Annual Report 2019

# Report on the 136th Business Year

VORWERK

## Dear Readers

Our annual report for the year 2019 is now in front of you. You will recognize that it is quite different from reports published previously. This year we are limiting ourselves to a representation simply of the facts and figures in order to show the development of Vorwerk over the past financial year.

Originally it was intended to supplement this report with some entertaining and exciting stories. Our idea was to talk about life – in all its diverse and colorful facets – and to see it from its sunny side as characterized by community and togetherness.

But then with Covid-19 something unexpected came over us and has changed our lives.

What counts now is prudence, solidarity and attentiveness. In our opinion an inappropriate moment to speak about cheerfulness and light-heartedness – especially out of consideration for those directly affected by Covid-19.

Nevertheless, we are looking confidently into the future. Our life will surely have changed, but it will eventually be joyful, colorful and above all a shared experience once again. You may then look forward to rediscovering the usual “joie de vivre” in our publication. We are eagerly awaiting this time and all the anecdotes about delightful moments that we currently miss so much.

Till then, please stay healthy or get well soon.

Wuppertal, 21 April 2020

Vorwerk & Co KG

# Contents

# A Review of Vorwerk

## Family Business with Tradition and Vision

The courage to implement innovations and the demand for the very highest quality has made Vorwerk into an internationally successful company with a long tradition. Vorwerk was founded in Wuppertal in 1883 and has developed throughout the course of its 136-year corporate history from a carpet producer to a diversified, international group of companies. Yet Vorwerk still remains a family-owned business. Vorwerk stands for continuity, change and a nearness to people. Vorwerk's business model comprises the development, manufacture and sale of high-quality products and services.

**Headquarters of the Vorwerk Group**
(Holding Company)

Vorwerk & Co. KG
Mühlenweg 17 – 37
42270 Wuppertal
Germany
Telephone: +49 202 564-0, Fax -1301
Email: vorwerk@vorwerk.de
www.vorwerk.de / www.vorwerk.com

**Managing Partner**

**Reiner Strecker**

**Supervisory Board**

**Dr. Jörg Mittelsten Scheid**
(Honorary Chairman)
**Rainer Baule**
(Chairman till 31 May 2019)
**Dr. Rainer Hillebrand**
(Chairman since 1 June 2019)
**Prof. Dr. Ing. Pius Baschera**
(Vice Chairman till 31 May 2019)
**Dr. Axel Epe**
(Vice Chairman since 1 June 2019)
**Daniel Klüser**
(2nd Vice Chairman since 24 June 2019)
**Frank Losem**
(since 1 June 2019)
**Dr. Stefan Nöken**
(since 1 June 2019)
**Dr. Timm Mittelsten Scheid**
**Sabine Schmidt**

## Thanks to the Staff

In recent years the Vorwerk Group has launched a host of new, innovative products onto the market and has continued to invest in shaping future developments. The challenges presented by digitization are being addressed by the company at all levels. This applies not only to the more than 610,000 people working for the company worldwide, either as self-employed advisors or trading partners, but also to the approximately 12,500 permanent staff at the production locations as well as in the administrations of the individual divisions and subsidiaries. The Executive Board and owner family would like to thank all "Vorwerkers" throughout the world for their outstanding commitment, their creativity and their willingness to continue to take on and meet the challenges arising.

## International Presence

**Subsidiaries**

Austria
Canada
China
Czech Republic
France
Germany
Indonesia
Italy
Japan
Mexico
Netherlands
Poland
Portugal
Spain
Sweden
Switzerland
Taiwan
Thailand
Turkey
United Kingdom of Great Britain and Northern Ireland
United States of America

**Major Distributors and Export Countries**

Algeria
Argentina
Australia
Belgium
Brazil
Chile
Columbia
Croatia
Cyprus
Denmark
Estonia
Finland
Greece
Hungary
Israel
Kazakhstan
Malaysia
Morocco
New Zealand
Norway
Panama
Romania
Russia
Singapore
Slovak Republic
Slovenia
South Korea
Ukraine
United Arab Emirates

## The Vorwerk Group Comprised the Following Business Segments in 2019:

# Thermomix / Kobold / Temial / Vorwerk flooring / Vorwerk Engineering / Neato Robotics / JAFRA Cosmetics / Vorwerk Direct Selling Ventures / akf group

## Key Figures of the Vorwerk Group

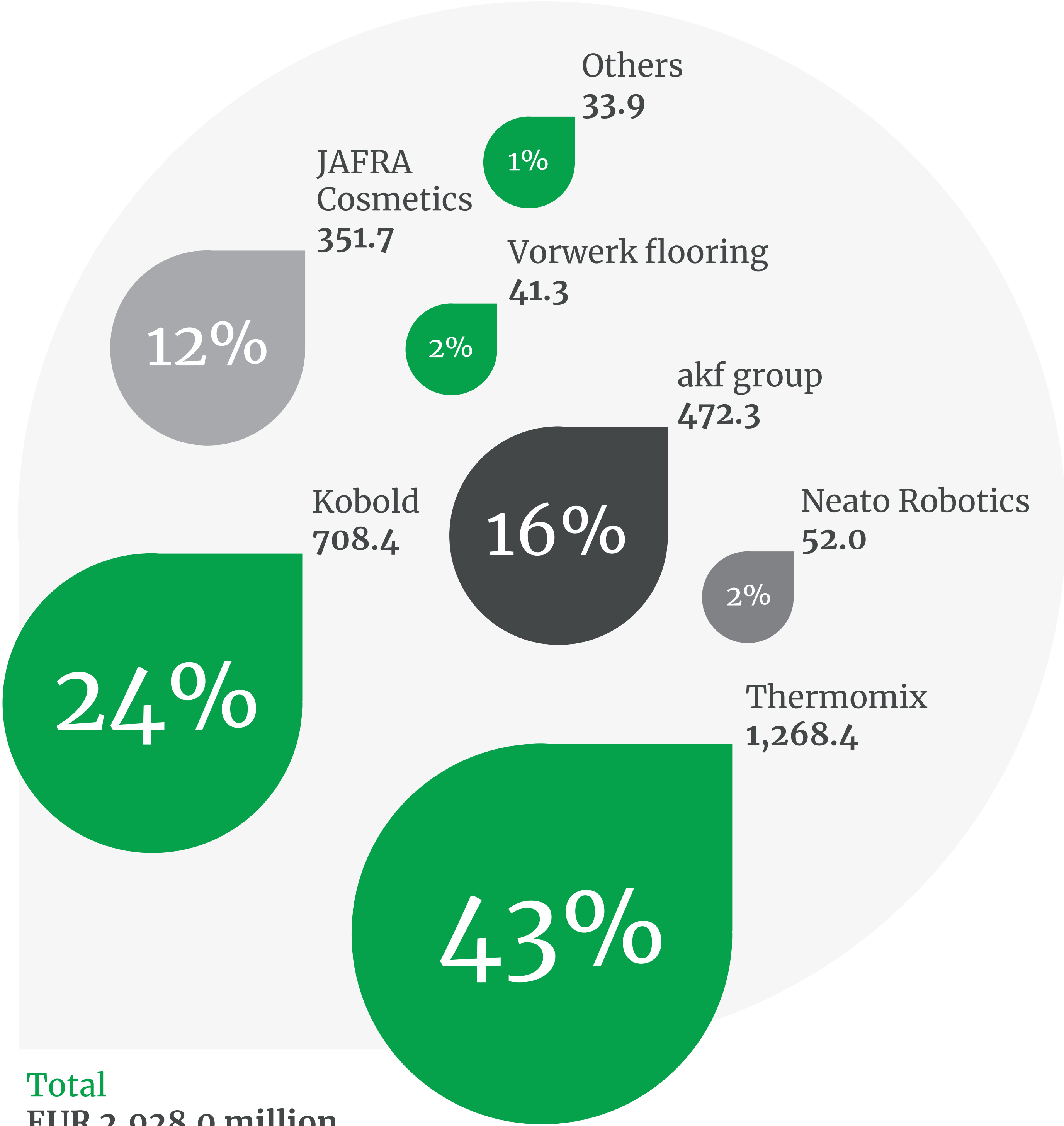
| **in million EUR** | **2016** | **2017** | **2018** | **2019** |
|---|---|---|---|---|
| Group sales | 3,058 | 2,906 | 2,791 | 2,928 |
| New business, akf group | 1,167 | 1,248 | 1,262 | 1,324 |
| Balance sheet total | 4,924 | 5,060 | 5,226 | 5,332 |
| Partners’ equity | 1,840 | 1,701 | 1,448 | 1,378 |
| Partners’ equity in % (akf at equity) | 63 | 59 | 50 | 48 |
| Partners’ equity in % (akf fully consolidated) | 37 | 34 | 28 | 26 |
| Financial assets | 1,440 | 1,409 | 1,271 | 1,213 |
| Other fixed assets | 1,293 | 1,383 | 1,480 | 1,508 |
| Current assets | 2,107 | 2,207 | 2,402 | 2,546 |
| Cash and cash equivalents* | 1,184 | 1,178 | 1,031 | 902 |
| Capital expenditure** | 476 | 460 | 521 | 472 |
| Depreciation** | 248 | 270 | 286 | 304 |
| Personnel costs | 540 | 574 | 615 | 633 |
| Number of employees | 11,949 | 12,333 | 12,972 | 12,319 |
| Self-employed advisors | 637,126 | 633,128 | 610,919 | 599,072 |

* Including short-term realizable assets

** Excluding financial assets

## Sales by Division 2019

**in million EUR**




Total
EUR 2,928.0 million

# Milestones
# 2019

## Jan

**Committed:** At the beginning of the year, Vorwerk shareholder Timm Mittelsten Scheid gathers some fifty family-owned businesses behind him for the campaign "Made in Germany - Made by Diversity". The entrepreneurs send out a clear message against xenophobia and for more tolerance with a widespread advertising and poster campaign.


## Feb

**Serial winner:** A Kobold robot vacuum cleaner is voted “best in class” for the third time in a row by the consumer watchdog “Stiftung Warentest” (edition "test", 03/2019). The verdict from the testers is that the Vorwerk Kobold VR300 Robot Vacuum Cleaner cleans best, and is even “very good” at removing coarse dirt from hard floors. The Kobold is also convincing in the “navigation” category.

## Mar

**A star is born:** The Thermomix TM6, the latest generation of the multi-talented all-rounder, is launched worldwide on 8 March. Compared to its predecessor, the TM6 is equipped with new functions. The High Temperature setting delivers roasting aromas, the Sous-vide (under vacuum) method creates especially tender dishes and the Slow Cooking mode ensures first-class meat and gently cooked fruit. Further, the Recipe Platform Cookidoo is now already installed in the new appliance. The demand for the TM6 is enormous from the very beginning.

# May

**Happy Birthday, Kobold!** A classic celebrates its birthday - exactly 90 years ago Engelbert Gorissen, Vorwerk's former chief technical officer, had the idea of building a vacuum cleaner from a small, smooth running motor, a dust bag and a floor nozzle. This marked the birth of the Vorwerk Kobold, which in the following years and decades has not only become a household name in Germany.

# Apr

**Off to a new home:** The newly built, two-floor motor plant at the Vorwerk Elektrowerken in Wuppertal is ready for occupancy. The lack of space in the former motor manufacturing area has therefore finally become a thing of the past. The integrated high-bay warehouse alone offers space for 2,400 pallets. The first section to relocate to the new facilities will be the production line for the Thermomix motor, which is manufactured in Wuppertal for all Thermomix appliances worldwide. The new administration center as well as the R&D facilities are also ready to be moved into.

german brand award '19 winner

# Jun

**Award winners:** Thermomix, Kobold and Vorwerk flooring secure numerous coveted distinctions for their innovative products at the Plus X Awards in the categories e.g. design, quality and functionality. The Thermomix TM6 comes up trumps in five different categories and is proclaimed the best product of the year.

Kobold also has cause for celebration with the Kobold VR300 Robot Vacuum Cleaner and the Kobold VB100 Cordless Handstick both winning prizes. Moreover, both cleaners receive the seal of approval "Product of the Year" and Vorwerk the special award "Best Brand" in the floor care product category. The "German Brand Award" honors both Kobold as well as Vorwerk flooring, which is able to take the desirable award back to Hamelin for the second time in a row.


# Jul

**Tienda Vorwerk:** The first Vorwerk store in Spain opens in mid-July in Bilbao. In the historical building that housed the former cult café "La Granja", coffee & co. had been served over the listed counter for some 90 years. Today visitors can see the Thermomix TM6 and the Kobold product range in action. The store in the Basque Country will complement the direct sales activities and the consultancy provided by more than 8,000 sales advisors throughout Spain.

# Aug

**Unmistakable:** Vorwerk creates a new design language for the corporate image. The brand is now to be found in the midst of customers' lives – an aspect which is also reflected in the visual language. All motifs focus on people and tell real life stories. But one thing has not changed – the logo remains green, as it has been for almost 40 years.

# Sep

**New living:** Vorwerk flooring launches its new "Best-of-Living" collection in the fall of 2019 in popular, trendy colors with no less than sixteen residential qualities. The key factor in the development has been the combination of quality, innovation and design that has been the hallmark of all Vorwerk products for more than 135 years.

# Oct

**Quite sustainable:** "To keep the world our home" is the title of the Vorwerk Group's first Sustainability Report that can be found on the Vorwerk website. The goal of the initiatives and campaigns involved is to systematically and continually improve the effects of entrepreneurial activity on environment and society and thereby provide a positive contribution towards sustainable development. The Report will be published every two years in the future and document the progress made in the individual fields.

