Report of the Management

INHOUSE BANKING

Alternative Performance Measures (APMs)

For its full-year 2018 financial reporting, Würth Finance Group has implemented guidelines on alternative performance measurements (APM's). As a result, certain items will no longer be labelled with '[1]' or '[2]'.Such items will instead be labelled as 'Adjusted'.

In presenting and discussing Würth Finance Group's financial position, operating results and net profit, management uses certain alternative performance measures not defined by IFRS. These Alternative performance measures should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. Alternative performance measures do not have standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies.

To reflect a better overview of the development of the Inhouse Banking activities and its added value for the Würth Group, APM adjustments are made that impact the operating income and the net Profit of the division Inhouse Banking and can be specified as follows:

in TEUR	2014	2015	2016	2017	2018
Hedge accounting effect management accounting	–8,204	8,438	4,297	4,353	3,742
Credit loss (expenses) / recovery	0	0	0	0	3,698

- Hedge accounting effect management accounting refers to the effect of the market valuation of interest rate derivatives to hedge the interest rate risk where historically no hedge accounting was applied; As of the implementation of IFRS9 Hedge Accounting new hedge relations will be presented as such;
- Credit loss (expenses) / recovery (IFRS 9) refers only to related party losses and therefore do not apply for the Würth Group.

	2018				2017			
		Adjustments				Adjustments		
	Inhouse Banking	Hedge accounting effect management accounting	Credit loss (expenses) / recovery	Segment Inhouse Banking	Inhouse Banking	Hedge accounting effect management accounting	Credit loss (expenses) / recovery	Segment Inhouse Banking
Income Distribution								
Group financing	32,283	–3,956	–3,698	24,629	26,189	–3,949	0	22,240
Credit loss (expenses)/recovery	0	0	–3,698	–3,698	0	0	0	0
Income from factoring activities	16,018	0	0	16,018	14,755	0	0	14,755
Interest Income	12,977	–3,956	0	9,021	7,496	–3,949	0	3,547
Other ordinary income	3,288	0	0	3,288	3,938	0	0	3,938
Other	1,285	0	0	1,285	1,285	0	0	1,285
Income from participations	2,003	0	0	2,003	2,653	0	0	2,653
Central settlement	25,515	0	0	25,515	23,025	0	0	23,025
Income from trading acitivities and financial instruments	7,711	214	0	7,925	11,097	–404	0	10,693
Securities investments	–2,366	0	0	–2,366	1,904	0	0	1,904
Trading	10,077	214	0	10,291	9,193	–404	0	8,789
Total income	**65,509**	**–3,742**	**–3,698**	**58,069**	**60,311**	**–4,353**	**0**	**55,958**
Total expenses	**–20,133**	**0**	**0**	**–20,133**	**–19,783**	**0**	**0**	**–19,783**
Profit inhouse banking	**45,376**	**–3,742**	**–3,698**	**37,936**	**40,528**	**–4,353**	**0**	**36,175**
	Inhouse Banking	External financial services	Eliminations	Total	Inhouse Banking	External financial services	Eliminations	Total
Segment Profit before taxes (adjusted)	37,936	483	97	38,516	36,175	690	–119	36,746

2017 numbers are restated to align with presentation change in 2018.

"The best business ideas with the greatest benefit to clients come about when we listen to our clients very carefully."

Roman Fust
Managing Director, Würth Finance International B.V.

Key events

Record profit in an anniversary year
Würth Finance International B.V. celebrated its 40th anniversary in the summer of 2018: cause to take a step back and to honour those people in celebratory manner who built up and formed the Würth Group's inhouse bank and led it successfully into the future. Happily, in this special year an adjusted profit before taxes of EUR 45.4 million was achieved. Total adjusted income improved by 8.6% to EUR 65.5 million, while expenses rose by just 1.8% to EUR 20.1 million.

The following main factors were the cause of the good earnings:

1.) Würth Group growth: With the advantage of a healthy economic environment in its core markets, the Würth Group maintained its high rate of growth in 2018. Sales were up 7.1% at EUR 13,623 million. By the way: in 1978, the year in which Würth Finance International B.V. was founded, the Würth Group recorded Group sales of EUR 170 million.
2.) Inventory build-up: Driven by price increases announced by some suppliers, a strong commitment to a swift delivery capability and the low opportunity costs of holding inventory, stocks at the Würth Group grew much more quickly than sales. Measures were initiated to counter this development. However, Würth Finance International B.V. benefited temporarily because transaction volumes rose disproportionately.
3.) Financing: In May 2018, a maturing bond for EUR 500 million with a coupon of 3.75% was replaced by a new benchmark bond with a coupon of 1.0%. This decline and other factors helped the Würth Group to reduce its interest expenses in 2018 by around EUR 4 million.

