obligations in Germany	**39,915**	**39,169**
Pension obligations, France	740	758
Obligations similar to pensions	710	447
Fair value of plan assets for obligations similar to pensions	-680	-447
Employee benefit obligations	**40,685**	**39,927**

Expense on post-employment benefits in Germany shows the following breakdown:

€ 000	31.12.2006	31.12.2005
Current service expense	814	636
Interest expense on the obligation	1,913	2,021
Recognised actuarial net loss	371	16
Total expense on post-employment benefits	**3,098**	**2,673**

There were the following changes in the net pension liability in Germany recognised in the balance sheet:

€ 000	2006	2005
Net liability at start of year	39,169	38,031
Disposal of a business	-531	–
Net expense recognised in the income statement	3,098	2,673
Contributions	-134	–
Payments to beneficiaries	-1,687	-1,535
Net liability at end of year	**39,915**	**39,169**

The present value of defined benefit obligations (DBO) not funded by plan assets changed as follows:

€ 000	2006	2005
DBO at start of year	47,472	41,168
Current service expense	814	636
Interest expense	1,913	2,021
Payments	-1,687	-1,535
Actuarial losses	-1,669	5,182
Disposal of a business	-691	–
Other	533	–
DBO at end of year	**46,685**	**47,472**

Over the past five years the present value of defined benefit obligations (DBO) not funded by plan assets has changed as follows:

€ 000	2006	2005	2004	2003	2002
DBO at balance sheet date	46,685	47,472	41,168	37,681	37,832
Experience adjustment to plan liabilities	-1,669	5,182	2,129	-1,894	-265

The actuarial assumptions used as the basis for measuring obligations under post-employment benefit plans at 31 December were as follows:

%	2006	2005
Discount rate	4.4	4.3
Future trend in incomes	2.0	2.0
Future trend in pensions	1.5	1.5
Rate of turnover	3.0	3.0
Basis for calculation: ”Richttafeln Prof. K. Heubeck“ actuarial tables	2005 G	2005 G

25 Capital stock

The capital stock of LEIFHEIT AG totals € 15,000,000 (previous year: € 15,000,000) denominated in Euro and divided into 5 million no-par bearer shares.

The shares are evidenced as follows:

220,000	single share certificates for	1	share
63,000	collective share certificates for	10	shares
83,000	collective share certificates for	50	shares

By resolution of the General Meeting on 24.05.2006 the Board of Management was authorised up to 1.05.2011 to increase the capital stock by a total of up to € 7,500 million through one or more issues of new shares for cash and/or assets brought in.

26 Capital surplus

The capital surplus of € 16,934,000 (previous year: € 16,934,000) represents the premium on the capital increase in autumn 1989.

27 Minority interests

The outstanding minority interests in BIRAMBEAU S.A.S. (34 %) and LEIFHEIT-BIRAMBEAU S.A.S. (40 %) were taken over on 30.06.2006.

28 Proposal for the appropriation of earnings

The LEIFHEIT AG dividend is based on the net profit shown in the LEIFHEIT AG financial statements drawn up in accordance with German commercial law.

LEIFHEIT AG earnings for the past 2006 financial year amount to € 3,000,000. LEIFHEIT AG holds 240,344 treasury shares.

The Board of Management and Supervisory Board propose adopting the following resolution:

A dividend of € 0.60 for each share with entitlement to dividend, making a total of € 2,855,793.60 will be distributed to shareholders. The dividend on the 240,344 treasury shares held by the company at the time of the General Meeting will be transferred to retained earnings.

29 Financial instruments

Currency and interest risk

The LEIFHEIT group is internationally active, and is accordingly subject to market risks due to changes in exchange rates. Due to the group's strong internal financing capacity and short-term investment of time deposits, changes in interest rates do not currently represent any risk.

The group uses financial derivatives to manage the risk of exchange rate differences. The guidelines used for risk management are implemented by a central finance department in close cooperation with the group companies.

The group enters into various kinds of foreign currency contracts in the course of managing the exchange rate risk from the cash flow from business and financial activities in foreign currencies. The transaction risk is calculated for each relevant foreign currency.

To manage the exchange rate risk. LEIFHEIT nets out the planned flows of payments in each relevant foreign currency and hedges the surplus, primarily through foreign exchange contracts. The effect of hedging transactions is recognised in the income statement under "Net other financial income".

Foreign currency futures transactions, remaining term up to 1 year Currency, million	31.12.2006	31.12.2005
US dollar	23.4	1.1
Swiss franc	0.8	0.7

The fair value of foreign exchange futures and options contracts is determined using the prices in the foreign exchange futures market on the balance sheet date (taking into account the prevailing foreign currency swap rate).