# Nov

**Success story:** 40 years ago, JAFRA Cosmetics started sales activities in Mexico – since then JAFRA has contributed to the independence of hundreds of thousands of women and their families in Mexico. This special birthday in the largest JAFRA market is of course extensively celebrated, but not without a fitting lipstick and a new fragrance, which are launched in a special anniversary edition.

# Dec

**Start-up:** Vorwerk Ventures, the venture-capital entity of the Vorwerk Group, establishes a new fund. The target: to continue to invest in future years in appealing, consumer-oriented start-ups. Vorwerk has already been active in this segment since 2007. Currently the group has some 16 investments in the start-up sector.

# Group Management Report 2019

# General Section on Business Development

Vorwerk & Co. KG is a family-owned company that was founded in 1883 with registered offices in Wuppertal (Germany). The core business at Vorwerk is the manufacture and worldwide sale of high-quality household products. In this respect Vorwerk always seeks direct contact to the customer – either through its direct selling operations, its own online shops or Vorwerk stores in inner city locations. Moreover, cosmetics by JAFRA Cosmetics, the akf bank as well as carpeting, the original business, are a part of the diversified product and service portfolio of the Vorwerk Group.

The Vorwerk Group was operational in the following business segments at the close of 2019: the “Home” entities Thermomix, Kobold and Temial, Vorwerk flooring, Vorwerk Engineering and Neato Robotics as well as JAFRA Cosmetics and akf group. Vorwerk Direct Selling Ventures is the Vorwerk Group’s venture capital unit. Business at Twercs, only operational in Germany, was suspended since sales were below expectations and a sustainably positive business development was not foreseeable.

Each division of the Vorwerk Group was run by its own accountable management board in the year under review. Vorwerk International & Co. KmG in Wollerau/Switzerland was responsible for steering the “Home” divisions. The Group’s strategic leadership was in the hands of Vorwerk & Co. KG in Wuppertal.

One half of the Vorwerk Group’s Supervisory Board comprises members from the entrepreneurial family Mittelsten Scheid and the other half consists of external experts. Dr. Jörg Mittelsten Scheid, the head of the Vorwerk owner family, acts as Honorary Chairman of the Supervisory Board. Dr. Rainer Hillebrand has been Chairman of the Supervisory Board since 1 June 2019.

Vorwerk is operational in more than 60 countries across Europe, Asia, North and South America as well as in Australia and parts of Africa with its own subsidiaries or trading partners. The strong international alignment of the Wuppertal-based, family-owned company can readily be seen from the distribution of sales. The proportion of sales generated outside the company’s domestic market, Germany, reached 63.2 percent. This share was as much as 75.5 percent in the direct sales segment.

The Group is managed and steered on the basis of detailed budget plans and subsequent reporting and variance analyses. In this respect the main parameters, sales revenue and operating earnings were planned and monitored at the divisional level for the financial performance indicators.

Vorwerk applies non-pecuniary performance indicators for the purposes of foresighted and sustainable corporate control for specific direct selling divisions. They concern the productivity (= sales per active advisor) and the activity – in other words the proportion of active sales advisors in relation to the total number. To enable a better understanding of the development of the Group, percentage changes to the previous year are described in this report with the following adjectives: negligible/minor (1-2 percent), moderate/slight (3-5 percent), substantial/sizeable (6-10 percent), considerable/notable (11-15 percent), distinct/clear (16-24 percent), significant (more than 25 percent).

The Vorwerk Group closed the 2019 financial year with a business volume of EUR 3.8 billion and was thereby slightly above the level of the previous year. This figure takes into account the new business volume at akf group in an amount of EUR 1.3 billion.

Revenue at the Vorwerk Group was running at EUR 2.9 billion, a moderate increase as against the previous year. Revenue development was thereby slightly below expectations on account of sales targets not being met to the full. Operating earnings for the year were distinctly lower than in the previous year due particularly to expenditure for R&D as well as IT projects, but were only negligibly below forecast.

The partners' equity capital ratio at the Vorwerk Group amounted to 25.8 percent when akf group, operational in the area of financial services, is fully consolidated. Cash and cash equivalents are mainly invested in special funds and other short-term realizable assets and totaled EUR 902 million as of balance sheet date.

The Vorwerk Group has pushed ahead with the digitization of its products and processes in recent years. The new Thermomix® TM6 was successfully launched in the year under review. Vorwerk wishes to continue to fulfil the role of an innovative company in the coming years, too, with new products as well as additional digital services already in preparation.

The innovative strength of Vorwerk is also clearly reflected in the number of patent registrations: Vorwerk had numerous national patents or patent applications recorded in 2019.

Markets and customer requirements are currently changing very rapidly; this is presenting companies all around the world with enormous challenges. Efficient processes, agile working methods and clear structures are more than ever preconditions for entrepreneurial success. To address this, Vorwerk is focusing on innovative products and on a stringent implementation of the omnichannel direct sales strategy with added-value for advisors and customers as an important driver of change. This has had organizational implications. The "Home" divisions Thermomix and Kobold have been managed by a joint management board since April 2019 under the umbrella of Vorwerk International & Co. KmG. This means that the previous divisional structure has been replaced by a functional one. The new corporate structure sets organizational priorities so as to place even more emphasis on operative business. Modified structures also mean that new functions are created while others are no longer required or are relocated. In this respect job losses at some locations could not always be avoided. All such decisions have been taken with the involvement of employee representation and will be implemented by the end of 2021 in a socially-responsible manner wherever possible using various measures such as partial retirement plans and voluntary programs.

Vorwerk has systematically addressed the aspect of sustainability since 2016. The sustainability organization created in the same year identifies the main sustainability issues applying across the entire Group. Some initial programs in this respect were prepared and implemented. An important milestone was reached in the year under review with the publication of the Vorwerk Group's first Sustainability Report for the 2018 business year.

The focus of Group IT activities in the year under review was on the spin-off of the segment in two phases, a process that was concluded in June 2019. Two companies (in Germany and Singapore) have since been founded under the umbrella of Vorwerk Services GmbH to support the worldwide business of the "Home" divisions, Engineering and Vorwerk Holding with IT services.

## Summary of the Development of the Individual Divisions

Thermomix remains the division within the Vorwerk Group with the highest revenue. Thermomix could distinctly increase sales as against the previous year and achieved a volume of EUR 1.3 billion.

The Kobold division suffered a substantial decline in revenue, falling by 6.4 percent to a level of EUR 708 million.

JAFRA Cosmetics was slightly above the level of the previous year with total revenue running at EUR 352 million.

Vorwerk flooring was again unable to escape the negative trend in the year under review, suffering a decline in revenue of 15.2 percent to EUR 41 million.

akf group reported revenue (EUR 472 million) slightly above the level of the previous year and increased its volume of new business moderately to EUR 1.3 billion.

The individual divisions will be described in detail on the following pages.

Due to the current situation regarding the Sars-CoV-2 virus and contrary to the previous year, we have refrained from making any forecast about 2020 in the following chapters on the individual divisions and make reference in this respect to the sections Risk Management System, Opportunities and Risks as well as the Outlook Report.

### Sales by Division

| **in million EUR** | **2016** | **2017** | **2018** | **2019** |
|---|---|---|---|---|
| Home | 2,191.8 | 2,032.7 | 1,947.1 | 2,070.1 |
| Thermomix | 1,285.6 | 1,120.0 | 1,079.5 | 1,268.4 |
| Kobold | 835.8 | 791.9 | 756.5 | 708.4 |
| Vorwerk flooring | 70.4 | 58.1 | 48.7 | 41.3 |
| Neato Robotics | – | 62.7 | 62.4 | 52.0 |
| Diversification | 799.8 | 809.7 | 785.6 | 824.0 |
| JAFRA Cosmetics | 369.1 | 363.6 | 336.0 | 351.7 |
| akf group | 430.7 | 446.1 | 449.6 | 472.3 |
| Others | 66.6 | 63.7 | 57.8 | 33.9 |
| **Group sales** | **3,058.2** | **2,906.1** | **2,790.5** | **2,928.0** |

# Thermomix

The Guided Cooking function makes recipes directly available on the display of the Thermomix® TM6.

The multifunctional kitchen appliance Thermomix® has been simplifying everyday cooking for more than 50 years. The Thermomix® TM6, launched in the second quarter of the year under review, with its Guided Cooking function takes users through the recipes step-by-step. This simple, fast alternative therefore supplements manual cooking with the kitchen appliance. The combination of various cooking functions and modes in a single appliance can be extended thanks to frequent updates. Its Guided Cooking function makes recipes directly accessible on the display of the Thermomix® TM6. Worldwide, there are more than 55,000 Guided Cooking-capable recipes available for the Thermomix® TM6.

The Thermomix® TM6 is sold in a direct selling system. More than 48,000 advisors worldwide demonstrate the Thermomix® at potential customers' homes or in dedicated cookery studios, thereby providing a cooking experience. Additionally, Thermomix® is displayed in some countries in conventional stores and also sold there to a certain degree. Further, Thermomix® accessories such as cook books and Cook-Keys® are available in an online shop. In Austria the kitchen appliance is even offered for sale in the online shop.

Subsidiaries are operational for the Thermomix division in a total of 16 countries in Europe, Asia and North America. In addition, Thermomix has 39 distributors.

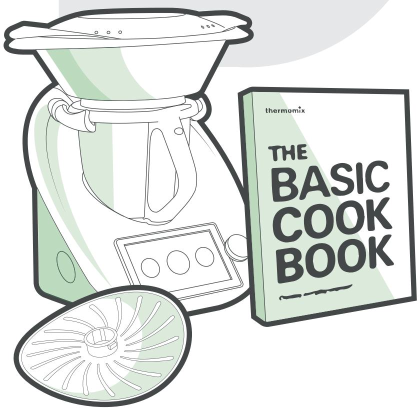
In the year under review, revenue reached EUR 1.3 billion, an increase of 17.5 percent. This rise was a direct effect of the launch of the new Thermomix® TM6. The operative result was substantially above expectations but revenue was slightly below. The number of advisors increased by more than 8 percent compared to the previous year. On average, more than 48,000 self-employed advisors were working for the division in 2019. The average productivity reflected a minor increase. Activity was slightly above the level of the previous year.

2019 was a successful year for most subsidiaries, mainly due to the launch of the Thermomix® TM6. The strongest sales country was once again Germany with the company achieving revenue of EUR 348 million, an increase of 36.2 percent compared with the previous year. Additionally, revenue in China (EUR 171 million, plus 52.7 percent), Italy (EUR 128 million, plus 4.9 percent), Poland (EUR 98 million, plus 22.8 percent) and Austria (EUR 23 million, plus 38.0 percent) could be increased. Some smaller markets such as the USA, Mexico and the Czech Republic were able to improve sales volumes significantly.

Revenue of EUR 185 million in France reflected only a minor decline in business, whereas the sales volume in Spain of EUR 151 million was substantially lower than in the previous year.

The export business – i.e. sales through so-called distributors – remained at about the level of the previous year with revenue of EUR 50 million. The Swiss distributor was taken over in the year under review and integrated as a new Thermomix subsidiary. Moreover, a new sales company was founded in Canada.

Thermomix® accessories are available via the online shop.



# Kobold

The Kobold VR300 was once again "best in class" in a test conducted by the consumer watchdog "Stiftung Warentest".

The Kobold division's room care and cleaning solutions are a modularly-structured cleaning system. It includes the Kobold VK200 Upright Vacuum Cleaner and the Kobold VT300 Cylinder Vacuum Cleaner as well as six attachments that can be used for the cleaning of various types of surfaces: carpets, hard floors, upholstery, mattresses – and every individual application has its very own specialist. The Kobold VG100 Window Cleaner and the Kobold VC100 Handheld Vacuum Cleaner supplement the range. The Kobold VR300 Robot Vacuum Cleaner can autonomously clean hard and carpeted floors while successfully negotiating obstacles and stairs thanks to its ultrasonic and infrared sensors. The product that has been available since October 2018 can also be controlled remotely using the Kobold Robot App, which contains useful information such as the marking of virtual no-go lines, and once again came out "best in class" in a test conducted by the consumer watchdog "Stiftung Warentest". The latest addition to the overall portfolio is the Kobold VB100 Cordless Handstick.

The Kobold division is represented with its own subsidiaries in a total of ten countries in Europe and Asia. In addition, more than 30 distributors are engaged in selling the products. Kobold is active worldwide with a direct sales approach as well as with online shops and company-own conventional stores in a growing number of countries. In the year under review, for instance, the first Vorwerk store in Spain was opened in Bilbao. However, the clear strategic focus continues to be on direct selling and the individual consultation provided to customers in their own homes by self-employed advisors. Additionally, there is the support offered to customers after purchase, when accessories are delivered for example.

The Kobold division concluded the year under review below the level of the previous year with revenue of EUR 708 million (minus 6.4 percent), a figure that was considerably behind expectations. Operating earnings were significantly below forecast. One reason for the decrease in turnover was a 19.8 percent drop in the number of self-employed sales staff, an aspect that correspondingly impacted the business. On average, more than 9,600 self-employed advisors were working for the division in the year under review. Activity increased distinctly, but productivity was slightly below the level of the previous year.

In Italy, again the strongest Kobold sales country, revenue was substantially below the level of the previous year with EUR 374 million being reported.

