WILO GROUP
ANNUAL REPORT

2020

wilo

“2020 was a moving year not only for the world, but also for Wilo. Wilo successfully navigated this challenging time and we are looking to the future with optimism.”

Oliver Hermes
President & CEO,
Wilo Group

ABOUT WILO

The Wilo Group is one of the **world's leading premium providers** of pumps and pump systems for the building services, water management and industrial sectors. In the past decade, we have developed from a hidden champion into a visible and **connected champion.** Today, Wilo has around **8,000 employees** worldwide.

Our innovative solutions, smart products and individual services move water in an **intelligent, efficient and climate-friendly** manner. We are also making an important contribution to climate protection with our **sustainability strategy** and in conjunction with our partners. We are systematically pressing ahead with the digital transformation of the Group. We are already the **digital pioneer** in the industry with our products and solutions, processes and business models.

MARKET SEGMENTS

BUILDING SERVICES RESIDENTIAL

We are a full-range supplier and customers' first choice.

BUILDING SERVICES COMMERCIAL

We are a market, innovation and smart solution leader.

OEM

We are the preferred partner for smart integrated solutions.

WATER MANAGEMENT

We are a global market player and digital solution provider.

INDUSTRY

We specialise in selected sectors and applications.

EUR 1,451.5 MILLION

Despite the difficult conditions due to the pandemic and the economic situation, the Wilo Group achieved net sales growth of 1.8 percent after adjustment for exchange rate effects in the 2020 financial year.

EUR 161.5 MILLION

At EUR 161.5 million, cash flow from operating activities remained essentially unchanged compared with the previous year's record level, thanks in particular to intensified working capital management.

KEY FIGURES

		2020	2019	2018	2017	2016
Net sales	EUR million	1,451.5	1,477.8	1,463.5	1,424.8	1,327.1
Net sales growth	%	1.8*/-1.8	1.0	2.7	7.4	0.8
EBITDA	EUR million	141.2	180.1	153.5	160.6	158.1
(as % of sales)	%	9.7	12.2	10.5	11.3	11.9
Consolidated net income	EUR million	24.9	72.4	64.2	85.9	76.0
(as % of sales)	%	1.7	4.9	4.4	6.0	5.7
Cash flow from operating activities	EUR million	161.5	168.5	81.7	140.4	137.4
Cash	EUR million	189.0	166.1	135.4	161.8	178.3
Capital expenditure**	EUR million	120.9	155.7	154.8	195.7	113.0
R&D costs***	EUR million	68.6	67.6	66.3	63.6	65.0
(as % of sales)	%	4.7	4.6	4.5	4.5	4.9
Equity	EUR million	764.8	792.4	738.4	707.0	653.6
Equity ratio	%	45.6	48.3	49.5	51.6	53.6
Employees (annual average)	Number	7,836	7,749	7,830	7,726	7,548

EUR 68.6 MILLION

Research and development have always played an important role at the Wilo Group. In 2020, we again made significant investments in the development of pioneering technologies that were slightly in excess of the high level recorded in the previous year.

7,836 EMPLOYEES

The Wilo Group's more than 7,800 employees are the basis for and the driving force behind its economic success. Wilo is meeting the challenges of the coronavirus pandemic extremely well, not least thanks to the exemplary attitude of all its employees, their great sense of solidarity and their impressive commitment.

* Adjusted for exchange rate effects

** Investments in intangible assets, property, plant and equipment and company acquisitions

*** Including capitalised development costs

EDITORIAL BY THE EXECUTIVE BOARD

Dr. Patrick Niehr, Mathias Weyers, Oliver Hermes, Georg Weber

DEAR LADIES AND GENTLEMEN,

The coronavirus pandemic delivered an abrupt and hard shock to the economy and society around the world. COVID-19 dominated 2020 and continues to control global life in almost every respect. Social and economic activities were scaled back dramatically on every continent – with far-reaching consequences. The world will be permanently changed and is facing a test of historic dimensions.

At the same time as addressing the health risks, it is extremely important to maintain financial stability and lay the foundations for a phase of economic recovery. A cohesive approach to economic matters is no less vital than solidarity during the pandemic. Once more, we are seeing that protectionism and closed markets are counter-productive and only serve to heighten the existing risks. Global challenges like the coronavirus pandemic and advancing climate change can be solved only through cross-border cooperation. As an active member of the "UN Global Compact" network, Wilo supports a multilateral social and economic world order as a matter of principle. As a globally active company, we are aware of the critical importance of cooperation in international partnerships and initiatives. This is the only way to ensure responsible development.

SUSTAINABLE AND FUTURE-ORIENTED

Wilo's sustainable products and systems make it a pioneer and one of the world's "50 Sustainability & Climate Leaders". The companies participating in this global sustainability and climate protection initiative all operate on the basis of the United Nations Sustainable Development Goals (SDGs). Working with our network partners, we promote innovative, climate-friendly solutions and proactively encourage dialogue with politics, business and NGOs. Corporate Political Responsibility is something we actively pursue as part of our sustainable action.

As a globally active company, we are aware of the critical importance of cooperation in international partnerships and initiatives. This is the only way to ensure responsible development.

The Wilo Group also won the renowned "German Sustainability Award (DNP) 2021" in the "Climate" transformation field. The German Sustainability Award recognises companies that integrate sustainability into their business model to a significant extent. At Wilo, our aim is to advance the topic of energy efficiency while also being a digital pioneer in the age of climate change.

WILO IS SYSTEMICALLY IMPORTANT AND SERVES CRITICAL INFRASTRUCTURES

In exceptional times like these, companies are required to combine long-term strategic thinking with tactical cleverness, rapid action and pragmatism. At the very start of the coronavirus crisis, the Wilo Group took extensive steps with the formation of a "Wilo Corona Task Force", which has since begun focusing on the post-coronavirus era as the "Wilo Go-Ahead Task Force". Wilo's strategy is proactive and adaptable. And it is already demonstrating its effectiveness.

As an industrial and technology group, the Wilo Group plays a significant role in keeping systemically important sectors functional in many countries of the world. Our products, systems and services are a fundamental part of critical infrastructures. They serve in applications without which everyday life would be almost impossible. Even in exceptional times, we meet our social responsibility for supplying water management, building services and key industries and ensuring their processes. To this end, we obtained special permission to continue our production activities in 2020 in countries including the USA, China, Russia, France, Italy and India. We did not suspend pump production at any of our plants. Wilo has been able to deliver its products since the start of the pandemic. We can guarantee consistently high product quality and availability thanks to our efficient procurement and distribution network.

We again succeeded in generating sustainable and profitable growth even in the stormy waters caused by the coronavirus pandemic.

EXCELLENTLY POSITIONED AND ON TRACK FOR FURTHER GROWTH

The Wilo Group continued on its profitable growth path in the year under review with net sales growth of 1.8 percent after adjustment for exchange rate effects. Wilo generated adjusted EBITDA of EUR 181.6 million and an adjusted EBITDA margin of 12.1 percent. At EUR 161.5 million, cash flow from operating activities remained essentially unchanged compared with the previous year's record level. Free cash flow actually increased more than threefold year-on-year to an extremely high EUR 35.6 million.

In other words, the conclusion from the past financial year is that we again succeeded in generating sustainable and profitable growth even in the stormy waters caused by the coronavirus pandemic.

FINE-TUNING OUR STRATEGY

The coronavirus crisis is providing a painful illustration of the weaknesses and issues affecting the current world economic order and its tightly interconnected value chains. Now more than ever, our "region-for-region" approach is protecting us from upheaval, business interruptions and delivery failures. Our organisation is designed to allow the individual regions as much decentralisation as possible and as little centralisation as necessary. In future, we will continue to pursue our commitment to localisation and increasingly manufacture locally for domestic and regional markets. With production sites in ten countries, including the USA, Russia, the United Arab Emirates, China and Korea, Wilo already has a presence on every continent.

We did not suspend pump production at any of our plants. Wilo has been able to deliver its products since the start of the pandemic.

We are also scrutinising our make-or-buy strategies. Broadly speaking, this will lead to us increasing the degree of vertical integration, meaning we will produce more ourselves and bring additional activities back into the company, especially with regard to critical components. We want to remain an independent group of companies, and that also means not allowing ourselves to be dependent on individual suppliers. All in all, Wilo is gearing itself for the future megatrend of "Globalisation 2.0", because parts of the world economy are set to be shaped in particular by the drive toward self-reliance and protectionism. This process will be characterised by the more pronounced regionalisation of value chains in the three major economic centres of Europe, Asia and the USA, as well the pursuit of sovereignty with regard to systemically important goods.

Thanks to the "region-for-region" approach we have practised for many years, the Wilo Group is ideally prepared for this development. As part of this, we are systematically pursuing the goal of meeting regional and local customer requirements with products that are manufactured regionally or locally. Accordingly, our organisation is designed to allow as much decentralisation as possible and as little centralisation as necessary. At the same time, we want to make greater use of global standards and products. We will continue to intensify our "region-for-region" approach over the coming years. Wilo will establish a second headquarters in Beijing for our Emerging Markets sales region and construct additional production sites in China and India.

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THANKS AND ACKNOWLEDGEMENTS

On behalf of the entire Executive Board, I would like to take this opportunity to express my utmost appreciation to our globally committed employees for what they have achieved and accomplished. Each and every one of them is helping the Wilo Group to deliver on its important social remit. The virus has led to even greater solidarity within our team. One word applied and continues to apply more than ever before: together. We will continue to address the challenges ahead of us resolutely, optimistically, and with vigour and pragmatism in equal measure.

Yours,

Oliver Hermes
President & CEO, Wilo Group

AN EXCEPTIONAL YEAR

The coronavirus pandemic dominated 2020 and challenged many of the things we take for granted. The Wilo Group embraced these challenges and responded decisively, but also with an eye to the future. For us, 2020 was also a year in which we laid important foundations for our future success.

TOGETHER AGAINST CORONAVIRUS

SOLIDARITY

AROUND THE WORLD, WILO IS SHOWING SOLIDARITY with those who have been particularly hard hit by the pandemic. The Wilo solidarity fund was used to support employees working in production roles who were unable to switch to working remotely, for example. Wilo actively assisted hospitals in combating the coronavirus in countries including Russia, France and Poland, while the Wilo Foundation also supported numerous aid projects relating to COVID-19.

DETERMINATION

THE CROSS-DIVISIONAL Go-Ahead Task Force that was established at an early stage monitors worldwide infection rates on a daily basis and analyses their impact on the "Employees", "Customers", "Supply chains", "Production sites" and "Communication" dimensions. On this basis, cross-site packages of measures, action plans and guidelines were prepared and implemented for all divisions.

DEPENDABILITY

EVEN DURING THE CORONAVIRUS CRISIS, work on heating, water supply and wastewater disposal systems is essential. As a digital pioneer in the pump industry, Wilo launched the Wilo-Live Assistant, a service that remains unique within the industry in this form. The digital assistant allows Wilo experts to be deployed almost everywhere and at all times. This means we can continue to support our customers every day while complying with social distancing.

BY COMBINING OUR STRENGTHS, Wilo succeeded in successfully handling the coronavirus crisis in 2020. The health of our employees, customers and partners enjoyed top priority at all times. By acting quickly, methodically and systematically, we were able to maintain our production and service activities without interruption throughout.

HIGHLIGHTS 2020

JANUARY
Roman Sklyar, Deputy Prime Minister of Kazakhstan, accepts a joint invitation from the Embassy of Kazakhstan, the German Eastern Business Association and the Wilo Group to pay a working visit to Dortmund, where he meets with Oliver Hermes. Wilo has had a presence in Kazakhstan for the past two decades.

FEBRUARY
Oliver Hermes meets Angela Merkel at the Federal Chancellery in Berlin for a face-to-face discussion. In his function as President of the German Eastern Business Association, he informs the German Chancellor about specific projects in Eastern Europe, Central Asia and Russia and engages in a dialogue on economic policy topics.

FEBRUARY
At the Munich Security Conference, Oliver Hermes meets with figures including German Foreign Minister Heiko Maas and his Russian counterpart, Sergey Lavrov. The renowned international political forum gives Oliver Hermes the opportunity to present Wilo as a connected champion.

Oliver Hermes, Russian Foreign Minister Sergey Lavrov, his German counterpart Heiko Maas, and Alexey Mordashov, Chairman of the Severstal Group (from left to right)

MARCH
Five years after entering the market, Wilo opens a subsidiary in Chile. "With the official opening today, we are laying the foundation stone for future success," says Gustavo Ramos, Managing Director of Wilo Chile.

Gustavo Morvillo, Commercial Director Platform Argentina at WILO SE, Svenja Ahlburg, Group Director Sales Area Latin America at WILO SE, Kerstin Graumann, Head of the Protocol Department of the German Embassy in Chile, and Gustavo Ramos, Managing Director of Wilo Chile (from left to right)

MARCH
Wilo TV goes live: Oliver Hermes will now provide employees and stakeholders with the latest news from the world of Wilo in short video formats. "It is particularly important for me personally to report on events, projects and products as well as figures and latest developments. This will help us achieve our stated aim of being perceived not only as a visible champion, but also as a connected champion," comments Oliver Hermes.

MAY
The LED wall at the entrance to the new factory at the Wilopark goes live. With a surface area of 325 m², it is one of the largest LED walls in Europe. It was realised in line with strict sustainability criteria. The components are extremely durable and the electricity to power the wall is generated in-house via the photovoltaic system on the factory roof.

AUGUST
Wilo's production site in Laval, France, receives the "Industry of the Future" award from the French organisation "Alliance Industrie du Futur" (AIF). AIF organises and coordinates initiatives, projects and measures aimed at modernising and transforming French industry. "We are delighted to have received this award, which confirms that we are already top of the class as a pioneer in industry in the digital age," says Oliver Hermes.

AUGUST

Wilo Ireland receives the Energy Efficiency Award 2020 for fitting out the new headquarters of the Central Bank of Ireland. The building on North Wall Quay in Dublin was designed to be resource-efficient and sustainable. It also obtained BREEAM certification, the most widely established distinction for sustainable construction. Among other things, this is thanks to highly efficient IE4 pumps from Wilo.

