

Risk and Opportunity Report

NORMA Group is exposed to a wide variety of risks and opportunities, which can have a positive or negative short-term or long-term impact on its financial, assets and earnings position. For this reason, opportunity and risk management represents an integral component of corporate management for NORMA Group, at both the Group management level and at the level of the individual companies and individual functional areas. Due to the fact that all corporate activities are associated with risks and opportunities, NORMA Group considers identifying, assessing, and managing opportunities and risks to be a fundamental component of executing its strategy, securing the short and long-term success of the Company and sustainably increasing shareholder value. In order to achieve this over the long-term, NORMA Group encourages its employees in all areas of the Company to remain conscious of risks and opportunities.

Risk and opportunity management system

NORMA Group defines risks and opportunities as possible future developments or events that could have a positive or negative impact on the Group's ability to meet its targets and achieve its business objectives. Analogous to the medium-term planning, the Management Board's focus with respect to possible deviations in specific risks and opportunities covers a period of five years. Opportunities and risks that affect the Company's success beyond this period of time are recorded and managed at the Group management level and taken into consideration in the Company's strategy. Analogous to medium-term planning, the focus with respect to the valuation of specific risks and opportunities covers a period of five years, provided that no other period is specified in the individual categories.

The Management Board of NORMA Group is responsible for maintaining an effective risk and opportunity management system. The Supervisory Board is responsible for monitoring the effectiveness of the Group's risk management system. Compliance with the Group's risk management policy in the individual companies and functional areas is subject to the internal audit department's periodic reviews.

Risk management process

The risk management process at NORMA Group includes the core elements of risk identification, risk assessment and risk controlling and monitoring. The risk management process has been fully integrated into an integrated software solution. The respective legal units record the identified and assessed risks. Subsequently, the regional risk officers and, depending on the risk category, the functional managers at Group level, check and approve the respective risks with the help of the software. The process of identifying, evaluating and controlling risks is accompanied by continuous monitoring and communication of the reported risks by the risk managers.

Risk identification is carried out bottom-up by the individual companies as well as top-down by the individuals responsible for functions at the regional and Group level. Various methods that correspond to the structure of the organization are used to identify risks. Such methods include interdisciplinary workshops, interviews and checklists, but also market and competition analyses. In certain cases, analyses of the process workflows as well as results from internal and external audit reports are used.

Risk management system of NORMA Group

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NORMA Group's risk managers are responsible for verifying on a regular basis whether all material risks have been recorded.

NORMA Group uses a systematic assessment procedure to evaluate the risks that were identified, both in terms of their financial impact and their probability of occurrence. All risks that can be adequately assessed and specified are reported regardless of their expected financial impact. The measurement of the gross expectation value of the risk, i.e. the expected value of the risk before considering countermeasures, must be based on the assumption of the most unfavorable outcome of the financial impact for the Company.

As part of the risk controlling, the appropriate risk mitigating measures are developed, implemented and their implementation is monitored. These include, in particular, strategies to avoid, reduce and secure risks, i.e. measures that minimize the financial impact of the risks as well as their probability of occurrence. Risks are managed in accordance with the principles of the risk management system as described in the Group risk management policy.

Risk reporting

Group-wide recording and assessment of risks as well as their reporting to the functional managers and individual companies by functional areas, the management of the segments, the Management Board and the Supervisory Board takes place on a quarterly basis. In addition, risks that are identified within a quarter and whose expected value have a significant impact on the results of subgroups of the Group are reported ad hoc to the Management Board and, if necessary, to the Supervisory Board.

In order to analyze NORMA Group's overall risk situation and initiate appropriate countermeasures, individual risks of local business units, segments and Group-wide risks are aggregated in a risk portfolio. Here, the scope of consolidation for risk

management corresponds to the scope of consolidation of the Consolidated Financial Statements. In addition, risks are categorized according to type and the functional area they affect. This makes it possible to aggregate individual risks into risk groups in a structured manner. This aggregation can be used not only for individual risk management but also to identify and control trends in order to sustainably influence and reduce the risk factors with certain types of risks. If not indicated otherwise, the risk assessment applies to all regional segments.

Opportunity management process

Operational opportunities are identified during monthly meetings held at the local and regional level, but also by the Management Board, and then documented and analyzed. Measures aimed at capitalizing on strategic and operational opportunities through local and regional projects are approved during these meetings. Regular forecasts are developed as part of periodic reporting to record how successfully potential opportunities are taken advantage of. Strategic opportunities are recorded and evaluated as part of annual planning. NORMA Group uses a systematic assessment procedure to evaluate the opportunities and risks that were identified, both in terms of their financial impact, i.e. gross and net impact on planned financial indicators, and their probability of occurrence.

Internal control and risk management system with regard to the group accounting process

NORMA Group's internal control and risk management system with regard to the Group accounting process can be described using the following main characteristics: The purpose of this system is to identify, analyze, evaluate and manage risks as well as monitor these activities. The Management Board is responsible for ensuring that this system meets the Company's specific requirements. Based on the allocation of responsibilities within the Company, the CFO is responsible for the Finance and

Accounting divisions. These functional areas define and review the Group-wide accounting standards within the Group and compile the information used to produce the Consolidated Financial Statements. The need to provide accurate and complete information within predefined timeframes represents a significant risk to the accounting process. Because of this, requirements must be clearly communicated and the affected units must be put in a position to meet these requirements.