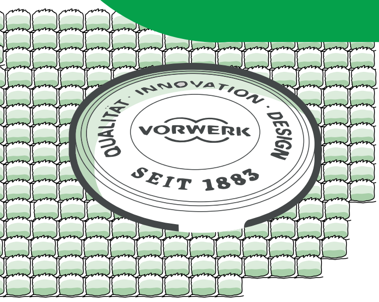
The German Kobold company with revenue in an amount of EUR 216 million was moderately below the turnover achieved in the previous year. Direct selling continues to be the most important pillar and is the focus of the sales strategy. The online shop as well as the company's own Vorwerk stores in inner-city locations serve not least of all as an important contact point for customers. The number of Vorwerk stores in Germany has been increased and now encompasses 59 locations.

Vorwerk France similarly suffered a decline in revenue (EUR 28 million, a drop of 10.0 percent). The Chinese Kobold company with revenue of EUR 22 million also achieved an 8.3 percent lower level of turnover than in the previous year, but was a figure that was clearly above expectations.

Business declined in both Spain (EUR 16 million revenue, minus 25.8 percent) and Austria (EUR 20 million revenue, minus 4.2 percent), but the Kobold sales organization in the Czech Republic was able to close the year at the level of the previous year (EUR 8 million revenue). Sales through distributors of EUR 11 million were distinctly above the previous year.

# Vorwerk flooring

Multiple awards: the outstanding quality of the floor coverings made in Hamelin.




The Vorwerk flooring division has been producing quality floor coverings for more than 130 years. Accolades such as the "German Brand Award 2019" and the "Iconic Award 2019" are evidence of the outstanding quality. The floor coverings manufactured in Hamelin are sold in more than 50 countries.

After Vorwerk flooring embraced a strategic change program in 2016, carried out the conceptual work on the new alignment throughout 2017 and renewed almost the entire product portfolio in 2018, the focus of activities in the year under review was on the expansion and restructuring of the sales organization. In this respect the plan from 2018 to penetrate new markets was resolutely pursued. This led, in particular, to the recruitment of new sales staff for the international contract business. As a result, some success could be achieved in the USA, China, England and France in the year under review with existing customers being offered more targeted support and new clients being acquired.

Unfortunately, Vorwerk flooring was unable to avoid the negative trend in the year under review, particularly in business with the trade, and contrary to forecast reported a decline in revenue to EUR 41 million (minus 15.2 percent). Since sales targets could not be met, operating earnings were substantially below expectations.

Overall, Vorwerk flooring assumes that the market situation for textile floor coverings in business with the trade will remain difficult. The management team will therefore continue to pursue the course of action already commenced with and is going to expand the contract-business segment both nationally and, in particular, in the above-mentioned international target markets in 2020 so as to add another mainstay to the business.

The basis for acquiring new premises and facilities in the contract business, especially in the hotel and office space sectors, was laid in the year under review. Expansion of the international core markets continues to be the focus.

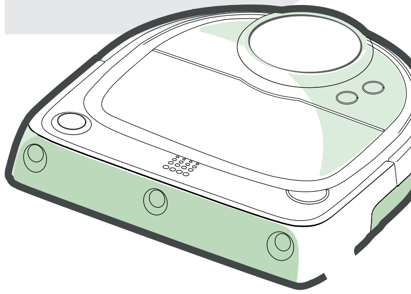
# Vorwerk Engineering

The Vorwerk Engineering division manufactures its products as commissioned by the "Home" divisions that steer the development process and – by applying the experience they have gained from direct customer contacts – have successfully conceptualized the products over many years now. The Engineering division is therefore very dependent on the development of business at the Vorwerk sales companies.

Vorwerk Engineering manufactures its products at three locations: Wuppertal (Germany), Cloyes-sur-le-Loir (France) and Shanghai (China). The largest facilities in the network are in Wuppertal with more than 1,000 staff. The main Research & Development activities are also focused there. In the year under review the division successfully launched a number of new products: Thermomix® TM6, Kobold VB100 Cordless Handstick as well as Kobold VR300 Robot Vacuum Cleaner. Moreover, the strategic infrastructure project "Wupper Süd" involving new premises and facilities – a new administrative center including R&D as well as a new motor plant – could be concluded as scheduled.

Revenue at the Vorwerk Engineering division in 2019 corresponded to the development of sales at the individual divisions. Operating earnings could be significantly improved in terms of the previous year and expectations.

Successful introduction: the VR300 Robot Vacuum Cleaner was successfully launched in 2019.



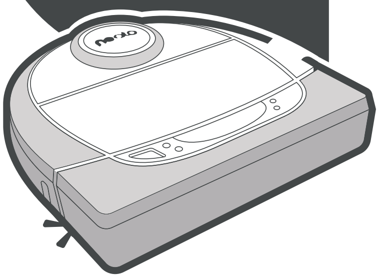
# Neato Robotics

Founded in 2005, Neato Robotics, Inc. with registered offices in Silicon Valley, launched its first series of robot vacuum cleaners in 2010. It was Neato, for example, that introduced an intelligent laser navigation system for robot vacuum cleaners.

Vorwerk has been a shareholder in the US-based company since 2010. In 2017 Vorwerk ultimately increased its participation to 100 percent. This means that the Vorwerk Group now has a presence in the American market for intelligent robot vacuum cleaners and aims to further enhance its position as a supplier of innovative, high-quality products for the household and home. At the same time the two entities cooperate with each other, especially in the areas of R&D and manufacturing. Neato Robotics acts as an independent unit within the Vorwerk Group and has its own brand identity. The products are available both online and through trading partners in North and South America, Europe as well as Asia to some extent.

2019 was a challenging year for Neato Robotics, Inc. in some markets. Contrary to forecast, Neato Robotics, Inc. reported a distinct drop in revenue and achieved EUR 52 million. Although business through Amazon.com was good and growth was achieved in Europe, revenue in North America did not meet expectations. Neato was dissatisfied with the sales figures at some key trading partners in the USA, an aspect that resulted in a substantial negative effect on the development of business. Revenue in North America declined by 19.6 percent and fell short of the targets. Operating earnings were therefore significantly below forecast.

First product series in 2010.



# JAFRA Cosmetics

The JAFRA Cosmetics division produces and sells high-quality cosmetics and can look back on more than 60 years' experience in direct selling. The range comprises skin and body care, fragrances, decorative color cosmetics, spa and anti-aging products. JAFRA is market leader in fragrances in Mexico.

New articles are developed in the company's own research laboratories in the USA and production takes place in the JAFRA Cosmetics manufacturing facility at Querétaro, Mexico.

JAFRA Cosmetics with its headquarters in the USA (Westlake Village/California) was operational in a total of eight countries in North America, Asia as well as Europe in the year under review. In addition, the products are sold through distributors. More than 541,000 self-employed consultants are working for JAFRA, of which some 462,400 in Mexico, the largest market by far.

JAFRA Cosmetics slightly increased revenue in the year under review and achieved a volume of EUR 352 million. This figure was thus substantially above forecast, partly due to positive currency effects. Operating earnings were significantly above expectations, partially on account of a reduction in fixed costs.

Mexico, traditionally the strongest performer, reported a rise in revenue of 6.5 percent to EUR 267 million.

Sales revenue was running at EUR 58 million in the USA and was thereby 19 percent above the level of the previous year. The sales organization in Indonesia with revenue of EUR 16 million reported a figure that was 19.3 percent below that of the previous year.

The European sales companies (Germany, the Netherlands, Austria and Switzerland) suffered a decline in revenue. The overall revenue of the European sales organizations amounted to EUR 11 million and was thereby distinctly below that of the previous year.

New products are developed in the company's own research laborato-ries in the USA.

# Vorwerk Direct Selling Ventures

The Vorwerk Group invests in companies pursuing novel and promising sales concepts through Vorwerk Direct Selling Ventures. The venture capital entity makes its investment decisions without any direct relationship to the strategy of the Vorwerk Group and thereby has the scope to invest in completely new segments that have the potential for strong growth and high profitability.

The objective of Vorwerk Ventures is to create the framework conditions for a productive know-how transfer between the young, innovative entities and the various companies of the Vorwerk Group, from which both sides can mutually benefit. Moreover, the venture capital activities support Vorwerk in identifying groundbreaking developments in direct selling at a very early point in time as well as in finding potential partner companies.

Since the unit was first established in 2007, Vorwerk Ventures has participated in a total of 28 companies. At the end of 2019 some 16 were still included in the portfolio which is managed through various investment vehicles.

Horizn Studios, a developer of smarter luggage, is among the 16 companies in the portfolio.

The portfolio of the investment arm includes the entities Aitme, Dinner-for-Dogs, CrossEngage, Flaschenpost, HelloFreshGo, Horizn Studios, JUNIQUE, LILLYDOO, Mädchenflohmarkt, OTTOnova, rebike1, smartfrog, STOWA, Thermondo and Vaniday. Some portfolio companies are already among the leading providers in their specific markets, are mostly positioned internationally, are generally owner-led and in our opinion offer great opportunities for value increase. The investment portfolio is managed with a view to the exit potential.

Due to a necessary value adjustment in the portfolio, Vorwerk Ventures was unable to contribute positively to Group earnings for the very first time.

Within the scope of implementing the growth strategy, the venture capital entity has adopted a customary, asset management organizational structure and has established a new investment fund. The objective: to ensure that investment in promising, consumer-oriented start-ups can be maintained in the future too.

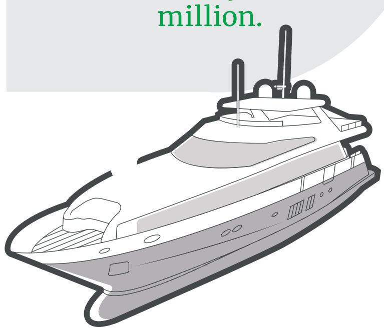
# akf group

The Wuppertal-based akf group is positioned as a traditional finance partner of small and medium-sized companies. On the market now for more than four decades, akf bank, akf leasing with its foreign subsidiaries as well as akf servicelease have been offering a product portfolio tailored to the funding requirements of these clients. The commercial customers come from the metal, plastics and wood-processing areas, the graphics industry and the agricultural sector. Finance is also available for private clients wishing to purchase a car or other consumer goods.

The various business sectors at akf group reflected various degrees of development in the year under review. The new business volume in the banking and leasing segments could be slightly increased with EUR 1,324 million being reported (previous year: EUR 1,262 million), a rise of 4.9 percent as against the previous year.

The finance of vehicles and vessels in the autofinanz, flottenfinanz and marinefinanz segments could be increased by EUR 46 million and continues to play an important role with a volume of EUR 556 million and a slightly higher share of total business, namely 42.0 percent (previous year: 40.4 percent).

The finance of vehicles and vessels in the autofinanz, flottenfinanz and marinefinanz segments could be increased by EUR 46 million.



A volume of EUR 342 million (previous year: EUR 375 million) from the funding of machinery and other equipment in the industriefinanz and IT-finanz sectors accounted for 25.8 percent of overall business (previous year: 29.7 percent).

The level of finance for agricultural vehicles and mobile agricultural technology in the agrarfinanz sector could be raised by 15.6 percent to a volume of EUR 203 million, a figure which represented 15.4 percent of total business (previous year: 13.9 percent).

The produktfinanz sales sector was able to increase business by EUR 22 million to EUR 223 million. Some EUR 196 million (previous year: EUR 182 million) are included in this figure from consumer finance activities within the scope of the vendor funding of high-quality household appliances from the Vorwerk Group.

The volume of purchased receivables in the factoring business segment fell slightly from EUR 685 million to EUR 654 million.

Revenue in the financial services industry is calculated on the basis of interest and leasing income as well as on payments for other services that are received as compensation for the relinquishment of capital or assets. Revenue at akf group was moderately above the level of the previous year with EUR 470 million (previous year: EUR 450 million) being reported.

The development of new business was slightly ahead of expectations with operating earnings distinctly above. Revenue in the year under review was substantially higher than forecast. The interest rate margin – the difference between the lending and refinancing rates – is of decisive importance for the earnings situation of akf group. Due to a slight increase in the interest rate margin of 9 basis points on a year-on-year comparison, interest income at akf bank could be improved by 6.4 percent. The reason for this development was the overall portfolio volume that was in line with expectations, increasing by 5.5 percent as against the previous year.

As in previous years, refinancing of akf group was implemented – predominantly with matching maturities – through interbank transactions, revolving ABCP programs, one open-ended ABS bond as well as the deposit-taking arm of the business. The deposit business again developed in accordance with expectations in the year just closed. Overall, some 21,700 private investors (previous year: around 20,900) had entrusted deposits of EUR 1,405 million (previous year: EUR 1,292 million). As in past years, business was only transacted on an online basis. In terms of interest payments for the various products, akf group treats all private investors in the same way as a matter of principle and refrains from making any special offers or promotions to attract new clients.

Given the current economic situation, akf bank anticipates a clear decline in the volume of new business and thereby a fall in the overall business volume, resulting in a lower level of interest income being achieved. akf bank assumes that the costs for risk provisions will increase greatly in relation to the average business volume and thereby be distinctly above the level of the previous year in absolute terms. However, in view of the prevailing conditions, any forecast about the future development of business carries a great degree of uncertainty. New business and the 2020 year-end result are expected to be distinctly below the level of the year just closed.

# Personnel Development

On average some 611,391 people were working for the companies of the Vorwerk Group in 2019, either as self-employed sales advisors or as permanent staff members. The number of permanent employed staff was 12,319. the number of self-employed sales advisors was 599,072.