AUGUST

Full steam ahead for the Wilopark – a majority of Dortmund-based employees have now moved to the complex. The Wilopark is opened after a construction period of just five years. At around EUR 300 million, the construction of the Wilo Group's brand new headquarters in Dortmund is the biggest investment project in the company's history. The state-of-the-art digital factory and the Pioneer Cube administrative building currently cover an area of a good 180,000 m^2.

A future-oriented operator concept and digitally connected building services have been implemented at the site, reducing energy consumption by almost 40 percent and cutting CO_2 emissions by 3,500 tonnes a year. "For us as a climate protection company, implementing a comprehensive sustainability concept was massively important from the outset. We are proud of the fact that climate-neutral production will already be taking place at the Wilopark from 2021," emphasises Georg Weber, CTO of the Wilo Group.

SEPTEMBER

Wilo participates in the global "50 Sustainability & Climate Leaders" initiative alongside 49 other companies with international operations. Based on the 17 United Nations Sustainable Development Goals, the participants take a clear stand on topics such as climate protection, energy and resource efficiency and digital transformation and systematically drive the implementation of sustainable strategies.

SEPTEMBER

Wilo's international management meeting (IMGM) traditionally takes place once a year. In 2020, the coronavirus pandemic means the event is held digitally for the first time. More than 100 colleagues from 35 countries and numerous time zones are connected via live stream. Wilo's Executive Board declares the digital event to be a real success: "We would have loved to take the opportunity to show our colleagues around the new Wilopark this year, but the current circumstances meant that was not possible. For the Wilo Group, the health of our employees always enjoys top priority," comments Oliver Hermes.

OCTOBER

Wilo has been committed to promoting German-Russian relations at all levels for a number of years. To this end, Wilo acts as the main sponsor of the German-Russian Summer School (GRSS) for the second time. The GRSS is a further education format that provides a sustainable platform for the qualification of young specialists in the energy industry. The cooperation between the Ural Federal University Ekaterinburg (UrFU) and TU Dortmund promotes scientific and intercultural exchange, stimulates mutual understanding and provides the project partners with networking opportunities. This year, the GRSS is recognised by the "Bridges for German-Russian University and Science Cooperation" competition.


Denys Schmyhal, the Prime Minister of Ukraine

OCTOBER
Instead of the planned delegation trip to Ukraine, the German Eastern Business Association organises a video conference with the participation of Ukrainian Prime Minister Denys Shmyhal and the country's deputy Finance Minister, Juri Dragantschuk. Anka Feldhusen, German Ambassador to Ukraine, Alexander Markus, Chairman of the German-Ukrainian Chamber of Commerce and Industry, and Jean Froehly from the German Federal Foreign Office also take part in the video conference. Host Oliver Hermes opens the digital exchange on current issues in the countries' bilateral economic relations and represents the Wilo Group together with Marc Stiebing, Senior Vice President Sales Region Mature Markets.

NOVEMBER
Groundbreaking takes place for WILO USA's new headquarters in Cedarburg, Wisconsin. The new building, which includes a production facility, represents the next step in the expansion of Wilo's US business and brings the operations of WILO USA, Weil Pump, Scott Pump and Wilo Machine Co. together at a single location. "Following several years of consistent growth, we are delighted to be taking this next step. The new campus will allow us to reach the next stage of growth," says Jeff Plaster, Vice President and CEO/Managing Director of WILO USA.

DECEMBER
The signature ceremony on 15 December marks the start of another key future project of the Wilo Group and a new milestone in the company's history. The Wilo Group will invest in a new high-tech factory in the Chinese city of Changzhou, thus establishing its own smart production facility in the world's largest free trade area, the Regional Comprehensive Economic Partnership (RCEP) comprising 15 Asia-Pacific member nations.

WILO WINS THE GERMAN SUSTAINABILITY AWARD 2021

DECEMBER
Wilo receives the German Sustainability Award in the "Climate" transformation field. "We are proud that an industrial company has been recognised as a climate protection pioneer. This is a strong signal and demonstrates our credentials as a climate protection company," says Oliver Hermes.

The German Sustainability Award committee sees 2020 as a year of change. More than ever before, these times call for entrepreneurial role models who can drive forward change and use the crisis as an opportunity for real transformation. "The world's climate needs pioneers. At Wilo, our aim is to advance the topic of energy efficiency while also being a climate change and digital pioneer. We do this in the firm belief that the smartest and most digital products are always the most intelligent products. And we have no doubt that the most intelligent products are the most energy-efficient. This means there is a clear correlation between digital transformation, energy efficiency and climate protection," says Oliver Hermes.

"Although global challenges such as climate change and species extinction have intensified in recent years, the capabilities of the sustainable economy have increased at the same time," says Stefan Schulze-Hausmann, initiator of the German Sustainability Award. "We are looking for companies that use these capabilities boldly and effectively to accelerate the transformation to greater sustainability." In its sustainability strategy based on its corporate strategy, Wilo focuses seven of the 17 United Nations SDGs that correspond to the Group's values and objectives.

The German Sustainability Award is presented by the German Sustainability Award Foundation in cooperation with the German federal government, regional umbrella organisations, business associations, civil society organisations and research institutes.

GROUP MANAGEMENT REPORT 2020

The Wilo Group can look back on an exceptionally challenging financial year. The coronavirus pandemic had a massive impact on social and economic life in almost every country and plunged the world economy into the most severe recession since the Second World War. As the initial impact of the pandemic was making itself felt in China in early 2020, the Executive Board of the Wilo Group took quick and decisive action by implementing extensive group-wide measures to curb the negative consequences of the pandemic. While the health of employees, customers, suppliers and other business partners enjoyed top priority at all times, it was also important to minimise the economic effects of the pandemic for Wilo. The huge efforts were a success. In 2020, the Wilo Group proved to be extremely resilient and crisis-resistant, further strengthening its foundations for accelerated and profitable growth even amidst unfavourable and uncertain circumstances.

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THE 2020 FINANCIAL YEAR AT A GLANCE

NET SALES

EUR 1,451.5 million

The Wilo Group continued on its profitable growth path with net sales growth of 1.8 percent after adjustment for exchange rate effects. However, the depreciation of various currencies of importance for the Wilo Group had a substantial impact on net sales as reported in Group currency. Including negative exchange rate effects of more than EUR 50 million, consolidated net sales declined by 1.8 percent year-on-year to EUR 1,451.5 million.

CAPITAL EXPENDITURE ON INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

EUR 120.0 million

Even in a macroeconomic environment that was characterised by extreme uncertainty, the Wilo Group made strategically important investments aimed at safeguarding its future. Despite the completion of significant construction work at the Wilopark, capital expenditure remained high at around EUR 120 million. Among other things, investment activity concentrated on the construction and expansion of new and existing sales and production locations as well as state-of-the-art manufacturing technologies. The foundations were also laid for three major new construction projects in China, India and the USA.

EBITDA

EUR 141.2 million

Wilo generated adjusted EBITDA of EUR 181.6 million and an adjusted EBITDA margin of 12.1 percent.* However, the Wilo Group's profitability in 2020 was significantly impacted by non-recurring effects in particular. Including expenses in connection with the pandemic, the planned restructuring measures and negative exchange rate effects, reported EBITDA amounted to EUR 141.2 million and the EBITDA margin was 9.7 percent.

RESEARCH AND DEVELOPMENT

EUR 68.6 million

Research and development play an important role at Wilo. The company's corporate strategy includes the aspiration to establish itself as the digital pioneer of the pump industry and set new standards as an innovation leader. In 2020, research and development costs amounted to EUR 68.6 million or 4.7 percent of net sales, thus exceeding the high prior-year figure.

* Further disclosures on adjusted EBITDA and the adjusted EBITDA margin, which constitute other information and thus have not been audited by KPMG AG Wirtschaftsprüfungsgesellschaft in line with the statutory provisions, can be found under 1) on page 75 of the Group management report.

WILO Annual Report 2020 | Group Management Report | **The 2020 financial year at a glance**

CASH FLOW

EUR 161.5 million

At EUR 161.5 million, cash flow from operating activities remained essentially unchanged compared with the previous year's record level. Free cash flow actually increased more than threefold year-on-year to EUR 35.6 million.

Wilo also has a very solid statement of financial position and financing structure. In 2020, the Wilo Group further strengthened its financial flexibility and stability with the issue of a US senior note and the assumption of a promissory note loan with a total volume of EUR 105 million.

SUSTAINABILITY

In line with its aspiration to set standards as a climate pioneer, the Wilo Group has established sustainability as an integral component of its corporate strategy. Energy-efficient, innovative products and solutions and the digital transformation of the entire Group are the visible results of a long-term approach with a focus on energy and resource efficiency. In December 2020, this commitment was recognised in the form of the German Sustainability Award. The Wilo Group was also selected to participate in the "50 Sustainability & Climate Leaders" initiative alongside 49 other global companies.

EMPLOYEES

7,836

The Wilo Group's more than 7,800 employees are the basis for and the driving force behind its economic success. The exemplary attitude and outstanding commitment on the part of all employees played a significant part in helping Wilo to handle the coronavirus crisis so successfully.

WILOPARK

The Wilo Group is investing a total of around EUR 300 million at its head office in Dortmund. The Wilopark combines ecological and economic sustainability with flexibility and space efficiency. In 2020, the Group completed and moved into the Pioneer Cube, a modern office building that is home to around 500 head office employees.

MERGERS & ACQUISITIONS

In early 2021, the Wilo Group expanded and sustainably strengthened the foundations for continued dynamic and profitable growth with another targeted acquisition. The Abionik Group will supplement Wilo's existing portfolio and further extend its expertise as a provider of solutions for water treatment.

BASIC INFORMATION ON THE WILO GROUP

- **A premium provider of products, system solutions and services for building technology, water management and industry, the Wilo Group is represented in all major markets**
- **A global production and distribution network of more than 7,800 employees ensures proximity to customers**
- **The acquisition of the Abionik Group supplements the Wilo Group's portfolio and further extends its expertise as a solution provider in a targeted manner**
- **Research and development activities remain at a very high level despite temporary impact of the coronavirus crisis**

Customers and products

Wilo is a global, premium provider of pumps and pump systems for heating, ventilation and air conditioning, water supply and wastewater disposal. The Wilo Group meets every need with its portfolio of products, system solutions and services. The extensive product range extends from high-efficiency pumps designed for houses, apartment blocks and public and commercial buildings, via special pumps and agitators for water management, through to specific products and solutions for industrial applications.

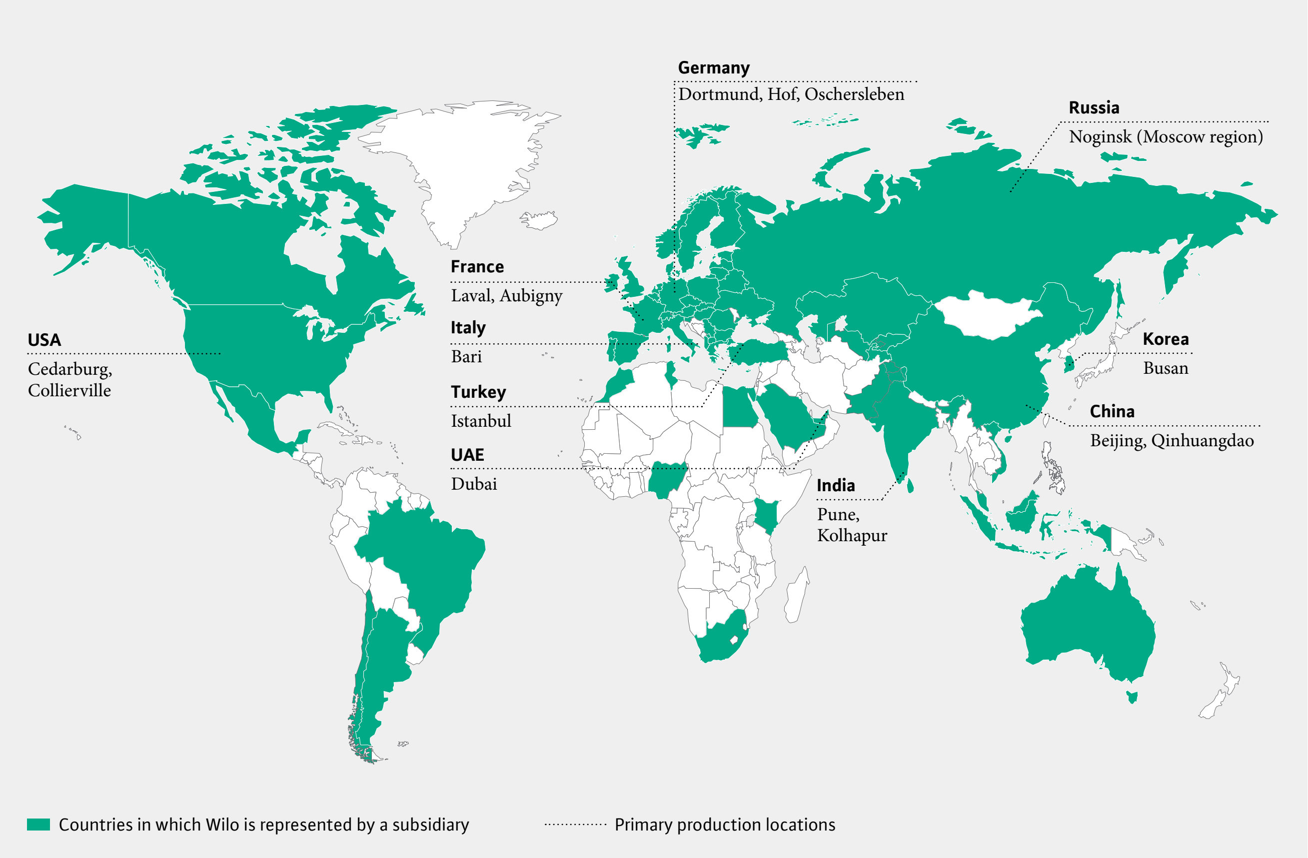
The Group's corporate strategy and the operational focus of its over 7,800 employees are systematically geared towards customers and their specific needs and requirements for products, applications and services. The foundation of the Wilo Group's market success is the close cooperation with OEM partners, consultants, specialist retailers and tradesmen as well as general contractors, investors and end users in a spirit of mutual trust. As a premium provider, Wilo aims to develop leading technology and intelligent solutions that make people's everyday lives noticeably easier. This is the principle behind the claim "Pioneering for You".

