WÜRTH GROUP

Annual Report 2019

WÜRTH FINANCE GROUP

KEY EVENTS IN 2019

- Unbroken growth: the Würth Group generated sales of EUR 14,270 million, an increase of 4.8% over the previous year. E-business grew by more than 9%.

- Another record year: thanks to booming investment markets and record-low refinancing costs, the Würth Finance Group increased its adjusted earnings by EUR 12 million and achieved a record result, with an adjusted profit before taxes of EUR 55 million.

- Successful implementation of the new Global Payment System (GPS): after going live in May 2019 the new infrastructure for the processing of international payments demonstrated its effectiveness, enabling this historically large and complex project to be completed successfully.

- The acquisition of Optima Versicherungsbroker AG, based in Chur, was the defining event of 2019 for Würth Financial Services AG.

- Thanks to its consistent focus on sales, Würth Financial Services AG was able to again close the 2019 financial year with sales at a record high.

THE WÜRTH FINANCE GROUP AT A GLANCE

The Würth Finance Group is the financial competence centre for the Würth Group. It employs 124 staff at six locations in the two divisions Inhouse Banking and External Financial Services.

WÜRTH FINANCE GROUP

Core competence	RISK MANAGEMENT	
Core business	Group financing, liquidity security and payment flow optimisation for the Würth Group and its subsidiaries	Insurance brokerage for SMEs, national and international companies
	DIVISION INHOUSE BANKING	DIVISION EXTERNAL FINANCIAL SERVICES

The Inhouse Banking Division works with over 400 Group companies in over 85 countries. The legal entities of the division are Würth Finance International B.V. (NL / CH) and Würth Invest AG.

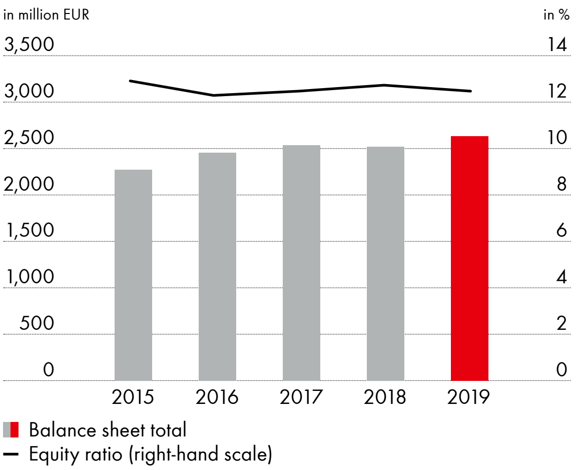
The External Financial Services Division trades as Würth Financial Services AG. More than 7,000 clients in Switzerland, whereof 1,100 relating to Optima, are looked after from the five offices in Rorschach (head office), Zurich, Lugano, Arlesheim and Chur.

KEY FIGURES OF THE WÜRTH FINANCE GROUP

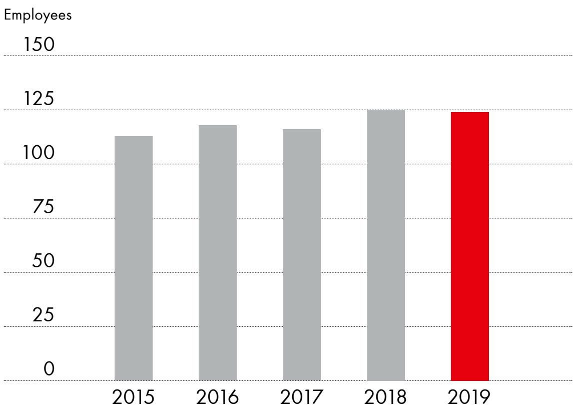
Key figures from the consolidated income statement in TEUR	2015	2016	2017	2018	**2019**
Interest income	2,611	4,521	4,416	9,730	14,284
Income from factoring activities	14,115	12,899	14,755	16,018	16,419
Income from commission and service fee activities	28,596	29,880	32,983	35,272	35,897
Income from trading activities and financial instruments	7,038	8,837	9,553	7,320	14,713
Other ordinary income	4,896	4,858	3,959	3,292	2,870
Credit loss (expenses) / recovery	0	0	0	-3,698	1,005
Total operating income	57,256	60,995	65,666	67,934	85,189
Total operating expenses	-27,523	-29,183	-28,920	-29,418	-32,397
Profit before taxes	29,733	31,812	36,746	38,516	52,792

Operating income adjustments Inhouse Banking					
Hedge accounting effect management accounting	8,438	4,297	4,353	3,742	2,993
Impact of adoption of IFRS 9	0	0	0	3,698	-739
Total operating income (adjusted)	65,694	65,292	70,019	75,374	87,443
Profit before taxes (adjusted)	38,171	36,109	41,099	45,956	55,046

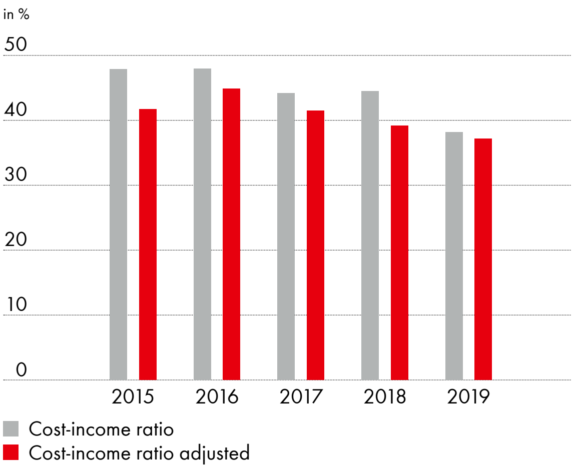
Balance sheet total/equity ratio



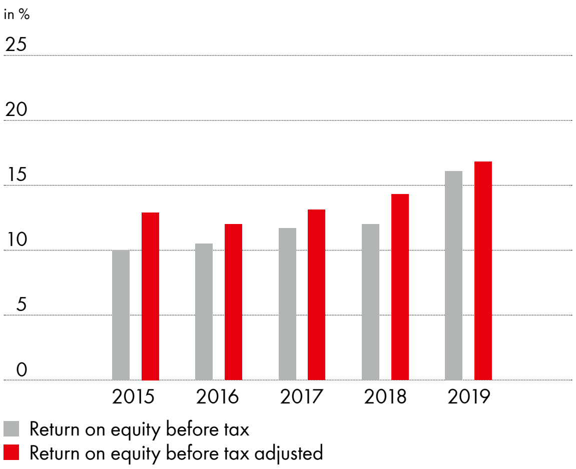
Number of employees



Cost-income ratio



Return on equity before tax



CONTENTS

"Würth connections" – the image concept for the 2019 Annual Report

Networking, relationships, cohesion, or simply: connections. They build bridges and unite worlds, making a significant contribution to the Würth Finance Group's success. Connections can be seen, for example, in direct client contact, the proximity of the companies of the Würth Finance Group and the shared Würth culture.

We take a look behind the scenes at both the clearly visible and hidden connections at Würth. Employees are viewed authentically and honestly from an observer's perspective. The image design therefore takes the form of photo reportage. The images show both people and details and, together with the text, form an overall composition that tells an engaging story.

Würth Finance International B.V.

REPORT OF THE BOARD OF DIRECTORS

Dear Ladies and Gentlemen, Dear Readers

During financial year 2019, the Board of Directors of Würth Finance International B.V. performed its duties in accordance with the law and the company's articles of association, monitored the performance of the company and advised the Management.

Four meetings were held in 's-Hertogenbosch and Rorschach, during which the Management informed the Board of Directors verbally and in writing about the general situation of the company, the course of business and the principal issues relating to its business policy. These reports also encompassed the subsidiaries Würth Financial Services AG and Würth Invest AG. All information required as the basis for decision-making was provided in timely fashion and enabled a detailed insight into business operations. The Board of Directors was also informed promptly of all potential opportunities and risks. In this respect the Board of Directors advised the Management on strategic measures and issues relating to the company's future. The cooperation between the Management and the Board of Directors was highly constructive and fully complied with the principles of good corporate governance.

A focal point of the work of the Board of Directors was monitoring the effectiveness of risk management, particularly compliance with the regulatory limits for measuring, managing and monitoring market, credit and liquidity risk in relation to the Group balance sheet and trading activities.

As in the previous year, the audit companies Ernst & Young and KPMG reported to the meetings of the Board of Directors. They reported in connection with risk management on the quarterly audits they performed on selected audit areas, with a particular emphasis on the reliability of the internal control systems used by the company.

The Würth Group recorded sales growth of 4.8% to EUR 14,270 million in financial year 2019; after adjusting for exchange rate effects, the increase was 4.2%. Sales trends were unusually heterogeneous in 2019, as can be seen from the divergent performances of the individual regions and individual business units of the Würth Group. E-business sales experienced above-average growth, coming in at EUR 2,600 million and increasing their share of total Group sales to 18.3%. The Group's growth was reflected in rising business volumes and revenue for Würth Finance International B.V.

The euro weakened somewhat against the Swiss franc, trading at CHF 1.085 as at the end of 2019. However, this depreciation had only a minor negative impact on the results of the Swiss branch of Würth Finance International B.V. In a financial market environment that remained challenging, the company performed its duties as the Würth Group's competence centre for financing and cash management effectively. In the current negative interest rate environment, the Management placed a high priority on the optimum management of liquidity reserves in euros and Swiss francs. Overall, consolidated profit before taxes rose to a record EUR 52.8 million.

BOARD OF DIRECTORS
from left to right: **Dr. Bernd Thiemann** (former Chairman of the Board of Deutsche Genossenschaftsbank AG) | **Christoph Raithelhuber** | **Dieter Gräter** (Vice President Finance, Würth-Verwaltungsgesellschaft mbH) | **Jürg Michel** (Member of the Würth Group Advisory Board) | **Prof. Dr. h. c. mult. Reinhold Würth** (Chairman of the Supervisory Board of the Würth Group's Family Foundations) | **Joachim Kaltmaier** (Member of the Central Managing Board of the Würth Group) | **Wolfgang Kirsch** (former Chief Executive Officer of DZ Bank AG) | **Mag. Michel Haller** (Chief Executive Officer of Hypo Vorarlberg Bank AG)

The 2019 consolidated financial statements, along with the separate 2019 financial statements of Würth Finance International B.V., have been prepared in accordance with International Financial Reporting Standards (IFRS). The auditors Ernst & Young audited these financial statements and issued an unqualified audit opinion in both cases. The financial statements and the audit report by Ernst & Young were examined by the Board of Directors and discussed in detail with both the Management and the auditors. Following the final result of the audit, the Board of Directors raised no objections, agreed with the audit report and approved the financial statements.