Economic conditions
Driven by a broadly based and solid economic upturn in the industrialised countries, financial year 2018 got off to an extremely promising start. Leading indicators also pointed to growth, and the global supply of liquidity by the major central banks continued to have a stimulating effect. At the start of the year, however, an initial sharp correction on the capital markets (mainly in US dollars) negatively impacted sentiment on the equity markets. However, following a stabilisation and with corporate earnings continuing to rise, confidence returned to business and the financial markets, before sentiment then increasingly turned sceptical in the summer. Although political effects on the financial markets are generally thought to be short-lived, it was precisely such effects that dominated almost all daily ups and downs on the financial markets, albeit through changing issues: trade disputes, car tariffs, crisis in Italy, crisis in Turkey, Brexit, congressional elections – the list could be extended almost at will. And the fact that the business cycle was well advanced and the major central banks had either already begun withdrawing liquidity from the markets (USA) or at least announced their intention to do so (Europe) made for one of the weakest years on the stock markets for a long time. In short: volatility had returned, so the market environment for the inhouse bank last year was far more difficult than for the Würth Group's core business.

Main challenges in 2018

Securities investments
This heading refers first and foremost to the concentration of lasting excess liquidity at Würth Invest AG. An absolute return approach is pursued, while ensuring investments can be swiftly liquidated. Würth Invest AG was invested mostly in corporate bonds (almost exclusively investment grade) and equities. At the end of the year the performance amounted to EUR –2.4 million, the worst result for more than ten years.

GPS Payment & Factoring project

The project to redesign the payments system remained a challenge. Despite deploying more staff resources on the project for the extensive testing stage, the go-live date for release 2.0 for handling international payments and factoring processes had to be postponed to the first half of 2019.

Business performance in 2018

Securities investments

Unfortunately the selected mix of asset classes did not stabilise the performance of the securities portfolio. This was mainly because the bond duration was kept short – intentionally so against the backdrop of ongoing liquidity tightening by the major central banks. The credit risk premiums then reacted in step with equity markets coming under heavy pressure. The result was a negative performance amounting to approximately EUR 1.4 million for bonds.

One positive development to note is that the equity allocation during the year as a whole, at 6% to 12%, was held well below the benchmark level. This reduced fluctuations in the value of the overall portfolio. There were nonetheless losses on the equity portfolio of EUR 1.1 million. Only real estate achieved a positive return. In total, a loss of EUR 2.4 million was incurred on average capital invested of EUR 90 million.

Group Financing

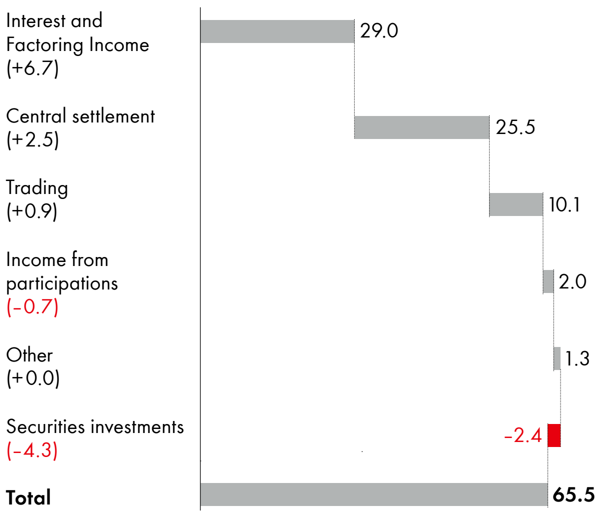
One main area of activity of Würth Finance International B.V. is focused on ensuring the constant availability of liquidity for the Würth Group. Both the bond issue described above and the extension of the syndicated loan for EUR 400 million to 2023 contributed to securing long-term liquidity. The seven-year bond was given a rating of "A" by Standard & Poor's and was placed extremely successfully with a premium of 30 basis points in an environment of incipient volatility on the capital markets. DZ Bank, LBBW, BNP and UBS were selected as lead managers and bookrunners.

The financing needs of the Würth Group increased in the period under review, particularly in the rapidly growing Group companies, the producing entities, in the industry business and regionally in North America. Accordingly, lending to Group companies rose by 17% to EUR 1,462 million. New long-term loans were hedged at matching maturities only to a partial extent, which resulted in positive returns from this maturity transformation. Following the capital market transaction and including an initial interest rate hedge for the expected bond issuance in 2020, this enabled the sensitivity of shareholders' equity to interest rate changes to be reduced to 7% by the end of 2018.