## Staff (Annual Average)

| | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Home | | | | |
| Thermomix* | 2,762 | 3,481 | 4,694 | 5,665 |
| Kobold* | 2,238 | 1,964 | 1,808 | 1,963 |
| Vorwerk flooring | 414 | 381 | 366 | 313 |
| Vorwerk Engineering | 1,699 | 1,596 | 1,602 | 1,615 |
| Neato Robotics | - | 106 | 129 | 115 |
| Diversification | | | | |
| JAFRA Cosmetics | 2,153 | 2,046 | 1,955 | 1,806 |
| akf group | 430 | 451 | 485 | 499 |
| Others | 2,253 | 2,308 | 1,933 | 343 |
| **Total*** | **11,949** | **12,333** | **12,972** | **12,319** |

* Including employed sales advisors

## Self-Employed Sales Advisors (Annual Average)

| | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|
| Thermomix | 45,672 | 45,047 | 44,574 | 48,231 |
| Kobold | 13,712 | 14,734 | 12,004 | 9,623 |
| Others | 422 | 740 | 593 | 180 |
| Self-employed sales advisors “Home” | 59,806 | 60,521 | 57,171 | 58,034 |
| Self-employed sales advisors JAFRA Cosmetics | 577,320 | 572,607 | 553,748 | 541,038 |
| **Self-employed sales advisors in total** | **637,126** | **633,128** | **610,919** | **599,072** |
| | | | | |
| **Total Vorwerk workforce** | **649,075** | **645,461** | **623,891** | **611,391** |
| of which sales advisors* | 640,615 | 637,044 | 615,219 | 603,977 |

* Including employed sales advisors

# Assets and Earnings Situation

The consolidated balance sheet total of the Vorwerk Group had increased by EUR 106.8 million to EUR 5,332.5 million as of balance sheet date on 31 December 2019, a rise that was in part attributable to the continued positive development of business at akf group.

Fixed assets fell by EUR 31.0 million overall, partly due to the sale of long-term securities and to the scheduled deprecation of goodwill. A growth of EUR 31.5 million (previous year: EUR 108.9 million) in tangible fixed assets could be reported, a rise that was mainly attributable to investment in leasing assets of some EUR 31.1 million and in land and buildings of EUR 30 million. Additionally, plant under construction was completed and reclassified. The investment ratio fell accordingly by 5.6 percent to 20.6 percent. The fixed assets ratio of 29.3 percent remained at the level of the previous year with a minor increase in the total capital amount.

Under the financial assets item, new investments in participations rose by EUR 30.6 million. By contrast, the long-term securities item decreased by EUR 94.2 million on account of sales activities and was thereby substantially below the level of the previous year, although shares in affiliated companies, that are included in the balance sheet at book value, were some EUR 9.5 million higher.

There was a substantial increase of 6.0 percent in current assets, mainly due to the level of receivables from customers from banking and leasing transactions.

Inventory assets rose by EUR 12.6 million, primarily due to the considerable increase in stock levels of finished products and goods to ensure the delivery capability, particularly of new products. However, this has to be offset against a distinct reduction in the stock levels of production material. The frequency of stock rotation was 2.8 percent above that of the previous year.

Overall, there was a minor decrease in the value of trade receivables of 2.3 percent. This was attributable to a decline in revenue, particularly at Kobold, Neato Robotics und flooring. Write-downs were adapted to be in line with the payment conduct of customers. The value adjustment ratio increased slightly as against the previous year (plus 1.1 percentage points).

The expansion in the instalment loan, investment credit and forfeiting business at akf group resulted in an increase in the level of net receivables from customers from banking and leasing transactions of EUR 163.6 million. The value adjustment ratio fell by 0.4 percentage points in this area.

The 47.8 percent ratio of current assets to total assets was moderately above the level of the previous year.

The cash ratio – defined as the cash resources available at short notice against current liabilities – amounted to 28.1 percent in the year under review (previous year: 34.5 percent).

The liabilities side reflected partners' equity of EUR 1,377.9 million. The partners' equity capital ratio was running at 25.8 percent (previous year: 27.7 percent). Given an assumed consolidation of akf group at equity, the partners' equity capital ratio would be lower at 47.9 percent than in the previous year (49.6 percent). The equity to fixed assets ratio amounted to 50.6 percent and was thereby slightly lower than in the previous year (52.6 percent).

Accruals were slightly higher than in the previous year (plus 4.2 percent). Provisions for pensions and similar obligations rose by 4.0 percent, not only on account of a lower rate of interest but also due to a transfer of previously outsourced obligations. Accruals to cover tax risks also increased by 12.3 percent. The slight increase in other accruals was partially related to outstanding invoices. By contrast, accruals for warranty obligations in particular were lower.

The increase of EUR 137.9 million in liabilities was – just like the rise on the assets side of the balance sheet – mainly attributable to the consistent expansion of business at akf group.

Liabilities to banks were primarily attributable to akf group. Liabilities from the deposit business exclusively related to akf group. They increased by EUR 119.1 million in the year under review and were used to refinance the expansion of business across the entire Vorwerk Group.

The generally higher level of liabilities had an impact on the degree of indebtedness which increased by 9.7 percentage points to 273.1 percent as against the previous year. Given an assumed consolidation of akf group at equity, the degree of indebtedness would amount to 105.7 percent (previous year: 99.6 percent).

The deferred income item in an amount of EUR 191.2 million included besides year-end-related income accruals, deferred net present values for the leasing receivables sold to third party banks and subject to scheduled reversal. It was mainly the income accruals that resulted in an increase of EUR 16.7 million in the year under review.

The Vorwerk Group achieved revenue of EUR 2,928.0 million in the 2019 business year, an increase of 4.9 percent. The return on sales however was 0.5 percentage points lower due to higher material costs and special effects from restructuring measures. The rise in revenue was mainly generated by the Thermomix division, but the akf group and Jafra were also able to enhance sales. Reference is made to the respective comments on the divisions for detailed explanations on revenue development.

The significant decrease in the other operating income item was primarily the result of the one-off effect from the sale of participations at Vorwerk Direct Selling Ventures in the 2018 business year.

The cost of materials (without the bank and leasing operations) rose by 12.4 percent in comparison to the previous year. The cost-of-materials ratio was 1.7 percentage points higher than in the previous year, partly due to increased production material costs for the new Thermomix® TM6 and up-front manufacture to secure delivery capability, mainly in the "Home" divisions.

The increase in the costs for loan and leasing transactions of EUR 12.7 million was mainly the result of an expansion in the leasing business.

Besides the generally higher level of wages and salaries, the rise of EUR 17.5 million in personnel expenses could be attributed to an increase in expenditure for restructuring measures.

As a consequence of the high levels of investment in recent years, scheduled depreciation rose by 4.7 percent. The write-downs mainly concerned the extension of the digital offerings and the leasing assets of akf group. In addition, there was non-scheduled depreciation in an amount of EUR 4.7 million.

The other operating expense item reflected a minor decrease overall in comparison to the previous year. The decline is mainly due to the fact that the sale of Group companies in the previous year resulted in less expense being incurred in the 2019 business year. By contrast, sales-related commission payments increased in the year under review.

The EUR 3.0 million increase in the financial result was primarily attributable to EUR 4.9 million less depreciation on participations at Vorwerk Direct Selling Ventures in comparison to the previous year.

The operative result and the development of earnings were above expectations at akf, Jafra und Thermomix. In the other business segments, they were below. The negative result situation at the relevant divisions is dissatisfactory for Vorwerk.

# Financial Situation and Development of Financial Assets

2019 was a surprisingly good year on the capital markets despite the weak conclusion to 2018. The recession that was feared at the beginning of the year was avoided with a moderate degree of growth. Inflation in the industrialized countries also reflected a downward trend. The US economy, impaired by the trade dispute, also contributed to this with a surprisingly moderate tone emerging from the US Federal reserve that strengthened the markets in the second half of the year with three interest rate cuts. The ECB followed this lead and resolved to resume the program of purchasing bonds.

After the very positive development of the markets in the year under review, they have shown a distinct decline in the first quarter of 2020 due to the “corona crisis” and thereby reflect the current weak expectations for the global economy as a consequence of it. The Vorwerk Group reviewed its strategic asset allocation within the framework of existing processes. Adjustments needed to be made on account of the defined risk profile with risk-limiting measures being introduced in the light of the development of the markets and the new challenges emerging. As a result, the Vorwerk Group’s widely diversified portfolio could once again make a positive contribution to earnings in the business year just closed. Our approach in the first quarter of the 2020 business year has also proven itself with only a moderate decline in the value of investments.

As in previous years, Vorwerk (without the akf group) financed its investments and activities predominantly from operative cash flow. However, we did take advantage of the low interest rate phase to fund investments with matching maturities and took out three-year loans in a total amount of EUR 80 million (of which EUR 30 million at the start of 2020). Further, money market facilities were agreed with banks to cover short-term liquidity peaks, facilities that were occasionally taken up.

As part of the policy relating to the investment of freely available capital, the Vorwerk Group ensures that 60 percent of the liquidity portfolio can be realized within a three-month period and made available for operational business if need be.

Liquidity within the Group declined slightly in the business year just closed (without akf).

Lending operations were mainly refinanced with matching maturities using the deposits from investors, interbank transactions, revolving ABCP programs and one open-ended ABS bond. The securitization programs had been taken up to an extent of EUR 945 million as of balance sheet date, leaving a free line of EUR 61 million.

The deposit business again developed in line with expectations in the year just closed. In total, some 21,700 private investors had entrusted deposits of EUR 1,405 million. As in past years, business was only transacted on an online basis.

Liabilities of the akf group towards banks amounted to EUR 789 million as of balance sheet date compared with EUR 776 million in the previous year.

The akf group can always cover its short-term liquidity needs from third-party banks and by taking up credit lines made available by the German Central Bank within the scope of open market transactions.

# Risk Management System, Opportunities and Risks

The risk management process comprises the identification, assessment, communication as well as the steering and control of risks. Risk management is a continual process with risks being identified and quantified at least twice a year. Overall, the structure and assessment of risks have changed only negligibly in comparison to the previous year. The risks classified under the heading “Strategy & Management” in the previous year have been reclassified under the other risk areas in the year under review.

## Risk Management Matrix

| Possible financial impact / Occurrence probability | Very low 2 – 5 % | Low > 5 – 20 % | Medium > 20 – 50 % | High > 50 % |
|---|---|---|---|---|
| **Significant** > EUR 30 million | Legal (Product & Sales) | | Environment (TM) & Business Segment, Production, Supply Chain, IT & Information Security (Group) | IT & Information Security (Local) |
| **Moderate** > EUR 20 – 30 million | Legal (Data Protection) | | | Environment (Italy) |
| **Insignificant** EUR 10 – 20 million | Sales System (Integrity) | Finance (Capital Investments) | Personnel (Skills Shortage) | |

Our existing IT system landscape and structure is currently being consolidated and renewed. Various projects and initiatives have meant that high risk transparency has been created, enabling IT and information security risks to be allocated at a country and Group level, in line with the responsibilities in place. Until this process has been completed, the result of our risk assessment identifies consolidated risks with a high occurrence probability and a significant impact at the local level and with a significant impact and medium occurrence probability at the Group level.

The Italian subsidiary sees itself exposed to increased competition in the floor-care area, with high probability and a medium impact. Similar to comparable previous periods, risks for the Thermomix division have emerged with a medium occurrence probability and significant effects on the earnings situation of the Group as a result of a modified market environment due to the entry of new competitors, a change in consumer requirements and an ever-increasing degree of digitization. Vorwerk confronts these risks with product innovations that not only encompass the further development of the existing portfolio but also the creation of new products and services. This process calls for a strong commitment to R&D, for which the investment of extensive financial resources is necessary but, of course, offers no guarantee of success. Investments in the development of such products may have a negative impact on sales revenues and earnings should they not be accepted by the market as expected. We continue to regard a successful R&D process as the basis for future corporate growth.

Vorwerk pursues a fundamental policy of further internationalizing its business segments so as to reduce the risks resulting from a one-sided dependency on particular products or the development of subsidiaries in individual countries. The target is to minimize any impact on sales revenues and earnings. At the same time, the continued internationalization of the divisions as well as the development and launch of new products provide substantial opportunities for the company. A main focus in the upcoming years will be on further developing digital offers and services – a segment that offers sizeable growth opportunities for the Vorwerk Group.

Risks with the same occurrence probability and impact arise when production equipment e.g. breaks down or a lead production facility is incapacitated. As a result of the investment in infrastructure at the manufacturing locations, reported about in comparable previous periods, there has already been a reduction in the occurrence probability at one site. The same development is also expected for a second location in the coming business year.

Significant implications for the earnings and financial situation with a very low occurrence probability emerge from risks resulting from competition, patent, taxation or contractual law, product liability as well as from new or modified statutory requirements. Internal guidelines, accompanying measures and, if need be, legal counselling actively address such risks in an attempt to limit them from the very outset.

Similarly, risks arise from the increasingly necessary and demanded digitization of our products and services. There is also a correlation here to the personnel and production risks since digital applications necessitate different development and production strategies to those required for mechanical approaches.

Personnel risks with a medium occurrence probability and an insignificant effect on the earnings situation result especially from the necessity to train and recruit qualified staff for the digitization of our products and services as well as to establish successor planning arrangements for experts and managers so as to further develop the Group.

Vorwerk assesses data protection risks or integrity risks in the sales system as having a very low probability of occurring and of having a moderate or insignificant impact on the liquidity and earnings situation. The measures already taken have reduced this risk to an acceptable level for the Group.