Dutch corporate governance law (Wet Bestuur en Toezicht) stipulates that at least 30% of the members of boards of directors should be women. Würth Finance International B.V. does not currently meet this requirement. The company will take the prescribed gender quota into account as far as possible when making new appointments.

On behalf of the Board of Directors, I would like to thank the Management and all the staff for their hard work, and congratulate them on the good operating result that they achieved in the last financial year. I would also like to thank the Würth Finance Group's clients and business partners for the trust they have placed in us and for their loyalty to the company and the Würth Group as a whole.

J. Kaltmaier

Joachim Kaltmaier
Chairman of the Board of Directors of Würth Finance International B.V.

Würth Finance Group

REPORT OF THE MANAGEMENT

After the global growth outlook deteriorated relatively rapidly at the end of 2018, there was no real bottoming out in 2019. On the contrary, economic researchers had to continuously reduce their forecasts for global growth: to 2.25% in the USA and 1.25% in the euro area, around three-quarters of a percentage point less than in the previous year. In the European automotive industry in particular, repeated sales slumps have occurred in important markets such as China and India since 2017. The global drop in demand for diesel passenger cars and the transition to new drive systems are slowing growth in key markets for the Würth Group, such as Germany and France.

Würth Group

As a consequence, the Würth Group's growth slowed to 4.8%. Sales growth in Germany was fairly modest, at 2.1%. Business areas such as the Würth Electronics Group and the manufacturing and tool trading companies, whose clients are active in this industry sector, had to accept a decline in sales. Outside Germany, the Würth Group increased its sales by 6.8%.

Based on preliminary figures, the operating result of the Würth Group was EUR 750 million, which was 14% below the previous year (2018: EUR 870 million). This decline was mainly due to the pressure on gross profit margins: it was not possible to pass on the full increases in purchasing prices to clients in the market.

Continuously expanding the business model and implementing long-term growth initiatives, even at times of weaker gross cash flow, are central to the Würth Group's ethos. Investments totalling EUR 710 million were made in 2019 (2018: EUR 635 million). To ensure the Würth Group's solid financial position, inventories and receivables are regarded as key balance sheet items, and the focus is always on optimising these. While receivables rose by 5.3%, in line with sales growth, the relatively low increase in inventories of 1.2% reduced the capital commitment. The Würth Group enjoys a very sound financial position. As at 31 December 2019, equity stood at EUR 5,500 million, producing an equity ratio of 43%, and net financial debt was at EUR 1,400 million.

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 31 December 2019 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.

Würth Finance Group

The pace of change in the insurance and financial markets is high and offers the Würth Finance Group great opportunities to grow further and to successfully develop the company.

In this context, the investments made by the Würth Finance Group to strengthen its capabilities and performance in relation to information and communication technology (ICT) are paying off. This is borne out by the successful completion of the project to renew the IT infrastructure for processing international payments, the introduction of a new insurance management system and various optimisations relating to the digitalisation of business processes, which were achieved in the reporting year.

As part of its growth strategy, Würth Financial Services AG acquired 100% of the shares in Optima Versicherungsbroker AG based in Chur, integrated Markus Diener Versicherungstreuhand GmbH into its Arlesheim branch and significantly expanded the sales team in the Zurich branch.

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 once they have completed their training. In order to secure the company's future, the Würth Finance Group supports ongoing training throughout employees' professional lives. Management positions are largely filled from within the company's own ranks, while up-and-coming staff are supported in their professional development by participating in internal training programmes.

The major central banks – particularly in the USA and Europe – have reacted to the economic slowdown with further monetary policy expansion. These steps have triggered a sharp rise in prices of shares and other assets worldwide and pushed interest rates to historic lows. The Würth Finance Group also benefited from this state of affairs, particularly in the area of securities investments in the Inhouse Banking Division. In the Insurance Brokerage business, earnings increased significantly thanks to the successful acquisition of a considerable number of new clients. Overall, the adjusted earnings of the Würth Finance Group increased by 16% from EUR 75.4 million to EUR 87.4 million.

Operating expenses increased in parallel with the expansion of personnel capacity and the expansion of operational infrastructure, climbing 10% from EUR 29.4 million to EUR 32.4 million.

In 2019, the Würth Finance Group achieved an adjusted profit before taxes of EUR 55.0 million (previous year: EUR 46.0 million), representing a new record and making a significant contribution to the Würth Group's consolidated results.

Details of business in the Inhouse Banking and External Financial Services divisions follow on pages 10 to 23. The Würth Finance Group's report on risk management and control can be found on pages 26 to 31. The Würth Finance Group does not have its own audit committee and is therefore integrated into the Würth Group's audit process.

Outlook for 2020
Until recently the International Monetary Fund and the OECD expected global economic growth to remain relatively slow. But the outbreak and the worldwide spread of the new coronavirus (Covid-19) made these forecasts invalid and irrelevant.

Today we know that the global GDP growth slowdown will be stronger than anticipated – but the extent and the duration are unclear. In the best case and with substantial political, fiscal and monetary support the functionality of the global infrastructure is not systematically weakened and capacity utilisation will resume in the second half of 2020. But there is a reasonable risk that the rebound will be slower and weaker, with a considerable number of businesses not surviving the current sharp drop in demand.

Throughout its almost 70-year history, the Würth Group has strengthened its competitive position, particularly at times when the economy is not very dynamic. It has achieved this by continuously pursuing investments to further develop the business model, while by no means neglecting the scope and quality of client services.

This continues to be a strategic pillar of the Würth Group. And looking at the upheavals in the automotive industry, the digitalisation of value chains and the adaptation of business models to sustainability goals, the global economy is not lacking in dynamism. On the contrary, the cards are being reshuffled in many industries. In this environment, the Würth Group is acting with great confidence and the conviction that it can benefit from these developments as an adaptable and competitive company, fully focused on serving its clients. Investments, projects and measures will be consistently continued, aligned to the relevant markets and the growth targets for the next five years. A selective and disciplined approach continues to be applied to acquisitions.

A combination of continuity and dynamism is also shaping the ongoing development of the Würth Finance Group. In Inhouse Banking and External Financial Services, digitalisation is being pursued further, with projects to improve the client performance and optimise processes. This demands a high level of learning capacity and adaptability from staff and is key to ensuring high service quality and satisfied clients.

Protecting assets, particularly against cyber attacks, and fulfilling the regulatory requirements are important prerequisites for financial and insurance service providers to conduct their business sustainably. The Würth Finance Group has the necessary critical mass and organisational structure to ensure effective and efficient IT risk and compliance management.

The effects of the 2020 recession will have an impact on the Würth Finance Group's results in the current financial year. The Management expects the Würth Group's core business to stabilise in the second half but is nevertheless anticipating a double-digit fall in its revenue and operating result.

Thanks

The Management of the Würth Finance Group is very satisfied with financial year 2019 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 to work with them in 2020.

Roman Fust
Managing Director
Würth Finance International B.V.

Adrian Parpan
Managing Director
Würth Financial Services AG

“As an employee at Würth Finance International’s Payment Factory, I find it very exciting to see how the flow of money I handle every day is generated. It is remarkable how dedicated the sales consultants are to making a profit.”

Lorena Paradiso, Payment Factory, Würth Finance International B.V.

Connection with our grassroots

Direct selling is the core business of the Würth Group. "Ride-alongs" have been an integral part of Würth's corporate culture for many years. This involves as many non-field employees as possible "riding along" with the sales consultants once a year to gain an insight into the core business and get to know our grassroots – including at the Würth Finance Group. The aim is to experience and live the corporate culture, to strengthen cooperation and cohesion, and to enhance motivation and productivity.

Report of the management

INHOUSE BANKING

Alternative Performance Measures (APMs)

In presenting and discussing the 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 (APMs) 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 standardised meaning under IFRS, and therefore may not be comparable to similar measures presented by other companies.

To afford a better overview of the development of the Inhouse Banking activities and their added value for the Würth Group, APM adjustments are made that impact the operating income and the net profit of the Inhouse Banking Division, which can be specified as follows:

in TEUR	2015	2016	2017	2018	2019
Hedge accounting effect management accounting	8,438	4,297	4,353	3,742	2,993
Impact of adoption of IFRS 9	0	0	0	3,698	-739

- 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 IFRS 9 Hedge Accounting, new hedge relations will be presented as such.
- Impact of adoption of IFRS 9 refers only to related party losses and therefore does not apply to the Würth Group.

2019

in TEUR	Inhouse banking	Hedge accounting effect management accounting	Impact of adoption of IFRS 9	Segment inhouse banking
Income distribution				
Group financing	36,157	–3,062	1,005	34,100
Credit loss (expenses)/recovery	0	0	1,005	1,005
Income from factoring activities	16,419	0	0	16,419
Interest income	16,872	–3,062	0	13,810
Other ordinary income	2,866	0	0	2,866
Other	1,513	0	0	1,513
Income from participations	1,353	0	0	1,353
Central settlement	25,220	0	0	25,220
Income from trading activities and financial instruments	15,174	69	–266	14,977
Securities investments	4,447	0	0	4,447
Trading	10,727	69	–266	10,530
Total income	**76,551**	**–2,993**	**739**	**74,297**
Total expenses	**–22,018**			**–22,018**
Profit Inhouse Banking	**54,533**	**–2,993**	**739**	**52,279**

	Inhouse banking	External financial services	Eliminations	Total
Segment profit before taxes (adjusted)	52,279	385	128	52,792

2018

in TEUR	Inhouse banking	Hedge accounting effect management accounting	Impact of adoption of IFRS 9	Segment inhouse banking
Income distribution				
Group financing	32,283	–3,956	–3,698	24,629
Credit loss (expenses)/recovery	0	0	–3,698	–3,698
Income from factoring activities	16,018	0	0	16,018
Interest income	12,977	–3,956	0	9,021
Other ordinary income	3,288	0	0	3,288
Other	1,285	0	0	1,285
Income from participations	2,003	0	0	2,003
Central settlement	25,515	0	0	25,515
Income from trading activities and financial instruments	7,711	214		7,925
Securities investments	–2,366	0	0	–2,366
Trading	10,077	214	0	10,291
Total income	**65,509**	**–3,742**	**–3,698**	**58,069**
Total expenses	**–20,133**			**–20,133**
Profit Inhouse Banking	**45,376**	**–3,742**	**–3,698**	**37,936**

	Inhouse banking	External financial services	Eliminations	Total
Segment profit before taxes (adjusted)	37,936	483	97	38,516

The Inhouse Banking Division and more precisely Würth Finance International B.V. is recognised as a central treasury competence centre. To keep it that way, the strategic fields of action with regard to the offered services and performance are geared towards the relevant drivers: the growth plans of the Würth Group for the next five years, the ongoing digital transformation of the financial and banking business and the development of the world economy and financial markets.