Risks that may affect the accounting process arise, for example, from the late or incorrect recording of business transactions or non-compliance with accounting rules. The failure to enter business transactions also represents a potential risk. In order to avoid errors, the accounting process is based on the segregation of duties and functions and plausibility checks for reporting. The preparation of the financial statements of those entities to be included in the Consolidated Financial Statements as well as the consolidation measures based on this consolidated group are characterized by consistent observance of the 'dual-control principle' Comprehensive and detailed checklists must be completed before the respective reporting deadlines. The accounting process is fully integrated into NORMA Group's risk management system. This ensures that accounting risks are identified at an early stage, allowing the Company to implement measures for risk prevention and risk mitigation without delay.

The internal control system ensures the accuracy of NORMA Group's financial reporting with respect to its accounting processes. The internal audit department reviews the accounting processes on a regular basis to ensure that the internal control and risk management system is effective. External specialists also support these efforts. Furthermore, the financial statement auditor conducts audit procedures during the audit of the annual financial statements based on the risk-based audit approach, whereby material errors and violations will be uncovered with reasonable assurance.

The IFRS accounting standards as they are to be applied in the European Union are summarized in an accounting manual that includes an account assignment guideline (IFRS Accounting Manual). All companies in the Group must base their accounting processes on the standards described in the accounting manual. Important accounting and valuation standards, such as the recognition and measurement of fixed assets, inventories and receivables, as well as provisions and liabilities, are defined in a binding manner. The Group also has system-supported reporting mechanisms to ensure that identical situations are handled in a standardized way across the Group.

The Consolidated Financial Statements and Consolidated Management Report are prepared according to a uniform time schedule for all companies. Each company in the Group prepares its separate financial statements in accordance with the applicable local accounting guidelines and IFRS. Intra-Group deliveries and services are recorded in separately designated accounts by the Group companies. The net balances of Intra-Group offsetting accounts are reconciled on the basis of defined guidelines and schedules by means of balance confirmations. The companies in the Group use the COGNOS reporting system for financial reporting. In accordance with NORMA Group's regional segmentation, technical responsibility for the financial area is shared by both the financial officers in the Group companies as well as by the regional CFO for the respective segment. They are responsible for the quality assurance of the financial statements of the respective Group companies. The comprehensive quality assurance of the financial statements of the Group companies included in the Consolidated Financial Statements is carried out by Group Accounting, Tax & Reporting, which is responsible for preparing the Consolidated Financial Statements. In addition, the data and disclosures of the Group companies as well as the

consolidation measures necessary for the preparation of the Consolidated Financial Statements are verified through audit procedures conducted by external auditors under consideration of the associated risks.

The various IT systems that individual NORMA Group companies use to perform financial accounting are gradually standardized. Tiered user access rights are defined for all systems. The type and design of these access authorizations and authorization policies are decided on by local management in coordination with NORMA Group's central IT department.

Risk and opportunity profile of NORMA Group

As part of the preparation and monitoring of its risk and opportunities profile, NORMA Group assesses risks and opportunities based on their financial impact and their probability of occurrence. The financial impacts of risks and opportunities are assessed based on their relation to EBITA. The following five categories are used here:

- Insignificant: up to 1% of current EBITA
- Minor: more than 1% and up to 5% of current EBITA
- Moderate: more than 5% and up to 10% of current EBITA
- Significant: more than 10% and up to 25% of current EBITA
- High: more than 25% of current EBITA

The impact of the risk or opportunity generally relates to the EBITA of the Group. Provided that an individual assessment relates solely to a specific segment, the EBITA of the respective segment is used instead. The assessment of opportunities and risks whose financial impact has an effect on line items in the Statement of Comprehensive Income below EBITA is also performed in relation

to EBITA. The presented impact always reflects the effects of countermeasures initiated.

The probability of individual risks and opportunities occurring is quantified based on the following five categories:

- Very unlikely: up to 3% probability of occurrence
- Unlikely: more than 3% and up to 10% probability of occurrence
- Possible: more than 10% and up to 40% probability of occurrence
- Likely: more than 40% and up to 80% probability of occurrence
- Very likely: more than 80% probability of occurrence

Financial opportunities and risks

NORMA Group is exposed to various financial risks, including default, liquidity and market risks. The Group's financial risk management strategy concentrates on the identification, evaluation and mitigation of risks, focusing on minimizing the potential negative impact on the Company's financial, asset and earnings position. Derivative financial instruments are used to hedge particular risk items. Financial risk management is carried out by Group Treasury. The Group Management defines the areas of responsibility and necessary controls related to the risk management strategy. Group Treasury is responsible for identifying, evaluating and hedging financial risks in close consultation with the Group's operating units. In this context, various processes and organizational structures work together to measure and evaluate opportunities and risks on a regular basis, and to initiate appropriate measures if necessary. Group Treasury regularly conducts analyses of default risks, interest rate risks, currency

risks and liquidity risks. The results are then discussed internally and actions are defined. Group Treasury also advises the management of relevant departments in monthly committee meetings and discusses how to handle these risks and the potential impact on NORMA Group → [NOTES, P. 142](#)

Capital risk management

NORMA Group's objective when it comes to managing its capital is primarily the long-term servicing of its debts and remaining financially stable. In connection with most of its financing agreements, the Company is obliged to maintain the financial covenant total net debt cover (debt divided by adjusted consolidated EBITDA). This key figure and its maintenance, but also net debt and the maturity structure of financial debt, are continually monitored. Changes in the value of the amounts included in this financial indicator are limited by employing long-term hedging strategies.