The Würth Group takes a risk-averse approach regarding its cash investments. Unless prohibited by country-specific regulations, Group liquidity is pooled at Würth Finance International B.V., where it is invested by the latter exclusively with first-class counterparties. Despite the strong cash flow of the Würth Group, the high level of inventory build-up and significant capital expenditure meant that the cash amount to be invested by Würth Finance International B.V. fell slightly, with values of between EUR 400 million and 500 million.

Income Distribution

in million EUR (Change vis-à-vis 2017)



"Curiosity and openness are required in order to recognise the opportunities offered by digitalisation. To make use of them, the organisation needs to gear itself up accordingly."

Björn van Odijk
Managing Director, Würth Finance International B. V.

Negative interest rates remained a dominant issue in 2018. They impacted cash balances on some days. On the other hand, they allowed optimisation of the results by borrowings from commercial papers and fixed-rate receiver swaps. In the end, it was even possible to achieve a positive return on cash investments in this very challenging environment.

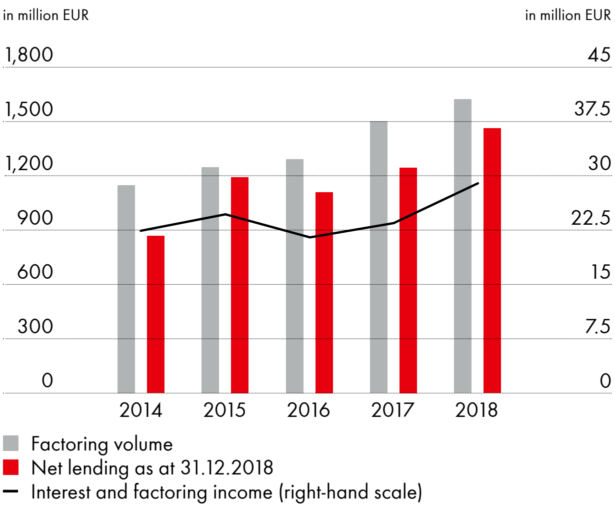
Group Financing also includes the pre-financing of intercompany receivables (factoring). Volumes in this area grew at about the same rate as sales of the Würth Group, at 9%. The result was a record transaction volume of EUR 1,634 million.

Overall, the adjusted income from Group financing (interest and factoring income) totalled EUR 29.0 million.

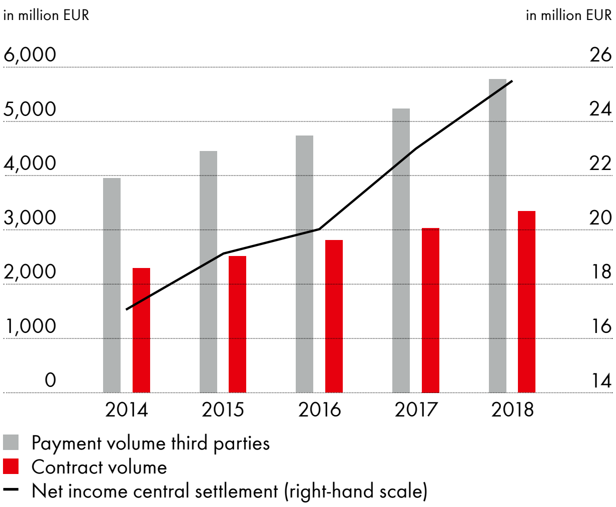
Central settlement of payments to suppliers

This area of business handles most of the Group companies' payments to external suppliers of merchandise. Very gratifying growth in volume was recorded in the last financial year at EUR 5,760 million (+10%). The main contributing factor to this development was the inventory build-up described above. Around 58% of payment volume is made to counterparties with which Würth Finance International B.V. has concluded a central settlement agreement, generating an income of EUR 25.5 million (+10.8%) in 2018.

Group Financing: Volume and Revenue from Intra-Group Lendings



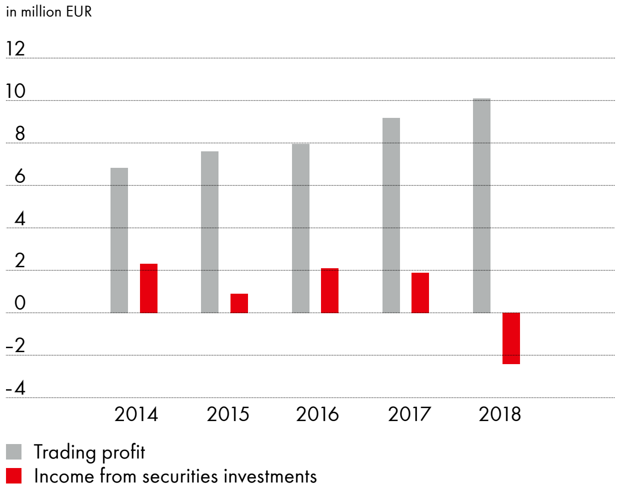
Central Settlement: Payment Volume/Revenue