The investment strategy at the Vorwerk Group primarily pursues the target of securing assets long-term. The instituted Internal Financial Committee regularly scrutinizes the investment strategy with the aim of optimizing the opportunity/risk profile. Accordingly, as of balance sheet date, capital investment risks in the matrix are classified as having a low probability of occurring and an insignificant impact. Risks from changes in exchange rates are similarly determined and hedged as far as possible. The risks from investments and foreign currencies are expressed in terms of the “conditional value at risk” (CVaR) and “cash flow at risk” (CFaR). The CVaR was EUR 16.3 million for investment management and the CFaR EUR 8.6 million (without the akf group) for foreign exchange management at the close of the business year under review. The exchange rate risks had not exceeded the threshold value as of balance sheet date and are not therefore included in the matrix.

Derivative financial instruments are only used to hedge underlying transactions in the areas of foreign exchange and raw material management. The basis for the use of such instruments is the systematic ascertainment and verification of the exposure and the financial risks thus resulting. The objective of applying financial derivatives is to reduce the risks identified.

The opportunities and risks as well as the risk management system installed at the akf group are represented below. Since akf bank is closely tied to its sister and subsidiary companies, both in terms of staffing and organization, the bank’s risks outlined below also cover the risks of akf leasing and akf servicelease.

The akf group primarily runs an asset-covered business and therefore has, in principle, a low-risk operation. Besides the secured asset itself, there are additional buy-back guarantees from dealers or manufacturers for some of the funded transactions to reduce the risk of default.

The assumption of risk is an inherent component and significant performance factor for the banking sector. The professional management of these risks allows an appropriate balance of opportunities and risks. Thanks to a restrictive approval policy in a gradually slowing economy, the institute was again able to keep the costs for risks at a low level in 2019 – below the long-term average.

The akf group meets the high requirements demanded for the management of these risks by permanently upgrading its systems. They help in identifying, measuring, controlling and steering expected and unexpected risks. The functional separation defined in the clear organizational structure ensures regulatory compliance and the effectiveness of the risk management process.

The risk inventory that is compiled annually identifies default, market price and operational risks as being significant. The liquidity risk is also steered and monitored as a significant risk.

The default risk of akf group mainly comprises the lending risk incurred when a customer cannot fulfil the contractual obligations either fully or partially. Within the scope of the annually-reviewed risk strategy, business is conducted across a diverse group of borrowers and business sectors with high credit standing requirements being demanded. The existing credit risk management system encompasses a detailed and structured credit approval process with credit standing analysis as well as an effective dunning procedure and escalation process.

Market price risks are understood as being potential losses from adverse changes to market prices or price-influencing parameters. The relevant market risks are subdivided according to influencing factors into interest rate change risks and the residual value risk (akf leasing group). The akf group is not subject to any market price risks from currencies nor any from shares, foreign exchange or precious metals or from their corresponding derivatives as a non-trading book institute. The interest rate change risk describes the danger of having to accept a lower than planned or expected level of interest income or interest rate margin. Those items that cannot be adapted at any time to modified market interest rates are subject to such risk. The period for the fixed term interest rate and the number of transactions linked to this interest rate are decisive for the level of risk.

The residual value risk describes the danger of having to accept reduced proceeds or even a loss from the sale of used leasing assets as a result of future changes to the calculated prices.

These risks are steered in the Fullservice business unit through constant monitoring of the used vehicle market and the implementation of adjustment measures as they become necessary in calculating the residual values. The residual value risk is fundamentally reduced at akf leasing GmbH & Co KG and additionally at akf servicelease GmbH thanks to the conclusion of take-back or residual value guarantees provided by dealers or manufacturers.

Stress tests are carried out quarterly for the default and market price risks on the basis of hypothetical and historical scenarios.

The liquidity risk refers to the risk that present or future payment obligations cannot be met on time or in their entirety.

The liquidity risk comprises the maturity transformation risk and the refinancing risk. The maturity transformation risk is understood as meaning the risk that ensues when the commitment period of the capital made available is different to the commitment period of the invested capital. In such cases there is the risk that payment obligations in terms of amount and maturity date cannot be met to the full or punctually. The maturity transformation risk is deemed an insolvency risk and is thereby, strictly speaking, a liquidity risk. The refinancing risk is understood as meaning an inability to raise adequate liquid funds from the market when needed and/or on conditions contrary to those expected.

Refinancing is effected through loans from third-party banks or through the revolving sale of receivables within the scope of two ABCP programs. Moreover, the akf group refinances itself through the open-ended sale of credit, hire purchase and leasing receivables within the framework of an ABS bond (KMU). Besides this, the deposit-taking activities serve as a notable refinancing instrument. The main purpose is to have a more or less congruent refinancing of the lending and leasing operations.

The liquidity risks are subject to monthly stress tests.

Like any other company, the akf group is also exposed to operational risks. The significant operational risks have been identified in a risk inventory on the basis of a risk catalogue using a self-assessment approach. They exist in the form of legal, working, technological and personnel risks. Moreover, external incidents (e.g. fraud) are also relevant.

The preconditions for flexible and reliable working procedures have been created in the IT department thanks to the software currently in use and the hardware that is constantly updated to correspond to the latest technical standards. A complete back-up computer center with organizational and spatial separation is operated in addition to the in-house solution, thus ensuring maximum protection against the effects of any acts of God.

To reduce the risk of fraud, a working group is involved in handling cases that arise on the customer as well as dealer side so as to prevent any continuation or reoccurrence of such criminal acts. In principle, there are early-warning systems in place for the general prevention of operational risks. They determine how information that may point to the incidence of a fraud risk can be relayed bank-internally and the measures that are to be initiated. In this respect every department in the process chain relating to the automotive vendor business and mobile assets is involved.

To monitor operational risks, the cases of damage are reported to Risk Management quarterly and documented in a loss database.

Stress tests are carried out for operational risks.

The entire risk management process at akf group, including the methods used and responsibilities, is documented in the risk manual and checked regularly by internal audit as well as by the external auditors as part of their annual closing procedure.

The improved worldwide strategic positioning of recent years has led to the creation of higher, risk-covering volumes. At the same time, Vorwerk's diversified base means that the company is generally well-protected against any implications resulting from region, industry or product-specific impairments.

Apart from the above-mentioned risks in 2020, the spread of the Sars-CoV-2 virus could lead to manufacturing-related risks such as e.g. production interruptions due to supply shortages or regulatory constraints on account of infections at the company's own production facilities as well as to sales-related risks emerging from strict restrictions on person-based direct selling activities, the closure of stores/shops, the cancellation of trade fairs and exhibitions or similar circumstances. On the basis of the constraints already ordained by various governments, a correspondingly high occurrence probability is to be expected in the markets in question. However, a reliable quantifying of the degree of risk involved is currently not feasible given the dynamic nature of the situation and is not therefore included in our risk matrix.

On the basis of current information and the assessment of risks, including the effects of the Sars-CoV-2 virus, there are no recognizable risks that might threaten the Group's existence. The impact on revenue as well as earnings and thereby also on the liquidity situation of the Vorwerk Group from the effects of the pandemic is being addressed with modified sales processes, cost management and investment prioritization. This means that on the basis of current estimations the liquidity of the Vorwerk Group can be described as secure even beyond the forecast period right into the middle of 2021.

# Outlook Report

The Vorwerk Group is widely diversified in terms of products and sales systems as well as in view of its development of new, international markets. The Group will continue to benefit in the future from favorable market trends as a result of this structure. Vorwerk has recognized and defined end customers' households as its strategic focus. The vision adopted in this respect: "Our superior products and services elevate the quality of life everywhere you call home" and the measures resulting from this were progressively implemented throughout the year under review, in particular with investment in product innovations, the extension of the omnichannel strategy, digitization, IT technologies as well as infrastructure.

As a family-owned company that thinks and acts long-term, the Vorwerk Group will overcome the future challenges with self-financed organic growth or even consider acquisitions should the right opportunity present itself. In this respect the Group attaches great importance to a broadly diversified portfolio whilst at the same time wishing to intensify and internationally extend its competence in the development, manufacture and sale of high-quality household products.

Due to the current situation with regard to the Sars-CoV-2 virus, we assume that the pandemic will have a negative impact on the development of our revenue and earnings in the individual divisions. At present it is difficult to make a valid statement about the quantification of these effects. Based on our current assessments for the 2020 business year, the Vorwerk Group anticipates a distinct decline in revenue in the "Home" divisions and overall a considerable fall in revenue in the "Diversification" entities with some individual segments being impacted significantly. Operating earnings will fall significantly across all divisions.

# Consolidated Financial Statements 2019

# Consolidated Balance Sheet

**As at December 31, 2019**

## Assets

| € 000 | 12/31/2019 | 12/31/2018 |
|---|---|---|
| **A. Fixed assets** | | |
| **I. Intangible assets** | | |
| 1. Purchased concessions, industrial property and similar rights and assets, and licences in such rights and assets | 85,965 | 68,681 |
| 2. Goodwill | 164,778 | 172,786 |
| 3. Prepayments | 1,385 | 14,714 |
| | **252,128** | **256,181** |
| **II. Tangible assets** | | |
| 1. Land, similar rights, and buildings, including buildings on leasehold land | 200,715 | 117,011 |
| 2. Technical equipment and machinery | 95,262 | 110,313 |
| 3. Other equipment, factory and office equipment | 60,380 | 56,370 |
| 4. Rental assets | 837,706 | 806,638 |
| 5. Prepayments and construction in process | 61,725 | 133,964 |
| | **1,255,788** | **1,224,296** |
| **III. Financial assets** | | |
| 1. Shares in affiliated companies | 34,716 | 25,241 |
| 2. Participations in associated companies | 35 | 40 |
| 3. Other participations | 77,760 | 47,149 |
| 4. Loans to companies in which the company has a participating interest | 2,822 | 3,432 |
| 5. Long-term securities | 1,036,223 | 1,130,453 |
| 6. Other loans and other financial assets | 61,029 | 64,698 |
| | **1,212,585** | **1,271,013** |
| **Fixed assets** | **2,720,501** | **2,751,490** |
| **B. Current assets** | | |
| **I. Inventories** | | |
| 1. Raw materials and supplies | 65,115 | 78,335 |
| 2. Work in progress | 13,087 | 10,669 |
| 3. Finished goods and merchandise | 204,579 | 181,671 |
| 4. Prepayments for inventories | 1,618 | 1,133 |
| | **284,399** | **271,808** |
| **II. Receivables and other assets** | | |
| 1. Trade receivables; | 439,031 | 449,456 |
| of which with a remaining term of more than 1 year | (0) | (35) |
| 2. Receivables from customers from banking and leasing business; | 1,375,974 | 1,212,385 |
| of which with a remaining term of more than 1 year | (908,618) | (716,784) |
| 3. Receivables from companies in which the company has a participating interest | 1,079 | 1,094 |
| 4. Other assets; | 183,740 | 187,505 |
| of which with a remaining term of more than 1 year | (3,884) | (4,645) |
| | **1,999,824** | **1,850,440** |
| **III. Other securities** | **14,433** | **21,157** |
| **IV. Checks, cash on hand, bank balances** | **247,786** | **258,318** |
| **Current assets** | **2,546,442** | **2,401,723** |
| **C. Prepaid expenses and deferred charges** | **21,456** | **22,295** |
| **D. Deferred tax assets** | **44,090** | **50,186** |
| | **5,332,489** | **5,225,694** |

## Equity and Liabilities

| € 000 | | 12/31/2019 | 12/31/2018 |
|---|---|---|---|
| **A.** | **Partners' equity** | | |
| 1. | Capital shares, reserves, capital contributions of silent partners, net profit share of parent company, currency conversion difference | 1,374,522 | 1,447,559 |
| 2. | Noncontrolling interests | | |
| | in capital and reserves | 0 | 0 |
| | in profits | 3,385 | 267 |
| | | **3,385** | **267** |
| | | **1,377,907** | **1,447,826** |
| **B.** | **Accruals** | | |
| 1. | Accruals for pensions and similar obligations | 174,105 | 167,389 |
| 2. | Tax accruals | 57,215 | 50,946 |
| 3. | Other accruals | 322,459 | 313,270 |
| | | **553,779** | **531,605** |
| **C.** | **Liabilities** | | |
| 1. | Bank loans and overdrafts | 923,920 | 868,251 |
| 2. | Liabilities from the deposit-taking business | 1,448,909 | 1,329,797 |
| 3. | Customer advances | 6,422 | 6,314 |
| 4. | Trade payables | 134,724 | 155,166 |
| 5. | Drafts and notes payable | 10 | 5 |
| 6. | Other liabilities; | 695,620 | 712,200 |
| | of which taxes | (63,103) | (75,637) |
| | of which social security payables | (19,546) | (18,825) |
| | | **3,209,605** | **3,071,733** |
| **D.** | **Deferred income** | **191,198** | **174,530** |
| | | **5,332,489** | **5,225,694** |