Default risks

Default risks are risks of contractual partners not meeting their obligations arising from business and financial transactions. Due to the nature of the respective assets and business relationships, as well as the soundness of its current banking partners, default risks with respect to deposits and other transactions concluded with credit and financial institutions currently do not represent a major risk category for NORMA Group. Nevertheless, the creditworthiness of contract partners is continuously monitored and discussed at regular senior management meetings.

Relevant default risks can arise, however, with respect to business relationships with customers and relate to outstanding receivables and committed transactions. NORMA Group reviews the creditworthiness of new customers to minimize the risk of default on trade receivables. Customers whose credit ratings are below Group standards or who have defaulted on payment are only supplied if they pay in advance. Additionally, a diversified customer portfolio reduces the financial repercussions of default risks. Default risks are still considered to be unlikely due to the measures referred to above. The potential financial effects of default risks are judged to be insignificant considering the relevant factors, such as bad debt losses experienced in the past, and due to the countermeasures taken.

Liquidity opportunities and risks

Prudent liquidity risk management requires holding sufficient cash funds and marketable securities, having sufficient financing from committed lines of credit and being able to close out market positions. Due to the dynamic nature of the underlying business, of NORMA Group, Group Treasury aims to maintain flexibility in financing by keeping committed credit lines available. Therefore, NORMA Group's primary objective is to ensure the uninterrupted solvency of all Group companies. Group Treasury is responsible for liquidity management and therefore for minimizing liquidity risks. As of December 31, 2019, NORMA Group's liquid assets (cash and cash equivalents) amounted to EUR 179.7 million (2018: EUR 190.4 million). Furthermore, NORMA Group has a high level of financial flexibility thanks to a committed revolving credit line with national and international credit institutions in the amount of EUR 50 million. This line was not drawn down at all as of December 31, 2019. In the course of the refinancing in 2019, a

further flexible accordion line was negotiated, which has further increased NORMA Group's ability to take strategic action. Furthermore, a commercial paper program with a total volume of EUR 300 million was launched in 2019, which can be used flexibly to cover short-term liquidity requirements. These money market papers, which are equivalent to bearer bonds, are issued on a revolving basis for a short-term period of 1 to 24 weeks and thus allow the Group's own liquidity to be managed in line with requirements.

Financial opportunities are seen, among other areas, in NORMA Group's high creditworthiness as well as its solid financial, assets and earnings position, which enable the Company to gradually reduce its capital costs. Against this backdrop, NORMA Group successfully refinanced the maturing promissory note tranche from 2014 and the bank loan negotiated in 2015 in full in the past fiscal year. The new financing is characterized by even more committed degrees of freedom and lower interest costs. This new bank loan of EUR 250 million also includes a sustainability component linked to an external rating. By further improving its sustainability rating, NORMA Group has the opportunity to further reduce its external interest burden. In addition to the revolving credit line, which was not used at the end of the year, a flexible accordion line was negotiated, which grows with the success of NORMA Group. The liquidity-related opportunities are considered likely, in particular due to the positive assessment by the banking partners and the resulting reputation on the capital market. In light of the refinancing measures carried out in the recent past, by which the borrowing costs have already been reduced quite considerably, the potential financial effects of liquidity-related opportunities on NORMA Group's earnings are considered to be only minor. → [FINANCIAL POSITION, P. 69](#)

Most of the Group's financing agreements contain typical terms for credit lines (financial covenants). If NORMA Group does not adhere to these terms, the banks would be entitled to re-evaluate the agreements and demand early repayment. Failure to comply with these loan covenants would have high potential financial repercussions. For this reason, NORMA Group continuously monitors its compliance with the financial covenants in order to implement suitable measures in advance and prevent the terms from being violated. In order to hedge balance positions in foreign currencies whose valuation leads to fluctuations in the profit and loss account, NORMA Group partly uses rolling hedging transactions. Group Treasury ensures that sufficient liquidity or granted credit lines are available at all times to cover possible cash outflows related to these hedging measures. This is continuously monitored by means of risk simulation and discussed in senior management meetings. The probability of liquidity risks having a negative impact on NORMA Group's activities is very unlikely given the high level of financial flexibility provided by committed and unused bank credit lines. The risk of non-compliance with financial covenants is still considered very unlikely due to high profitability and a strong operating cash flow. In the event of (short-term) increased liquidity requirements that exceed currently negotiated lines, the possibilities of raising funds at market conditions, by issuing new bonds on the commercial paper capital market, for example, are considered to be very good.

Foreign currency trends

As an internationally operating company, NORMA Group is active in more than 100 countries and is thus exposed to foreign currency risks. The US dollar, British pound, Swiss franc, Chinese renminbi, Polish zloty, Swedish krona, Czech koruna, Singapore dollar, Indian rupee and Serbian dinar are regarded to be the main risk-prone currency positions.

Foreign currency risks that cannot be offset against each other are hedged using futures and options whenever reasonable. The high volatility of many major currencies and the particular influence of the US dollar on the Group's financial, assets and earnings position represent a considerable risk that can be only partially hedged for a short-term period. In the medium term, NORMA Group reduces foreign currency risks by increasing regional production. → [PRODUCTION AND LOGISTICS, P. 74](#)

Because the Group's subsidiaries operate in the most important countries with currencies other than the euro, it has sufficient cash-in and cash-out capabilities to absorb short-term exchange rate fluctuations via targeted income and expenditure management. The syndicated bank loan refinanced in fiscal year 2019 has further increased flexibility in foreign currency management. The syndicated bank loan provides for credit lines in various currencies to be utilized (e.g. US dollars and euro tranches). In addition, the US dollar promissory note tranches issued lead to a better congruence of the payment profiles in US dollars. The remaining foreign currency risks are continuously monitored within the Group and, in the event of any exceedance of risk limits, are transferred to the euro on a rolling basis using derivative hedging instruments. Translation risks are constantly monitored by Group

Treasury, but are not hedged using derivative hedging instruments in the current environment. As a result, items in the Statement of Financial Position and Statement of Comprehensive Income of subsidiaries in foreign currency areas are translated into euros.