The Wilo Group now manufactures pumps and pump systems at 16 primary production locations in Europe, Asia and the Americas. The Wilo Group further expanded its production capacities and its product portfolio in the USA with the acquisition of American-Marsh Pumps in late 2019. In accordance with the global production strategy (GPS), these global production sites constitute Wilo's production network in the narrower sense. They are coordinated and managed accordingly.

Wilo also has other, smaller locations, such as Wülfrath and Chemnitz, at which it develops and manufactures highly specialised products such as water supply and wastewater treatment systems. In addition, products for local markets are assembled at a variety of locations.

With this structure, the Wilo Group has an efficient, customer-oriented network of more than 70 production and sales companies in over 50 countries. In combination with numerous additional branches and independent sales and service partners, this ensures that customers' needs and requirements are met at all times and in reliably excellent quality worldwide.

Wilo Group locations



Market segments

The Wilo Group operates in five market segments: Building Services Residential, Building Services Commercial, OEM (Original Equipment Manufacturers), Water Management and Industry. The portfolio of products, system solutions and services is systematically tailored to the specific needs of customers in the respective market segments. This strong focus, the Group's traditional innovative strength and proximity to customers thanks to its local presence are key factors in its success. Thanks to targeted combination in the respective markets, the Wilo Group is able to identify the different trends in each region and changing requirements at an early stage and respond to them quickly and flexibly.

Building Services Residential & Commercial

Around the world, energy and resource efficiency is becoming markedly more important due to ecological and, not least, economic reasons. Accordingly, there is a growing focus on both economic efficiency and sustainability in equal measure when it comes to commercial and private building use. This makes it increasingly necessary to use innovative systems incorporating optimally coordinated components. Wilo has the necessary energy-efficient concepts in its portfolio for the Building Services Residential and Building Services Commercial market segments alike. These relate to heating technology and air conditioning as well as water supply and wastewater disposal. In particular, Wilo's product and system solutions find applications in houses and apartment blocks as well as public buildings, industrial and office buildings, hospitals and hotels.

OEM
Wilo is a strong partner of leading OEMs and manufacturers of boilers, heat pumps and air conditioning systems in particular. The Wilo Group's pumps and hydraulic systems offer the highest degree of reliability, flexibility and efficiency. OEM customers also benefit from Wilo's many years of experience, detailed knowledge of the market and pronounced application expertise. The Wilo Group is also a development partner for these customers and sees itself as an innovative forward thinker and a trendsetter. Taking into account current and future regulatory requirements, Wilo anticipates the new demands of the global market and constantly changing market requirements at an early stage, allowing it to develop and offer future-oriented solutions that are ideally tailored to the specific needs of customers and the market. Wilo offers a broad range of established, tried-and-tested integrated products and intelligent, individually developed solutions.

Water Management
Thanks to the fast pace of urbanisation and climate change as well as growing environmental pollution, water as a raw material is becoming a scarce and precious commodity in more and more regions of the world. Providing the rapidly growing global population with sufficient clean drinking water is already a fundamental problem in many regions of the world. In addition, the demand for water from agriculture and industry is rising sharply around the world. The safe and sufficient purification and supply of water therefore already involves extensive global challenges, and these challenges are only becoming more profound. As a partner to the water management industry, Wilo offers professional solutions designed to meet the increasingly complex requirements involved in drinking water extraction, water pumping, and the transportation and processing of wastewater. Wilo's pumps and pump systems for water management set benchmarks around the world in terms of technical performance, efficiency and sustainability.

Industry
Wilo develops and manufactures pumps that guarantee the highest level of reliability, flexibility and efficiency. These are vital and process-critical factors for pumps and pump systems in industrial applications in particular. The Wilo Group's particular strength in the Industry market segment lies in support applications for processes in various industries. Because every industrial sector has its own, often highly specific requirements in terms of pumps and peripherals, Wilo develops individual concepts and solutions for these requirements, thereby ensuring smooth installation, safe operation and efficient maintenance. Wilo pumps are used around the world for pumping cooling water in power plants, for example. Other important applications include dewatering in the mining industry and food production.

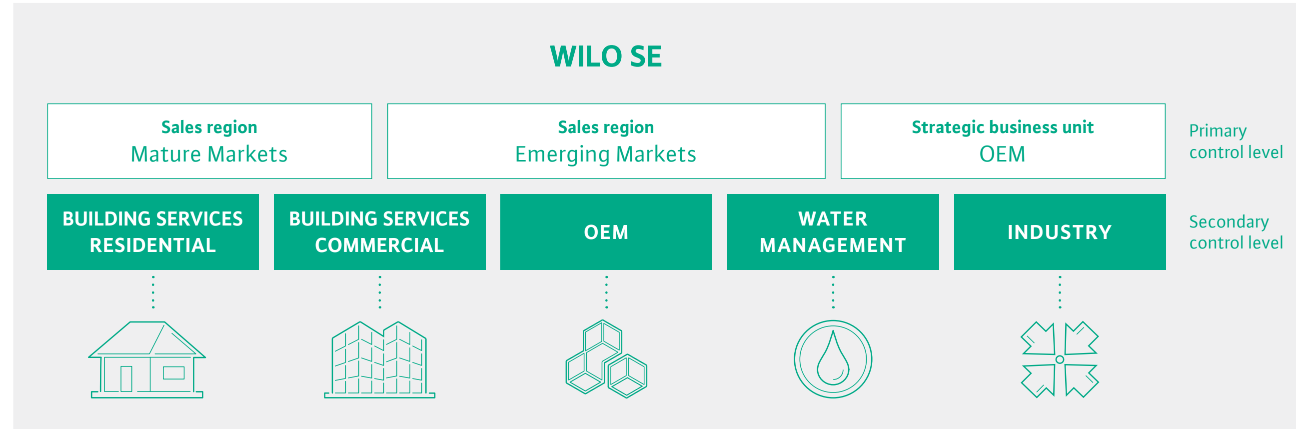
Group organisation and management

The Wilo Group can look back on a long and successful history. The foundations for the company were laid almost 150 years ago with the formation of "Kupfer- und Messingwarenfabrik Louis Opländer" in Dortmund in 1872. Today's WILO SE, a European Company (Societas Europaea), is still based in Dortmund, Germany. As the parent company of the Wilo Group, WILO SE performs central management activities for the entire Group as well as its own operations. With around 90 percent of the shares in WILO SE, the majority shareholder is the Wilo-Foundation. The issued capital of WILO SE amounts to EUR 26,980 thousand.

As at 31 December 2020, the Wilo Group encompassed WILO SE and more than 70 production and sales companies worldwide. WILO SE holds a direct majority interest in most of its subsidiaries. TUMAR BVBA, Belgium, was acquired in February of the year under review. It specialises in the sale and

WILO Annual Report 2020 | Group Management Report | **Basic information on the Wilo Group**

Organisation and management structure of the Wilo Group

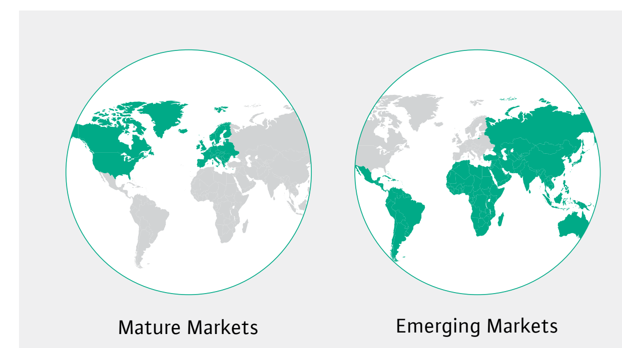


installation of wastewater pumps and submersible mixers in the wastewater sector. In February 2021, WILO SE also acquired all shares in ABIONIK Group GmbH. The Abionik Group includes companies such as MARTIN Systems GmbH, LIKUSTA Umwelttechnik GmbH and Steinhardt GmbH, which manufacture and market innovative solutions for wastewater and exhaust air treatment. The acquisition supplements the Wilo Group's portfolio in a targeted manner and further extends its expertise as a solution provider for water treatment.

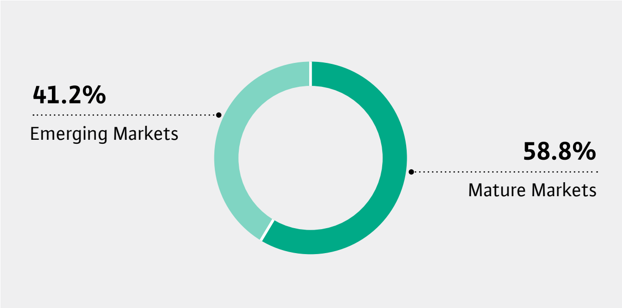
The Mature Markets and Emerging Markets sales regions and the Strategic Business Unit OEM are the top-level organisational and management units by which the Wilo Group is primarily controlled. These units are each headed by an experienced manager who reports directly to the Executive Board. This allows sales activities to be closely geared towards the requirements of the respective markets and regions. The five market segments are the secondary control level. The management and controlling of the Building Services Residential & Commercial, Water Management and Industry market segments are covered by the managers of the Group Market Segment Management function. The management and controlling of the OEM market segment is organised directly in the Strategic Business Unit OEM.

As part of strategic planning for the implementation of Ambition 2025, the functional organisational structure was enhanced in order to release additional optimisation potential. One aspect that has been identified as critical for success is strengthening the Emerging Markets sales region, which is becoming steadily more important for the Wilo Group as a whole. Following an intensive critical review of the structure of the sales regions with a view to future requirements and opportunities, responsibility for Russia, Belarus, the Caucasian nations and Latin America was transferred to the Emerging Markets sales region with effect from 1 January 2020.

Composition of the sales regions
as at 31 December 2020



Net sales
by region in 2020



In the 2020 financial year, 58.8 percent of consolidated net sales were attributable to the Mature Markets and 41.2 percent to the Emerging Markets.

The organisational structure has an entirely functional alignment. The management and controlling of the Wilo Group are the responsibility of the Executive Board of WILO SE, which has consisted of four members since 1 January 2020. The following schedule of responsibilities reflects the allocation of functional responsibilities within the Executive Board.

The Supervisory Board of WILO SE appoints, controls and monitors the Executive Board. The Supervisory Board, which comprises a total of six ordinary members, is appointed by the Annual General Meeting. Two members of the Supervisory Board are employee representatives appointed at the proposal of the European Works Council of WILO SE. Detailed information on the cooperation between the Executive Board and the Supervisory Board can be found in the Report of the Supervisory Board* in this Annual Report.

In managing the Wilo Group, the Executive Board focuses on the development of net sales and earnings power. Earnings power is primarily measured on the basis of operating earnings before interest, taxes, depreciation and amortisation, i.e. EBITDA and the EBITDA margin. In light of the accelerated increase in net sales from organic and external growth that is planned as part of Ambition 2025 and the high level of investments, which will require substantial financial resources, leverage is applied as an additional performance indicator. Leverage describes the ratio of consolidated net debt (financial liabilities and lease liabilities less cash) to consolidated EBITDA, adjusted for any restructuring costs. Net sales, EBITDA, the EBITDA margin and leverage are the central financial performance indicators for the Wilo Group, meaning they are included in the analysis of the course of business, the assessment of the position of the Group and the outlook for the purposes of external financial reporting in accordance with GAS 20.

Schedule of responsibilities

Chairman of the Management Board & CEO
Oliver Hermes

- Government & Public Affairs
- Sales Regions Mature & Emerging Markets
- Strategic Business Unit OEM
- Group Service
- Digitisation Team
- Coordination of Executive Board activities

CCO
Dr. Patrick Niehr

- Group Market Segment Management
- Group Product Management
- Group Marketing
- Group Legal & Insurance
- Group Human Resources

CTO
Georg Weber

- Group Research & Development
- Group Procurement & Supply Chain Management
- Group Operations
- Group Quality
- Group Location Management

CFO
Mathias Weyers

- Group Controlling
- Group Accounting & Taxes
- Group Finance
- Group Internal Audit & Compliance
- Group Information Management
- Group Mergers & Acquisitions

* Further disclosures on the report of the Supervisory Board, which has not been audited by KPMG AG Wirtschaftsprüfungsgesellschaft in line with the statutory provisions, can be found under 2) on page 75 of the Group management report.

Another financial key performance indicator at Group level is free cash flow, which reflects the excess liquidity generated by the Wilo Group. A constantly positive free cash flow serves to ensure the financial independence and liquidity of the company. The main levers for improving free cash flow are increases in net sales and EBITDA. The development of free cash flow is also aided by the systematic management of working capital and a coordinated investment policy.

The Wilo Group is required to maintain standard financial ratios (financial covenants) under the terms of its long-term financing agreements. In addition to leverage, this relates in particular to the equity ratio and the interest cover ratio, which is defined as the ratio of consolidated EBITDA to consolidated interest expenses. These ratios are also regularly reviewed and reported to the Executive Board in order to ensure compliance with the required minimum values at all times. The Wilo Group continued to comply with the agreed financial ratios in 2020.

All the management-relevant key indicators are derived from the key indicators in the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

In addition to the performance indicators and ratios described above, non-financial aspects such as employees, processes along the value chain, sustainability and social engagement play an important role in the business success and the development of the Wilo Group. ➔ *More information can be found in Wilo's Sustainability Report, which is available at wilo.com/sustainability-report.**

Corporate strategy

Ambition 2025 sets out the corporate objectives, development and strategic growth path until 2025 and beyond.

"Together we accelerate our profitable growth as a worldwide solution provider" summarises the main strategic objectives and underlines the importance of international cooperation with various stakeholders across sector and industry boundaries. Accordingly, the Wilo Group is pressing ahead with its established globalisation strategy and intensifying cooperation and networking among all stakeholders along the entire value chain in a targeted manner. This centres on Wilo's aspiration to step up its development from a component manufacturer into a solution provider to an even greater extent.