Currency hedging and trading with financial instruments

Foreign currency transactions of Würth Group companies are handled centrally through Würth Finance International B.V. staff in the treasury team advise the counterparties closely with the aim of maintaining an adequate level of hedging at all times and benefiting from temporary market opportunities. The bundling of currency exchange with a volume of EUR 2,000 million (+18% over the previous year) at Würth Finance International B.V. guarantees attractive terms, a minimisation of counterparty risk (on the basis of ISDA agreements) with periodic net present value cash settlement of the outstanding transactions and adherence to specific regulatory requirements (e.g. EMIR). These operations form the basis for further trading activities of Würth Finance International B.V., in which to a limited extent risk positions are entered into in a targeted manner in order to make an additional positive contribution to profits. In financial year 2018 the adjusted trading income increased by EUR 0.9 million to EUR 10.1 million.

Trading/Securities Investments: Income Development



Income from participations

In order to strengthen the core capital of Internationales Bankhaus Bodensee AG, Würth Finance International B.V. has for several years made resources available to it in the form of a silent participation and a capital relinquishment. The participation was reduced by EUR 10 million to EUR 35.8 million in the financial year under review, as planned. This meant that income from participations at Würth Finance International B.V. was also reduced, falling from EUR 2.7 million to EUR 2.0 million.

Outlook for 2019

At the time of this report, the global economy appears to be at a crossroads. Following a collapse on the stock markets at the end of 2018 and an erosion in leading economic indicators, it is unclear whether merely a brief pause for breath is currently being experienced, or whether the tightening of liquidity by the central banks, an unresolved Brexit and simmering trade disputes are leading us into a global recession. In the Würth Group's core business, the figures currently point to further moderate growth.

The volatility on the commodity and currency markets is likely to trigger additional hedging activities. In addition, growing capital expenditure is expected in the Würth Group. These developments lead to positive perspectives for the Group Financing and Trading business areas. The anticipated flattening out of inventories is expected to lead to a slightly below-average performance in the central settlement of payments to suppliers and in factoring volumes. For securities investments, current valuations offer a more attractive profile of opportunities and risks, though ensuring the right timing for any activities will be crucial. On the expenses side, once again relatively high operating and personnel expenses are expected, particularly in IT.

Overall, we are moderately optimistic and expect that profit before tax will improve slightly in 2019.

MANAGEMENT WÜRTH FINANCE INTERNATIONAL B.V. AND WÜRTH INVEST AG
from left to right: **Daniel Ochsner** | **Roman Fust** | **Jorre van Schipstal** | **Björn van Odijk** | **Patrik Imholz** (Würth Invest AG) | **Alejandro Muñoz** | **Philip Guzinski**

INHOUSE BANKING AT A GLANCE

Core business

The Inhouse Banking Division of the Würth Finance Group monitors the financial risks incurred by the Würth Group and takes the necessary measures to retain the financial stability of the Group.

In close collaboration with Group Management and the operational Group companies, the Inhouse Banking Division ensures that the necessary liquid funds are available to the Würth Group at all times and employs the Group's funds in an optimal manner. The division consists of the legal entities Würth Finance International B.V. and Würth Invest AG.

Facts and figures (at 31 December 2018)

66 employees at the offices in Den Bosch, the Netherlands, and Rorschach, Switzerland

473,000 payment transactions with a volume of EUR 5,760 million in the year under review

Outstanding capital market funding as at 31.12.2018: three transactions with a total volume of EUR 1,500 million

Account relationships with over 400 Würth Group companies

3,030 foreign exchange transactions with 250 Group companies and a hedging volume totalling EUR 970 million

5,530 treasury transactions with external counterparties (banks)

Services

Central settlement of payments to suppliers
- Service provider for the central settlement of payments to beneficiaries worldwide
- Collection of outstanding invoices on behalf of over 7,000 Würth Group suppliers vis-à-vis all Group companies and, to a certain extent, insurance of default risk

Group financing and risk management
- Financing of the Würth Group on the capital market, principally by means of bond issues
- Competence centre and interface for banks, investors, financial market regulators, rating agencies and credit analysts
- Provision of comprehensive advice and a wide range of treasury products to Group companies
- Central management of bank accounts and financial risk management for the Würth Group

Cash and securities investments
- Securing of strategic freedom to act by managing the cash reserves of the Würth Group
- Central management of financial investments in the conflicting areas of security, liquidity and return