

Report of the Management

WÜRTH FINANCE GROUP

The high expectations were fulfilled. The global economy expanded by 3.6% in 2018, with the euro area and the USA even realising growth well above their potential. Accordingly, capacity utilisation reached a peak and unemployment was lower than at any time since the start of 2009. Additional tailwinds came from the reduction in corporate taxes and other fiscal stimulus in the USA.

It was always clear that rapid growth could not go on forever. Nonetheless, the extent to which prospects rapidly worsened towards the end of 2018 came as a surprise. Global trade and capital expenditure slowed markedly, while many emerging economies experienced capital outflows and weakening currencies. Leading economic indicators predict a widespread growth slowdown in the coming quarters.

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 13,623 million in financial year 2018, an increase of 7.1% over the previous year. After adjusting for foreign currency effects, the plus was 8.6%. The individual regions performed successfully across the board. With regard to the different divisions, the Electronics and Electrical Wholesale units recorded above-average rates of growth.

The efforts to improve performance on the digital front bore fruit. As a robust addition to the traditional direct sales channel and the stationary trading via the branch network, sales in e-business rose by around 25% to EUR 2,400 million in 2018. In parallel with sales growth, the Würth Group achieved better capacity utilisation and thereby further increased its earning power. Its operating result (according to preliminary figures) improved by 11%, from EUR 780 million to EUR 870 million. This increase meant that the operating margin rose significantly as well, from 6.1% to 6.4%. The number of staff increased by 3.9% to 77,080.

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 2018 give a true and fair view of the assets, liabilities, financial position and

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

The Würth Group enjoys a very sound financial position. This is reflected both in its financial metrics and in the confirmed rating from Standard & Poor's (A, outlook stable). The capital market acknowledged this as well, as can be seen in the significantly oversubscribed benchmark bond issue (EUR 500 million). Shareholders' equity as at 31 December 2018 was EUR 5,200 million, with an equity ratio of 46%. With liquidity of around EUR 380 million and unused, committed credit lines of EUR 400 million until 2023, the Würth Group has comfortable liquidity reserves available.

Würth Finance Group

2018 was a great success for the Würth Finance Group. The adjusted operating income increased by 7.6% compared with the previous year, rising from EUR 70 million to EUR 75 million. The Inhouse Banking Division in particular achieved a significant improvement in income in its core business as a result of the growth of the Würth Group. Operating expenses increased by 1.7%, rising from EUR 28.9 million to EUR 29.4 million. An adjustment to staff pension benefits led to a one-off EUR 0.5 million reduction in personnel expenses in 2017. Without this extraordinary item and after adjusting for the effects of a higher EUR/CHF exchange rate, expenses rose by 2.5%.

This increase is chiefly attributable 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 118 to 121 employees. The Management regards these investments as reasonable and necessary to secure the ongoing successful performance of the Würth Finance Group. The adjusted productivity of the Würth Finance Group, as measured by the adjusted cost-income ratio, decreased to 39.0%. The adjusted profit before taxes of the Würth Finance Group in 2018 amounted to EUR 46.0 million (previous year: EUR 41.1 million), a new record and a significant contribution to the operating result of the Würth Group.

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 it has taken on apprentices and employed them on a permanent basis, in line with staffing needs, once they have completed their training. In order to secure the company's future, the Würth Finance Group supports ongoing employee training throughout their professional life. Priority is given to filling management positions from within the company's ranks, while up-and-coming employees are assisted in their career progression by enabling them to participate in Group-internal development programmes.

Information about the performance of the business at the Inhouse Banking and External Financial Services divisions in financial year 2018 and the outlook for 2019 can be found on pages 10 to 21. The Würth Finance Group's report on risk and opportunities is described 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 2019

The global economy has most recently lost significant momentum, with growth forecasts for 2019 from the International Monetary Fund and the OECD being revised. Accordingly, global GDP growth is likely to slow to 3.3%. While relatively stable growth of 2.5% is anticipated in the USA, the euro area economy is expected to weaken to just over 1%. However, whether such a soft landing will actually happen is uncertain. Rising barriers to trade such as the increase in import duties, record debts in many countries and regions, and the progressive normalisation of monetary policy by the central banks have the potential to trigger significant corrections on the financial markets and painful capital outflows.

The Würth Group, by expanding multi-channel distribution and optimising its productivity, is gearing its growth initiatives to a slower expansion in GDP. A selective and disciplined approach continues to be applied to acquisitions. In view of the multiplicity of downside risks, the Management of the Würth Finance Group expects ongoing volatility on the relevant markets and has limited 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 human capital. The digitalisation of the insurance and financial industry and the market effects of this are being watched closely. Various projects have been put in place with a view to improving the service which the company provides to its clients. In addition, the company is optimising its processes. Suitable organisational and technical measures are being taken to counter the risk of cyber attacks with their considerable potential for financial loss. The company is also implementing measures to take account of regulatory requirements relating 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. Insofar as the relevant markets develop as expected, the Management anticipates 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 2018.

Thanks

The Management of the Würth Finance Group is very satisfied with financial year 2018 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 2019.



Roman Fust
Managing Director
Würth Finance International B.V.



Adrian Parpan
Managing Director
Würth Financial Services AG