Derived from the resulting opportunities and risks, management focuses on ensuring the necessary technical and organisational capacities, the targeted promotion and further development of employees, the strengthening of ICT management skills (including cyber risk management) and the active management of banking policy and financial risk management.

With regard to the further development of the service range, the focus is on process optimisation and ancillary services for the Würth Group companies. Performance in Inhouse Banking is all about the ability to manage data: the efficient and secure flow of data between different systems, the availability and user-friendly preparation of the relevant information and the quality of the data management.

Pleasant progress was made in 2019 in this regard, but not all goals were achieved in full or just with a delay. Towards the end of the year, preparations for the extensive migration of intercompany transactions to a customised electronic trading platform were in full swing.

Key events

Record profit

The stars were aligned for the Inhouse Banking Division in financial year 2019. The record set in 2018 was again significantly exceeded, with an adjusted pre-tax operating result of EUR 54.5 million, representing a year-on-year increase of 20%, or EUR 9.2 million. This is all the more encouraging given that this improved result was achieved while our parent group experienced slowing momentum. The Würth Group was hampered by the gloomy global economic outlook, with its revenue growth falling short of expectations.

The new record result in the Inhouse Banking Division was achieved mainly thanks to booming equity markets and an active interest rate risk management, benefiting from the ultra-low interest rates in the euro area. In particular, around two-thirds of the sharp improvement in results was attributable to securities investments. By contrast, the business units that have a strong correlation with the Würth Group's core business (e.g. intercompany financing and central settlement of supplier payments) recorded lacklustre performance. In summary, the success in 2019 was mainly attributable to three factors:

1.) Active securities portfolio management

2.) Reduction of bond financing costs (including receiver interest rate swaps)

3.) Targeted use of opportunities for short-term refinancing at negative interest rates

“Strong commitment combined with mental resilience, diverse and complementary skills, and mutual trust – including the support of the Management and the Board of Directors – were the keys to the GPS project’s success. Everyone involved should be proud.”

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

Economic conditions
The defining themes of the year, including Brexit, trade disputes and the economic slowdown, had already become apparent by the end of 2018. There were very few positive surprises. Hopes of a swift resolution to the trade disputes, major structural reforms or effective influence from the World Trade Organization dissipated during the year. Overall, the long-standing economic upswing lost considerable momentum, and economic forecasts, including the OECD’s, were repeatedly downgraded.

However, things were not all bad: unlike the industrial sector (especially the automotive industry), private consumption proved reasonably resilient to market conditions, doubtless bolstered by the still positive employment environment.

But the most significant stimulus came from central banks, which again bailed out market participants by further easing their ultra-expansionary monetary policy. These institutions showed that they still have monetary policy ammunition by again cutting interest rates and reviving asset purchase programmes. As this became apparent, the financial markets relaxed, enabling the stock markets to reach new highs.

Stock market indices subsequently performed very strongly (MSCI World: +26%), reflecting the hope that the worst was over and the fact that, given the negative interest rate environment, there was an absence of available alternatives. Overall, the impression grew that the markets are becoming increasingly political.

Successful implementation of the new Global Payment System (GPS)
After going live in May 2019, the GPS system was subsequently stabilised and its unlimited effectiveness was demonstrated, meaning that the project was successfully completed in autumn 2019. The replacement of the IT infrastructure for processing around 700,000 international payments a year – with several million individual items in over 30 currencies and a volume of around EUR 7,500 million – has been the largest and most difficult corporate project in the 40-year history of Würth Finance International B.V. The successful implementation pays testament to the excellent work by the whole project team.

Business performance

Securities investments
The sharp decrease in interest rates, which began in the autumn of 2018, dominated the 2019 investment year. Interest rates were on an almost unbroken downward trajectory until late summer, when a slight recovery set in. With regard to medium to long-term liquidity management, this meant that it was virtually impossible to find government or corporate bonds with an acceptable risk/return profile. With negative yields to maturity, attractive alternatives were scarce, which led to a significant reduction in bond holdings. At the start of 2019, the investment volume was EUR 81 million, compared with just EUR 63 million at the end of the year.

Although the equity allocation was kept quite low in 2019, with an exposure of between EUR 3.5 million and EUR 10.6 million (average: EUR 6.1 million), it accounted for around half of the securities portfolio's return. The remainder was attributable to bonds and, to a lesser extent, commodities. With net earnings of EUR 4.5 million total performance was 5.6%, beating the expectations by far.

Group Financing
Also in 2019 the Würth Group followed its well-balanced growth path, based on a solid financing structure: while it invested a new record amount of EUR 710 million in capital expenditure, net working capital increased below average compared to sales growth.

While the Würth Group's shareholders' equity rose by over EUR 300 million to EUR 5,500 million, net debt went up just EUR 140 million to EUR 1,400 million. To finance this additional funding need, Würth Finance International B.V. issued commercial papers at negative interest rates.

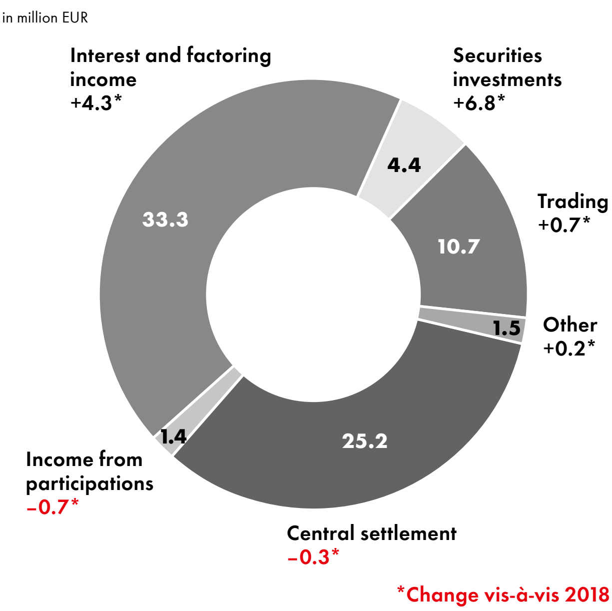
As at 31 December 2019 the Würth Group's liquidity reserves amounted to an adequate amount of EUR 850 million, consisting of liquid assets of EUR 450 million and an unused committed revolving credit facility of EUR 400 million.

The Inhouse Banking Division's income from Group Financing benefited from the above-mentioned commercial paper issuance. Another major positive impact came from the 2018 bond issue with a coupon rate of 1.0%, which for the first time affected the full financial year. In 2019 the interest rate sensitivity of the Würth Finance Group was continuously reduced from 4.8% to 3.1%. This was achieved by refinancing new and extended intercompany loans to Würth Group companies with shorter durations.

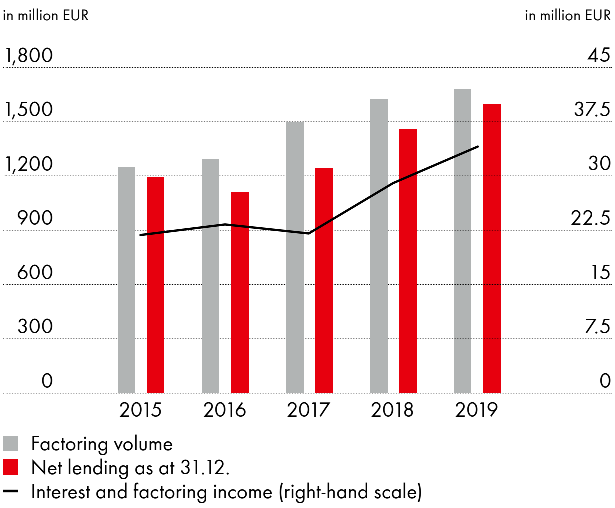
Group Financing also includes the pre-financing of intercompany receivables (factoring). Volumes and income in this area grew slightly by 2.7%.

All these effects resulted in a substantial increase of the adjusted income from interest and factoring income by EUR 4.3 million (+15%) to EUR 33.3 million.

Income distribution



Group financing: volume and revenue from intra-group lendings



"In this world of continuous innovation, we closely track fintech developments and use only proven financial products that add value for our clients."

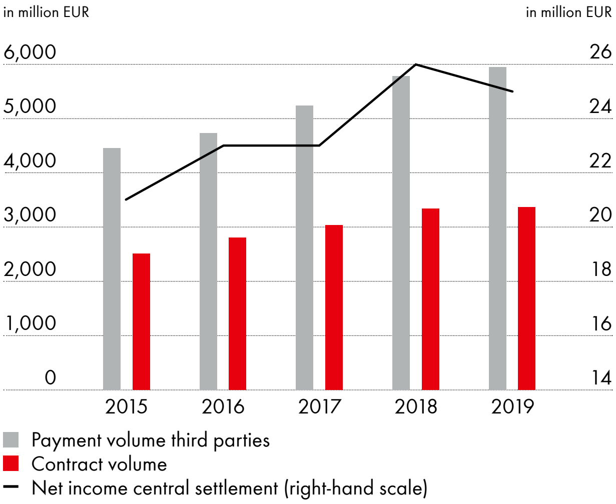
Björn van Odijk
Managing Director, Würth Finance International B. V.