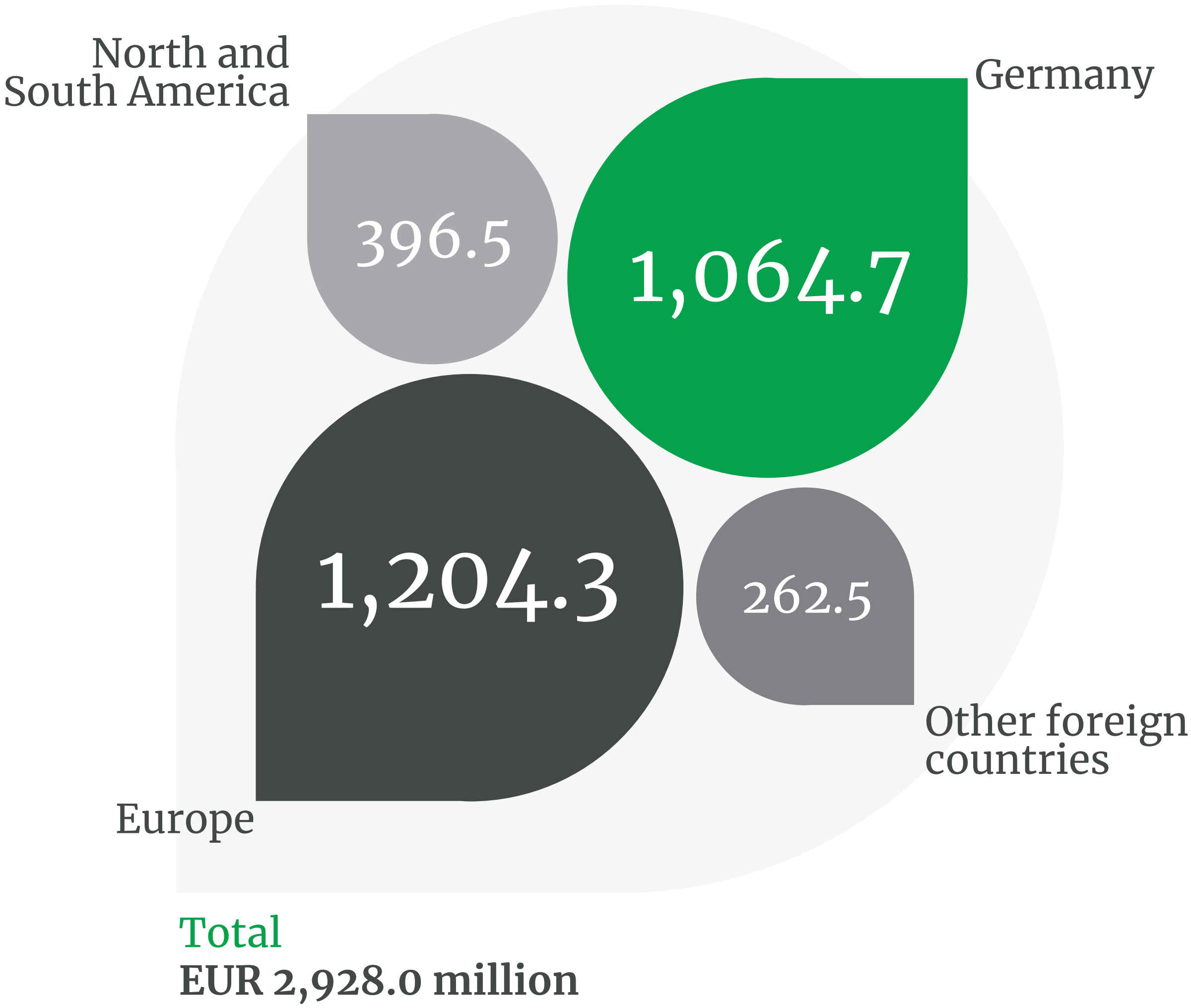
# Consolidated Profit and Loss Account

**For the period January 1 to December 31, 2019**

| € 000 | 2019 | 2018 |
|---|---|---|
| 1. Sales: | | |
| a) External sales | 2,455,735 | 2,340,902 |
| b) Income from loan and leasing transactions | 472,258 | 449,619 |
| | **2,927,993** | **2,790,521** |
| 2. Change in finished goods and work in progress inventories | 31,661 | 6,124 |
| 3. Other own work capitalized | 463 | 513 |
| | **2,960,117** | **2,797,158** |
| 4. Other operating income; | 124,743 | 194,449 |
| of which income from currency translation | (9,004) | (7,225) |
| 5. Cost of materials: | | |
| a) Cost of raw materials, supplies and merchandise | 586,895 | 513,737 |
| b) Cost of purchased services | 23,812 | 29,733 |
| | **610,707** | **543,470** |
| 6. Cost of loan and leasing transactions | 176,615 | 163,962 |
| | **2,297,538** | **2,284,175** |
| 7. Personnel expenses: | | |
| a) Wages and salaries | 516,608 | 506,285 |
| b) Social security, pension and other benefits; | 116,097 | 108,963 |
| of which relating to pensions | (28,789) | (22,908) |
| | **632,705** | **615,248** |
| 8. Amortization and depreciation of fixed intangible and tangible assets | 303,901 | 286,434 |
| 9. Income from participating interest | 2,565 | 1,022 |
| 10. Income from other long-term securities and loans/financial assets | 18,351 | 22,938 |
| 11. Other interest and similar income | 12,144 | 12,308 |
| 12. Write-down of long-term financial assets and current securities | 4,416 | 9,321 |
| 13. Interest and similar expenses; | 22,512 | 23,811 |
| of which expenditure from the accrued interest of provisions | (12,702) | (12,126) |
| 14. Collective heading; | 1,367,064 | 1,385,629 |
| of which expenditure from currency translation | (10,583) | (14,397) |
| Other items not shown separately (other operating expenses, taxes, net profit for the year) | | |

Group Sales by Region

**in million EUR**



# Consolidated Fixed-Asset Movement Schedule

## From January 1 to December 31, 2019

| € 000 | Gross values | | | | | |
|---|---|---|---|---|---|---|
| | As at 1/1/2019 | Foreign currency differences and consolidated entity effects | Additions | Disposals | Transfers | As at 12/31/2019 |
| **I. Intangible assets** | | | | | | |
| 1. Purchased concessions, industrial property and similar rights and assets, and licenses in such rights and assets | 145,430 | 2,541 | 23,114 | 12,189 | 15,954 | 174,850 |
| 2. Goodwill | 337,489 | 0 | 4,714 | 0 | 0 | 342,203 |
| 3. Prepayments | 14,714 | -74 | 3,326 | 14,936 | -1,645 | 1,385 |
| | **497,633** | **2,467** | **31,154** | **27,125** | **14,309** | **518,438** |
| **II. Tangible assets** | | | | | | |
| 1. Land, similar rights, and buildings, including buildings on leasehold land | 205,007 | 2,114 | 48,921 | 20,380 | 53,729 | 289,391 |
| 2. Technical equipment and machinery | 379,708 | 1,202 | 16,423 | 4,969 | 5,100 | 397,464 |
| 3. Other equipment, factory and office equipment | 188,689 | 1,348 | 17,865 | 9,444 | 8,453 | 206,911 |
| 4. Rental assets | 1,232,155 | 143 | 334,562 | 300,275 | 13,894 | 1,280,479 |
| 5. Prepayments and construction in process | 134,679 | 2,171 | 22,612 | 534 | -95,485 | 63,443 |
| | **2,140,238** | **6,978** | **440,383** | **335,602** | **-14,309** | **2,237,688** |
| **III. Financial assets** | | | | | | |
| 1. Shares in affiliated companies | 25,241 | 0 | 12,475 | 3,000 | 0 | 34,716 |
| 2. Participations in associated companies | 40 | 0 | 0 | 5 | 0 | 35 |
| 3. Other participations | 56,040 | 0 | 32,783 | 7,100 | 9,148 | 90,871 |
| 4. Loans to companies in which the company has a participating interest | 3,432 | 0 | 5,539 | 0 | -6,149 | 2,822 |
| 5. Long-term securities | 1,130,536 | 0 | 11,746 | 105,924 | 0 | 1,036,358 |
| 6. Other loans and other financial assets | 64,698 | 0 | 5,547 | 6,217 | -2,999 | 61,029 |
| | **1,279,987** | **0** | **68,090** | **122,246** | **0** | **1,225,831** |
| | **3,917,858** | **9,445** | **539,627** | **484,973** | **0** | **3,981,957** |

| Accumulated depreciation/amortization | | | | | Net values | |
|---|---|---|---|---|---|---|
| As at 1/1/2019 | Foreign currency differences and consolidated entity effects | Additions | Disposals | As at 12/31/2019 | As at 12/31/2019 | As at 12/31/2018 |
| | | | | | | |
| 76,749 | 1,506 | 22,642 | 12,012 | 88,885 | 85,965 | 68,681 |
| 164,703 | 0 | 12,722 | 0 | 177,425 | 164,778 | 172,786 |
| 0 | 0 | 0 | 0 | 0 | 1,385 | 14,714 |
| **241,452** | **1,506** | **35,364** | **12,012** | **266,310** | **252,128** | **256,181** |
| | | | | | | |
| 87,996 | 338 | 10,014 | 9,672 | 88,676 | 200,715 | 117,011 |
| 269,395 | 596 | 38,061 | 5,850 | 302,202 | 95,262 | 110,313 |
| 132,319 | 1,019 | 21,677 | 8,484 | 146,531 | 60,380 | 56,370 |
| 425,517 | 50 | 197,706 | 180,500 | 442,773 | 837,706 | 806,638 |
| 715 | 41 | 1,079 | 117 | 1,718 | 61,725 | 133,964 |
| **915,942** | **2,044** | **268,537** | **204,623** | **981,900** | **1,255,788** | **1,224,296** |
| | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 34,716 | 25,241 |
| 0 | 0 | 0 | 0 | 0 | 35 | 40 |
| 8,891 | 0 | 4,220 | 0 | 13,111 | 77,760 | 47,149 |
| | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 2,822 | 3,432 |
| 83 | 0 | 60 | 8 | 135 | 1,036,223 | 1,130,453 |
| 0 | 0 | 0 | 0 | 0 | 61,029 | 64,698 |
| **8,974** | **0** | **4,280** | **8** | **13,246** | **1,212,585** | **1,271,013** |
| **1,166,368** | **3,550** | **308,181** | **216,643** | **1,261,456** | **2,720,501** | **2,751,490** |

# Notes to Consolidated Financial Statements

**As at December 31, 2019**

## I. Introductory Remarks

Vorwerk & Co. KG has prepared consolidated financial statements and a group management report for financial year 2019 in accordance with the requirements of § 13 (3) in conjunction with § 5 (5) of the Publication and Disclosure Law [Publizitätsgesetz; PublG] and of the Commercial Code [Handelsgesetzbuch; HGB] in conjunction with the Bank and Financial Services Accounting Directive [Verordnung über die Rechnungslegung und Finanzdienstleistungsinstitute; RechKredV]. The Company, headquarters in Wuppertal, is registered in the Commercial Register of the Wuppertal Local Court under the number HRA 14658.

## II. Consolidated Group

The parent company is Vorwerk & Co. KG, Wuppertal (holding company). The group companies operate in the following business segments: the manufacture and direct sale of high-quality household appliances, cosmetics, facial and body care products, bank and leasing, and carpeting.

The company Vorwerk Schweiz AG, Dierikon/Switzerland, acquired in 2019, and two companies founded in financial year 2019 have been included in the consolidated financial statements for the first time. One company was liquidated during financial year 2019 and is no longer part of the consolidated group. The change in the companies included in the consolidated financial statements is collectively and singly immaterial. The consolidated financial statements therefore remain comparable with those of the previous year.

Six (previous year: five) associated companies have not been included in the consolidated financial statements at equity pursuant to § 311 (2) HGB because of their minor importance, but have instead been recognized at cost.

Eight (previous year: seven) companies have not been included in the consolidated financial statements pursuant to § 296 (2) HGB because of their minor importance. The balance sheet total and sales of the companies not included in the consolidated group collectively and singly account for less than 2 percent of the consolidated balance sheet total and 1 percent of consolidated sales.

## III. Structure, Accounting and Valuation Methods

The structure of the balance sheet and profit and loss account is laid out for preparation purposes in accordance with the classification presentation for corporations defined under §§ 290 et seqq, 266, and 275 HGB.

For disclosure and for the preparation of the annual report, the equity in the consolidated balance sheet is shown as a total while the taxes and net profit reported in the consolidated profit and loss account have been included with other operating expenses under the collective item “Other items not shown separately” (§ 5 (5) PublG).

Due to the full consolidation of the akf group, the balance sheet and profit and loss account include bank- and leasing-specific items where the akf group’s assets, debts, expenses and earnings could not be assigned to the existing line items or allow more transparent reporting.

In addition to loans, other loans and other financial assets also contain non-securitized minority interests in closed real estate funds.

The capital contributions of silent partners, which are provided with a subordination clause, are included in partners' equity due to their equity-similar character.

The accounting and valuation principles applied in the annual financial statements of Vorwerk & Co. KG and the German subsidiaries also pertain to the consolidated financial statements. Valuation principles of the akf group have been adopted without change pursuant to § 308 (2) sentence 2 HGB. The financial statements of non-German subsidiaries drawn up in accordance with national regulations have been adjusted in line with what is known as the Type II Commercial Balance Sheet [Handelsbilanz II].

The valuation methods applied correspond to uniform valuation as defined in § 308 (1) HGB. They remained unchanged from the previous year.

Purchased intangible assets have been capitalized at acquisition cost less straight-line amortization over the estimated useful life of each asset on a pro rata temporis basis. The most commonly applied useful life periods range between three and five years.

The period for scheduled straight-line amortization of items of goodwill acquired against payment is five or 30 years.

The usual useful life periods in operation of the intangible assets of Neato Robotics, Inc., capitalized during the initial consolidation in 2017, amount to six years for the know-how in development, eight years for patents and applications and 18 years for brand rights.