Our Ambition 2025

Ultimate Customer Satisfaction | Engaged & Empowered People | Innovation Leadership | Digital Pioneer | Business Excellence | Independent & Responsible Company

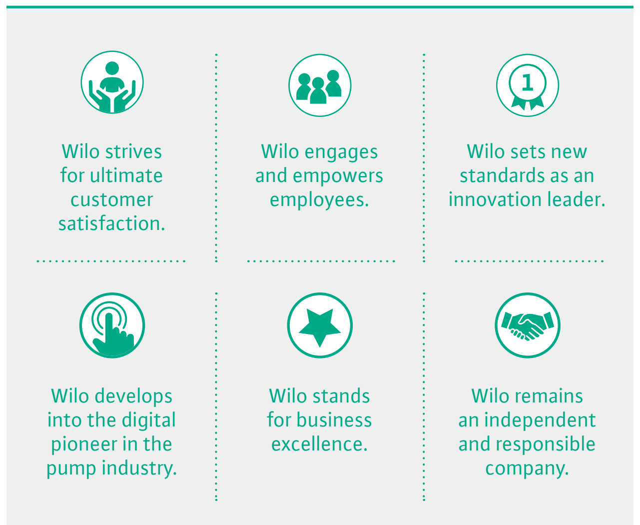
BUILDING SERVICES RESIDENTIAL	BUILDING SERVICES COMMERCIAL	OEM	WATER MANAGEMENT	INDUSTRY
We are a full-range supplier and customers' first choice.	We are a market, innovation and smart solution leader.	We are a preferred partner for smart integrated solutions.	We are a global market player and digital solution provider.	We are a specialist in selected branches and applications.

* Further disclosures on the sustainability report, which constitutes other information and thus has not been audited by KPMG AG Wirtschaftsprüfungsgesellschaft in line with the statutory provisions, can be found under 3) on page 75 of the Group management report.

Accordingly, the Wilo Group is continuing to intensify the development of intelligent products, systems, services and solutions and pressing ahead with its digital transformation.

This strategy of accelerated, profitable growth is based on six clearly defined strategic pillars:

- Wilo strives to ensure maximum customer satisfaction – this is the principle behind the claim “Pioneering for You”.
- Wilo enables and develops its employees – they are the backbone of the company.
- Wilo is setting new standards as an innovation leader – including innovations in terms of new technologies and materials, products and services, process and (digital) business models.
- Wilo aspires to establish itself as the digital pioneer of the pump industry – by seizing the opportunities presented by digital transformation.
- Wilo stands for business excellence in all processes – along the entire value chain.
- Wilo will remain an independent, responsible company – based on a stable organisation and shareholder structure.



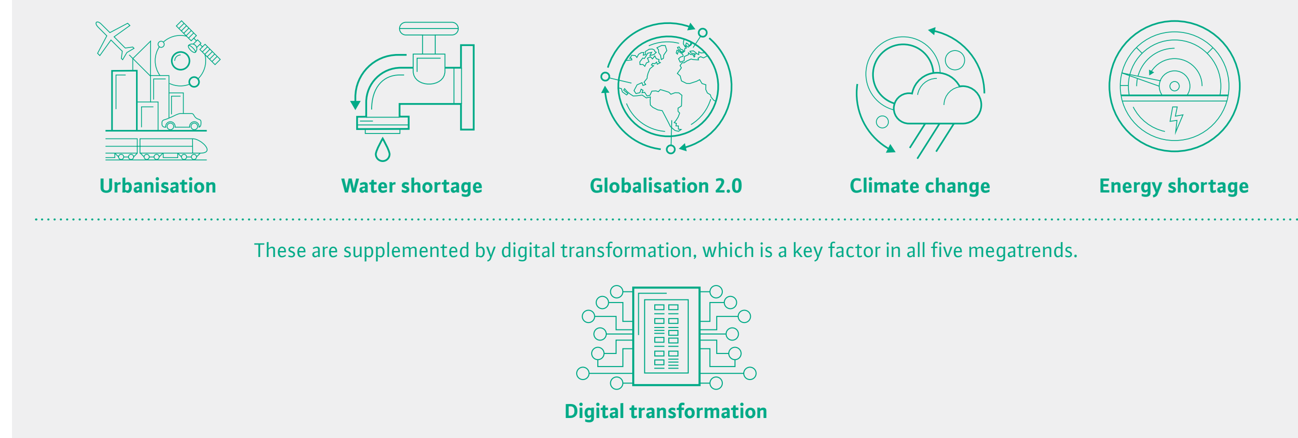
To achieve the strategic objectives, the fundamental strategic directions were defined for each of the five market segments that make up the Wilo Group’s secondary control level. The objective in the Building Services Residential market segment is to be a full-service provider and preferred supplier. The Building Services Commercial market segment is focused on the expansion of market and innovation leadership as a solution provider. In the OEM market segment, Wilo is continuing to position itself as a preferred partner with smart and integrated solutions. The global market presence in the Water Management market segment will be strengthened through digital solutions for the water management industry. The Industry market segment will continue to focus on selected sectors and applications in future.

Ambition 2025 is being implemented via the primary control level as part of a specific ten-point plan for each of Mature and Emerging Markets and a five-point plan for the Strategic Business Unit OEM. These three plans set out clearly defined, action-based, project-driven measures that will be implemented over the coming years. The steering committee meets regularly to discuss the current implementation status of the respective measures.

The Wilo Group is also pressing ahead with projects to improve efficiency in sales and production in order to permanently secure and accelerate its profitable growth. These extensive, group-wide projects comprise the analysis and optimisation of significant cost structures and drivers.

Wilo has defined five relevant megatrends in the context of strategic long-term planning. Globalisation, urbanisation, energy shortage, climate change and water shortage will significantly influence the Wilo Group’s business in the future and are already having an impact on the company’s current performance. An important megatrend in its own right, digital transformation will play a central role when it comes to managing the various challenges the aforementioned megatrends will entail for society, business and politics, as well as helping to support the targeted and efficient implementation of solutions.

Megatrends – As part of its long-term strategic planning, Wilo has defined five megatrends that influence the Wilo Group’s business both now and in the future.



In the corporate foresight process, both risks and opportunities are derived and analysed from forecast future developments with respect to the global megatrends. In this way, the results are systematically taken into account in the ongoing development of the corporate strategy. This process also serves the systematic enhancement of existing business areas and growth areas, as well as the development of new ones. Areas on which the Wilo Group is focusing include water technology, renewable energies and, in particular, hydrogen technologies and systems.

The megatrends are also contributing to one major global development: the creation of smart urban areas. Wilo defines this as the establishment and expansion of metropolitan areas where the organisation, infrastructure and aspects of life are digitally and intelligently connected. A smart urban area uses state-of-the-art information and communication technology to improve people’s quality of life. Intelligent, innovative infrastructures help to make mobility in conurbations more efficient, conserve resources and reduce negative effects on the environment. Familiar big cities in mature markets are developing into smart urban areas, while many emerging economies like India and China are in the process of establishing similarly ultra-modern, digitally connected cities with the backing of comprehensive government investment programmes. Wilo has identified smart urban areas as offering attractive business potential and is systematically tapping into new business areas here. This strategy goes hand in hand with the intensive digitalisation of the Group.

The coronavirus pandemic illustrated the risks of the current world economic order and its intertwined value chains all too clearly. The Wilo Group successfully managed the challenges of the 2020 pandemic to the extent that its critical value chains remained intact at all times. In light of these events, however, the Executive Board has decided to intensify the localisation efforts that had already been initiated prior to the pandemic. Current make-or-buy strategies are being scrutinised and the appropriate degree of vertical integration for Wilo in the individual regions and countries is being redefined.

Vision, mission and values

OUR VISION	OUR MISSION	OUR VALUES
Wilo, the water solution leader for a smart and resource-efficient world.	Inventing and managing responsible water solutions that benefit everyone, everywhere.	Integrity, fairness, respect, passion, responsibility.

Insourcing activities for critical components will be broadly intensified in future. In this respect, vertical integration along the value chains is also being examined for feasibility. The expansion of multiple sourcing will further reduce dependency on individual suppliers, while the stock buffers in the warehouses will be redefined.

The overarching vision and mission and the corporate values provide the framework for Ambition 2025. The vision is the guiding objective that the Wilo Group wants to achieve and a confident statement of Wilo's clear position in a constantly changing world.

On the basis of this vision, the mission defines the main purpose or undertaking that Wilo is pursuing. It also serves as a set of instructions for meeting the current and future challenges of the market. The Wilo Group wants to use its products and the pertinent system solutions and services to make people's lives easier all around the world. Integrity, fairness, respect, passion and responsibility are the inviolable values by and with which Wilo works and lives. They form a shared foundation to which each individual in the company commits– regardless of their position, duties and responsibilities. Traditionally, the sustainable success of the Wilo Group has been based to a large extent on these shared values.

Ambition 2025 also forms the basis for the Wilo Group's sustainability strategy. The central tenet of this strategy is to supply more people with clean water while simultaneously reducing the ecological footprint. A total of 17 strategic objectives have been formulated within the four strategic action areas of "Water", "Energy & Emissions", "Material & Waste" and "Employees & Society". These objectives are integrated into the functional strategies of the individual departments and hence form part of regular reporting and corporate governance. ➔ *More information can be found in Wilo's Sustainability Report, which is available at wilo.com/sustainability-report.**

Research and development

Strategy and direction

Ambition 2025 and the corporate objectives define the overarching framework for the Wilo Group's research and development activities. The primary aim remains to further expand the Wilo Group's leading position with regard to technology, innovation and quality. To this end, clear risks and opportunities from the megatrends relevant to Wilo were first identified using the corporate foresight process. On this basis, three strategic action areas were derived for research and development: energy and resource efficiency, systems technology, solutions expertise, and digital technologies.

In some cases, the strategic action areas are addressed in close cooperation with outside partners and other industrial companies, as well as with innovative start-ups to a growing extent. The aim is to enrich and expand internal know-how with external expertise. The Wilo Group has established a global research and development network to help it conduct the various research projects. Wilo also takes advantage of government grants for application-related basic issues. As part of the digitalisation process, Wilo is increasingly also shifting its development focus to new business models and complementary services.

Based on the holistic sustainability strategy derived from Ambition 2025, Wilo also continued to intensify its work in the areas of climate, energy savings and sustainability in product development in the year under review. One of the goals formulated in the sustainability strategy is to substantially reduce CO_2 emissions and generate significant energy savings of around 1.8 TWh every year through the use of highly efficient, environmentally friendly technologies in Wilo products. This was again achieved in 2020. When developing and manufacturing products, Wilo also pays particular attention to ensuring the recyclability of the individual components.

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Guided by the principle of "green solutions for a better climate", the Wilo Group's innovative and energy-efficient products, systems and solutions are helping to create sustainable value added for the environment. These successes in the area of energy efficiency and recyclability played a significant part in Wilo winning the German Sustainability Award for 2021 and being selected to participate in the United Nations and Bloomberg's global "50 Sustainability & Climate Leaders" initiative alongside 49 other companies with international operations.

A central research and development organisation is responsible for all research and development activities. Traditional areas of development, such as engines, hydraulics, microelectronics and software, are addressed by dedicated central developer teams. This ensures that the challenges arising from aspects such as the digital transformation of products and processes in areas of the company are brought together and tackled efficiently. Product series development is also coordinated centrally but is carried out locally at the Wilo Group's various locations. In addition to a more agile way of working in light of the advance of digitalisation, this two-tier organisation therefore enables global, cross-divisional and interdisciplinary cooperation with the optimal transfer of knowledge. Product development places particular weight on the growth markets in Asia.

Results

Numerous structural measures were performed in the area of research and technology in 2020, leading to further significant process optimisations. The modular global platform concept developed with the support of external partners was rolled out continuously in the year under review. The platform concept uses the results and development components of the various projects across divisions and projects with the aim of ensuring the lasting global transfer of technology and knowledge within the Wilo Group. This approach permanently lowers development costs and significantly reduces the time to market.

In addition to finalising ongoing development projects and defining new Wilo top development projects with a view to the new platform concept and advancing digitalisation, activities in the 2020 financial year increasingly focused on the potential applications of artificial intelligence (AI) in the Group's products. The primary objective is to achieve the greatest possible benefit for customers.

Supplying water to municipalities, large-scale irrigation systems or cooling towers in industry is highly complex and must allow for no compromises in terms of operational reliability. To achieve this, Wilo introduced another energy-efficient pump series with easy maintenance design and low space requirements in 2020 with the launch of sales of the Wilo-Atmos TERA-SCH split case pump series. The split case pump is characterised by reliable operation, energy-efficient transport of large volume flows through extensive distribution networks, and low operating costs.

In the area of system solutions for smart sewage pumping stations, Wilo launched the Wilo-DrainLift SANI series in the year under review. It is used for the backflow resistant drainage of sewage containing faeces or aggressive fluids in cases where sewage cannot be led to the sewer system via a natural fall. The largest single pump lifting unit for single and two-family homes can be used flexibly. Maintenance is made particularly easy by the user-friendly construction. Equipped with an optional wireless alarm transmitter, it can send a push notification directly to a smartphone in the event of a fault.

The integration of the Wilo-Smart Gateway into the Wilo system landscape in 2020 represented another milestone in product digitalisation. Connecting Wilo pumps and pump systems with the Wilo-Smart Cloud enables customer-friendly, comfortable remote monitoring from any location using mobile devices like smartphones and tablets as well as remote signalling of faults and warnings in real time.

Employees

With a slightly lower headcount, the employee structure in research and development remained largely stable in 2020 compared with the previous year. However, the needs-driven recruitment of qualified young candidates in the disciplines of technology and the natural sciences represents a growing challenge, including internationally. With its extensive human resources activities, the Wilo Group therefore seeks to be perceived by potential applicants as an employer of choice. Special talent promotion programmes, a variety of internal and external training and mentoring programmes and increased cooperation with start-ups are examples of measures aimed at achieving this goal. They are intended to ensure that Wilo will continue to successfully attract and retain highly qualified employees in the future.

Patents and licences

The Wilo Group's patent strategy is aimed at securing the company's competitive advantage against competitors through property rights. In particular, these competitive advantages involve more cost-effective production processes and innovative products and product features that offer particular benefits for the customer. Corresponding new developments are identified in the Wilo patent process and secured through patent applications. The patents support Wilo's profitable growth. Wilo increased its applications and patent portfolio compared with the previous year. The strict quality requirements for the patent process imposed by patent management serve to safeguard the significantly above-average proportion of patents granted in recent years.

