

REPORT OF THE MANAGEMENT

WÜRTH FINANCE GROUP

“There is much to indicate that the economy will be robust in the coming months” – that was our optimistic opener for the economic outlook for 2017 in last year’s Würth Finance Group Annual Report. Now we know: it was much better still, especially in Europe. For instance, growth in the Eurozone beat the 2% mark for the first time since 2011, while unemployment fell to a level not seen since 2009. Furthermore, political uncertainty in connection with general elections in several European countries clearly did not dampen sentiment among consumers and businesses. The US economy also put in a robust performance, growing over 2% on the back of continued expansionary monetary policy and showing few signs of any impacts from the new Trump administration. The emerging economies are in good form, too: China and India remained on their solid growth path, while the recovery in Brazil and Russia was swifter and more pronounced than expected.

Würth Group

The positive economic picture was also reflected in the markets of relevance to the Würth Group. Overall, the Group generated sales of EUR 12.7 billion in financial year 2017, an increase of 7.5% over the previous year. All regions achieved positive organic growth. The performance in Southern and Eastern Europe was particularly gratifying, with organic growth in the double-digit percentage range.

Expanding and improving all services in the digital range remained a focal point of activity for the Würth Group. These include order platforms involving not just the traditional online shop and the Würth app, but also electronic procurement that enables process optimisation for the customer and automated inventory management. As a robust addition to the work of the traditional sales force and branches, sales realised through these distribution channels rose by 19.3% in 2017. Their share of total sales was 15%.

In parallel with its sales growth, the Würth Group achieved better capacity utilisation and thereby increased its earning power considerably. Thus, its operating result improved by 25%, rising from EUR 615 million to EUR 770 million, which meant that the operating margin also improved significantly, from 5.2% to 6.2%. The number of staff increased by 3.7%.

Responsibility Statement

In accordance with the EU Transparency Directive and the Dutch Financial Supervision Act (Wet op het financieel toezicht), the Management of the Würth Finance Group hereby confirms that, to the best of its knowledge, the financial statements for the financial year ended on 31 December 2017 give a true and fair view of the assets, liabilities, financial

position and profit or loss of the Group. The Management report includes a fair review of the development and the performance during the financial year and of the financial situation of the Group at the reporting date, as well as of the risks associated with its business.

The Würth Group's financial position became even stronger compared to the previous year. This is reflected both in the financial key figures and in the reaffirmed "A" rating from Standard & Poor's. Shareholders' equity as at 31 December 2017 totalled EUR 4.78 billion (up EUR 309 million on the previous year), while the equity ratio was 46.5% (previous year: 46.1%). The Würth Group also has comfortable liquidity reserves. In summer, the committed credit line of EUR 200 million obtained from a consortium of banks and originally valid until 2021 was increased to EUR 400 million and extended to 2022. In addition, the company held cash totalling EUR 670 million as at 31 December 2017.

Würth Finance Group

The Würth Finance Group performed well in 2017. Overall, revenue rose by 7% to EUR 70.0 million¹, with increases in both Inhouse Banking – where core activities benefited from the high level of growth at the Würth Group – and at External Financial Services. This reflects the company's excellent positioning in its markets.

Operating expenses dropped by 1% from EUR 29.2 million to EUR 28.9 million. The adjustment of staff pension benefits had a positive one-off impact on personnel costs in the amount of EUR 0.5 million. Without this extraordinary item these costs increased by 1%. This rise is attributable, firstly, to higher expenses from the ongoing GPS project to renew the IT infrastructure for handling international payments. Secondly, the average headcount was increased slightly from 116 to 118. The Management regards this investment as reasonable and necessary to secure the ongoing successful performance of the Würth Finance Group.

The pre-tax operating result for the Würth Finance Group in 2017 came in at EUR 41.1 million¹ (previous year: EUR 36.1 million), a new record and a significant contribution to the operating result of the Würth Group. The cost-income ratio improved from 44.7% to 41.3%.

