WÜRTH FINANCE GROUP

REPORT ON RISKS AND OPPORTUNITIES

At the Würth Finance Group, entering into, managing and controlling risk are central pillars of its business. The goal is not to eliminate all risks, but to achieve a balanced relationship between risk and return. Potential risks that might have a negative effect on assets, the financial position and the earnings situation are seen in the following three risk categories: market, company and general environment.

Risk and opportunity category – market

Business model: The Würth Finance Group generates around 40% of its revenue through internal counterparties. As a result, there is a direct correlation between its operating result and the course of business of the Würth Group as a whole. At the same time, the company is in competition with external financial services companies. However, because it is part of the Würth Group, the Würth Finance Group enjoys a unique position compared to its rivals, an advantage it has successfully utilised for many years to extend market share.

Financial risks and opportunities: The financial risks of the Würth Group are largely measured, monitored and controlled by the Würth Finance Group. The business activities of the Würth Finance Group expose it to developments in the financial markets. Fluctuations in exchange rates and interest rates affect revenue, as do share price fluctuations and changes in commodity prices, albeit to a lesser extent. Furthermore, credit risks exist on financial assets and contingent liabilities. The Würth Finance Group measures, controls and monitors financial risks by means of a systematic risk management process. Secure auditing and transparency of information are ensured by strictly segregating the functions of the risk-taking and risk-monitoring bodies. In order to control financial risk and optimise income, the Würth Finance Group uses various means, including derivative financial instruments, which are valued and monitored on a daily basis.

Credit risk

The maximum credit risk corresponds to the value of all the financial assets and unused irrevocable credit commitments stated in the annual accounts. In order to minimise credit risks, transactions are conducted only with first-class external counterparties. For each rating level, binding counterparty limits are defined. Their absolute value is subjected to regular critical reviews by the supervisory bodies and adjusted if necessary. ISDA agreements, including a Credit Support Annex that provides for regular offsetting of cash values, are concluded with those external counterparties with whom the Würth Finance Group carries out transactions within the framework of financial risk management. The counterparty risks relating to delcredere business are transferred in full to insurance companies.

Würth intra-group counterparty risks are monitored by Würth Finance International B.V., together with the appropriate member of the Würth Group's Central Managing Board, and granted a credit limit. Any credit risks relating to loans to individual Würth Group companies with negative equity as at 31 December 2017 are covered by letters of comfort from the superordinate parent company.

The credit ratings of the internal and external counterparties and the limitation on aggregated individual party risks are constantly monitored.

Interest rate risk

The Würth Finance Group deems interest rate risk to mean the negative impact on the assets and earnings situation arising from changes in the interest rates for all currencies. A significant proportion of the loans to Würth Group companies are refinanced by fixed-interest bonds with partially similar interest and maturity structures. The maximum willingness to take risks in the interest rate sector is defined by a sensitivity in relation to the equity capital. In the event of adverse changes in the interest rates on the individual currencies by 100 basis points, the maximum loss potential is related to equity. The Würth Finance Group limits the impact of interest rate changes on the equity capital base or on the asset and earnings situation. The Group aims to achieve an equity sensitivity of below 5% over the medium term. Furthermore, the Group makes use of interest derivatives to manage its exposure.

Liquidity risk

The objective of liquidity management is to ensure that the Würth Group is able to meet its payment obligations at all times. The liquidity situation of the Würth Finance Group is monitored by the Treasury Operations department. It collaborates closely with the Central Managing Board of the Würth Group to ensure that the funds needed over the next 12 to 24 months are sourced by the expected cash flow and liquidity reserves.

The high international creditworthiness of the Würth Group (Standard & Poor's has awarded its non-current liabilities an "A" rating) allows the Würth Finance Group to raise liquid funds in the international capital markets on favourable conditions. In order to cover any liquidity needs that may arise even in extraordinary circumstances, the Würth Finance Group also has several credit facilities granted by various banks.

Further information about the risks arising from financial instruments and their management can be found in the notes to the separate financial report on the website (www.wuerthfinance.net under Investor Relations). The expected effects on the results and/or the financial position and the sensitivity analysis can be found in note 19 to the financial statements.

The financial strength of the Würth Finance Group is founded on equity of EUR 313 million, net profit of EUR 28.1 million and assets of EUR 2,535 million (as at 31 December 2017).

Risk and opportunity category – company

Technological risks and opportunities: As the Würth Group's "payment factory", the Würth Finance Group handles large payment volumes, which rely on high-performance IT systems and networks. Consequently, the IT systems and IT security are constantly being enhanced and are monitored via an information security management system. The Würth Finance Group also has a business disaster recovery system: if the information and communications technology (ICT) network were to fail, all Inhouse Banking operations for the Würth Group could resume within just a few hours at another site. The ICT infrastructure is highly scalable, enabling additional business volumes to be dealt with cost-effectively and with a high level of processing quality.

Operational risks and opportunities: The Würth Finance Group deems an operational risk to constitute a risk of loss due to inadequate or failed internal processes, persons or systems, or as a result of external events. The Würth Finance Group's internal control system (ICS) assesses, documents and optimises potential events based on the probability and frequency of their occurrence as well as their impact. The desire to continuously improve the quality, efficiency and safety of core processes – a self-evident aspect of the corporate culture – strengthens the effectiveness of the Würth Finance Group on a sustained basis.

Risk and opportunity category – general environment

Regulatory risks and opportunities: Meeting regulatory requirements is challenging for financial and insurance service providers. Among other things, this entails rules on dealing with employees, with clients and business partners, with data and with authorities. It goes without saying that the Würth Finance Group endeavours to observe and adhere to all rules and regulations applying to its business. It has the necessary critical mass and the organisational set-up to ensure effective and efficient compliance management and to meet the increasing regulatory requirements in the financial and insurance brokerage business.

Overall assessment:
The existing risks are systematically monitored and mitigated by measures which ensure the continuation of the company's activities, and the existing opportunities will enable further profitable growth.

Basic principles of our risk management system

- The Management bears the responsibility for all risks incurred as a result of the company's business activities and seeks to achieve a healthy balance between risk and returns.

- An independent control process forms an integral part of the corporate structure.

- Employees are familiar with and alert to the principal risks specific to their area of activity.

- A central element of risk control is the comprehensive, transparent and objective disclosure of risks to the Group and company Management, owners, supervisory authorities and other stakeholders.

- Revenue is protected on the basis of risk tolerance – i.e. the maximum risk that the Würth Finance Group can bear given its financial and earning power.

- Ultimately, the Würth Finance Group's reputation depends on effective risk management and control.