Investment and expenditure

In 2020, investment in research and development focused on the further expansion of the laboratory infrastructure and automation with a view to establishing a global network with a shared infrastructure and globally interlinked processes.

Total research and development costs including capitalised development costs amounted to EUR 68.6 million in the year under review (previous year: EUR 67.6 million). At 4.7 percent of net sales, they were again slightly above the high level of 4.6 percent recorded in the previous year. Development costs (including borrowing costs) were capitalised in the amount of EUR 17.3 million (previous year: EUR 17.7 million). Research and development costs in the amount of EUR 52.0 million (previous year: EUR 50.3 million) were recognised in profit or loss. Amortisation of capitalised development costs amounted to EUR 4.8 million in the year under review (previous year: EUR 4.4 million).

R&D costs*
in EUR million and *as a percentage of net sales*

* including capitalised development costs

BUSINESS REPORT

- **Significant global economic downturn in 2020 due to pandemic and lockdowns**
- **Net sales up 1.8 percent after adjustment for exchange rate effects despite exceptionally challenging conditions**
- **Profitability impacted by non-recurring effects of coronavirus-related expenditure and planned restructuring measures as well as currency depreciation**
- **Operating cash flow remains extremely high, significant increase in free cash flow**

General economic and industry-specific conditions

Global economy 2020: Coronavirus shock delivers significant setback

The coronavirus pandemic triggered a severe recession in almost all countries worldwide in 2020. The rapid global spread of the coronavirus and the government-mandated restrictions to curb its spread had a significant negative impact on public life and the economy. In some cases, the lockdowns led to a complete shutdown in industry and many consumer-related sectors. To cushion the serious consequences for businesses and the population, governments resolved additional expenditure, tax deferrals and lending programmes in an unprecedented magnitude. In addition, monetary policy around the world remained expansive. According to the Kiel Institute for the World Economy (IfW), there was a 3.8 percent contraction in the world economy in 2020. The IMF expects a contraction of 3.5 percent compared with growth of 2.8 percent in the previous year. Economic output in the industrialised nations fell by 4.9 percent in 2020 (previous year: +1.6 percent), while economic output in the emerging economies declined by 2.4 percent (previous year: +3.6 percent).

The following section presents the macroeconomic and industry-specific developments in 2020 in the regions that are relevant to the Wilo Group. In addition to the general economic development of individual countries and regions, the economic performance of the Wilo Group is influenced in particular by the construction and sanitary industries as well as the water and wastewater industries.

Mature Markets – European construction industry comes to a temporary halt in 2020, but growth continues in Germany and the USA

EUROPE. Under the weight of the sudden, severe global economic slump and the extensive restrictions imposed in the form of the lockdowns, the European economy entered into an unprecedented phase of free fall. Foreign trade, private consumer spending and investment activity all collapsed simultaneously in the spring. At a political level, vast packages of measures were adopted with the aim of stabilising the economy. The European Central Bank also launched an emergency bond purchase programme with a total volume of EUR 1.85 trillion. Although this helped to cushion some of the economic and social hardship, it did not prevent a substantial slump in the economy. According to the Eurostat statistical office, the euro area economy contracted by 6.8 percent in 2020 (previous year: +1.2 percent). All the countries slipped into a deep recession, particularly France, Italy, Spain, Portugal, Greece and Croatia. Scandinavia also experienced a pronounced economic downturn, albeit to a below-average extent, while Switzerland likewise saw relatively limited losses. By contrast, the British economy was hit particularly hard.

The pandemic also had significant negative consequences for Germany. Private consumer spending was massively impacted by the lockdowns, while exports declined to an even greater extent on the back of lower foreign demand in particular. Meanwhile, companies refrained from making investments in light of the considerable uncertainty surrounding the economic outlook. At a political level, substantial fiscal support measures and the relaxation of the rules on short-time work and insolvency helped to stabilise the economy. According to the German Federal Statistical Office, gross domestic product (GDP) fell by 5.0 percent overall in 2020 (previous year: +0.6 percent).

The European construction industry also found itself bogged down by this difficult environment, with the Euroconstruct industry network (including the ifo Institute) estimating a downturn in construction output of 7.8 percent in real terms (previous year: +2.9 percent). While development in Scandinavia and Portugal remained robust, construction activity in France, Spain and Ireland fell by more than 10 percent. Meanwhile, construction output in the United Kingdom contracted by almost one-fifth. The downturns in Switzerland and Austria were comparatively moderate. All in all, construction output in Western Europe fell by 8.0 percent in real terms. Eastern Europe saw a downturn of 4.5 percent, with Hungary and Slovakia particularly hard hit. As work on some construction sites came to a halt, residential construction and other building construction across Europe declined significantly by 8.6 percent and 9.2 percent respectively. Unlike during previous crises, building renovation also fell by 7.3 percent (new builds: -10.5 percent).

According to the German Federal Statistical Office, construction investment in Germany enjoyed slight growth of +2.5 percent in 2020 despite the difficult environment. According to the German Institute for Economic Research (DIW), the nominal volume of new residential construction increased by 5.2 percent to EUR 79.5 billion (previous year: 5.4 percent). In contrast to the general economic weakness, new commercial and public construction enjoyed moderate growth of 1.9 percent to EUR 45.6 billion (previous year: 9.1 percent). However, new construction accounted for only around one-third of all construction activity. Around double this amount was generated from construction work on existing buildings, i.e. extension, conversion, repairs and modernisation. In 2020, these measures also saw strong growth of 4.7 percent to EUR 175.6 billion for residential construction (previous year: 9.5 percent) and 3.4 percent to EUR 66.0 billion for non-residential construction (previous year: 5.6 percent).

Despite the economic burdens and considerable restrictions on everyday life, the German sanitary industry also developed positively in 2020. According to the German Federal Statistical Office, net sales from the installation of gas, water, heating, ventilation and air conditioning systems grew by 3.5 percent in the first three quarters of 2020 (previous full year: 5.4 percent).

USA. The coronavirus pandemic sent the US economy into a deep recession as the country was harder hit by the spread of the virus than other industrialised nations. To cushion the economic impact of the crisis, the US Federal Reserve cut the key interest rate twice in March. According to the IMF, the US economy is estimated to have contracted by 3.4 percent in 2020 (previous year: +2.2 percent). Private consumer spending and investment activity were particularly weak, especially in the area of equipment.

Despite this, construction investment remained robust. Investment in residential construction increased in real terms despite a setback in the second quarter. In terms of expenditure, construction output grew by 4.7 percent in nominal terms in 2020, with residential construction rising sharply by 11.8 percent. Expenditure for apartment blocks rose by 6.3 percent. Construction expenditure in the water supply sector increased by 16.2 percent in 2020, while the figure for the broadly defined wastewater/waste disposal sector saw moderate growth of 3.2 percent.

Emerging Markets – Significant economic downturns for the most part, but some robust trends in the construction industry

CHINA. The outbreak of the coronavirus in Wuhan meant that China was the first country to be affected by the rapid growth in infection rates and the economic impact of the dramatic measures taken to curb the spread. According to official Chinese figures, however, massive government intervention meant the slump in early 2020 was followed by an extremely rapid recovery, with the economy recording growth already in the second quarter. The gap was fully closed in the summer and the Chinese economy returned to its growth path on a cumulative basis. According to the NBS statistical office, GDP growth amounted to 2.3 percent in 2020 (previous year: 6.1 percent).

The construction industry benefited from the dynamic and positive underlying economic momentum in China and the huge demand for housing, commercial and administrative buildings and modern infrastructure in urban centres, including the energy and drinking water supply and waste and sewage disposal. Although construction came to a halt for several months in some cases, NBS figures show that construction investment again enjoyed strong growth of 7.0 percent in nominal terms in 2020 (previous year: 9.9 percent). Residential construction saw an above-average increase of 7.6 percent (previous year: 13.9 percent). With nominal growth of 4.5 percent, China saw a further increase in investment in water management in 2020.

KOREA. As it did not see extensive restrictions on freedom of movement, store closures or production shutdowns on a wider scale, Korea was comparatively well positioned to absorb the economic impact of the pandemic in 2020, However, private consumer spending declined considerably. On the other hand, there was higher investment on the part of industry and the IT sector in particular. According to the latest central bank estimates, Korea's economic output contracted by just 1.1 percent in 2020 (previous year: +2.0 percent).

Despite a temporary recovery in the first half of 2020, the Korean construction industry continued to suffer from declining commercial construction and the weakness of the residential construction sector. As a result, construction investment declined by 0.7 percent in real terms in 2020 following a fall of 2.5 percent in the previous year.

INDIA. According to the World Bank, the Indian economy was particularly hard hit by the pandemic because it is characterised by extremely close social interaction. Unemployment increased massively, which put substantial pressure on private consumer spending and investment. In conurbations, this led to substantial losses in service sectors such as retail. The IMF estimates that the Indian economy contracted by 8.0 percent in 2020 following growth of 4.2 percent in the previous year.

The Indian construction industry also came under considerable pressure, with construction investment expected to have slumped by around 15 percent. Although the commercial sector saw rising investment demand for logistics buildings, demand for office and retail space stagnated. The Indian government is supporting the construction industry through intensified support for public housing construction as well as substantial infrastructure investments in areas including water supply. However, the pandemic means numerous construction projects have come to a halt or been delayed.

SOUTHEAST ASIA. The coronavirus crisis also hit the economic performance of the most important countries in this region from an economic perspective (ASEAN-5 and Singapore) in 2020. According to IMF estimates, the economies of the ASEAN-5 countries contracted by 3.7 percent in total (previous year: +4.9 percent). According to the World Bank, Vietnam saw moderate growth of 2.8 percent thanks to low infection rates and a high level of government investment, while the Indonesian economy contracted slightly. By contrast, Malaysia, Thailand and, in particular, the Philippines all saw substantially negative development. Singapore also experienced a slump in its economy in 2020.

Construction activity in Malaysia and Singapore came under massive pressure, while the Philippines also saw a significant downturn. By contrast, the Vietnamese construction industry grew once again, albeit only moderately. The construction sector in Thailand benefited from investments in infrastructure, but building construction was curbed by the pandemic.

RUSSIA. The Russian economy also came under visible pressure in 2020. According central bank data, private consumer spending and investment activity were weak. The key interest rate was cut substantially in several steps and the rouble depreciated significantly. The oil price – which is important for the Russian state budget – slumped in the wake of the global economic downturn, but dramatic production cuts on the part of OPEC and Russia in spring 2020 prevented it from collapsing to an even greater extent. According to IMF estimates, the economy contracted by 3.6 percent in 2020 (previous year: +1.3 percent).

Following a robust start to the year, residential construction was tangibly impacted by the pandemic-related restrictions, with work at many construction sites coming to a temporary halt. The government resolved emergency measures to support the construction industry, including a purchase programme for public housing, subsidies for mortgage loans and liquidity assistance for construction firms working on infrastructure projects. According to data from the Rosstat statistical office, residential construction activity slumped in April. However, the statistics for the period since August 2020 show growth in Russian residential construction. In the commercial construction sector, warehouse/logistics and office properties enjoyed robust performance thanks to the high level of demand, whereas retail properties and hotels developed negatively.

TURKEY. Having been driven by a lending boom, the expansion of the Turkish economy was interrupted by a pandemic-related slump in the second quarter. However, a recovery began as early as the summer. In addition to high government expenditure, demand was driven by lively private consumer spending. The World Bank expects GDP to have increased by 0.5 percent in 2020 (previous year: 0.9 percent). The central bank initially cut the key interest rate several times in response to government pressure. To stop the depreciation of the lira and curb inflation, however, the central bank surprisingly announced a substantial hike in the key interest rate in September. By the end of the year, it had raised the rate on a further two occasions to 17.0 percent.

The construction industry was again subject to considerable uncertainty in 2020, including with regard to the development of liquidity conditions, exchange rate volatility, public finances and interest rates. The sector remained under pressure due to financing difficulties and the high level of oversupply in the residential and office/commercial markets. The market for retail properties was also hit by the pandemic. In the infrastructure sector, the realisation of several projects was delayed. All in all, the crisis in the Turkish construction industry has therefore intensified further.

MIDDLE EAST & AFRICA. The coronavirus pandemic and the fall in the oil price had a pronounced economic impact on the Middle East and Africa in 2020 and led to a slump in investment activity. According to the World Bank, the regional economy contracted by 5.0 percent in 2020 (previous year: +0.1 percent). Oil-exporting states like Saudi Arabia, the United Arab Emirates (UAE), Iraq and Kuwait saw above-average downturns, but Algeria, Morocco and, in particular, Tunisia also slipped into deep recessions. By contrast, the Egyptian economy remained extremely robust, recording growth of 3.6 percent (previous year: 5.6 percent). The Sub-Saharan region also saw a tangible economic contraction. The pandemic and low oil prices meant that Nigeria saw a downturn of 4.1 percent (previous year: +2.2 percent). In South Africa, the already weak economy slumped further as strict lockdowns were imposed.

The construction industry was faced with a difficult situation for the most part in 2020. The negative impact in Saudi Arabia was limited as projects were able to continue under minor restrictions, while Egypt's construction industry was also comparatively robust. By contrast, the downturn in the Kuwaiti construction sector accelerated. The weakness in the construction industry in the United Arab Emirates continued, while activity in Morocco and Tunisia was also weak. Momentum in Nigeria was adversely affected by the impact of low oil revenues on the country's budget, while the crisis in the South African construction sector continued.

LATIN AMERICA. All in all, the Latin America region was extremely hard hit by the pandemic, with employment and income falling dramatically. Various countries initiated stabilisation packages including transfer payments. According to latest World Bank estimates, the region saw a downturn in economic output of 6.9 percent in 2020 (previous year: +1.0 percent). As the individual countries have close economic ties, the negative developments crossed national borders and mutually reinforced each other. The economic downturn was particularly pronounced in Argentina (–10.6 percent), Peru (–12.0 percent) and Mexico (–9.0 percent), whereas Brazil (–4.5 percent) and Chile (–6.3 percent) were comparatively less hard hit.