The potential financial effects of opportunities and risks related to exchange rate changes are considered to be moderate based on the sensitivity analyses that have been performed. The probability of the incidence of these risks and opportunities is assessed to be possible in light of recent exchange rate fluctuations and the uncertainties with regard to the further development of relevant exchange rates.

Changes in interest rates

Changes in global market interest rates affect future interest payments for variable interest liabilities and can therefore have an adverse effect on the Group's asset, financial and earnings position. NORMA Group's interest change risk arises in particular from long-term loans.

Many of the current loans have fixed interest rates and are therefore not subject to interest rate risk. → [GOALS REGARDING FINANCE AND LIQUIDITY MANAGEMENT, P. 55](#)

Loans that initially had variable interest rates were partly synthetically converted into fixed interest rate positions using derivative instruments. NORMA Group has hedged over 60% of its variable interest rate loans in USD valued at USD 171 million in total. On the other hand, variable rate loans denominated in euros in the amount of EUR 165 million are for the most part unhedged.

Due to the fact that there are currently no signs of a more restrictive monetary policy in the euro zone, NORMA Group views the risk of interest rate increases in the short term to be unlikely and in the medium term as possible. In view of the current low interest rate level in the euro zone, the chances of a further reduction in interest rates are considered unlikely in the short and medium term. In the US dollar zone, on the other hand, the probability of further interest rate cuts is considered possible in both the short and medium term, which would lead to corresponding opportunities for NORMA Group. NORMA Group considers the risk of rising US interest rates to be unlikely in the short term and possible in the medium term. Against the background of the measures already implemented to optimize the financing structures, the financial effects associated with these risks and opportunities are assessed as low.

In summary, NORMA Group assesses the opportunities and risks arising from interest rate changes as possible in principle, although risks from rising interest rates are even considered to be unlikely in the short term. The possible effects are classified as low in all scenarios, both in the short and medium term.

Economic and cyclical opportunities and risks

The success of NORMA Group largely depends on macroeconomic trends on its sales markets and its customers' sales markets. Therefore, important indicators of economic development worldwide are taken into account both in planning as well as in risk and opportunities management. In order to gauge the macroeconomic trend, NORMA Group mainly uses the forecasts of widely regarded institutions such as the IMF, the Bundesbank and reputable economic research institutes. Accordingly, global growth of 3.2% can be expected in 2020.

In the previous year, in addition to the uncertain outcome of the Brexit process and the consequences of a continuing rise in protectionism, the resulting geopolitical risks were identified as significant risk factors with regard to economic development. In

addition, a flattening of the pace of expansion of the Chinese market and the high level of government debt in Italy and France and their negative impact on economic development in Europe are seen as further potential risks. For the current fiscal year, relevant risk factors include the negotiations on the design of future trade rules with the EU following the Brexit, protectionist activities in connection with the possible conclusion of a trade agreement between the US and the EU, and other geopolitical crises. In addition, the structural problems in Italy and France, among others, could have a negative impact on how the economy in Europe develops. In addition, NORMA Group considers the coronavirus (COVID-19), which first appeared in China, to be a major burden on the development of the global economy in fiscal year 2020. The further spread of the virus and the associated containment and quarantine measures could lead to substantial production losses due to plant closures and slumps in demand, particularly in the first half of the year, and increasingly affect areas and industries in countries outside China that are initially only indirectly affected due to globally integrated value chains. In this context, the global economy is not expected to be significantly impaired beyond the first half of 2020. However, if the further spread of this epidemic is not halted promptly, it is increasingly unlikely that the negative effects, such as production and demand gaps, can be closed as the year progresses.

In light of the possible overall economic impact of these developments, NORMA Group is of the opinion that a negative development of the global economy compared to the planning assumptions is currently classified as likely taking these risks into account. Should these factors lead to a deterioration in global demand, the financial deviations from planning are considered to be moderate. A positive development of the global economy that goes beyond the planning assumptions would represent an opportunity for NORMA Group. Thanks to its flexible production structures, NORMA Group is able to expand capacities in the short term and thus respond to a generally increased demand. The Company believes it is unlikely that the global economic situation and thus NORMA Group's earnings will improve beyond the



Climate change: an eye on opportunities and risks

Dealing with the consequences of climate change and the increasing scarcity of resources properly is becoming increasingly important. NORMA Group's main objective is to identify risks and opportunities arising from the changing environment and to recognize potential.

The growing electromobility market is a consequence of the ongoing demand for a reduction in greenhouse gas emissions. Opportunities have arisen for NORMA Group in this area, in the development of innovative systems in the fields of thermal management for batteries and water, for example, when it comes to landscape irrigation, rainwater management and infrastructure solutions.

Nevertheless, NORMA Group also keeps a close eye on the risks that could arise, an increase in the cost of production processes that could result if greenhouse gas emissions were to be priced, for example. Potential losses of business in the automotive sector in connection with conventional drives are also monitored closely on an ongoing basis and appropriate steps are taken in good time as required.