Market risk

Market risk arises out of changes in financial market prices which have a positive or negative effect on the value of financial instruments. Market risk for the financial instruments in the balance sheet is insignificant. as these do not include any listed securities.

Liquidity risk

A liquidity forecast for a fixed planning horizon. existing unused credit lines and high internal financing capability ensure the availability of liquidity at all times.

Credit risk

The theoretical maximum credit risk of the original financial instruments corresponds to the value of all receivables less the liabilities to the same debtors. Allowances for credit risk and credit insurance for selected customers cover the actual risk.

30 Segment reporting

The breakdown by division corresponds to the internal reporting structure and covers the two divisions Household Products and Bathroom Furnishings The Household Products division develops, produces and markets non-electrical household appliances under the LEIFHEIT, DR. OETKER BACKGERÄTE and BIRAMBEAU brands and scales under the SOEHNLE brand. The Bathroom Furnishings division brings together the activities under the SPIRELLA, KLEINE WOLKE and MEUSCH brands (bathroom mats, textiles and accessories).

Segment data is calculated as follows:

- The geographical regions relevant for LEIFHEIT are Germany, Europe (excluding Germany) and the rest of the world.
- Minority interests were eliminated from EBIT in the previous year.
- The segment assets are the basis for calculating total assets of participating interests and income tax receivables. Receivables and interest-bearing loans within the segments are eliminated.
- Debt includes provisions, liabilities and deferred and accrued items; intra-segment liabilities and income tax payables are netted out.
- Depreciation, amortisation and investments relate to intangible and tangible assets. Acquisitions are not included.
- Employment figures are annual averages.

31 Consolidated statement of cash flow

The SOEHNLE Professional business was sold effective 1.01.2006. The turnover in the 2006 financial year was € 2,400,000. In addition, a brand licensing agreement was concluded under which payments will not be due until later years. The disposal involved disposal of cash and cash equivalents amounting to € 132,000. The book value of the assets and liabilities less cash and cash equivalents was as follows:

Current assets	€ 5,584,000
Noncurrent assets	€ 413,000
Short-term debt	€ 3,264,000
Long-term debt	€ 954,000

The outstanding shares in BIRAMBEAU S.A.S. and LEIFHEIT-BIRAMBEAU S.A.S. were taken over with effect from 1.07.2006. The purchase price was € 9,509,000, entirely in cash and cash equivalents. The purchase price was treated as a reduction in the equity share of minority shareholders (entity concept method).

32 Contingent liabilities

Group companies did not enter into any contingent liabilities.

33 Other financial obligations

There are leasing agreements for business premises, EDP and telephone equipment, vehicles and similar assets and licensing agreements with annual expense of around € 2.4 million. These obligations total c. € 4.4 million during the non-cancellable remaining terms up to 2011. As at 31.12.2006 there were purchase commitments totalling € 0.7 million. The leasing agreements represent operating leases within the meaning of IAS 17.

There are obligations under agreements for the purchase of tangible assets totalling € 0.5 million (previous year: € 0.5 million) for tools and vehicles.

There are also liabilities under foreign exchange futures contracts for hedging against exchange rate movements totalling USD 23.4 million (equivalent to € 17.9 million) whose fair value at the balance sheet date is € 17.6 million and foreign exchange futures contracts for hedging against exchange rate movements totalling € 0.5 million (equivalent to CHF 0.8 million) whose fair value at the balance sheet date is CHF 0.8 million.

34 Remuneration of the Board of Management and Supervisory Boards in accordance with section 314 (1) no. 6a HGB and IFRS 2

Remuneration of the Board of Management for activities in subsidiaries amounted to € 178,000 (previous year: € 17,000).

Remuneration of the Board of Management totalled € 1,493,000 (previous year: € 1,328,000), of which variable compensation represented € 110,000 (previous year: € 530,000). Transfers to pension reserves for members of the Board of Management amounted to € 155,000 (previous year: € 444,000) Remuneration of the Supervisory Board totalled € 183,000 (previous year: € 233,000).

The company granted one of the members of its Board of Management a share based payment component from March 2005. This is an instrument which provides for payment in cash rather than shares. The main conditions for bonus payments are that the price of the LEIFHEIT share exceeds the CDAX by at least five percentage points and lies at least € 10.00 above the reference stock exchange price of € 24.18 per share.