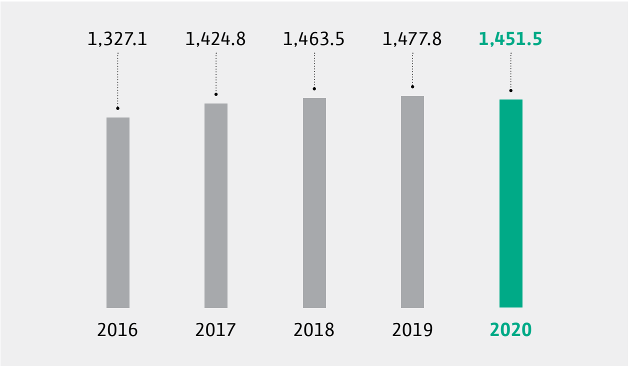
Results of operations

Net sales development

Despite the difficult conditions due to the pandemic and the economic situation, the Wilo Group achieved net sales growth of 1.8 percent after adjustment for exchange rate effects in the 2020 financial year. However, net sales performance in Group currency was substantially impacted by the depreciation of various foreign currencies that are important to the Wilo Group. Including negative exchange rate effects of EUR 53.3 million, consolidated net sales declined by 1.8 percent or EUR 26.3 million year-on-year to EUR 1,451.5 million.

Net sales development in the individual sales regions was as follows in the 2020 and 2019 financial years:

Net sales development
in EUR million



Net sales development by region

EUR million	2020	2019	Change in %	Change after adjustment for exchange rate effects in %
Mature Markets	853.9	850.0	0.5	1.2
Emerging Markets	597.6	627.8	–4.8	2.7
Total	**1,451.5**	**1,477.8**	**–1.8**	**1.8**

The Mature Markets and Emerging Markets sales regions consisted of the following countries as at 31 December 2020:
– Mature Markets: All European nations, USA and Canada
– Emerging Markets: China, India, South Korea, the Southeast Asian nations, Australia and Oceania, Russia, Belarus, the Caucasian nations, Turkey, the Middle East, Africa, Latin America

MATURE MARKETS. Net sales in the Mature Markets increased by 1.2 percent after adjustment for exchange rate effects. However, net sales growth in Group currency was substantially impacted by the depreciation of the Polish zloty, the Hungarian forint and the Ukrainian hryvnia in particular, amounting to just 0.5 percent as a result.

Germany, the Wilo Group's largest individual market, saw substantial year-on-year net sales growth of 3.4 percent in 2020. The consequences of the coronavirus pandemic initially led to a sharp decline in net sales in the early part of the second quarter. However, catch-up effects and targeted sales campaigns resulted in a return to substantial year-on-year net sales growth from May onwards, thus more than offsetting the downturn in the second quarter of 2020. While the Building Services Commercial, Water Management and OEM market segments saw growth, net sales in the Building Services Residential market segment were largely unchanged compared with the previous year.

In France, net sales fell by 6.1 percent in the year under review. Although business activity in France was significantly impacted by the coronavirus pandemic, it saw a slight recovery from the middle of the year onwards, including as a result of targeted sales measures in the building services segment. Net sales in the Building Services Residential market segment increased compared with the previous year, while net sales in the Building Services Commercial market segment were down only slightly year-on-year. In addition, a heightened focus on specific industrial applications led to significant growth in the Industry market segment. By contrast, net sales in the Water Management market segment – which is largely characterised by volatile project business – saw negative development in 2020, while net sales in the OEM market segment were down on the previous year.

In Italy, which was particularly hard hit by the impact of the coronavirus pandemic in April and May, net sales declined by 4.1 percent year-on-year in 2020. Building services saw a slight recovery in both wholesale and project business from June onwards, but this was not enough to offset the losses in the second quarter. OEM business enjoyed a stronger recovery over the course of the year, meaning that net sales in this market segment were only just lower than in the previous year.

The other Mediterranean countries also recorded lower net sales. Business performance in Spain in the second half of the year was significantly impacted by the imposition of new lockdowns in an attempt to curb the increased infection rate. Net sales also declined in Portugal and Greece. The sharp downturn in tourism had a pronounced impact on business development in the Mediterranean countries. Many investment projects were halted, while the temporary closure of numerous hotels meant there was also a substantial reduction in replacement and servicing business.

Net sales in Eastern Europe remained essentially unchanged year-on-year in 2020. The coronavirus pandemic led to delays in project business in building services and the Water Management market segment in particular. This also affected maintenance agreements. By contrast, OEM business developed positively and enjoyed substantial growth. Net sales growth in Slovakia, Serbia and Montenegro was almost sufficient to offset the flat business development in Austria and the downturns in Romania and Poland. The depreciation of the Polish zloty, the Hungarian forint and the Ukrainian hryvnia led to considerable negative exchange rate effects. Adjusted for these effects, net sales in Eastern Europe increased by 2.0 percent.

In the Benelux nations, net sales increased by 6.7 percent year-on-year overall. Growth was recorded in the Netherlands and Belgium alike. In the Netherlands, strong OEM business was the main reason for the higher level of net sales compared with the previous year. In Belgium, the construction industry slumped as a result of the coronavirus crisis, while stronger competitive pressure was observed in the area of building services. As such, the first-time recognition of TUMAR BVBA, which was acquired in February 2020 and serves customers in the Water Management market segment, made a significant contribution to the positive business performance in Belgium.

Net sales in the United Kingdom and Ireland fell by 3.9 percent year-on-year. Business development in the Building Services Residential and Commercial market segments suffered from the general economic weakness as a result of the government-mandated lockdowns. However, the Water Management market segment recorded growth thanks to a stronger focus on niche segments, while service business also saw positive development.

Net sales in Scandinavia increased by 3.0 percent overall, with OEM business being the main driver. While Denmark, Finland and Sweden enjoyed positive business performance, net sales in Norway declined compared with the previous year. However, this was solely due to the pronounced depreciation of the Norwegian krona, and business development in local currency was positive. Additional price rises only partially offset the negative exchange rate effect.

In the Baltic states, net sales declined year-on-year across all segments, with the substantial growth in Estonia failing to compensate for the downturns in Lithuania and Latvia. The construction sector in this area was hard hit by the coronavirus pandemic, while there were also delays in the opening of new public tenders.

Net sales in the North American market rose significantly by 14.9 percent on the back of positive business development in both the USA and Canada. The individual market segments in the USA saw a varied picture. The OEM market segment clearly suffered from the impact of the coronavirus pandemic, with net sales declining as a result, whereas the successful reorientation in the area of Water Management led to a return to growth in this market segment. The first-time recognition of American-Marsh Pumps also made a significant contribution to the positive business performance in the USA.

EMERGING MARKETS. Net sales growth in the Emerging Markets amounted to 2.7 percent after adjustment for exchange rate effects. However, the depreciation of various currencies, particularly the Russian rouble, the South Korean won, the Turkish lira and the Chinese renminbi, meant that net sales in Group currency fell by 4.8 percent.

Business activity in China was heavily impacted by the coronavirus crisis in the first quarter of 2020 in particular. The extensive and strict lockdown, which brought social and economic life in China almost to a standstill, also affected the Group's production sites and its sales offices throughout the country. Project business suffered considerably from the pandemic-related restrictions and the resulting delays to orders, particularly in the Building Services Commercial and Water Management market segments. From April onwards, a recovery began with substantial growth rates in some cases. However, the depreciation of the Chinese renminbi against the euro meant that this was not enough to offset the downturn in net sales in the first quarter. By contrast, OEM business developed extremely positively, including as a result of focused key account management. All in all, net sales in Group currency declined by 2.2 percent year-on-year. Adjusted for these effects, net sales were in line with the prior-year level.

In Korea, net sales in Group currency fell by 10.4 percent, while net sales adjusted for exchange rate effects decreased by 7.2 percent. Growth in the Water Management and Industry market segments were not sufficient to offset the downturn in net sales in the building services segment. Project business in the Building Services Commercial market segment and general business development in the Building Services Residential market segment were extremely sluggish. In addition to the restrictions resulting from the coronavirus pandemic, this was due to the sustained weakness in the Korean construction sector, which was exacerbated by stricter regulations for the property market.

Net sales in India fell by 4.7 percent. However, this was solely due to the pronounced depreciation of the Indian rupee against the euro. Adjusted for these effects, net sales actually increased by 2.7 percent in 2020. While the strong upward trend continued in the first two months of the year, resulting in growth rates in excess of 10 percent, a substantial downturn took place from March onwards as India was particularly hard hit by the impact of the coronavirus pandemic. Government-mandated infection protection measures led to significant restrictions on production capacities, meaning it was not possible to adequately process the high level of orders on hand at first. However, the Wilo Group was able to quickly ramp up its capacities again following the rapid implementation of extensive and effective hygiene measures and its classification as a systemically important producer. After this, business recovered substantially on the back of extremely positive performance in the Water Management market segment.

Net sales in Southeast Asia and Oceania fell by 20.1 percent. The growth in Malaysia was not sufficient to compensate for the lower level of net sales in Singapore, Australia and Vietnam. It should be noted that business in this region is largely characterised by project business, which is typically subject to more pronounced fluctuations and which is being impacted by the coronavirus pandemic to an above-average extent.

Net sales development in Russia was significantly affected by the depreciation of the Russian rouble. Net sales in Group currency were down 5.6 percent year-on-year, whereas net sales in the Russian market increased by 9.3 percent after adjustment for exchange rate effects. Following the relaxation of the government-mandated pandemic restrictions, clear signs of a recovery emerged from June onwards. The Building Services Commercial and Water Management market segments enjoyed positive performance on the back of growing demand for local products as well as intensified sales measures. The production site in Noginsk, near Moscow, enables the Wilo Group to serve the local market efficiently and in line with requirements while also benefiting from the growing trend towards localisation. By contrast, the Industry market segment saw a substantial downturn. This customer group was particularly hard hit by the official measures imposed in order to curb the spread of the coronavirus, which included widespread factory shutdowns. The figure for the previous year was also boosted by some major industrial projects. In the other Eurasian nations, high growth rates were recorded in Belarus, Uzbekistan and Kazakhstan in particular.

Net sales in Turkey increased by an impressive 9.1 percent, with the figure adjusted for exchange rate effects coming in at more than 35 percent. After weak performance in the previous year, the Building Services Commercial market segment recorded particularly strong growth. Among other things, some projects in the healthcare sector were completed. However, the other market segments also performed well with the exception of the Water Management market segment, where net sales declined compared with the previous year. Many infrastructure projects in Turkey were suspended in response to the coronavirus pandemic as well as the ongoing strained economic situation in the country.

In the Middle East and North Africa, net sales declined by 13.0 percent compared with the previous year. Growth was recorded in Egypt thanks to strong project business in the Building Services Commercial market segment and in the United Arab Emirates, particularly in the offshore industry segment. Tunisia also saw a year-on-year increase in net sales on the back of strong OEM business. However, this positive business performance was not sufficient to offset the downturn in net sales in the rest of North Africa, Iraq and Lebanon.

Net sales in Central and Southern Africa increased by 11.3 percent. In the Building Services Commercial market segment, strong project business in Côte d'Ivoire, Cameroon, Ethiopia and Kenya delivered significant growth. In addition, some major projects in the area of water supply and transport were successfully realised in Zimbabwe, Ethiopia and Côte d'Ivoire.

In Latin America, the Wilo Group recorded substantial net sales growth of more than 30 percent in local currency, with the Industry market segment in Chile and Brazil performing very well. By contrast, net sales in Group currency declined by 7.5 percent. The net sales growth in Chile was not enough to offset the flat net sales development in Mexico and Brazil and the downturn in Argentina due to exchange rate effects. In particular, the Argentine peso saw significant depreciation against the euro.

WILO Annual Report 2020 | Group Management Report | **Business report**

Earnings development

Results of operations

EUR million		**2020**	2019	Change in %
Net sales	in EUR million	1,451.5	1,477.8	–1.8
Gross profit	in EUR million	474.2	507.5	–6.6
Gross margin	*in %*	*32.7*	*34.3*	*–4.7*
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	in EUR million	141.2	180.1	–21.6
EBITDA as a percentage of net sales (EBITDA margin)	*in %*	*9.7*	*12.2*	*–20.5*
Adjusted EBITDA*	in EUR million	181.6	–	–
*Adjusted EBITDA margin**	*in %*	*12.1*	–	–
Depreciation and amortisation	in EUR million	79.9	76.9	3.9
Earnings before interest and taxes (EBIT)	in EUR million	61.4	103.2	–40.5
EBIT as a percentage of net sales (EBIT margin)	*in %*	*4.2*	*7.0*	*–40.0*
Net finance costs	in EUR million	–8.0	–5.6	–42.9
Consolidated net income before taxes	in EUR million	53.4	97.6	–45.3
Consolidated net income	in EUR million	24.9	72.4	–65.6

* Further disclosures on adjusted EBITDA and the adjusted EBITDA margin, which constitute other information and thus have not been audited by KPMG AG Wirtschaftsprüfungsgesellschaft in line with the statutory provisions, can be found under 1) on page 75 of the Group management report.

Gross profit fell by EUR 33.3 million year-on-year to EUR 474.2 million. Accordingly, the gross margin declined by 1.6 percentage points to 32.7 percent. This was due to the lower net sales in Group currency and, in particular, increased production costs as a result of expenses in connection with the coronavirus pandemic. This included mitigation measures on production lines and adjustments to shifts, as well as comprehensive hygiene measures. Freight costs also increased due to the need to secure supply chains. Above and beyond this, the gross margin was impacted in particular by a change in the product sales mix in favour of a lower share of high-margin products.

Selling and administrative expenses were reduced by a further 4.7 percent or EUR 17.1 million year-on-year to EUR 342.2 million. The growth- and savings-oriented reorganisation projects in administration and the initiatives to strengthen sales efficiency that have been implemented in recent years had the desired effect and led to an overall reduction in the cost base. With the consequences of the coronavirus pandemic being difficult to predict, the Executive Board also pressed ahead with strict cost management to secure the Group's profitability and liquidity in the year under review.

As a customer-oriented premium provider, the Wilo Group relies on pioneering and innovative products and technologies. Research and development therefore play a central role at Wilo. Despite the temporary impact of the coronavirus crisis, the Wilo Group continued its activities in this area unabated and with a high degree of intensity. Total spending on research and development, i.e. all research and development costs including capitalised development costs, amounted to EUR 68.6 million in the year under review (previous year: EUR 67.6 million). At 4.7 percent of net sales (previous year: 4.6 percent), it increased slightly compared with the high prior-year level. Research costs recognised in profit or loss and non-capitalised development costs amounted to EUR 52.0 million (previous year: EUR 50.3 million). This equates to a slight increase of 3.4 percent.