The information embedded in this box is not part of the Consolidated Management Report and thus not subject to audit.

planning assumptions. In the overall view of the current macroeconomic climate and the prospects based thereon, the potential financial impact of these opportunities is considered minor as in the previous year.

Industry-specific and technological risks and opportunities

Industry-specific and technological opportunities and risks for NORMA Group are closely linked to the conditions and developments in the respective customer industries. → [PRODUCTS AND END MARKETS, P. 47](#) It should be borne in mind, however, that the customer industries in the regions relevant to NORMA Group, EMEA, the Americas and Asia-Pacific, have partly specific characteristics and challenges.

Business activities with OEMs for passenger cars and commercial vehicles as well as customers in the aftermarket segment still represent the most important end markets for NORMA Group. In this area, the ever-stricter emission standards as well as the increasing use of more environmentally friendly drive technologies represent a development that is associated with various opportunities and risks for NORMA Group. NORMA Group's current product portfolio includes a variety of solutions that help reduce emissions in passenger cars and commercial vehicles equipped with an internal combustion engine, including hybrid vehicles, and thus help customers meet ever-stricter emission requirements.

NORMA Group is also in a good position to meet the challenges of ever more relevant electromobility through its future-proof product portfolio. Accordingly, research and development activities relating to purely battery-powered electric vehicles as well as hybrid vehicles represent a strategic focus, within the framework of which new product solutions are being developed and existing products constantly enhanced. Regulatory measures such as stricter exhaust gas standards and the resulting increased demand for environmentally friendly products and technologies thus open up a variety of opportunities for NORMA Group.

On the other hand, risks for NORMA Group may arise from the ongoing discussion of compliance with emission standards for vehicles with combustion engines. NORMA Group counters these risks through continuous initiatives aimed at securing and expanding its technological and innovative leadership and by focusing on customers and markets. Accordingly, NORMA Group systematically analyzes current market developments in the area of future technologies and consistently develops new products based on this analysis. The first products for fuel cell powered vehicles have already been successfully launched on the market. For example, NORMA Group has already been supplying a line system for a fuel cell vehicle in series production since 2018, which could lead to further research and follow-up projects. Even in the context of a steadily increasing share of purely battery-powered electric vehicles, it will be important for NORMA Group to continue to be able to offer suitable innovative product solutions in this dynamic environment. → [RESEARCH AND DEVELOPMENT, P. 55](#)

The water management segment, which has been consistently strengthened by the acquisitions carried out in past years, represents another strategically important customer industry for NORMA Group. The increasing scarcity of water and the responsible handling of this important resource in this context are leading to business opportunities.

NORMA Group's strong diversification in terms of customers in different industries is another element of the Company's risk and opportunity management. NORMA Group counters long-term, industry-specific risks and opportunities through a consistent innovation policy and regular market analyses.

In summary, the industry-specific and technological opportunities and risks are assessed as possible with a moderate financial impact.

Risks and opportunities associated with corporate strategy

The strategic goal of NORMA Group is to achieve a sustained increase in the Company's value. In view of this goal, NORMA Group is pursuing the strategy of profitably expanding its business activities through organic growth as well as selective value-enhancing acquisitions and achieving broad diversification with respect to its products, regions and end markets, thus becoming less dependent on individual products, regions and end markets. NORMA Group's aim is to grow with innovations, superior product quality and strong brands in existing end markets, to open up new end markets and to continuously improve the efficiency of its business processes in all functional areas and regions.

→ [GOALS AND STRATEGY, P. 49](#)

Besides the Company's strategic activities aimed at continuing to develop the business organically, NORMA Group sees considerable opportunities to sustainably increase the Group's financial result, particularly through its strategy of profitably expanding its business activities by making selective, value-adding acquisitions. NORMA Group has been able to demonstrate the success of this strategy several times in the past by completing its acquisitions. If, however, in individual cases, the development of the acquired companies falls behind the expectations at the time of acquisition or if integration progresses more difficultly than assumed, risks could also arise from acquisitions for NORMA Group. However, NORMA Group believes that the Company's goals for the profitability of potential acquisitions, careful due diligence measures in the run-up to the acquisition, and agreed integration plans form the basis for mitigating these risks accordingly.

In addition, opportunities to achieve its financial targets arise for NORMA Group from the broad diversification with respect to its products, regions and end markets. Should the demand in individual regions and end markets or the demand for individual products temporarily lag behind planning, NORMA Group will have the chance to compensate for this via other regions, end markets or products. Nevertheless, the broad diversification with respect to products, regions and end markets also implies a certain complexity, which can be associated with risks for NORMA Group. Because NORMA Group's diversification efforts are being carried out step by step with regard to the regions and end markets as well as its products, these risks can be adequately limited by means of an appropriate adaptation of the organization to the changed circumstances. Accordingly, NORMA Group is addressing the reduction of complexity and streamlining of its current product portfolio via an independent field of action as part of its "Get on Track" change program.

With respect to the efficiency of its business processes, NORMA Group is able to settle production processes that require a higher degree of manual assembly effort in countries with lower labor costs, thus securing and further increasing its profitability. However, there are inevitably risks associated with making these types of decisions on locations and related investments if significant assumptions made in the investment decision are not fulfilled. NORMA Group addresses these risks by conducting careful analyses in the run-up to investment decisions and uses graded approval procedures. Future risks from the location decisions already made will be evaluated in fiscal year 2020 as part of the "Get on Track" program and be included in decisions on optimizing the capacities of Group sites.