Central settlement of payments to suppliers
In a trading conglomerate such as the Würth Group, negotiating payment terms and conditions with suppliers and the subsequent settlement of payments represent core competencies. Würth Finance International B.V. centralises these functions and thus enhances efficiency within the decentralised network of group companies. Payment conditions are contractually agreed with the suppliers and are applicable to all transactions with the Würth Group companies.

In recent years, alongside efficiency, guarding against cybercrime has grown in importance. Consequently, the bulk of the Inhouse Banking Division's IT budget is invested in this area. In the course of 2019 and with reference to the implementation of the new GPS system, employees in this specialist area had to familiarise themselves with the new payment system in their day-to-day activities, following exhaustive testing rounds. Another key project in this area was the further centralisation of supplier data held on Würth Group suppliers. The Central Settlement team of Würth Finance International B.V. has taken on greater responsibility for the Würth Group in this regard since autumn 2019.

The core "central settlement of payments to suppliers" services are well established and are developing roughly in line with the Group's purchasing volume. Outliers are only apparent in the case of major acquisitions, if notable suppliers are lost or if there are other internal changes. In the reporting year the payment volume increased by 2.6% to just under EUR 6 billion. On the other side revenue remained more or less unchanged year on year, at EUR 25.2 million. This discrepancy is attributable to the strategic replacement of a few major suppliers and the fact that there was a shift from purchasing to in-house production in one of the strategic business units of the Würth Group.

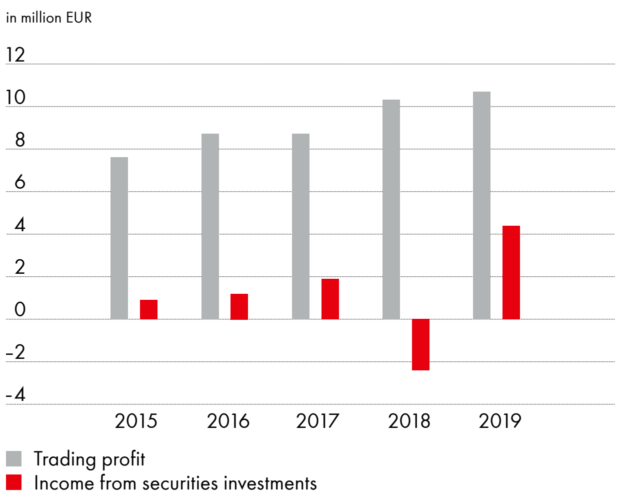
Central settlement: payment volume/revenue



Currency hedging and trading with financial instruments
The expertise of the Group's currency experts was again in high demand in the reporting year. Political events kept the markets on their toes, so foreign currency hedging was a persistent theme among the finance colleagues in the Würth Group companies. Spot transactions, forwards, non-deliverable forwards and currency options were used as protection against negative currency effects and to provide reliability of planning. Overall, the settled volume remained at the previous year's level. In addition and in line with the exposure limits agreed by the Board of Directors, a couple of trading positions were successfully taken. This contribution supported the increase of the adjusted trading income by 6.8% to EUR 11 million in financial year 2019.

Income from participations
As planned the silent participation in Internationales Bankhaus Bodensee AG was transferred to another Würth Group company with effect from 1 August 2019. This meant that income from participations at Würth Finance International B.V. was also reduced, decreasing from EUR 2 million to EUR 1.35 million.

Trading/securities investments: income development



Outlook for 2020

Coronavirus (COVID-19) has spread rapidly throughout the world and is significantly affecting global healthcare systems, people's behaviour, the capital markets and hence economies and day-to-day lives. The economic and financial scale and end-point of these impacts are hard to predict. There is a high probability of a global recession lasting several quarters. At best, the Würth Group's core business will stabilise in the second half of the year.

Our top priority is the health of our employees. We are adhering to the corresponding instructions and recommendations from the health authorities, and most of the Inhouse Banking Division's employees are currently working from home. Access to systems is guaranteed, and we continue to operate as normal. There are no restrictions to client services.

Weak investment markets and declining payment volumes at the payment factory, along with a potential increase in lending volumes, have a direct and partially compensatory effect on the revenue and operating result of the Inhouse Banking Division. However, the extent of this effect cannot be reliably estimated at present. No relief is expected in terms of expenditure and the need for continued investment in the ICT infrastructure and the digitalisation of the Inhouse Banking Division's business. A double-digit drop in profits is entirely conceivable, however.

The EUR 500 million bond maturing in May 2020 is to be refinanced by raising long-term funds in the amount of EUR 750 million or possibly up to EUR 1,000 million. A consortium of banks is providing bridge financing of EUR 750 million with a term of one year (subject to a resolution of the bank directors). This can be used if a capital market transaction is not possible in May 2020 due to the capital markets still being closed.

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

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 its financial stability.

In close collaboration with the Central Managing Board 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 2019)

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

484,000 payment transactions with a volume of EUR 6,000 million in the year under review

Outstanding capital market funding with a total volume of EUR 1,500 million

Account relationships with over 400 Würth group companies

2,900 foreign exchange transactions with 280 group companies and a hedging volume totalling EUR 970 million

10,083 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 9,000 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

“Be it in the art world or the financial world, taking an unconventional path or thinking outside of the box is often a route to success.”

Christian Zimmermann, Controlling,
Würth Finance International B.V.

Connection with art

What makes Würth's cultural engagement special is its aim of bringing together spheres that appear to have nothing in common: the art and business worlds. Würth employees are invited to immerse themselves in and actively experience the world of art, with regular opportunities to draw fresh inspiration from art tours and workshops. Making art and culture accessible to employees in this way and enabling them to be incorporated into working practices is our interpretation of a vibrant corporate culture.

"Art inspires us and enables us to move away from rigid logical thinking towards a more creative approach to our everyday work."

Beat Ringer, IT Management, Würth Finance International B.V.

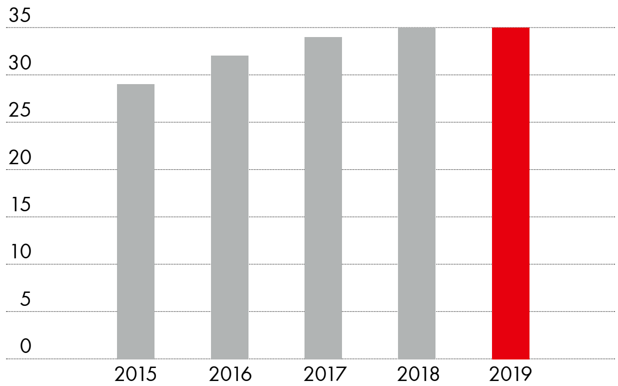
Report of the management

EXTERNAL FINANCIAL SERVICES

Company size is becoming a critical factor in many service industries. New digital possibilities mean that SMEs are increasingly having to invest in new technologies to remain competitive in the market. A high degree of digitalisation combined with a family-oriented corporate culture creates a modern image and provides a strategic advantage in the fight for the best talent on the job market. Achieving excellent service quality and satisfied clients is dependent on our employees and processes.

Partly to finance the rising investment in digitalisation, growth – whether organic or through acquisitions – is becoming the most important factor for successful companies. This is true for the SME landscape in the service sector in general and for Würth Financial Services AG ("WFS") in particular. "Growing" is the Würth Group's new motto, and this is a perfect fit in the current environment.

Number of field staff



“The centralisation of the office staff enables us to reap greater benefits from digital process control and thus improve efficiency.”

Adrian Parpan
Managing Director, Würth Financial Services AG

Key events in 2019

The defining event of 2019 was the acquisition of Optima Versicherungsbroker AG (“Optima”). Optima is an insurance broker with strong local roots in the city of Chur and throughout the entire Grisons region. The company was founded by Hans-Jürg Flury in 1998. Today, Optima serves more than 1,100 clients in German-speaking Switzerland. In addition to the owner, the company has five employees, including two sales consultants.

Over the years, Optima has worked with insurance companies to develop specific insurance product solutions for a wide range of industries, and in so doing has expanded beyond the Grisons region. Thanks to its advanced technologies, Optima operates with very lean processes and high productivity. WFS intends to improve productivity by integrating Optima’s technologies and process landscape as far as possible.

A further advantage of the Optima acquisition for WFS is the establishment of an office in Chur. Thanks to Würth International AG, which has been operating out of Chur for many years, the Würth brand is well known throughout the Grisons region. This means that WFS can expect to see especially high growth in Chur in the coming years. The WFS headquarters in Rorschach – at Würth House Rorschach – as well as the WFS branch in Arlesheim, which is located close to Würth AG, have grown much faster in recent years thanks to their proximity to the large Würth companies, so it is reasonable to assume that the Chur branch will be able to do the same.

In addition to the acquisition of Optima, a major focus in 2019 was the development of the Strategy 25/25. The Würth Group’s strategic roadmap for the period to 2025 was presented and a uniform strategic direction for Würth Group companies was defined and rolled out at the Würth Group Congress in Vancouver. WFS has defined a number of strategic sales measures to ensure its growth out to 2025.

Alongside expanding the sales team, further small brokers are to be integrated into the organisation over the coming years. In recent years, WFS has successfully integrated a wide variety of companies in this way, with the Würth Group’s corporate culture and a shared understanding of its lived values having consistently proven to be the key to success.

A number of process milestones were also set in 2019. In relation to productivity gains, the new insurance management system was introduced on 1 January 2019. As to be able to benefit even further from digital process control, the centralisation of office operations in Rorschach has been accelerated in recent months. In addition, various HR, marketing and finance services have been outsourced to Würth Management AG. Due to the new space requirements, additional office space was acquired in Würth Haus Rorschach and the Urdorf office was relocated to Zurich.