Other operating income declined from EUR 5.3 million to minus EUR 18.6 million. Net foreign-currency income from operating activities deteriorated by EUR 4.1 million. At the same time, the Wilo Group initiated growth-oriented restructuring measures in the year under review with the aim of safeguarding the company's future by further reducing its cost base. These measures relate to all areas of the company and also include the relocation of functions and the consolidation of locations. The planned measures impacted other operating income in the amount of EUR 17.7 million.

Reported operating earnings before interest, taxes, depreciation and amortisation (EBITDA) therefore decreased significantly by EUR 38.9 million to EUR 141.2 million. Accordingly, the EBITDA margin (ratio of EBITDA to net sales) declined from 12.2 percent in the previous year to 9.7 percent in the 2020 financial year. The main reasons for the decline in EBITDA were the lower level of net sales in Group currency, the costs incurred in connection with the coronavirus pandemic, expenses for the planned restructuring measures, some of which have already been initiated, and the substantial deterioration of the foreign currency result from operating activities. These effects were only partially offset by the further reduction in selling and administrative expenses on the back of the reorganisation measures implemented in recent years and strict cost management.

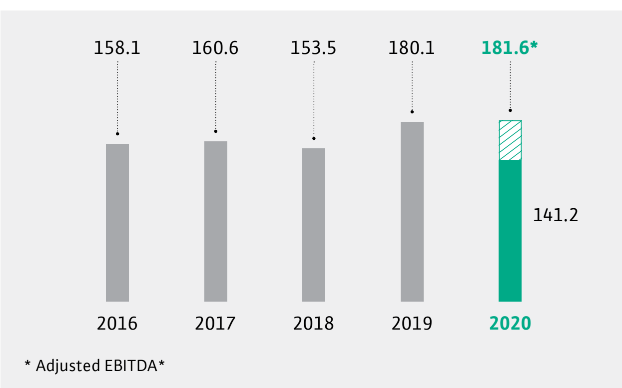
Adjusted for restructuring expenses of EUR 17.7 million, costs incurred in connection with the coronavirus pandemic, which are estimated at EUR 10 million, and currency effects (transaction and translation) totalling EUR 12.7 million, EBITDA amounted to EUR 181.6 million and the EBITDA margin amounted to 12.1 percent.*

The net finance costs of the Wilo Group deteriorated by EUR 2.4 million, from minus EUR 5.6 million in the previous year to minus EUR 8.0 million in the year under review. This was mainly due to the fact that net interest cost was EUR 2.7 million lower than in the previous year. Capitalised borrowing costs, which have a positive effect on net interest cost, declined in the year under review following the completion of the significant construction work on the Smart Factory and the new administrative building (Pioneer Cube) in Dortmund. Interest income from the investment of cash funds was also lower than in the previous year.

Income taxes amounted to EUR 28.5 million (previous year: EUR 25.2 million). Current tax expense increased from EUR 25.2 million to EUR 28.1 million. This includes adjustments for prior periods amounting to EUR 1.9 million. Deferred tax expenses remained essentially unchanged.

Consolidated net income fell by EUR 47.5 million to EUR 24.9 million. The return on sales, which describes the Wilo Group's ratio of consolidated net income to net sales, decreased from 4.9 percent in the previous year to 1.7 percent in the year under review.

EBITDA
in EUR million



Consolidated net income
in EUR million

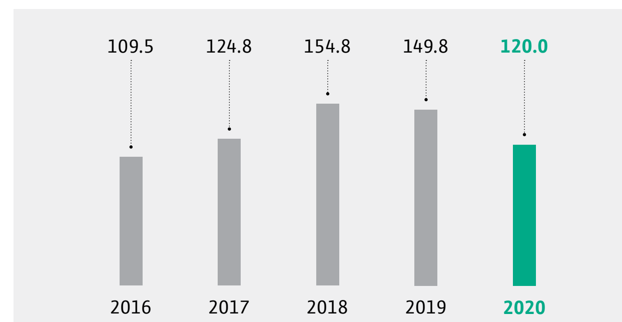
* Further disclosures on adjusted EBITDA and the adjusted EBITDA margin, which constitute other information and thus have not been audited by KPMG AG Wirtschaftsprüfungsgesellschaft in line with the statutory provisions, can be found under 1) on page 75 of the Group management report.

Cash flows

Capital expenditure

Capital expenditure on intangible assets and property, plant and equipment (not including company acquisitions and leases) fell by EUR 29.8 million year-on-year to EUR 120.0 million in 2020. Construction work on the administrative building at the Dortmund site – the Pioneer Cube – was completed in the year under review and the building was fully occupied, while work on the new production site – the Smart Factory – was already concluded in 2019. Accordingly, expenditure on site expansion was lower than in the previous year. At a time when the extent and severity of the economic impact of the coronavirus pandemic on the Wilo Group was still unclear, the Executive Board also pressed ahead with measures to secure the Group's liquidity, among other things. Current projects were examined with specific regard to the new situation and investments were only made if they were of particular strategic importance. The initiation of these measures at an early stage serve to underline the quick reaction times of the Wilo Group and the flexibility with which it is managed.

Capital expenditure on intangible assets and property, plant and equipment*
in EUR million



* not including company acquisitions and leases

In the past financial year, capital expenditure again primarily related to the strategic location development project in Dortmund and the modernisation and adjustment of the production capacities at the location. Additional investment in this area totalled around EUR 75 million in 2020. As part of the transformation of Wilo's headquarters, a state-of-the-art production facility has been constructed that integrates key elements of the Industry 4.0 vision. This was completed in 2019, with production subsequently commencing as planned. Electronics production was also relocated to the new facility in the year under review. 2020 saw the completion of construction work on the Pioneer Cube, a modern office building that is home to around 500 head office employees, and the relocation took place. At the same time, work to demolish the old production and administrative building began in order to prepare the construction site for the further expansion of the Wilopark. Among other things, this will be where the Networking Cube, a new centre for customers, training, events and seminars, is built. With a view to further improvements in cost efficiency and current and future changes in the product portfolio, the Wilo Group also invested in corresponding production capacities. Among other things, the Smart Factory in Dortmund was fitted with a new paint shop and automated THT assembly for electronics production, which will increase capacity. In addition, a state-of-the-art system for manufacturing parts for glandless pump production was purchased as part of the increase in vertical integration. These systems are characterised by superior manufacturing technology thanks to a high degree of automation and efficiency gains.

Investments were also made in new and existing sales locations. In December 2020, the new branch in Romania was inaugurated. It boasts a state-of-the-art, resource-efficient smart office building as well as logistics space.

In addition, a large portion of the investments again went on the expansion of IT infrastructure as part of the Wilo Group's digital transformation. Development costs including borrowing costs were capitalised in the amount of EUR 17.3 million (previous year: EUR 17.7 million).

The foundations for three major new construction projects were also laid in the year under review. New, state-of-the-art production and administrative buildings in China, India and the USA will be constructed over the coming years. In this way, the Wilo Group is establishing the conditions for participating in the significant growth potential of these markets in a targeted manner. As well as meeting the requirements of modern digital factories, the new smart production sites have been designed with sustainability as a guiding principle in order to make an important contribution to climate protection in future.

Further information on purchase commitments for planned capital expenditure on property, plant and equipment can be found in the notes to the financial statements under (13.2) "Contingent liabilities and other financial obligations".

Capital expenditure on intangible assets and property, plant and equipment (not including company acquisitions and leases) broke down as follows in the 2020 and 2019 financial years:

Capital expenditure on intangible assets and property, plant and equipment

EUR million	**2020**	2019	Change
Capital expenditure on intangible assets	**22.8**	**23.0**	**–0.2**
Land and buildings	51.2	3.5	47.7
Technical equipment and machinery	10.2	10.1	0.1
Operating and office equipment	20.3	19.3	1.0
Advance payments and assets under construction	15.5	93.9	–78.4
Capital expenditure on property, plant and equipment	**97.2**	**126.8**	**–29.6**
Total	**120.0**	**149.8**	**–29.8**

Cash flow and liquidity

In the 2020 financial year, cash flow from operating activities declined slightly by EUR 7.0 million but remained high at EUR 161.5 million, only just down on the record level in the previous year. Securing the Group's liquidity was given particularly high priority in light of the coronavirus crisis. Accordingly, the Executive Board actively intensified working capital management in the year under review. These measures led to an improvement in working capital of EUR 7.1 million. Cash flow from operating activities was also positively impacted by the increase in other provisions and liabilities, which was primarily attributable to the planned restructuring measures and the higher level of advance payments received. This almost offset the reduction in operating earnings before interest, taxes, depreciation and amortisation (EBITDA).

Cash flow from operating activities
in EUR million

Net cash used in investing activities declined by EUR 34.0 million to EUR 116.4 million in the year under review. At EUR 97.2 million, payments for capital expenditure on property, plant and equipment were EUR 29.6 million lower than in the previous year. The corresponding investments decreased following the completion of the Smart Factory in 2019 and the conclusion of construction work on the new administrative building at the Wilopark in Dortmund in the year under review. As part of its measures to secure the Group's liquidity during the coronavirus crisis, the Executive Board also examined current projects with regard to the changed conditions and investments were only made if they were of particular strategic importance. The acquisition of the Abionik Group that was agreed in late December 2020 was not completed until February 2021, meaning that no corresponding payments were made in the year under review.

Net cash used in financing activities amounted to EUR 13.7 million. The assumption of financial liabilities resulted in proceeds of EUR 108.6 million (previous year: EUR 53.6 million). In the 2020 financial year, another promissory note loan in the amount of EUR 90.0 million was issued and a promissory note loan in the amount of EUR 15.0 million was assumed. This was primarily offset by the partial repayment of the utilised syndicated loan facility in the amount of EUR 75.0 million. The EUR 15.9 million dividend payment to the shareholders of WILO SE (previous year: EUR 14.8 million) also served to reduce liquidity. In addition, repayments of lease liabilities

and the corresponding interest payments reduced the cash flow from financing activities by EUR 16.8 million (previous year: EUR 17.4 million).

The individual cash flows for the 2020 and 2019 financial years were as follows:

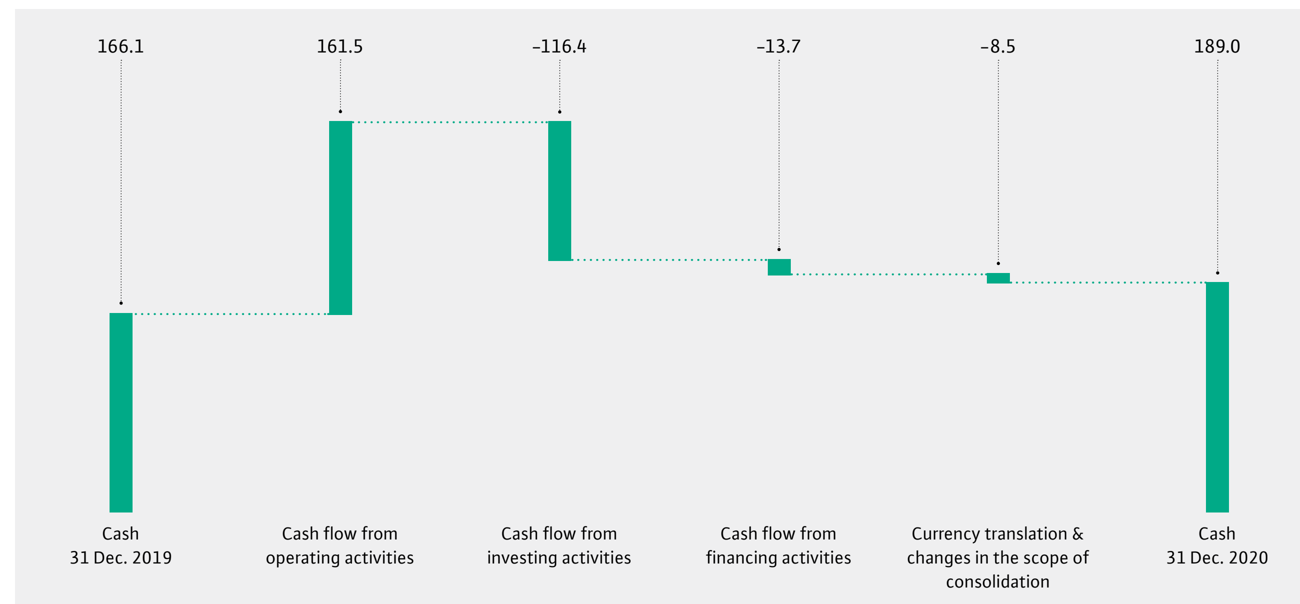
Cash flows

EUR million	**2020**	2019	Change
Cash flow from operating activities	161.5	168.5	–7.0
Cash flow from investing activities	–116.4	–150.4	34.0
Cash flow from financing activities	–13.7	11.7	–25.4
Change in cash	**31.4**	**29.8**	**1.6**
Cash at the end of the financial year	189.0	166.1	22.9
Free cash flow	35.6	10.2	25.4

Thanks to its strong operating cash flow and lower capital expenditure, the Wilo Group generated positive free cash flow of EUR 35.6 million in the 2020 financial year, calculated as the difference between the cash flows from operating and investing activities including interest income and expenses. This represents a significant improvement of EUR 25.4 million. The funds generated are available to the Wilo Group to service its capital providers. This means the Wilo Group continues to have a high self-financing capacity.

Including the negative net effects of currency translation in the amount of EUR 8.8 million and changes resulting from the basis of consolidation in the amount of EUR 0.3 million, cash increased by EUR 22.9 million to EUR 189.0 million as at 31 December 2020.