In the case of tangible assets and rental assets (allowing for contractual periods and residual carrying values) where the useful life is definite, the acquisition or manufacturing cost has been depreciated on a straight-line basis over the estimated useful life. Borrowing costs are not recognized. Manufacturing costs include the directly attributable costs from the consumption of goods and the use of services as well as appropriate proportions of necessary material and manufacturing overheads. Depreciation of additions to the tangible assets is generally effected on a pro rata basis. If the fair values of individual assets fall below the corresponding carrying amounts of the assets, additional impairments are recognized if the reduction in value is expected to be permanent.

The major useful life periods range between ten and 33 years for buildings and outdoor facilities, between three and 17 years for technical equipment and machinery, between six and eight years for motor vehicles and between three and 13 years for factory and office equipment.

Additions of tangible assets are capitalized at acquisition or manufacturing cost. Borrowing costs are not recognized. Manufacturing costs include the directly attributable costs from the consumption of goods and the use of services as well as appropriate proportions of necessary material and manufacturing overheads.

Additions of low-value assets up to EUR 250 are recognized directly as other operating expenses. Low-value assets with acquisition costs between EUR 250 and EUR 800 are capitalized and written off in full and immediately in the month of their addition and disclosed as disposals in the fixed-assets movement schedule in the year of their addition.

Financial assets (excluding loans) were measured at acquisition cost and loans at nominal value. Where impairment is likely to be permanent, assets are amortized to the lower fair value.

The development of fixed assets is presented in the consolidated fixed-assets movement schedule.

Inventories have been valued at acquisition or manufacturing cost in accordance with the lower of cost or market principle. Borrowing costs are not recognized. The acquisition cost of raw materials, supplies and merchandise is calculated using the average cost method. Apart from direct costs, the manufacturing costs of the finished goods and work in process include only the reasonable proportions of the material and manufacturing overheads required and depreciation on the fixed assets caused by manufacturing.

Receivables and other assets were recognized at nominal value less appropriate valuation allowances. Receivables from customers from factoring and hire purchase transactions were reported at their present value less individual or general valuation allowances.

Marketable securities were measured at acquisition cost or at the lower fair value prevailing as at the balance sheet date. Cash and cash equivalents are measured at nominal value.

Prepaid expenses and deferred charges include payments that are deemed expenses for a specific period after 31 December 2019.

Foreign currency transactions are recognized at the historical rate at the time of initial recognition. Receivables, other assets, payables and cash and cash equivalents in foreign currencies were measured at the mean spot exchange rate on the balance sheet date. In the case of foreign currency items with a remaining term of more than one year, the acquisition cost and realization principles were applied. The accruals under § 340 h HGB were applied to the foreign currency translation of the assets and liabilities of the companies of the akf group.

Reversals of impairments are generally recognized in accordance with § 253 (5) HGB.

Accruals are recognized at the repayment amount dictated by prudent business judgment.

Accruals for pensions and similar obligations also allow for surviving dependants' benefits in addition to payments arising from individual and collective programs. They are created according to the projected credit on actuarial calculations using the 2018G mortality tables of Prof. Klaus Heubeck, which factor in generation-dependent life expectancies. In adopting the Implementing Act for the Mortgage Credit Directive, legislators decided to apply the average market interest rate of the past ten years published by the Deutsche Bundesbank and calculated on an assumed residual term of 15 years to pension accruals from 2016 onward. The interest rate in December 2019 came to 2.71 percent (previous year: 3.21 percent). Until 31 December 2015, a 7-year annual average interest rate published by the Deutsche Bundesbank had been applied. Based on a 7-year annual average interest rate, the difference calculated as at 31 December 2019 amounts to EUR 11.2 million that is subject to a payout restriction insofar as available free reserves are insufficient.

The calculation is based on expected pension increases of 1.80 percent (previous year: 1.80 percent) and an annual fluctuation depending on service and age essentially ranging between 1.00 percent and 5.00 percent. In line with the pension commitment, the pensionable person receives annual components where future payments are directly linked to the employee's service. Since the earned portion of the obligation therefore corresponds to the balance accrued as of the balance sheet date, a salary trend does not need to be taken into account.

In evaluating service anniversary accruals, the same valuation parameters as for pension obligations are generally applied with the exception of the growth in creditable income, which lies between 2.30 percent and 3.50 percent, as well as taking the average market interest rate of the last seven years of 1.97 percent as a basis. Term-specific interest rates of between 0.58 percent and 0.84 percent are also used for semiretirement obligations under semiretirement accruals.

An exception is found in the obligations from time accounts that are treated as pension obligations comparable to obligations due in the long term and to which the regulations for securities-related pension commitments must be applied. In this case, the measurement corresponds to the amount of the fair value of the cover asset pursuant to § 253 (1) sentence 3 HGB.

If there is a cover asset pursuant to § 246 (2) sentence 2 HGB, the disclosed accrual from time accounts corresponds to the balance of the settlement amount determined by prudent business judgment and the fair value of the cover asset. The fair value of the balanced reinsurance claims corresponds to the acquisition costs brought forward (cover capital plus surplus sharing) in accordance with the information from the insurer.

Other accruals with a remaining term of more than one year have been discounted – in accordance with their remaining term – at the average market interest rate prevailing over the past seven business years.

Other accruals and provisions are calculated in such a way as to account for the recognizable risks and contingent liabilities. Allowance is made for future price and cost increases where there are sufficient objective indications of them arising.

Liabilities have been shown at their repayment amounts. The capital with participating rights – included under other liabilities – has been reported at nominal value.

Deferred income mainly includes special rent payments and rent prepayments attributable to future business years as well as accrued net present values from leasing receivables sold to banks. Such amounts will be reversed on a straight-line basis in accordance with the underlying term and, where applicable, pursuant to the principles of loss-free valuation.

Assets, liabilities and transactions anticipated as highly likely have been combined in financial instruments (valuation unit) to compensate for counteracting cash flows and fluctuations in value. To account for the effective portion of the valuation unit, the net hedge presentation method has been applied. Insofar as the preconditions for the creation of valuation units are not satisfied, the items are accounted for in accordance with the general valuation principles.

## IV. Foreign Currency Translation

All financial statements of the subsidiary companies of the Group that are included in the consolidated financial statements, but that are located outside the eurozone, were translated into euros from the pertinent local currency using the modified closing rate method. The line items of the balance sheet — with the exception of equity, which is translated into euros at historical rates — were translated at the mean spot exchange rate on the balance sheet date.

The expenses and income in the corresponding profit and loss accounts were translated at the average exchange rates for the year 2019 (average of the daily average exchange rates from 1 January 2019 to 31 December 2019 published by the information and financial services company Bloomberg L.P.). The resulting translation difference between the net income converted at the average rate and the rate on the balance sheet date of EUR 1.1 million was disclosed through other comprehensive income within the consolidated partners' equity after the reserves in the line item "Equity difference from currency translation." The translation differences resulting from exchange rate fluctuations led to an increase through other comprehensive income of EUR 13.5 million in the line item "Equity difference from currency translation." The exchange rate differences arising from the consolidation of foreign currency receivables and payables are reported through profit and loss under other operating expenses. Currency differences resulting from the elimination of intercompany profits are recorded in equity through other comprehensive income.

## V. Balance Sheet Date and Consolidation Principles

The subsidiaries included in the consolidated financial statements all have December 31 as their balance sheet date. Consolidation of the balance sheets and profit and loss accounts of the consolidated subsidiaries was carried out in accordance with the following principles.

### 1. Capital Consolidation

Capital consolidation for acquisitions up to 31 December 2009 was effected in accordance with the carrying amount method. Capital consolidation for first-time consolidations, starting on 1 January 2010, was carried out according to the revaluation method. In this respect, the carrying values of the participations were offset against the allocable equity of the corresponding subsidiary companies, including reserves and profit/loss brought forward, as at the date of acquisition following a revaluation of the various balance sheet items and realization of hidden reserves and hidden charges.

Capitalized differences from the first-time consolidation of the JAFRA Group in financial year 2004 were recognized as goodwill on the assets side after reversal of hidden reserves in the assets.

The goodwill of JAFRA Group reported under fixed assets results from the acquisition of the group in 2004. The goodwill is amortized in accordance with the expected useful operating life over a period of 30 years. This is derived from the use of the brand and brand-similar benefits, which, besides the sales system and the know-how of the staff in R&D, constitute essential elements of the Company's goodwill.

The remaining capitalized differences from initial consolidations prior to 2010 were stated separately under equity. Should any credit differences have resulted from this netting in previous years, such amounts were combined with the reserves in previous years on account of their reserve character. The asset-side differences arising from the initial consolidation of Vorwerk Schweiz AG in financial year 2019 were capitalized as goodwill. Scheduled amortization is carried out owing to the use of the customer base and brand names over a period of five years.

The initial consolidation of Neato Robotics, Inc., in financial year 2017 led to the realization of hidden reserves attributable to know-how in development, patents and applications, and brand rights. The valuation of the know-how was based on the residual value method and that of the patents and applications and brand rights was based on the relief from royalty method.

Minority interests in the equity capital and reserves and in the results of the incorporated subsidiaries were disclosed shown under the line item “noncontrolling interests.”

### 2. Debt Consolidation

In accordance with debt consolidation principles (§ 303 HGB), receivables and payables with companies within the consolidated group have been offset against one another.

### 3. Consolidation of Income and Expenses

The consolidation of income and expenses contained in the line items shown in the consolidated profit and loss account is in compliance with § 305 HGB. Intercompany sales and the corresponding expenses as well as other intercompany income and expenses in the profit and loss accounts of the consolidated companies were offset against one another.

### 4. Deferred Taxes

Deferred taxes are recognized for differences between the assets and liabilities stated in the commercial balance sheet and the balance sheet drawn up for tax purposes to the extent that this will lead to a tax burden or relief in the future. Deferred taxes are also recognized for potential losses and interest carried forward provided they are expected to be utilized within the next five years.

The option to recognize an excess of deferred tax assets over deferred tax liabilities pursuant to § 274 (1) sentence 2 in conjunction with § 300 (2) sentence 2 HGB has been exercised in the consolidated financial statements. Deferred tax assets and liabilities are netted against each other when the necessary prerequisites are met. For the purposes of the consolidated financial statements, an aggregated figure is reported for the items pursuant to § 274 HGB (§ 306, sentence 6 HGB).

Deferred taxes for tax differences and commercial differences arising from the first-time recognition of goodwill are not recognized. Additionally, deferred taxes are not recognized for differences between the tax base of an interest in a subsidiary or in associated companies and the commercial valuation of the net assets reported in the consolidated financial statements.

As at 31 December 2019, the net balance of future tax burden/relief calculated on the basis of the different approaches applied to the commercial balance sheet and the tax base balance sheet mainly arose from accounts due from/to affiliated companies, inventories, pension and other accruals, and tax loss carryforwards. When calculating taxes for consolidation entries affecting profits pursuant to § 306 HGB, a uniform group-wide average tax rate of 30 percent has been generally applied to debt consolidation and the interim profit elimination; otherwise, company-specific tax rates have been applied. The calculation of deferred taxes in the separate financial statements is based on the tax rates applying to the specific companies, which are between 12 percent and 33 percent.

## VI. Other Statutory Disclosures Pursuant to § 314 HGB and Explanatory Notes to Various Items in the Consolidated Balance Sheet and Consolidated Profit and Loss Account

### 1. Provisions

Other provisions include obligations to company employees from time accounts. The salary components deferred in accordance with the joint works agreement for the establishment of time accounts are vested in a reinsurance policy that serves solely to cover the related obligation and is protected from seizure by other creditors. This cover asset with a fair value as at 31 December 2019 of EUR 8.8 million (corresponding to the acquisition costs brought forward) is consequently offset against the obligations from time accounts. Since the obligation is treated like a securities-related cover commitment, the obligation from time accounts corresponds to the fair value of the cover asset. When the two items are offset, the result is a balance sheet recognition of zero.

| **€ 000** | **12/31/2019** | **12/31/2018** |
|---|---|---|
| Settlement amount from time accounts | -8,783.00 | -5,256.93 |
| Fair value of cover asset | 8,783.00 | 5,256.93 |
| Net value of obligations from time accounts | 0.00 | 0.00 |
| Acquisition costs of the cover asset | 8,783.00 | 5,256.93 |

## 2. Liabilities

### Remaining terms for liabilities (RTL)

| € 000 | 12/31/2019 | | | | 12/31/2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | RTL < 1 Y | RTL > 1 Y | of which RTL > 5 Y | Total | RTL < 1 Y | RTL > 1 Y | of which RTL > 5 Y | Total |
| Bank loans and overdrafts | 529,413 | 394,507 | 41,254 | 923,920 | 280,280 | 587,971 | 74,270 | 868,251 |
| Liabilities from deposit-taking business | 917,609 | 531,300 | 10,480 | 1,448,909 | 891,804 | 437,993 | 8,562 | 1,329,797 |
| Customer advances | 5,598 | 824 | 0 | 6,422 | 6,314 | 0 | 0 | 6,314 |
| Trade payables | 134,724 | 0 | 0 | 134,724 | 154,416 | 750 | 0 | 155,166 |
| Drafts and notes payable | 10 | 0 | 0 | 10 | 5 | 0 | 0 | 5 |
| Other liabilities | 691,814 | 3,806 | 1,069 | 695,620 | 708,819 | 3,381 | 418 | 712,200 |
| **Liabilities** | **2,279,168** | **930,437** | **52,803** | **3,209,605** | **2,041,638** | **1,030,095** | **83,251** | **3,071,733** |

## 3. Contingent Liabilities, Other Financial Commitments, and Off-Balance Sheet Transactions

### Contingent liabilities

The following contingent liabilities existed on the balance sheet date:

| € 000 | Total 2019 | Total 2018 |
|---|---|---|
| Contingent liabilities for sureties; | 1,160.7 | 1,159.4 |
| of which in favor of affiliated companies | 0.0 | 0.0 |
| Secondary liability for pension obligations transferred to provident fund | 29,577.8 | 27,026.1 |

The risk of recourse from the joint liability for the pension obligations that have been transferred to the provident fund can more or less be excluded since the provident fund is highly likely to be able to meet its long-term obligations from its own cash assets.