When the corporate strategy initiatives of NORMA Group are combined, the financial impact of the opportunities associated with NORMA Group's Company strategy is assessed as moderate and a positive deviation from planning as possible. Based on the measures taken to limit the risks associated with NORMA Group's corporate strategy, the probability of the occurrence of strategic risks is considered unlikely, while the potential financial impact of corporate strategy risks is considered moderate.

The Company strategy is adapted to the individual market conditions in the individual segments. For instance, acquisitions are made particularly in those countries and regions that offer attractive growth opportunities for NORMA Group. Nevertheless, the general assessment of corporate strategy opportunities and risks in the regions is identical.

Operational risks and opportunities

Commodity prices

The materials that NORMA Group uses, in particular the raw materials steel and plastics, are subject to the risk of price fluctuations. The price trend is also influenced indirectly by the further development of the global economic situation as well as by institutional investors. NORMA Group limits the risk of rising purchase prices through systematic material and supplier risk management. Thanks to a powerful global Group purchasing structure, economies of scale are being used to purchase the most important commodity groups FASTEN, FLUID und WATER as competitively as possible. This Group purchasing structure also enables NORMA Group to balance out the risks of individual segments with each other. NORMA Group also constantly strives to secure permanently competitive procurement prices by continuously optimizing its selection of suppliers and applying the best-landed-cost-approach. The Company also tries to reduce dependency on individual materials through constant technological advances and tests of alternative materials. Protection against commodity price volatility is done by forming procurement contracts with a term of up to 24 months, whereby material supply risks are minimized and price fluctuations can be calculated more accurately.

The high price level for purchasing steel and metal components remained largely unchanged due to the increasing protectionist measures in the US. The steel procurement markets in Europe and Asia (China) showed a decline in prices due to the economic slowdown. The alloy surcharges relevant for stainless steel rose sharply during the year after the Indonesian government announced an early ban on nickel ore exports. As a result of weaker demand and high inventories, especially in China, prices declined again at the end of the year. Analysts continue to assume a risk of rising nickel prices and a volatile market in the future. This is due to the use of nickel in batteries for electromobility.

In the procurement market for plastics, NORMA Group recorded rising procurement prices at the beginning of the past fiscal year. This was initially due to the continuing high demand for engineering plastics. As a result, producers in some cases initially continued to allocate material. Due to the economic downturn, particularly in the automotive sector, this led to a significant global decline in demand for engineering plastics. As a result, the supply situation has eased to a large extent. The possibility of a recovery in the global economy, which could lead to supply bottlenecks for engineering plastics and the associated price increases, is not yet foreseeable. Taking into account NORMA Group's procurement portfolio, price increases for raw materials are considered likely overall. However, the associated financial impact is estimated to be minor. Similarly, the opportunities arising from declining raw material prices are also considered to be minor in terms of their financial impact. Against the backdrop of the complete procurement spectrum and taking into account the prevailing volatility on the raw material markets, potential price reductions are still considered unlikely overall.

Suppliers and dependencies on key suppliers

The loss of suppliers and dependencies on single suppliers can lead to material shortages and thus to negative impacts on the Group's activities. In order to minimize this risk, NORMA Group only works with reliable and innovative suppliers who meet its high quality requirements. In the area of production material, the ten most important suppliers are responsible for approximately 28% of the purchasing volume. → [PURCHASING AND SUPPLIER MANAGEMENT, P. 76](#) These and other key suppliers are regularly observed and assessed as part of quality management. If the loss of a supplier appears imminent, NORMA Group evaluates

alternatives immediately. As a result, the loss of suppliers is considered possible, but the potential financial impact is regarded as minor. However, NORMA Group also sees opportunities in this area as a result of its proactive approach both in terms of existing supplier relationships as well as identification of new suppliers and raw materials. Since further optimization in the area of purchasing can also be anticipated in the medium term due to the "Get on Track" change program rolled out in November, NORMA Group estimates the potential of the implemented measures for a positive deviation from planning to be possible with a minor impact.

Quality and processes

NORMA Group's products are often mission-critical with respect to the quality, performance and reliability of the final product. Quality defects can lead to legal disputes, liability for damages or the loss of a customer. Therefore, the reliable guarantee of product quality is a key factor to ensuring NORMA Group's long-term success, so that its products provide crucial added value for its customers. → [QUALITY MANAGEMENT, P. 75](#) Maintaining the right balance between cost leadership and quality assurance is a constant challenge. To reduce this risk, far-reaching quality assurance measures and uniform Group-wide quality standards are used. Furthermore, NORMA Group focuses on innovative and value-added joining solutions tailored to meet customer requirements. For this reason, the Company believes that it is possible for quality risks to occur, while the potential financial repercussions would be minor due to the existing insurance coverage.

NORMA Group takes every opportunity to realize cost advantages to improve its competitive position. The Company develops and implements initiatives focused on cost discipline, the continuous improvement of processes in all functions and regions and the optimization of supply chain management and production processes. These initiatives are expected to have a positive impact on NORMA Group's business. → [PRODUCTION AND LOGISTICS, P. 74](#) Since NORMA Group pursues a continuous process of improvement, there are opportunities over and above planning for positive deviations in the area of these processes. This applies for all regions in which NORMA Group is active. The Company estimates the likelihood of cost savings to be possible. Since planning already allows for continuous optimization of production processes and NORMA Group's processes are already extremely efficient, the short-term financial impact of a deviation from the plan as a result of improved production processes is minor.