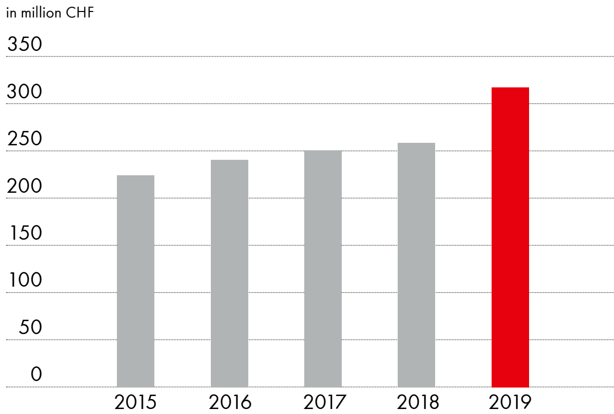
Business performance in 2019

The year 2019 was highly successful for WFS: in addition to the projects described above, WFS consistently maintained its focus on sales and acquired a considerable number of new clients. As a result, WFS was able to increase its sales by 6% compared with the previous year and thus end 2019 with another sales record. Premium volume grew from CHF 258 million to CHF 275 million, or as much as CHF 317 million including the acquisition of Optima, which corresponds to an increase of 22.8%. Overall, the number of corporate clients served rose from 2,608 to 3,432 in 2019.

It is pleasing to note that each branch is on a stable growth trend. In addition to organic growth, the integration of the broker Markus Diener Versicherungstreuhand GmbH into the Arlesheim branch also boosted growth. As such, the effort put into searching for suitable small brokers paid off again in 2019.

Costs also increased year on year. In particular, expenditure on IT services rose by over 50%. The higher costs reflect the fact that WFS has recognised the opportunities offered by digitalisation and intends to continuously translate these from theory into practice over the next few months. While other administrative expenses also rose moderately, personnel expenses for non-field work decreased slightly for the first time in many years.

Development of premium volume non-life



Outlook for 2020

WFS will continue to concentrate on sales, processes and personnel in 2020. While the Strategy 25/25 measures are to be implemented in sales, a first goal is the full integration of Optima and the merger of the two companies. The focus will be on establishing a shared corporate culture, standardising processes and systems, and expanding the Chur branch.

Ambitions are very high, with target sales growth of 14% for 2020. But the stable and highly motivated sales team means that WFS can be optimistic about hitting its target once again in 2020. One uncertainty factor is the effect of the coronavirus, which will not leave WFS untouched. In terms of income from existing clients, it can be assumed that the negative development will only be felt after a delay and that revenue in 2020 will be relatively little affected. At present, agreed acquisition meetings with potential new clients are being postponed, which is why achieving targets in this area in the first half of 2020 is likely to be a challenge. When acquiring new clients, it will be crucial to increase sales activities accordingly once the situation has calmed down, so that the sales targets for 2020 can still be achieved.

With regard to processes, various IT tools available on the market will be reviewed over the coming year and, if appropriate, integrated into processes. The range of smart technologies available for the broker market is growing fast, and the ability to adapt the organisation to these new solutions is becoming increasingly significant.

However, our employees remain our most important asset: having a highly motivated team of people that go about their work with pleasure and enthusiasm is the only way we can create the best possible package for WFS clients and, where necessary, go the famous extra mile. Over the past 75 years, the Würth Group has proven that its corporate culture is timeless and serves as a great basis for success. Above all, WFS intends to further build on this foundation in 2020.

MANAGEMENT WÜRTH FINANCIAL SERVICES AG
from left to right: **Hansruedi Strotz** | **Luciano Viotto** | **Adrian Parpan** (Managing Director) | **Hans-Jürg Flury** | **Beat Jordan** (Managing Director)

EXTERNAL FINANCIAL SERVICES AT A GLANCE

Core business

The External Financial Services Division operates under the legal entity of Würth Financial Services AG, one of the leading independent providers of pension and insurance services to corporate clients and private persons in Switzerland.

Experienced consultants and highly qualified specialists draw up tailor-made solutions and advise clients on the best choice of pension and insurance products.

Services

- Insurance brokerage for both corporate and private clients
- Management and operation of company occupational pension schemes
- Pensions and pension planning for private persons and employees of corporate clients

Facts and figures (at 31 December 2019)

Number of corporate clients: 3,432

Premium volume: CHF 317 million

Number of employees: 59

Five locations: Rorschach (head office), Zurich, Lugano, Arlesheim and Chur.

Connection with the outside world

Advising and supporting clients on all aspects of risk and insurance management are the core business of Würth Financial Services AG. Factors including commitment, professionalism, friendliness and honesty form the basis for our relationships of trust and cooperation with clients and business partners. Personal contact plays a key role, as it allows our employees' enthusiasm for their work to really be seen and felt.

"We know exactly what our clients and business partners need. This fundamentally shapes our everyday work: we regularly inform clients about changes in the insurance market and advise them honestly, reflecting their specific requirements."

Anine Duvnjak-Sinniger, Account Manager, and
Nicole Sonderer, Technical Specialist, (both at Würth Financial Services AG)
in conversation with **Kevin Fleck,** CFO of Vebego AG

Würth Finance Group

RISK MANAGEMENT AND CONTROL

1 Risk culture

Taking risks has always been inherent in any entrepreneurial activity. As a globally active company, the Würth Group is constantly exposed to risks that can arise both as a result of its own actions or failure to act and as a result of external factors. The conscious and systematic approach to addressing opportunities and risks is inextricably linked to the Würth Group's entrepreneurial activities.

The decentralised structure of the Würth Group represents a great advantage, especially given that the individual countries in which Würth operates vary so greatly in their economic performance. However, as a result of the internationalisation of its business activities, the Würth Group is exposed to the political risks of each economic region. Due to restrictive legal standards applying to national and international transactions involving goods, services, payments, capital, technology, software and other types of intellectual property, compliance risks have also gained in importance. The Würth Group always seeks to comply with all regulations and administrative requirements for its business, both nationally and internationally. This applies when dealing with Würth's clients and suppliers, employees, competitors, other business partners and public authorities.

Against this background, systematic risk management for achieving corporate goals has become of central importance. The Würth Group's policy on risk and opportunities is aimed at meeting the medium-term financial objectives and at ensuring sustainable, long-term growth. To achieve this, the Würth Group has a system that identifies entrepreneurial opportunities and risks, assesses them using a standardised system, weighs them against each other and communicates them.

The Central Managing Board of the Würth Group holds overall responsibility for the Group-wide risk management process and defines the principles of the Würth Group's risk policy and strategy. The management of each Group company is responsible for establishing a functioning and efficient risk management system in its entity. They are supported by the Würth Group risk manager, who reports directly to the Central Managing Board and coordinates the risk management process at Würth Group level. The risk manager remains in close contact with the risk controller of the Advisory Board, who reports directly to the Chairwoman of the Würth Group.

The Würth Group actively promotes a strong risk culture, and the Central Managing Board or the responsible persons in the areas of compliance, controlling, information security, IT security and data protection regularly communicate the expectations of the risk culture. Employees are also encouraged to take responsibility for identifying and escalating risks and rejecting inappropriate measures. Internal control systems, instructions and training courses ensure that employees are informed about the current status of legislation and also support them in identifying and dealing with risks.

2 Risk governance framework

2.1 Governance

The Würth Group's risk governance framework makes use of the three lines of defence model for a functioning control and monitoring system, in which three independent levels serve to manage corporate risks and ensure that risk and control processes function appropriately.

The first line of defence consists of all the functions associated with the implementation of day-to-day business. As the risk owners, they are responsible for identifying and analysing risks in the business processes, implementing appropriate controls on the management of the risks and testing their effectiveness. This first line of defence is intended to prevent or discover and correct at an early stage all risks that are inherent in the operational activities.

In contrast to the first line, the second line of defence primarily serves to control and monitor the first line of defence. It takes on various tasks in supervising and controlling operating risk management, ensuring that this works properly. Responsibility for the second line of defence is assigned to control functions such as compliance and controlling.

The third line of defence is the independent auditing body responsible for internal auditing. It carries out risk-oriented audits on behalf of the Supervisory Body and is independent of the first two lines of defence and the entity's management team. This allows the third line of defence to understand the processes and risks at the first and second lines of defence and to objectively assess the internal control mechanisms.

2.2 Framework

Mutual trust, predictability, honesty and straightforwardness, directed both internally and externally, are fundamental principles that are deeply ingrained in Würth's corporate culture and in the corporate philosophy. This does not just entail adhering to all applicable laws and in-house regulations, but also means ensuring that employees maintain the proper mindset, which is key to the sustainable corporate success of the Würth Group. Extensive internal guidelines, known as the Policies and Procedures Manual, operationalise these fundamental principles in the form of descriptions of the structural and process organisation, as well as setting out specific rules and codes of conduct.

Using the Group-wide Würth Information System, an integral component of the internal control and risk management system of the Würth Group, all key performance indicators required to steer the Würth Group are presented in a timely manner and are available for further evaluation by the Central Managing Board and Executive Vice Presidents, based on standardised monthly reporting.

Würth's Group-wide, system-based control mechanisms, such as validation and cross-checks, optimise the quality of the information used as a basis for decision-making. A Group-wide online record for the Würth Group entities' financial statements is not only efficient, but also avoids carry-over errors, safeguards the uniform provision of information and includes numerous plausibility checks, without which the information cannot be forwarded. This platform also ensures that financial reporting changes are implemented in a uniform manner across the Würth Group. Data is protected against changes by using check digits and a system of IT access rights. Standard software is used for consolidation. Changes in the system settings are logged centrally. The monthly and annual financial statements of Würth Group companies are subject to regular automated assessment mechanisms, as are the consolidated financial statements. Moreover, Würth's Policies and Procedures Manual contains internal procedural instructions.

Internal publications and training include detailed rules on financial reporting. Compliance with these rules is regularly reviewed by the central auditing department. External specialists are consulted to clarify the accounting implications of legal and tax issues. External actuaries calculate pension and similar obligations. Central and local training courses for those in charge of finance departments also ensure that all employees involved in the financial reporting process are up to date on the latest legislation and information of relevance to them.

Embedded in the Würth Group, Würth Finance International B.V. has access to the aforementioned Group-wide risk management system. It is exposed to a large number of risks that are directly linked with the divisional activities of its Inhouse Banking and External Financial Services divisions. The Group's most important risk types are credit risks (including default risks), liquidity risks, market risks (including exchange rate, interest rate and securities price risks) and operational risks.

Most of the Würth Group's financial risks are measured, monitored and controlled centrally by Würth Finance International B.V. It pursues a conservative risk policy as part of its risk-oriented company management. It refrains from transactions with imponderable risks and only enters into quantifiable risks within clearly defined limits. This principle forms the basis of the risk policy and provides guidelines for business decisions. The general goal is not to eliminate all risk, but to achieve a balanced relationship between risk and return.