If all conditions are met and the option is exercised by the beneficiary, a payment of € 250.00 will be made for each of the 1,000 bonus units granted. The amount per bonus unit increases for each full Euro by which the stock exchange price exceeds the reference price by more than € 10.00. One third of the bonus units can be converted after a waiting period of two years, a further third after three years and the last third at the earliest after four years, not to exceed 1.05.2010. The value of the bonus programme is limited to € 1,500,000.

Provision is made for the obligation under this agreement prorated over the applicable qualifying periods of 24, 36 and 48 months. The value of the bonus programme is calculated annually using a Black-Scholes option price model. The expense on share based compensation in the 2006 financial year is € 96,000. The carrying value of the provision is € 176,000.

35 Total remuneration and pension reserves for former members of the Board of Management and/or Supervisory Board in accordance with section 314 (1) no. 6b HGB

In the year under review total remuneration for former members of the Board of Management was € 385,000 (previous year: € 928,000). Pension reserves for current pensions totalled € 6,218,000 in the 2006 financial year (previous year: € 5,583,000).

36 Advances and loans to the Board of Management and Supervisory Boards in accordance with section 314 (1) no. 6c HGB

At the balance sheet date there were no advances or loans to members of the Board of Management or Supervisory Boards. The advances in the previous year for retirement pensions totalling € 31,000 and a loan of € 105,000 were repaid in the year under review.

37 Related party transactions

Effective 1.01.2006 the SOEHNLE industrial scales business was sold to former member of the Board of Management Stephan Gerster. The sale was based on an independent valuation and was carried out on arm’s-length terms.

38 Statement on treasury shares in accordance with section 160 (1) no. 2 AktG

The General Meeting on 24.05.2006 cancelled the existing authorisation and newly authorised the Board of Management to acquire treasury shares up to 10 % of the current capital stock of € 15 million. The treasury shares acquired can be used for all legally permissible purposes. This enables the company to offer treasury shares directly or indirectly as consideration in company mergers or in connection with the acquisition of enterprises, parts of enterprises or equity investments in enterprises. International competition and globalisation of the economy frequently requires consideration in the form of shares in such transactions. The authorisation gives the company the necessary freedom of action to take advantage quickly and flexibly of opportunities to acquire enterprises, parts of enterprises or equity investments in enterprises in both national and international markets.

LEIFHEIT did not acquire any treasury shares in the period under review. 180 shares (€ 6,000) were issued as long-service bonuses. Including the treasury shares bought in the previous year, this gives LEIFHEIT a holding as at 31.12.2006 of € 7,623,000 representing 240,384 shares or 4.8 % of the share capital.

LEIFHEIT did not acquire any treasury shares in the previous year. A total of 290 shares (€ 9,000) were issued in the previous year as long-service and employee shares.

39 Existence of a participating interest in accordance with section 160 (1) no. 8 AktG

At the balance sheet date, shareholders to be disclosed under the Securities Trading Act (WpHG) – i.e. having an interest of more than 5 % in the capital stock – were HOME Beteiligungen GmbH, München (47.02 %) and MKV Verwaltungs GmbH, Munich (9.40 %).

40 Declaration in accordance with section 161 AktG (German Corporate Governance Code)

On 18.12.2006 the Board of Management and Supervisory Board issued the declaration required under section 161 AktG that LEIFHEIT is in compliance with the recommendations of the “Government Commission on the German Corporate Governance Code” published by the German Federal Justice Ministry. with the exception of recommendations not currently adopted. The declaration is permanently available on the company’s web site.

41 Events after the balance sheet date

There were no events after the balance sheet date of particular importance for assessing the assets, financial situation and earnings of the LEIFHEIT group.

42 Exemption of domestic companies from specific accounting requirements under section 264 (3) no. 4 HGB or section 264b no. 4 HGB

As a result of inclusion in the consolidated financial statements the following fully-consolidated associated German companies are exempt from the audit and disclosure obligations for annual financial statements under section 264b HGB or section 264 (3) HGB:

- KLEINE WOLKE Textilgesellschaft mbH & Co. KG, Bremen
- SPIRELLA GmbH, Nassau

43 Remuneration of the auditors in accordance with section 314 (1) no. 9 HGB

The expense on the fees of the group auditors ERNST & YOUNG recognised in 2006 amounted to € 292,000 (previous year: € 301,000), on tax advice to € 184,000 (previous year: € 234,000) and on other services to € 91,000 (previous year: € 104,000).