The risk of recourse relating to sureties in favor of third parties is deemed low because it is related essentially to a payment guarantee for the settlement of company credit cards.

### Other Financial Commitments

Commitments arising from rental, tenancy and lease contracts as at the balance sheet date amounted to EUR 81.6 million for the following years, of which EUR 25.9 million falls due in 2020. Purchase commitments for investments and repairs of tangible assets amount to EUR 21.3 million (previous year: EUR 64.4 million). There are long-term obligations arising from contracts with suppliers in the amount of EUR 17.5 million as at the balance sheet date.

akf bank has irrevocable loan commitments totaling EUR 215.5 million (previous year: EUR 210.4 million).

### Off-Balance Sheet Transactions

Among other things, akf bank uses an asset-backed commercial paper (ABCP) program to refinance its customer receivables and sells customer receivables under this program, transferring all opportunities and risks. The sold receivables are withdrawn from the balance sheet at that point. This program is ongoing and has a volume of EUR 446.0 million, which had been fully utilized except for a remaining balance of EUR 0.5 million on the balance sheet date.

## 4. Profit and Loss Account

### Group Sales Including Revenue from the Credit and Leasing Business

| Breakdown by region in EUR m | 2019 | 2018 |
|---|---|---|
| Germany | 1,064.7 | 969.2 |
| Europe | 1,204.3 | 1,218.9 |
| North and South America | 396.5 | 384.9 |
| Other foreign countries | 262.5 | 217.5 |
| **Total** | **2,928.0** | **2,790.5** |

| Breakdown by division in EUR m | 2019 | 2018 |
|---|---|---|
| Home | 2,070.1 | 1,947.1 |
| Thermomix | 1,268.4 | 1,079.5 |
| Kobold | 708.4 | 756.5 |
| Vorwerk flooring | 41.3 | 48.7 |
| Neato Robotics | 52.0 | 62.4 |
| Diversification | 824.0 | 785.6 |
| JAFRA Cosmetics | 351.7 | 336.0 |
| akf group | 472.3 | 449.6 |
| Others | 33.9 | 57.8 |
| **Total** | **2,928.0** | **2,790.5** |

### Other Operating Income

Other operating income includes prior-period income from the reversal of accruals and write-downs on receivables in the amount of EUR 64.8 million and the disposal of assets in the amount of EUR 25.5 million.

### Income from participations

Income from investments includes EUR 1.5 million in income from investments in associated companies.

### Amortization and Depreciation of Intangible and Tangible Fixed Assets

Owing to a presumably permanent impairment, there were unscheduled write-downs on intangible assets and tangible assets in the amount of EUR 4.7 million to the lower fair value.

### Write-Down of Financial Assets and Short-Term Investments

Owing to a presumably permanent impairment, there was an unscheduled write-down on financial assets in the amount of EUR 4.4 million to the lower fair value during the reporting year.

## 5. Derivative Financial Instruments and Valuation Units

Commodity swaps and forward currency exchange transactions are used at Vorwerk Group for hedging purposes, both for operational business activities and in the area of foreign currency financing. The fair value of a derivative financial instrument is the price for which one independent party would acquire the rights and/or obligations of the financial instrument from another independent party. In the Vorwerk Group (excluding the akf group), all derivative financial instruments were included in valuation units in accordance with § 285 No. 19 HGB as at 31 December 2019.

The nominal value of the derivative financial instruments is determined using the closing rate method. The fair value of currency futures and currency swaps is determined according to the closing rates on the balance sheet date, taking forward premiums and discounts into account. The fair value of currency options is assessed on the basis of option pricing models pursuant to Black & Scholes. The fair value of interest rate hedging instruments (interest rate swaps and options) as well as raw material hedging instruments (commodity swaps) is determined on the basis of discounted, anticipated future cash flows with the current market interest rates or market rates for commodities for the remaining term of the financial instruments being applied.

The Vorwerk Group (excluding the akf group) has the following valuation unit. A development loan extended to a Mexican subsidiary originally amounting to EUR 25.0 million (owing to repayment, the loan amount is now only EUR 18.0 million) was disbursed in euros. The loan is, however, serviced in Mexican pesos. To hedge against currency risks, a cross-currency swap was concluded and combined together with the loan in a micro valuation unit. As of the balance sheet date, the cross-currency swap was attributed a positive market value of EUR 3.5 million (hedged risk).

The Vorwerk Group continues to use portfolio hedges to hedge the currency risks of assets, debts and standard transactions that are anticipated as highly likely to reoccur and combines them into valuation units as defined by § 254 HGB.

As at the balance sheet date, Vorwerk had 72 forward currency exchange transactions with seven banks in a total nominal volume of EUR 165.4 million. The net total of the fair values of forward currency exchange transactions was calculated using the mark-to-market method and amounted to EUR 0.5 million on the balance sheet date.

The total currency risks hedged by means of valuation units (avoided accruals for contingent losses, avoided write-downs of foreign currency receivables and avoided write-ups on foreign currency liabilities) from assets, debts and transactions anticipated as highly likely amount to EUR 3.3 million.

The carrying value of the hedged assets and debts in foreign currencies totals EUR 30.8 million and breaks down as shown below:

| | |
|---|---|
| Trade receivables | EUR 19.7 million |
| Trade payables | EUR 11.1 million |

The scope of the transactions anticipated as highly likely in foreign currencies amounts to EUR 134.6 million. The hedged anticipated transactions are classified as highly likely on the basis of the reliable sales, production and purchasing planning.

The changes in the value of the underlying transactions and hedging instruments are not balanced by applying the net hedge presentation method over a period prior to December 2020. The effectiveness of the valuation units is assessed with the aid of the critical term match method.

To hedge against payment fluctuations and value changes arising from interest and currency risks, the akf group applies micro and portfolio hedges and combines them into valuation units as defined by § 254 HGB.

As at the balance sheet date, akf bank had a total of five interest rate swaps with three banks with a total nominal volume of EUR 300.0 million and four caps with a nominal volume of EUR 200.0 million. These transactions are assigned to the banking book, where they provide interest hedging. The credit equivalent amount calculated using the market valuation method totals EUR 5.3 million. The total fair values for these derivative financial instruments were calculated using the mark-to-market method and total EUR -1.5 million on the balance sheet date.

The akf bank applies the regulations of the IDW statement regarding specific questions related to the loss-free valuation of interest-related transactions of the banking book (IDW RS BFA 3 as revised). The valuation of the interest-related transactions of the banking book oriented to the P/L account, taking into account administrative expenses, risk costs and deemed refinancing costs, did not result in the need to create an accrual for contingent losses pursuant to § 340 a HGB in conjunction with § 249 (1) HGB.

## 6. Information on Shares in Investment Funds

The Vorwerk Group holds 100 percent of the units of the VWUC Fund. The VWUC Fund has mixed fund assets pursuant to German investment law.

The investment policy aims to generate an attractive increase in value in euros based on a longer-term strategy. To achieve this investment objective, the assets are invested in fixed-interest securities as well as in money market instruments and cash. Moreover, the fund can invest in securities on the stock market and in units of open and closed investment funds (stocks, commodities and real estate). To secure, invest and efficiently manage the assets, the fund may, in addition, also deploy derivatives and other techniques and instruments as well as securities lending.

### Value of the Units and Carrying Value Differences

| € 000 | Carrying value | Market value | Difference |
|---|---|---|---|
| VWUC Fund | 639,653 | 674,819 | 35,166 |

Vorwerk received a gross disbursement of EUR 12,785k (EUR 2.2079 as at share unit) for the fund's financial year (1 December 2018 to 30 November 2019).

The fund's units could be redeemed on any stock exchange trading day in the year.

Moreover, the Vorwerk Group holds 75,493 units in the Aachener Grund-Invest Fund. This is a special real estate fund with a conservative, long-term investment strategy oriented to sustainable achievement. It concentrates on real estate properties in traditional shopping locations.

### Value of the Units and Carrying Value Differences

| € 000 | Carrying value | Market value | Difference |
|---|---|---|---|
| Aachener Grund-Invest Fund | 9,071 | 9,180 | 109 |

Vorwerk received a gross disbursement of EUR 159k (EUR 2.10 as at share unit) for the fund's financial year (1 October 2018 to 30 September 2019).

The fund units may be sold subject to a one-year notice period.

The Vorwerk Group is also participating in the private equity fund GF Capital Private Equity Fund II with a maximum contribution of USD 15 million. This private equity fund invests in medium-sized companies in the consumer goods industry and media companies with an enterprise value between USD 20 million and USD 150 million. The investment phase is five years; the Vorwerk Group's share in this fund is currently as follows:

### Value of the Units and Carrying Value Differences

| € 000 | Carrying value | Market value | Difference |
|---|---|---|---|
| GF Capital Private Equity Fund II | 9,585 | 9,786 | 201 |

The invested capital is tied up in the fund until the sale of all investments that have been made.

The Vorwerk Group also holds a stake in the private equity fund Euroknights VII No 4 Limited Partnerships with a maximum commitment of EUR 10 million. This private equity fund invests in European companies, primarily in the Benelux countries, France, Germany, Italy, Austria and Switzerland. The investment phase is ten years; the Vorwerk Group's share in this fund is currently as follows:

### Value of the Units and Carrying Value Differences

| € 000 | Carrying value | Market value | Difference |
|---|---|---|---|
| Euroknights VII No 4 | 5,252 | 6,072 | 820 |

The invested capital is tied up in the fund until the year 2027.

The Vorwerk Group has held a stake in the DIC Office Balance V real estate fund since 2019. The fund invests in office properties in B locations in A cities or 1A locations in B and C cities. The investment phase is ten years.

The shares of the Vorwerk Group are shown below:

### Value of the Units and Carrying Value Differences

| € 000 | Carrying value | Market value | Difference |
|---|---|---|---|
| DIC Office Balance V | 6,207 | 6,709 | 502 |

Income of EUR 109k was received for the financial year.

The fund units may be returned subject to a five-month notice period.

The fund's units were valued throughout the entire year in accordance with the lower of cost or market principle.

## 7. Other Disclosures

In the financial year, auditing fees amounted to EUR 1,698k, fees for tax accountant services stood at EUR 150k and fees for other services totaled EUR 750k.

Due to the COVID-19 pandemic, the duration and extent of which cannot be foreseen at present, the consolidated revenues and the consolidated net income for the year of the Vorwerk Group in financial year 2020 are highly likely to be subject to risk. In addition, current price developments on the international capital markets give rise to risks with regard to the recoverability of securities held as financial assets and current assets. Quantification of these risks is not possible at present.

Apart from this, no events of noteworthy significance that are relevant for the assessment of the assets and liabilities, financial position and profit and loss occurred after the balance sheet date.

### Average Headcount for the Year

| | 2019 | 2018 |
|---|---|---|
| Employees* | 12,319 | 12,972 |
| Advisors in Direct Sales | 599,072 | 610,919 |
| Thermomix | 48,231 | 44,574 |
| Kobold | 9,623 | 12,004 |
| JAFRA Cosmetics | 541,038 | 553,748 |
| Others | 180 | 593 |

* Including employed sales advisors

Management of the parent company Vorwerk & Co. KG during the reporting period was in the hands of the personally liable partners Rainer Christian Genes, Stuttgart/Germany (until 31 March 2019); Reiner Strecker, Wuppertal/Germany; and Frank van Oers, Veldhoven/Netherlands (until 31 July 2019).

Wuppertal, April 21, 2020

R. Strecker

Reiner Strecker

# Independent Auditor's Report

The foregoing consolidated balance sheet and profit and loss account, the explanatory notes (without any listing of investment holdings) together with the Group Management Report comply with the legal requirements.

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Essen, expressed the following opinion on the complete set of consolidated financial statements and the Group Management Report.

## "Independent Auditor's Report

To Vorwerk & Co. KG, Wuppertal

### Audit Opinions

We have audited the consolidated financial statements of Vorwerk & Co. KG, Wuppertal, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2019, and the consolidated profit and loss account for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including the presentation of the recognition and measurement policies. In addition, we have audited the group management report of Vorwerk & Co. KG for the financial year from January 1 to December 31, 2019.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the requirements of German commercial law to be applied according to § [Article] 13 PublG [Publizitätsgesetz: Public Disclosure Act] and give a true and fair view of the assets, liabilities and financial position of the Group as at December 31, 2019 and of its financial performance for the financial year from January 1 to December 31, 2019 in compliance with German Legally Required Accounting Principles, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. [paragraph] 3 Satz [sentence] 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

## Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 14 PublG in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

## Other Information

The executive directors are responsible for the other information. The other information comprises the report on the 136th business year – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

## Responsibilities of the Executive Directors for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with the requirements of German commercial law to be applied according to § 13 PublG, and that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles. In addition the executive directors are responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 14 PublG and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with German Legally Required Accounting Principles.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit."

Essen, April 21, 2020

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

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Mühlenweg 17 – 37
42270 Wuppertal
Germany
Telephone: +49 202 564-1247
www.vorwerk.com

**Editorial Staff**
Michael Weber,
Corporate Communications of the Vorwerk Group

**Concept & Design**
heureka – einfach kommunizieren, Essen

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