Principles and methods for measuring financial risks, limits and permissible instruments for managing financial risks, and the design of an effective information and reporting system are set out in separate financial risk management regulations, and all financial transactions must comply with these. This framework contains a detailed list of the maximum risk exposure approved by the Board of Directors of Würth Finance International B.V. A core aspect of the framework is a system of defined, binding limits and permissible financial instruments.

The Würth Finance Group (WFG) maintains an internal control system. The self-imposed obligation to check certain processes, routines and functions at predetermined intervals and to monitor the elimination of identified sources of error allows the WFG to protect itself in advance against financial losses or liability risks. The internal control system is in place to ensure the correctness and reliability of accounting.
It contains principles, procedures and measures to ensure the effectiveness and efficiency of accounting. The main objective of the internal control system is to ensure that all business transactions are recorded, processed and documented correctly and in full, in accordance with statutory regulations and standards as well as other internal guidelines.

The principles for handling operational risk are anchored in a comprehensive set of guidelines and procedures that define how employees should carry out their activities. The strategic objective of a balanced relationship between risk and return is always pursued, applying a cost/benefit analysis. Each business area takes responsibility for its operational and compliance risks and for having adequate procedures in place to manage those risks. Entities are supported by designated second line of defence operational risk and compliance teams that are responsible for independent risk oversight.

3 Financial risk and opportunities

Further information on the risks arising from financial instruments and their management can be found specifically in note 18 and in the notes to the separate financial report on the website (www.wuerthfinance.net).

3.1 Credit risk

Credit risk is defined as the risk of a financial loss caused by a counterparty failing to meet its financial obligations or by a deterioration in the credit quality of the counterparty. In the event of a default, the WFG incurs a loss equal to the amount owed by the debtor, less any recoveries. The maximum credit risk corresponds to the value of all financial assets, contingent liabilities and unused irrevocably guaranteed lending commitments reported in the financial statements.

Given the nature of its core business activities, the WFG monitors the counterparty default risk for all its major risk-related activities.

The WFG aims to minimize the credit risk and defined their risk appetite in only entering business relationships with first-class external counterparties. Binding counterparty limits are defined for each rating level, but the aim is to enter into business relationships only with banks with a Standard & Poor's minimum rating of "BBB" (equivalent to a rating of "BBB2" from Moody's and "BBB" from Fitch). The creditworthiness of all the Würth Group's banking relationships is controlled by daily monitoring of ratings and outlook changes. A rating downgrade leads to a reduction in the credit limits and to immediate reduction or closure and transfer of open transactions to other banks. During 2019 there were two rating downgrades which did not affect the open positions at the counterparties.

With all external counterparties for financial derivatives transactions, the WFG has concluded ISDA agreements, including a Credit Support Annex that ensures the periodic net present value cash settlement of the outstanding transactions. The counterparty risks relating to delcredere business are transferred in full to insurance companies.

Every Würth Group company is granted a credit limit by the Würth Group's Central Managing Board. Würth Finance International B.V. monitors compliance with these limits on a monthly basis. In the event of a continuous credit limit breach, the Würth Group's Central Managing Board is obliged to grant a new credit limit. Such credit limit overdrawals were repeated in 2019. The Central Managing Board subsequently adjusted the credit limits. Any credit risk relating to loans to individual Würth Group companies with negative equity as at the reporting date are secured by letters of comfort from the superordinate parent company.

3.2 Liquidity risk

The WFG defines liquidity risk as the risk of being unable to meet due payment obligations in full or on time. In addition, there is the risk that refinancing means cannot be procured or can only be procured at higher market rates (liquidity protection or refinancing risk).

In its function as the main financing company of the Würth Group, the WFG manages the liquidity risks on the basis of the Central Managing Board's recorded strategic guidelines for action and optimises the financial result through the targeted exploitation of market opportunities.

The overriding goal of the Würth Group and the associated risk appetite is the ability to meet its payment obligations at all times, even in extraordinary situations.

The high international creditworthiness of the Würth Group (Standard & Poor's has awarded its non-current liabilities an "A" rating) allows the WFG to raise funds in the international capital markets on favourable terms. To cover any liquidity needs that may arise even in extraordinary circumstances, the WFG also has credit lines granted by various banks. The annual financial requirements plan of the Würth Group serves as a basis for size and the management of such liquidity reserves.

To measure, analyse, monitor and report on liquidity risk, the WFG prepares liquidity overviews on a daily basis and reports the liquidity and debt status of the whole Würth Group to the Würth Group management on a monthly basis.

In the current reporting period under review all financial requirements were met.

3.3 Market risk

A large part of the WFG's business activities is subject to market risk, defined as the possibility of changes in the fair values of the trading and investment positions. Risks may arise from changes in exchange rates, interest rates and securities prices.

One of the main objectives in dealing with market risks is to ensure that the risk corresponds with the approved risk appetite and is appropriate to the defined strategy.

Both on-balance-sheet and off-balance-sheet financial instruments are used to manage market price risks. Before concluding new transactions, compliance with the prescribed limits and the permissibility of derivative financial instruments must be checked. Compliance with the limits is monitored on a daily basis.

The defined limits were not exceeded in the current reporting period under review.

3.3.1 Exchange rate risk

By exchange rate risks, the WFG means the loss risk on the net assets resulting from exchange rate fluctuations between the transaction currency and the applicable functional currency.

The Inhouse Banking's business is exposed to exchange rate risk; the insurance brokerage business is only subject to translation risk from the conversion of business transactions in Swiss francs into the consolidation currency, which is the euro.

Individual limits are set for each currency or currency group to manage exchange rate risks. The limits are to be regarded as open net positions towards the balance sheet currency. The positions are valued and monitored on a daily basis.

In assessing exchange rate risks, the absolute amount of open foreign currency positions and changes in their earnings development are taken into account. For this purpose, all positions are valued on a daily basis at market rates (marked to market) and should not exceed the total amount of EUR 50 million.

In order to control the exposure to exchange rate risk, the WFG enters into FX spot transactions, forwards, cross-currency swaps and currency options with external counterparties.

The defined limits were not exceeded in the current reporting period under review.

3.3.2 Interest rate risk

Interest rate risk is the risk of loss arising from changes in interest rates in all currencies. Interest rate risk arises from balance sheet positions such as loans, financial assets at fair value, payables to related parties and banks, and derivatives, including those used for hedge accounting purposes. These positions may affect other comprehensive income or the income statement, depending on their accounting treatment. A significant proportion of the loans to Würth Group companies are refinanced by fixed-interest bonds with partially similar interest and maturity structures.

In order to hedge interest rate risks, the use of derivatives such as forward rate agreements, interest rate swaps, swaptions, caps/floors and cross-currency swaps is permitted in addition to any balance sheet structure measure. The limit for these derivative financial instruments is set at a notional amount of EUR 700 million, which was not breached in the current reporting period under review.

Interest rate risks are measured using gap and sensitivity analyses, key rate duration analyses and present value calculations.

The WFG's appetite for interest rate risks is defined by the net present value sensitivity of all on-balance-sheet and off-balance-sheet exposures to adverse changes in interest rates by 100 basis points, expressed as a percentage of equity capital. The WFG aims to achieve an equity sensitivity of less than 5% over the medium term.

The defined limits set by the Board of Directors were not exceeded in the current reporting period under review.

3.3.3 Securities risk

Securities price risk is the risk of financial loss resulting from changes in the price of (publicly traded) securities. To assess securities price risks, the absolute amount of the securities position and its earnings performance are considered. All positions are valued at market prices (marked to market).

The WFG pursues a conservative investment policy which allows investment in bonds and money market papers (investment and sub-investment grade) and shares on regulated stock exchanges and capital markets. In addition to a defined benchmark strategy with strategic equity exposure, securities price risk is countered through diversification of the investment portfolio. Limits per asset class have also been defined to limit securities price risk, including an automatic equity position reduction mechanism which is triggered at a negative YTD return of the equity portfolio of EUR 750 thousand, maximising the total negative return of the equity portfolio at EUR 6 million per financial year.

In the current reporting period under review this automatic position reduction mechanism was not activated.

4 Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes or systems, human error or external events.

4.1 Legal and compliance risk

By legal and compliance risk, the WFG means the risk of possible, unintentional non-compliance with laws, regulations or standards which could have a negative impact on the business and its business relationships and, in the worst case, could result in the imposition of payments for damages, fines, penalties or other forms of liability.

Meeting regulatory requirements is challenging for providers of financial and insurance services. 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 WFG 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 thus to meet the increasing regulatory requirements in the finance and insurance brokerage business. Due to the increasing legal complexity, the Würth Group has inhouse experts and consults renowned external consultants on a case-by-case basis.

Training and education within and outside the (Würth) Group are carried out regularly to promote awareness of legal and compliance risks among employees.

Furthermore, a Group-wide whistleblowing system exists that can be used not only by employees but also by clients, suppliers and other individuals to anonymously report suspicions of compliance breaches.

For tax compliance, the WFG is structured in the manner that it needs to comply with both Swiss as Dutch tax legislation and has embedded operating policies and procedures, to ensure compliance with these tax legislations. The WFG has complied with the Swiss and Dutch tax legislation during 2019.

4.2 Technological risk

As the Würth Group's "payment factory", the WFG handles large payment volumes, which rely on high-performance IT systems and networks. Consequently, the IT systems and IT security are continually enhanced and monitored via an information security management system. The WFG, in collaboration with cyber security experts, works to counter the constantly growing and evolving threat from attacks on information and communications technology. It does so by extending technical and organisational protection measures and by conducting awareness training for employees. In addition, the WFG has a business disaster recovery system. The ICT infrastructure is highly scalable, enabling additional business volumes to be dealt with cost-effectively and with a high level of processing quality.

4.3 Personnel risk

The success of the WFG depends to a large extent on its employees and their know-how. Through their ideas and suggestions, the employees are deeply involved in particular activities and work processes and thus make a significant contribution every day to the WFG's continued existence, ongoing improvement and innovations. Personnel risks will continue to influence the WFG in the coming years, as competition for highly qualified employees remains intense. Future success will depend, among other factors, on the extent to which the WFG succeeds in recruiting, integrating and retaining skilled employees in the long term.