Organs of LEIFHEIT AG

Members of the Supervisory Board

- **Dieter Schüfer**
  Nassau/Lahn
  (Chairman to 31.12.2006)
  previously Chairman of the Board
  of Management of LEIFHEIT AG

- **Helmut Zahn**
  Munich
  (Chairman from 24.01.2007)
  Managing Director of
  Schuler-Beteiligungen GmbH

- **Dr. Robert Schuler-Voith**
  Göppingen
  Deputy Chairman
  Chairman of the Supervisory Board
  of Schuler AG

- **Joachim Barnert***
  Zuzenhausen
  Toolmaker

- **Karsten Schmidt**
  Ravensburg
  (from 15.01.2007)
  Speaker of the Board
  of Ravensburger AG

- **Thomas Standke***
  Nassau/Lahn
  Toolmaker

- **Dr. Friedrich M. Thomée**
  Munich
  Managing Director of
  Thomée Vermögensverwaltung
  GmbH & Co. KG

* Employee representative

Members of the Board of Management

- **Dr. Hans-Georg Franke**
  Montabaur
  Chairman

- **Stephan Gerster**
  Bad Breisig
  (to 31.03.2006)

- **Frank Gutzeit**
  Offenhausen

- **Ernst Kraft**
  CH-Wil
  (from 1.06.2006)

The following members of the Board of Management and Supervisory Board hold individual controlling functions in subsidiaries together with the following offices in Supervisory Boards and comparable controlling organs in companies.

- **Dr. Hans-Georg Franke**
  Gardena AG, Ulm, Supervisory Board Chairman
  Wolfcraft GmbH, Kempenich, Advisory Board Chairman

- **Stephan Gerster**
  Scheurich GmbH & Co. KG, Kleinheubach, Advisory Board member

- **Dieter Schüfer**
  Geo-Post International Management & Development Holding GmbH, Aschaffenburg, Supervisory Board Chairman
  Scheurich GmbH & Co. KG, Kleinheubach, Advisory Board Chairman

- **Dr. Robert Schuler-Voith**
  Schuler AG, Göppingen, Supervisory Board Chairman

- **Helmut Zahn**
  Schuler AG, Göppingen, Supervisory Board member
  Flossbach & von Storch Vermögensmanagement AG, Cologne, Supervisory Board member

Nassau/Lahn, 13 March 2007

LEIFHEIT Aktiengesellschaft
The Board of Management

Dr. Hans-Georg Franke   Frank Gutzeit   Ernst Kraft

Audit opinion

We have issued the following opinion on the consolidated financial statements and the group management report:

"We have audited the consolidated financial statements prepared by the LEIFHEIT AG, Nassau, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1, 2006 to December 31, 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": "German Commercial Code"] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

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

Our audit has not led to any reservations.

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

Eschborn/Frankfurt am Main, March 16, 2007

ERNST & YOUNG AG
Wirtschaftsprüfungsgesellschaft/Steuerberatungsgesellschaft

(signed) Seckler	(signed) Broßius
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Individual financial statements of LEIFHEIT AG

The individual financial statements of LEIFHEIT AG, audited by ERNST & YOUNG AG Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, and given an unqualified auditor's report, were drawn up in accordance with German commercial law and the provisions of the German Stock Corporation Act. They are published on the company's web site (www.leifheit.com) and in the electronic edition of the Federal Gazette. They can also be requested from LEIFHEIT AG, Investor Relations, P.O. Box 1165, 56371 Nassau/Lahn (ir@leifheit.com).

Contacts, key dates

Contacts

- **Postal address:**
  LEIFHEIT AG
  P.O. BOX 11 65
  D-56371 Nassau

- **Investor Relations:**
  tel.: ++49-26 04-977-218
  fax: ++49-26 04-977-340

- **LEIFHEIT on the Internet:**
  http://www.leifheit.com
  E-mail: ir@leifheit.com

Key dates

- **12 April 2007**
  Financial statements press conference,
  presentation of the annual report for 2006,
  analysts conference in Frankfurt/Main

- **15 May 2007**
  Interim report for the period ending 31 March 2007

- **22 May 2007**
  General Meeting 10.30 am, at LEIFHEIT AG
  Customer and Administration Centre, Leifheitstrasse, Nassau/Lahn

- **14 August 2007**
  Interim report for the period ending 30 June 2007

- **14 November 2007**
  Interim report for the period ending 30 September 2007

- **12–14 November 2007**
  Investor and analyst conference,
  Deutsches Eigenkapitalforum, Frankfurt/Main

042007·KB·IR·M.T

LEIFHEIT

AKTIENGESELLSCHAFT

P.O. Box 11 65
D-56371 Nassau/Lahn
Phone: ++49-26 04-977-0
Telefax: ++49-26 04-977-300
Internet: www.leifheit.com
E-mail: ir@leifheit.com