As a family business, Würth focuses on the long-term development of the company. That applies equally to supporting up-and-coming talent at the Würth Finance Group. For many years the Würth Finance Group has taken on apprentices and employed them on a permanent basis, in line with staffing needs, once they have completed their education. In order to secure the company's future, the Würth Finance Group supports ongoing employee training throughout their professional life. The Würth Finance Group prefers to fill management positions from within its own ranks; it also fosters the professional development of up-and-coming talent through participation in Group-internal training programmes.

At his own request Mr Patrik Imholz, as a Managing Director of Würth Invest AG, will in future concentrate on managing the company's financial investments and on developing this area of business. Accordingly, he relinquished his Managing Director role at Würth Finance International B.V. as at 1 June 2017. In addition and with the approval of the Board of Directors of Würth Finance International B.V. he will take on directorships in the area of asset management outside the Würth Finance Group at closely associated companies and organisations.

¹ Not included in these figures are the extraordinary effects impacting profit and loss in the IFRS accounts of the market valuation of interest rate derivatives taken out to hedge interest rate risks. These effects amount to EUR -4.4 million (previous year: EUR -4.3 million).

Information about the performance of the business at the In-house Banking and External Financial Services divisions in financial year 2017 and the outlook for 2018 can be found on pages 10 to 21. The Würth Finance Group's report on risk and opportunities can be found on pages 24 to 25. The Würth Finance Group does not have its own audit committee and is therefore integrated into the Würth Group's audit process.

Outlook for 2018

Business sentiment is good, profits are high, unemployment is falling and capital expenditure is rising. In addition, there is considerable synchrony of the world's main regional economies, to an extent not seen for years. Nor does this appear likely to change in the coming quarters. The International Monetary Fund and the OECD forecast in their baseline scenarios that global economic growth in 2018 will be about on a par with 2017, at 3.7%. An acceleration to around 2.4% is anticipated in the United States, while in the Eurozone slightly reduced growth of 2% is expected. Led by China and India, the contribution from the emerging markets to global growth will increase further.

However, it is also to be noted that eight years after the outbreak of the financial crisis, the world economy has recovered to an extent such that capacity and resources are now well utilised again. Core inflation and the prices of commodities reached their low points between mid-2015 and mid-2016. The central banks may begin to normalise monetary policy. The labour markets in North America and Europe have recovered almost to their 2007 levels and are showing tightness in various sectors. There is an increasing probability that in the next phase of the global economy's expansion, prices on the product and labour markets will rise and the high point of the economic cycle will soon be reached.

In this environment, the Würth Group will stick to its proven growth and capital investment strategy, will continue to approach acquisitions in a selective and disciplined way and will retain its focus on expanding multi-channel distribution and optimising its productivity.

The Würth Finance Group anticipates volatility in the relevant markets will increase at any time and is limiting its risk appetite accordingly. At the same time, the two divisions Inhouse Banking and External Financial Services seek to achieve further growth and are investing in their staff. The digitalisation of the insurance and financial sector and its effect on the markets are being watched very carefully, and new solutions will be used to improve the company's own client service and to optimise its processes. At the same time, the company must initiate appropriate organisational and technical measures to take account of the increasing risk from cyberattacks – and the associated considerable potential for financial loss – and of the current tightening of regulatory requirements applying to data protection. The Würth Finance Group has the requisite critical mass and the human and financial resources to meet the further increase in compliance requirements, too.

Insofar as the relevant markets develop as expected, and despite considerable margin pressure, particularly in the insurance brokerage business, the Management expects in the current financial year that business volumes will expand at a mid-single-digit percentage pace, and that the operating result will improve on 2017.

Thanks

The Management of the Würth Finance Group is satisfied with financial year 2017 and would like to thank all employees for their important contribution to the success achieved. Thanks also go to our clients and business partners, whose trust in the Würth Finance Group has made our success possible in the first place. We look forward to continuing working with them in 2018.



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