Staff turnover is documented and analysed across all hierarchy levels. Regular employee surveys conducted by independent institutions and monthly monitoring of staff turnover are key tools that allow the WFG to identify unfavourable developments, analyse their impact on staff recruitment and combat these effects using targeted measures.

The bottleneck risk arising from current demographic trends, among other considerations, can be countered by attractive employment conditions, a modern and competitive working environment and training tailored to individual roles. Employee training can be internal or external. One focus of personnel management is the targeted continuing professional development and training of employees. Up-and-coming management talents attend courses to prepare them for various levels of management within the Group, via the MC Würth, High Potential and Top Potential training programmes. These programmes give employees targeted training that is tailored to suit their particular ambitions and skills, to prepare them for further management duties within the Group. Independently of the inhouse training programmes, both the Würth Group and the WFG itself support any employee training as promoting lifelong learning.

5 Coronavirus (COVID-19)

Coronavirus (COVID-19) has spread swiftly throughout the world and is significantly affecting global healthcare systems, people's behaviour, the capital markets and hence economies and day-to-day lives. The economic and financial scale and end-point of these impacts are hard to predict. There is a high probability of a global recession lasting several quarters.

There may be impacts on the consolidated financial statements of the WFG, which will only be visible in the subsequent reporting period. These may, for example, relate to the valuation and impairment of current and non-current receivables from associated companies, securities and other assets. Weak investment markets and declining payment volumes at the payment factory, along with a potential increase in lending volumes, will have a direct and partially compensatory effect on income and thus on the operating result, the amount of which cannot, however, be reliably estimated at present.

The EUR 500 million bond maturing in May 2020 is to be refinanced by raising long-term funds in the amount of EUR 750 million or possibly up to EUR 1,000 million. A consortium of banks is providing bridge financing of EUR 750 million with a term of one year (subject to a resolution of the bank directors). This can be used if a capital market transaction is not possible in May 2020 due to the bond markets still being closed.

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.

Connection with each other

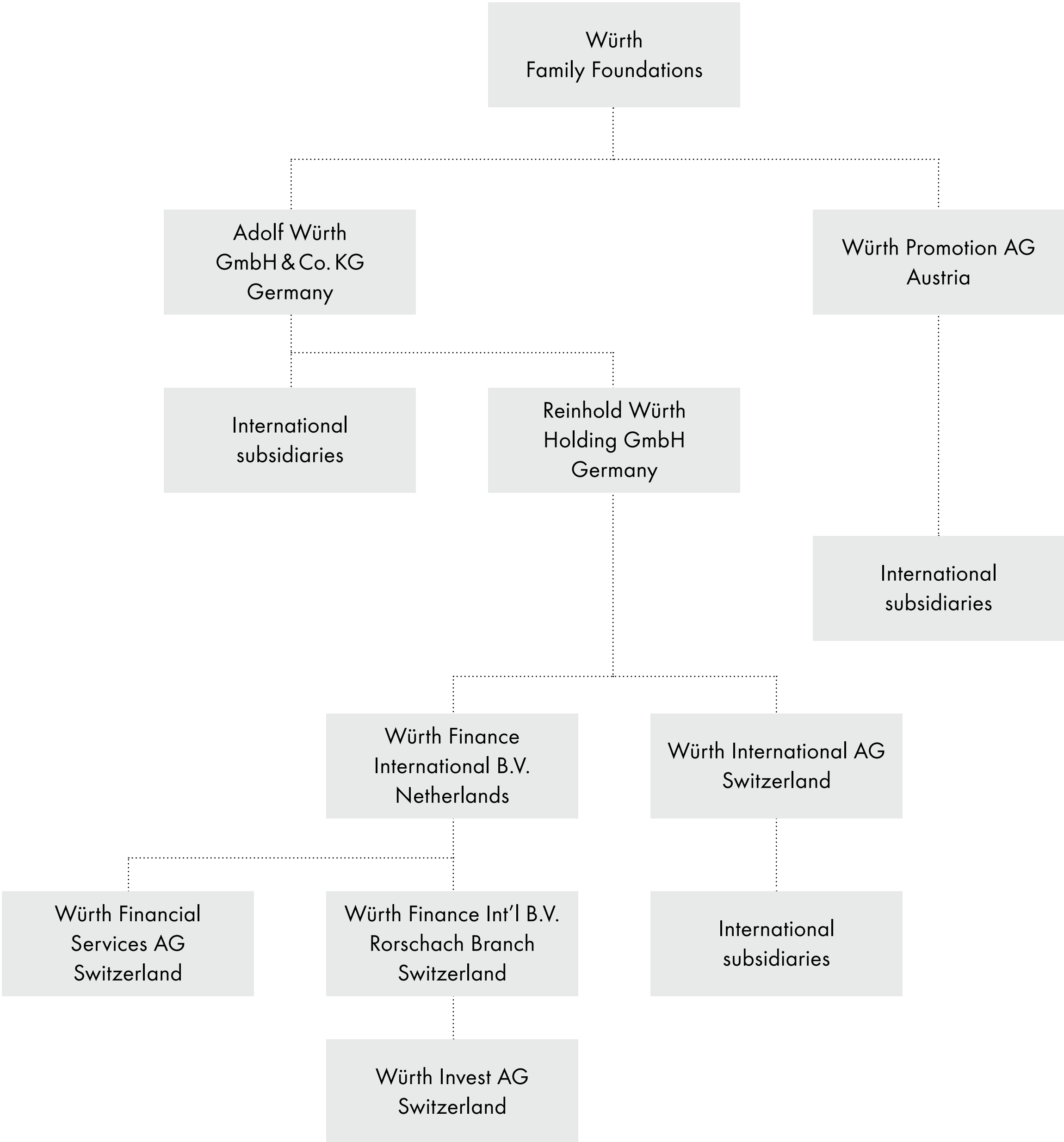
The Corporate Culture Team is responsible for maintaining and promoting a good working atmosphere at the company. Its actions include regularly organising events for all employees, especially outside of the workplace and business hours. This allows employees to live the corporate culture and promotes and strengthens social interaction and team spirit.

“Joint events help harmonise Würth’s corporate culture. Individual employees become part of a whole and receive direct recognition.”

Corporate Culture Team, Würth Finance International B.V.

Würth Group

LEGAL STRUCTURE (SIMPLIFIED CHART)



Würth Finance Group

EXECUTIVE BODIES

(AS AT 31 DECEMBER 2019)

Board of Directors **Würth Finance International B.V.**		Elected until:
Joachim Kaltmaier (Member of the Central Managing Board of the Würth Group)	Chairman	2022
Prof. Dr. h. c. mult. Reinhold Würth (Chairman of the Supervisory Board of the Würth Group's Family Foundations)	Member	2021
Dieter Gräter (Vice President Finance, Würth-Verwaltungsgesellschaft mbH)	Member	2021
Christoph Raithelhuber	Member	2021
Jürg Michel (Member of the Würth Group Advisory Board)	Member	2022
Dr. Bernd Thiemann (former Chairman of the Board of Deutsche Genossenschaftsbank AG)	Member	2022
Mag. Michel Haller (Chief Executive Officer of Hypo Vorarlberg Bank AG)	Member	2022
Wolfgang Kirsch (former Chief Executive Officer of DZ Bank AG)	Member	2022

Managing Directors **Würth Finance International B.V.**
Björn van Odijk
Roman Fust

Managing Directors **Würth Financial Services AG**
Adrian Parpan
Beat Jordan

Managing Directors **Würth Invest AG**
Roman Fust (Delegate of the Board of Directors)
Patrik Imholz

Auditors	
EY, Amsterdam / Zurich:	Würth Finance International B.V.
EY, Zurich:	Würth Financial Services AG, Würth Invest AG

Internal Auditors	
KPMG, Zurich:	Würth Finance International B.V.
Caminada Treuhand AG, Zurich:	Würth Financial Services AG

Würth Finance Group

INFORMATION FOR INVESTORS

Outstanding Capital Market Transactions by Würth Finance International B.V. at 31 December 2019:

Bonds				
Notional amount:	Coupon rate:	Issue yield:	Term:	Listing:
EUR 500 m	1.75%	1.76%	21.05.2013–21.05.2020	Luxembourg Stock Exchange / ISIN: DE000A1HJ483
EUR 500 m	1.00%	1.04%	19.05.2015–19.05.2022	Luxembourg Stock Exchange / ISIN: XS1234248919
EUR 500 m	1.00%	1.08%	25.05.2018–25.05.2025	Luxembourg Stock Exchange / ISIN: XS1823518730

All bonds have been granted an "A" rating by Standard & Poor's.

Multi Currency Commercial Paper Programme		
Notional amount:	Coupon rate:	Maturity period:
EUR 500 m	variable	7 days – 2 years

Under this programme, in addition to Würth Finance International B.V., Adolf Würth GmbH & Co. KG can also issue short-term commercial paper for up to a cumulative total of EUR 500 million.

In 2019 three commercial paper issues in a cumulative total of EUR 100 million with expiration date in May 2020 were undertaken by Würth Finance International B.V.

The primary objective of the Management of the Würth Finance Group is to create continuous value added for the Würth Group. The Management is responsible for generating adequate risk-adjusted returns. In order to be successful in the long term, the Würth Finance Group needs to generate an overall return that is higher than the risk-adjusted cost of capital.

To this end, the Group has have determined the value added generated during the year under review using the Economic Value Added method (EVA®). The EVA® calculation was based on the audited balance sheets and financial statements of the Group for 2019 and 2018.

In 2019, the Group posted a net operating profit after taxes (NOPAT) of EUR 64.1 million (2018: EUR 56.9 million), representing an increase of approximately 12.6% compared to the previous year. The average invested capital increased by 6.1% from EUR 2,185 million in 2018 to EUR 2,318 million in 2019, the return on invested capital (ROIC) was at 2.76% (2018: 2.61%).

The risk-free cost of debt capital decreased from 0.46% (2018) to –0.21% (2019). The market risk premium increased from its 2018 level of 9.82% to 10.22% in 2019. Overall this resulted in a decrease of the cost of equity capital to 11.50% (2018: 11.78%).