Customers

Customer risks result from a company being dependent on important buyers for a significant proportion of its sales. They could take advantage of their bargaining power, which can lead to increased pressure on the Company's margins. Decreases in demand from these customers or the loss of these customers can have a negative impact on the Company's earnings. For this reason, NORMA Group continuously monitors incoming orders and customer behavior so as to identify customer risks early. Due to its diversified customer portfolio, financial repercussions of customer risks are reduced. Accordingly, no single customer accounted for more than 4% of sales in fiscal year 2019. Therefore, it is considered possible that customer risks could have a negative impact on NORMA Group's business, however the financial effects would be minor due to the diversified customer structure.

Based on NORMA Group's strategy and the goal of further expanding its markets, the Company managed to expand its customer portfolio compared to the previous year. Innovative solutions were used to gain new customers for NORMA Group products in all regions. Therefore, NORMA Group estimates the opportunities for positive deviations from planning to be possible with a minor impact on earnings based on a growing number of customers.

Risks and opportunities of personnel management

NORMA Group's success is largely dependent on its employees' enthusiasm, commitment to innovation, expertise and integrity. The Group's personnel management serves to retain and expand this core expertise. The resignation of employees with crucial skills as well as a shortage of suitable workers can have a negative impact on operations. The competition for the most talented employees as a result of demographic developments and the shortage of skilled labor in Western industrial nations is becoming more and more intense.

NORMA Group counters these risks with far-reaching basic and advanced training as well as employee development programs. NORMA Group also encourages its employees to focus on the Company's success through variable remuneration systems. In return, the employees contribute to the continuous further development of the Company in connection with employee surveys and improvement initiatives. Comprehensive representation rules and a division of responsibilities that promotes mutual exchange secure the Group from risks that can arise due to the departure of employees. When identifying potential new employees who can make a crucial contribution to performance, NORMA Group seeks the advice of external human relations advisors.

While the Company regards the probability of personnel risks occurring as possible overall, the potential financial impact is considered insignificant due to its sustainable personnel policy.

In addition, opportunities arise from the consistent further development of employees. NORMA Group fosters its employees and offers them incentives to further develop their personal expertise through educational and training opportunities as well as the targeted search for talent within the Group. Furthermore, NORMA Group offers its employees flexible and family-friendly working time models. Through the above-mentioned measures, NORMA Group actively supports the preservation and collection of knowledge within the Company, which will thus offer opportunities for the future development of NORMA Group. The occurrence of these opportunities is considered likely, whereby the associated financial success is considered to be minor.

IT-related risks and opportunities

The use of functional and high-performance IT systems is of central importance for an innovative and global Company such as NORMA Group with regard to the efficiency of its business processes. In this context, it is critical for the Company's success to support the business processes of NORMA Group, which are partly organized across corporate and national boundaries along the value chain with stable and powerful IT systems that provide the management at all levels with the necessary information in a timely manner and allow for efficient organization of workflows. For the exchange of information with customers and suppliers of NORMA Group, tailor-made IT solutions connected to the respective ERP systems are likewise of great importance. With regard to this business-critical IT infrastructure, there is a risk that an extensive computer system failure, e.g. due to technical malfunctions of the systems or attacks by hackers, could seriously disrupt the Company's operations.

In addition, NORMA Group sees the risk that external users could gain unauthorized access to sensitive Company information and misuse it. In this context, unauthorized access to information about production processes as well as financial, customer and employee data could have a negative impact on the Company.

For this reasons, NORMA Group has implemented appropriate measures to avoid and reduce this type of risk. These measures are embedded in the IT risk management process and are adjusted continuously in this context to changing conditions. For example, NORMA Group manages the IT risks it identifies by arranging for redundant provision of business-critical applications and databases via physically separated data center areas, using decentralized data storage and outsourced data archiving to a certified external provider, and by using up-to-date firewalls and e-mail filters, including permanent network monitoring. The access of employees to sensitive information is ensured by means of authorization systems customized for the respective positions, taking into account the principle of segregation of duties. Finally, employees are trained to be more aware of data security aspects. The gradual transfer of old ERP systems into new, uniform Group systems, which will be further advanced in 2019, also harbors risks. During the necessary process changes in the respective plants and distribution centers, adjustment problems may arise at the process level that could result in additional shifts or special freight requirements, for example. If necessary, redundant internal and external resources are kept available to mitigate these risks.

NORMA Group estimates the probability of IT-related risks occurring in all regions despite the countermeasures implemented to be probable (possible in the previous year) and the potential financial impact to be moderate (low in the previous year).

The risks arising from the migration from the old ERP systems to uniform new systems for the entire Group are also offset in the medium term by opportunities arising primarily from the potential for process standardization and optimization across all companies in the NORMA Group. The opportunities that may result from this standardization are regarded as probable. The related financial effects are expected to be at a low level.

Legal risks and opportunities

Risks related to standards and contracts

Future changes to legislation and requirements, especially liability law, environmental law, tax law, customs law and labor law, as well as changes in related standards, could have a negative impact on NORMA Group's development. Violations of laws and regulations, but also of contractual agreements, can lead to penalties, regulatory requirements or claims from injured parties. Conversely, NORMA Group can be adversely affected by legal or contractual breaches by third parties. In addition, defective products may result in legal disputes and liability for damages. Likewise, the results of tax audits can lead to tax payments, including penalties and interest.

In 2019, litigations in most cases involved labor disputes. Here, the respective NORMA Group companies were sued in connection with the termination of employment relationships. Disputes with customers concerned both alleged product defects and payment

claims of NORMA Group companies against customers. NORMA Group has asserted claims against suppliers in connection with defective deliveries. Another focus was on legal proceedings concerning its own- or third-party IP rights. In addition, NORMA Group was involved in proceedings relating to tax and customs law issues.