The cost of debt capital also fell from 0.87% (2018) to 0.76% (2019), reducing the WACC from 2.22% in 2018 to 2.19% in 2019. As a result, the ROIC-WACC spread amounted to 0.57% (2018: 0.39%). Consequently, the Economic Value Added increased from EUR 8.3 million (2018) to EUR 13.3 million (2019).

[1] EVA® method; EVA® is a registered trademark of Stern Stewart & Co.

ECONOMIC VALUE ADDED (EVA©)

in TEUR	2019	2018
Net profit for the year	40,157	29,947
+ Tax expenses	12,634	8,569
+ Interest expenses	29,670	29,670
Earnings before Interest and Taxes (EBIT)	**82,461**	**68,186**
+ Conversion depreciation of property, plant and equipment	737	290
+ Conversion hedge accounting	2,993	3,742
+ Conversion credit loss (expenses) / recovery	–739	3,698
EBIT EVA©	**85,452**	**75,916**
– Normalised tax expense (2019: 25% / 2018: 25%)	21,363	18,979
Net Operating Profit After Taxes (NOPAT)	**64,089**	**56,937**
Average current assets (EVA©)	1,455,844	1,482,310
+ Average non-current assets	1,120,137	1,044,919
– Average cash	257,966	341,786
Average invested capital	**2,318,015**	**2,185,443**
Return on Invested Capital (ROIC)	**2.76%**	**2.61%**
Average cost of debt capital [1]	1.01%	1.16%
– Normalised tax rate (2019: 25% / 2018: 25%)	0.25%	0.29%
Cost of debt capital after tax	**0.76%**	**0.87%**
Risk free cost of debt capital[2]	–0.21%	0.46%
+ Risk premium market[3]	10.22%	9.82%
+ Risk premium Würth Finance International B.V.	1.50%	1.50%
Cost of equity capital	**11.50%**	**11.78%**
Weighted Average Cost of Capital ($WACC_T$)	**2.19%**	**2.22%**
ROIC-$WACC_T$- Spread	**0.57%**	**0.39%**
Economic Value Added (EVA©)	**13,343**	**8,325**

EVA©	Economic Value Added
EBIT	Earnings Before Interest and Taxes
NOPAT	Net Operating Profit After Taxes
ROIC	Return on Invested Capital
$WACC_T$	Weighted Average Cost of Capital

[1] Effective cost of capital according to the “amortised cost” method
[2] 10-year German government bonds (source: Bloomberg; country risk premium CRP evaluation)
[3] Implied anticipated market return euro area minus risk-free cost of debt capital (data: IBES International Inc.; source: Bloomberg; country risk premium CRP evaluation/corresponding index: Dow Jones EURO STOXX)

Würth Finance Group

EXCERPT FROM THE FINANCIAL STATEMENTS 2019

Consolidated income statement for the year ended at 31 December

in TEUR	2019	2018
Operating income		
Interest income from financial instruments measured at amortised cost	48,248	48,163
Interest income from financial instruments measured at fair value through profit or loss	12,665	16,092
Interest expenses	-46,629	-54,525
Net interest income	**14,284**	**9,730**
Income from factoring activities	16,419	16,018
Income from commission and service fee activities	35,897	35,272
Income from trading activities and financial instruments	14,713	7,320
Other ordinary income from related parties	2,870	3,292
Credit loss (expenses) / recovery	1,005	-3,698
Total operating income	**85,189**	**67,934**
Operating expenses		
Personnel expenses	-18,426	-16,744
Other administrative expenses	-11,953	-11,798
Amortisation expenses	-2,018	-794
Other ordinary expenses	0	-82
Total operating expenses	**-32,397**	**-29,418**
Profit before taxes	**52,792**	**38,516**
Income tax expense	-11,349	-8,341
Deferred taxes	-1,285	-228
Net profit for the year	**40,157**	**29,947**

Consolidated statement of other comprehensive income for the year ended at 31 December

in TEUR, net of tax	2019	2018
Profit for the year	**40,157**	**29,947**
Total items that will be reclassified to the income statement		
Exchange differences on translation of foreign operations	-11	-164
Net gain / (loss) on cash flow hedges	-7,606	261
Total items that will not be reclassified to the income statement		
Remeasurement gain / (loss) on defined benefit plans	-868	-884
Other comprehensive income for the year (OCI)	-8,484	-787
Total comprehensive income for the year, net of tax	**31,673**	**29,160**

Consolidated balance sheet at 31 December before appropriation of profits

in TEUR	2019	2018
ASSETS		
Non-current assets		
Software	146	547
Activated customer base	1,535	0
Right-of-use assets	1,716	0
Operating equipment and furnishings	456	458
Loans to related companies	1,113,594	1,055,899
Other financial assets to related parties	20,568	35,834
Deferred tax assets	2,658	2,826
Total non-current assets	**1,140,673**	**1,095,564**
Current assets		
Receivables from related companies	1,130,334	1,052,931
Loans to family foundations	4,988	9,969
Positive fair values of derivative instruments	8,154	3,827
Other assets	2,752	3,273
Income tax receivables	0	2,243
Accrued income and prepaid expenses	8,009	7,246
Securities held for trading	62,759	80,815
Cash and cash equivalents	272,268	262,119
Total current assets	**1,489,264**	**1,422,423**
Total assets	**2,629,937**	**2,517,987**
EQUITY AND LIABILITIES		
Shareholders' equity		
Issued capital	16,000	16,000
Additional paid-in capital	5,000	5,000
Retained earnings	275,160	271,080
Other comprehensive income	-8,859	-1,252
Foreign currency translation	-60	-49
Net profit for the year	40,157	29,947
Total shareholders' equity	**327,399**	**320,726**
Non-current liabilities		
Bonds issued	1,003,797	1,494,723
Liabilities for pension plans	6,232	5,268
Lease liabilities	629	0
Payables to banks	4,608	4,436
Deferred tax liabilities	598	369
Total non-current liabilities	**1,015,863**	**1,504,796**
Current liabilities		
Bonds issued	499,879	0
Commercial paper	100,000	0
Payables to related companies	647,133	646,387
Lease liabilities	1,100	0
Payables to banks	1,720	7,689
Income tax payables	8,404	8,925
Negative fair values of derivative instruments	3,657	5,990
Other liabilities	13,194	11,962
Accrued expenses and deferred income	11,589	11,512
Total current liabilities	**1,286,675**	**692,465**
Total equity and liabilities	**2,629,937**	**2,517,987**

Consolidated statement of changes in equity for the year ended at 31 December

in TEUR	Issued capital	Additional paid-in capital	Retained earnings	Cash flow hedge reserve	Foreign currency translation	Total
At 1 January 2018	16,000	5,000	294,264	-1,513	115	313,866
Net profit for the year	0	0	29,947	0	0	29,947
Other comprehensive income	0	0	0	0	-164	-164
IAS 19	0	0	-884	0	0	-884
Cash flow hedge accounting	0	0	0	261	0	261
Total comprehensive income for the year	**0**	**0**	**29,063**	**261**	**-164**	**29,160**
Dividend payments	0	0	-22,300	0	0	-22,300
At 31 December 2018	**16,000**	**5,000**	**301,027**	**-1,252**	**-49**	**320,726**
At 1 January 2019	16,000	5,000	301,027	-1,252	-49	320,726
Net profit for the year	0	0	40,157	0	0	40,157
Other comprehensive income	0	0	0	0	-11	-11
IAS 19	0	0	-868	0	0	-868
Cash flow hedge accounting	0	0	0	-7,606	0	-7,606
Total comprehensive income for the year	**0**	**0**	**39,290**	**-7,606**	**-11**	**31,673**
Dividend payments	0	0	-25,000	0	0	-25,000
At 31 December 2019	**16,000**	**5,000**	**315,317**	**-8,858**	**-60**	**327,399**

Würth Finance International B.V. has authorised share capital of EUR 80 million consisting of 160,000 share certificates with a nominal value of EUR 500. Of this authorised share capital, 32,000 share certificates have been subscribed and fully paid in, corresponding to EUR 16 million.

In 2019, a dividend of TEUR 25,000 (EUR 781 per share) was paid for the 2018 financial year.

Consolidated cash flow statement for the year ended at 31 December

in TEUR	2019	2018
Net profit for the year	**40,157**	**29,947**
Amortisation and impairments	807	794
Adjustment to provision for taxes	-521	1,387
Deferred tax expense / (benefit)	397	-215
Other expenses and revenues without cash flows	-9,470	12,230
Foreign exchange gains and losses (long-term loans)	-5,578	-8,573
Foreign exchange gains and losses (short-term loans)	-5,884	2,065
(Increase) decrease in operating assets		
Redemption of long-term loans to related companies	61,240	58,258
Lending of long-term loans to related companies	-408,721	-418,505
Receivables from related companies	230,358	177,322
Positive fair values of derivative instruments	-4,327	4,275
Income tax receivables	2,243	617
Other assets, accrued income, and prepaid expenses	-242	-2,770
Increase (decrease) in operating liabilities		
Payables to related companies	746	-25,242
Negative fair values of derivative instruments	-2,333	1,791
Other liabilities, accrued expenses and deferred income	1,309	-8,977
Net cash flows from operating activities	**-99,818**	**-175,596**
Purchase of property, plant and equipment, and intangible assets	-1,934	-289
Disposal of property, plant and equipment, and intangible assets	-2	11
Purchase of securities	-28,425	-52,136
Disposal of securities	54,807	61,995
Sales of other financial assets to related parties	16,334	10,000
Net cash flows from investing activities	**40,781**	**19,581**
Proceeds of borrowings	0	494,647
Repayment of borrowings	0	-500,000
Commercial paper	100,000	0
Dividend payments	-25,000	-22,300
Net cash flows from financing activities	**75,000**	**-27,653**
Net foreign exchange difference	-15	80
Net increase (decrease) in cash and cash equivalents	**15,948**	**-183,588**
Net cash and cash equivalents at the beginning of the year	**249,991**	**433,580**
Net cash and cash equivalents at the end of the year	**265,940**	**249,991**
Net increase (decrease) in cash and cash equivalents	**15,948**	**-183,588**
Increase (decrease) in taxes paid	**-10,860**	**6,985**
Interest received	**73,109**	**75,620**
Interest paid	**-39,136**	**-51,957**

The funds for this cash flow statement are represented by cash and cash equivalents (net).

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