NORMA Group uses its current compliance and risk management systems to ensure that it complies with constantly changing laws and regulations and meets its contractual obligations. NORMA Group counters the risk of product defects through its Group-wide quality assurance program. In addition, NORMA Group is also insured against claims arising from certain defective products.

Due to the current significant changes in international tax law (e.g. the OECD BEPS Initiative), in particular, which can lead to unanswered legal questions, as well as the increased auditing intensity of tax audits that can be seen in many countries, the likelihood of risks related to standards and contracts is considered possible. However, due to the current risk management measures, the potential financial impact of risks in connection with standards and contracts is still considered to be moderate.

Known legal risks to which NORMA Group is exposed and whose occurrence is sufficiently specified are adequately taken into account by provisions in the Consolidated Financial Statements.

Social and environmental standards

Violating social and environmental standards could damage the reputation of NORMA Group and result in restrictions, claims for damages or disposal obligations. NORMA Group has therefore implemented Corporate Responsibility as an integral part of the Group strategy. In this context, a systematic Environmental Management System was introduced at NORMA Group so that corporate decisions can always be evaluated also considering the goal of avoiding emissions and conserving resources. The Company also invests in the area of occupational health and safety for its continuous improvement. → [EMPLOYEES, P. 77](#)

The probability of occurrence of negative developments due to social and environmental risks is still estimated as possible and their potential financial impact as moderate.

However investments in the area of Corporate Responsibility serve not only to ward off risks. The measures and initiatives are also seen as having the potential to positively impact both the business environment as well as NORMA Group and its stakeholders. Therefore, NORMA Group estimates the opportunities in this area to be possible and assumes that the measures and initiatives will have a minor impact on its planning.

Intellectual property

Violations of intellectual property rights could lead to lost sales and reputation. For this reason, the Company ensures that its technologies and innovations are legally protected. NORMA Group also minimizes the potential impact by developing customer-specific solutions and through its speed of innovation. At the same time, it is also possible for NORMA Group to violate the intellectual

property of third parties. For this reason, developments for potential patent violations are reviewed at an early stage. Therefore, it is considered possible for the intellectual property to be violated. In view of the increase in IP disputes, the associated potential effects and possible other legal infringements are assessed as moderate in contrast to the previous year. In addition, NORMA Group also sees opportunities as possible that can lead to a minor deviation from the medium-term plan as a result of the consistent defense of the intellectual property and the expansion of legal unique selling points.

Assessment of the overall profile of risks and opportunities by the Management Board

The Group's overall situation results from the aggregation of individual risks and opportunities from all categories of the business units and functions. After assessing the likelihood of risks occurring and their potential financial impact as well as in light of the current business outlook, NORMA Group's Management Board does not believe that there is any individual risk or group of risks with the potential to jeopardize the continued existence of the Group or individual Group companies as a going concern. Taking the aggregated opportunities into account, NORMA Group is in a very good position with respect to both the medium and long terms to further expand its market position and grow globally. This assessment is reinforced by the good opportunities to cover the financing requirements. Therefore, NORMA Group has not made any effort to obtain an official rating from a leading rating agency.

General economic risks remain for NORMA Group in all areas, which is why setbacks on the way to long-term realization of the growth and profitability targets cannot be ruled out. In contrast, there are clear opportunities that NORMA Group is taking advantage of through its strategy and consistent opportunity management, so that it is possible that the Company might even exceed its profitability targets.

The changes in the individual opportunities and risks shown in the overview have no significant impact on NORMA Group's overall risk profile. NORMA Group has therefore concluded that the Group's overall profile has not changed significantly compared to the previous year.

Risk and opportunity portfolio of NORMA Group ¹

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	Probability of occurrence					Change comp. to 2018	Financial impact					Change comp. to 2018
	very unlikely	unlikely	possible	likely	very likely		insignificant	minor	moderate	significant	high	
Financial risks and opportunities												
Default risk						▶	■					▶
Liquidity	■	■				▶				■		▶
	Risks					▶						▶
	Opportunities				■	▶						▶
Currency			■			▶		■				▶
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶
Change in interest rates			■			▶		■				▶
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶
Economic and cyclical risks and opportunities												
	Risks				■	▶		■				▶
	Opportunities		■			▶		■				▶
Industry-specific and technological risks and opportunities												
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶
Risks and opportunities associated with corporate strategy												
	Risks		■			▶		■				▶
	Opportunities			■		▶		■				▶
Operational risks and opportunities												
Commodity pricing					■	▶		■				▶
	Risks				■	▶		■				▶
	Opportunities		■			▶		■				▶
Suppliers			■			▶		■				▶
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶
Quality and processes			■			▶		■				▶
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶
Customers			■			▶		■				▶
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶
Risks and opportunities of personnel management												
	Risks			■		▶	■					▶
	Opportunities				■	▶		■				▶
IT-related risks and opportunities												
	Risks				■	▶		■				▶
	Opportunities				■	▶		■				▶
Legal risks and opportunities												
Risks related to standards and contracts			■			▶		■				▶
	Risks			■		▶		■				▶
Social and environmental standards			■			▶		■				▶
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶
Property rights			■			▶		■				▶
	Risks			■		▶		■				▶
	Opportunities			■		▶		■				▶

1_If not indicated differently, the risk assessment applies for all regional segments.