Change in cash
in EUR million



Financial management

The goal of financial management is to maintain the financial independence of the company, ensure liquidity at all times and support the operating activities of the Wilo Group. In addition to its operating cash flow, the Wilo Group has sufficient financing facilities from international banks for this purpose, consisting of short and medium-term cash credit facilities as well as guarantee and margin facilities of more than EUR 410 million. This includes a syndicated loan concluded in 2013 with a credit facility of EUR 300.0 million and a term to 2024. Overall, EUR 36.3 million (previous year: EUR 108.3 million) of the cash credit facilities were utilised as at 31 December 2020, of which EUR 30.0 million (previous year: EUR 105.0 million) related to the syndicated loan. Guarantee and margin facilities were utilised in the amount of EUR 34.5 million (previous year: EUR 24.9 million).

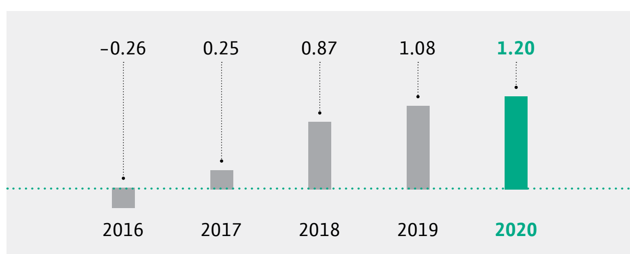
The Wilo Group's financial liabilities increased by EUR 27.4 million to EUR 346.3 million as at 31 December 2020.

Financial liabilities primarily comprise senior notes in the amount of EUR 75.0 million, EUR 37.0 million and USD 30.0 million. These senior notes, each of which has a ten-year term, were issued by WILO SE in US private placements in 2011, 2013 and 2017. In the year under review, WILO SE issued another senior note of EUR 90.0 million maturing in 2035 as part of a US private placement. The Group also has a promissory note loan with a volume of EUR 50.0 million and a term of ten years that was taken out in 2017. This loan will be repaid in instalments from 2022. An additional promissory note loan with a volume of EUR 15.0 million and a term to 2030 was taken out in the year under review and will be repaid in instalments. In addition, a KfW development loan of EUR 19.5 million with a term of ten years was concluded in 2017 to finance the administrative building as part of the construction project at the Dortmund location. The loan amount has been drawn down since 2018 according to the progress of construction. It will be repaid in instalments after two redemption-free years. The KfW development loan had a carrying amount of EUR 17.1 million as at 31 December 2020 (previous year: EUR 19.5 million).

The Wilo Group operates active portfolio management with regard to the origin, type and maturity structure of its borrowings. Financing policy focuses primarily on both return and security targets.

WILO SE currently expects to be able to repay the tranches of the senior notes and promissory note loans, other loan liabilities and overdrafts on maturity from its budgeted cash flows from operations, as well as through refinancing measures as required. There is no indication that the volatility and deterioration of the global economic and financial market environment could have a material negative impact on the Wilo Group's financing activities. As at 31 December 2020, cash amounted to EUR 189.0 million (previous year: EUR 166.1 million). The Wilo Group's leverage, i.e. the ratio of the net financial position (financial liabilities and lease liabilities less cash) to consolidated EBITDA adjusted for restructuring costs, increased from 1.08 at the end of the previous year to 1.20 as at 31 December 2020. This was largely due to the assumption of additional financial liabilities and the lower level of EBITDA.

Leverage



→ *More detailed information on the financing structure can be found in note (9.10) of the notes to the consolidated financial statements on **page 108 et seq.***

Financial position

The Wilo Group's total assets increased slightly by 2.3 percent or EUR 37.0 million year-on-year to EUR 1,678.4 million as at 31 December 2020. Non-current assets rose by 4.2 percent or EUR 38.3 million to EUR 947.6 million. This was attributable in particular to capital expenditure on intangible assets and property, plant and equipment in the amount of EUR 120.0 million. Investments in property, plant and equipment of EUR 97.2 million mainly related to location development in Dortmund and new manufacturing technologies. The Wilo Group also invested EUR 22.8 million in intangible assets, of which EUR 16.6 million related to capitalised development costs plus capitalised borrowing costs of EUR 0.7 million. In addition, right-of-use lease assets in the amount of EUR 10.5 million were recognised in the year under review. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 79.9 million in the year under review. In addition, negative exchange rate effects resulted from the remeasurement of intangible assets and property, plant and equipment originally held in foreign currency in the amount of EUR 19.4 million. Intangible assets and property, plant and equipment therefore increased by EUR 25.5 million in net terms.

The carrying amount of current assets was essentially unchanged year-on-year at EUR 730.8 million. Inventories declined by EUR 7.2 million to EUR 235.9 million, largely as a result of exchange rate changes. Current trade receivables declined by 5.6 percent or EUR 16.0 million to EUR 272.5 million as a result of the net sales development and intensified working capital management. Working capital, which is defined as current and non-current trade receivables plus inventories less current and non-current trade payables, was reduced by 7.8 percent overall to EUR 332.6 million. Cash amounted to EUR 189.0 million as at 31 December 2020 and was thus EUR 22.9 million higher than at the end of the previous year.

The Wilo Group's equity declined moderately by 3.5 percent or EUR 27.6 million year-on-year to EUR 764.8 million as at 31 December 2020. This development was primarily due to negative effects of EUR 36.2 million resulting from the translation of subsidiaries' separate financial statements prepared in local currency into the Group currency. The dividend payment to the shareholders also reduced equity by EUR 15.9 million. By contrast, equity was increased by the consolidated net income of EUR 24.9 million for the 2020 financial year. The equity ratio declined from 48.3 percent to 45.6 percent as a result of the lower level of equity as well as the additional financial liabilities assumed in the financial year.

Equity ratio
in %

As at 31 December 2020, non-current liabilities in the amount of EUR 423.8 million primarily consisted of financial liabilities in the amount of EUR 229.2 million and provisions for pensions and similar obligations of EUR 92.7 million. Non-current financial liabilities increased by EUR 23.8 million to EUR 229.2 million in the year under review. This was due to the issue of a EUR 90.0 million senior note and the assumption of a EUR 15.0 million promissory note loan. Another senior note with a volume of EUR 75.0 million matures in 2021 and has been reclassified to current financial liabilities accordingly. Deferred tax liabilities rose by EUR 8.4 million to EUR 67.3 million. This was largely due to capitalised development costs for which corresponding deferred tax liabilities were recognised.

The carrying amount of current liabilities rose by EUR 36.3 million year-on-year to EUR 489.8 million as at 31 December 2020. Current financial liabilities increased by just EUR 3.6 million to EUR 117.1 million. Although the promissory note loan maturing in 2021 in the amount of EUR 75.0 million was reclassified to current financial liabilities, the utilisation of the syndicated loan facility also declined by EUR 75.0 million due to the assumption of the new non-current financing. Other current provisions largely increased as a result of the planned restructuring measures. These measures relate to all areas of the company and also include the relocation of functions and the consolidation of locations. Provisions totalling EUR 17.7 million were recognised for the planned measures.

Other current liabilities rose by EUR 8.3 million. This was mainly due to the EUR 2.8 million increase in current tax liabilities and the EUR 3.9 million increase in advance payments received.

The net assets of the Wilo Group were as follows as at 31 December 2020 and 2019:

Financial position

EUR million	2020	%	2019	%
Non-current assets	947.6	56.4	909.3	55.4
Inventories	235.9	14.1	243.1	14.8
Current trade receivables	272.5	16.2	288.5	17.6
Cash	189.0	11.3	166.1	10.1
Other current assets	33.4	2.0	34.4	2.1
Total assets	**1,678.4**	**100.0**	**1,641.4**	**100.0**
Equity	764.8	45.6	792.4	48.3
Non-current liabilities	423.8	25.2	395.5	24.1
Current trade payables	182.6	10.9	173.0	10.5
Other current liabilities	307.2	18.3	280.5	17.1
Total equity and liabilities	**1,678.4**	**100.0**	**1,641.4**	**100.0**

Statement by the Executive Board on the economic situation

The 2020 financial year presented the Wilo Group with extraordinary challenges. The coronavirus pandemic has gripped the world for some time now. Almost every country has been hit hard, with some taking extreme measures to curb the pandemic. Curfews and the closure of schools, restaurants and retail outlets have had a significant impact on people's everyday lives. Additionally, various industries have seen production shutdowns and disruption to value and supply chains in some cases. This had huge consequences for the local and global economy. All of the forecasts and assumptions concerning economic and industry trends that had been made at the start of 2020 had to be lowered significantly. Wilo was unable to escape the massive impact of the pandemic on business and society.

As the initial consequences of the coronavirus pandemic were making themselves felt in China in early 2020, the Executive Board took quick and decisive action. With the formation of a dedicated task force consisting of experienced managers, the Executive Board created an instrument that was specifically designed for dealing with all of the uncertainties and challenges arising in connection with the pandemic quickly, flexibly and effectively. The primary objective was and remains to minimise the negative health effects for employees and the adverse economic consequences for the Wilo Group. To ensure the Group's ability to act and meet its payment obligations at all times, a liquidity task force headed by the CFO was additionally established and tasked with coordinating and managing all of the group-wide measures for securing liquidity with a view to the specific pandemic-related conditions.

This includes stricter control of cash flows and the flow of goods as part of receivables management as well as prioritising investments.

The extensive measures taken to protect employees at an early stage were enhanced as the pandemic progressed and adjusted flexibly as required. This included mitigation measures on production lines and adjustments to shifts, as well as the implementation of extensive hygiene measures and concepts at the various locations. The introduction of smart technical tools ("KINEXON SafeTags") at the Dortmund site helped to ensure compliance with distancing rules and made contact tracing easier, thus successfully preventing widespread infection. In addition, bandwidth and network capacities in IT were expanded significantly and additional hardware was purchased in order to establish the conditions for allowing as many administrative and sales employees as possible to work remotely from home. In doing so, the Wilo Group benefited from the fact that it had already made considerable progress with its digital transformation.

The Wilo Group is ready to take social responsibility, not least during times of crisis. The Executive Board is committed to giving priority to upholding activities that serve the interests of the general population and that support public services to the greatest possible extent. The Wilo Group's products, systems and solutions are used in applications without which daily life would be virtually impossible, making it an integral part of the critical infrastructure in many countries. Accordingly, the Wilo Group obtained special permission to continue its production activities in countries including the USA, Russia, France, Italy and India, especially as a result of having implemented extensive and effective hygiene measures to protect the local workforce.

As a sign of solidarity, the Executive Board and members of Wilo Group senior management waived a considerable portion of their variable remuneration. These amounts were contributed to a Wilo solidarity fund that was specially created to support members of the Wilo workforce who were exposed to particular risks during the coronavirus crisis. Dr.-Ing. E.h. Jochen Opländer, shareholder, Honorary Chairman of the Supervisory Board of WILO SE and founder of the Wilo Foundation, has also made generous contributions to the Wilo solidarity fund together with his family.

The Wilo Group's performance in the 2020 financial year was hugely impacted by the depreciation of various currencies against the euro. This impacted net sales to the tune of more than EUR 50 million. This meant that net sales declined by 1.8 percent due to exchange rate effects. Adjusted for these effects, however, net sales saw moderate growth of 1.8 percent. In light of the considerable uncertainty that was already emerging in connection with the coronavirus pandemic in early 2020, the Executive Board had already lowered its forecast for net sales growth to a maximum of 2.5 percent at an early stage. The fact that the Wilo Group was again able to record growth in net sales after adjustment for exchange rate effects even in this exceptionally difficult and uncertain economic environment can be attributed to its clear strategic orientation, its quick and prudent crisis management and the high level of commitment throughout the entire Wilo team.

A high level of profitability resulting in substantial operating cash flows enables the Wilo Group to realise its ambitious growth projects and ensure that it retains a high degree of independence as a company. Short-term declines in profitability are accepted only if they serve to secure the company's future viability and strengthen its performance in the long term. Given the uncertain outlook for the coming years and the intense competitive environment, cost drivers are analysed on a regular basis and structures are adjusted as necessary. The measures implemented by the Executive Board in recent years include growth-oriented reorganisation measures in administration with a view to safeguarding the Group's future, as well as initiatives to strengthen sales efficiency and a Group-wide inventory optimisation project. The objectives of the restructuring measures initiated in the year under review include strengthening the resilience and independence of regional value chains. The planned measures relate to all areas of the company and include the relocation of functions and the consolidation of locations.

The planned restructuring impacted earnings in the past financial year by around EUR 18 million. In addition, the costs incurred in connection with the coronavirus crisis in 2020 are estimated at around EUR 10 million*. Negative currency translation effects impacted EBITDA by a further EUR 9 million, the foreign-currency result from operating activities was down substantially by around EUR 4 million year-on-year. All in all, 2020 therefore saw lower profitability than the previous year. Reported EBITDA amounted to EUR 141.2 million. The EBITDA margin declined to 9.7 percent, thus falling below the Executive Board's original expectations. After adjusting EBITDA for the costs incurred in connection with the coronavirus pandemic, restructuring measures and currency effects, the EBITDA margin amounts to 12.1 percent* and hence falls within the Executive Board's forecast range of 11.5–12.5 percent.

In contrast to the original forecast of a slight reduction, the Wilo Group's leverage increased to 1.20. This was largely due to the assumption of additional financial liabilities as well as the lower level of EBITDA as a result of higher costs in connection with the coronavirus pandemic and negative exchange rate effects.

As expected, capital expenditure in 2020 was lower than in the previous year due to the completion of construction work on the Smart Factory and the new administrative building, the Pioneer Cube, at the headquarters in Dortmund. However, it remained high at EUR 120.0 million. Investment activity again primarily focused on the future-oriented expansion of production capacities, the extension of the sales infrastructure and the implementation of the company's digital transformation.

With a solid statement of financial position and financing structure and a high self-financing capacity with strong operating cash flows, the Wilo Group has stable foundations for these substantial investments in its future. At more than EUR 160 million, operating cash flow in the year under review was only just below the record level reported in the previous year, thanks in particular to focused working capital management. Free cash flow more than trebled to over EUR 35 million, thus further underlining the Wilo Group's impressive earnings strength and self-financing capacity.

In addition, the Wilo Group completed significant refinancing at an early stage of the 2020 financial year, i.e. before the outbreak of the coronavirus crisis, thereby strengthening its financial flexibility and stability. The measures to permanently secure the Wilo Group's strong financial profile were completed with the issue of a senior note and the assumption of a promissory note loan with a total volume of EUR 105 million.

The long-term financing structure, the high equity ratio and the high level of unrestricted cash will allow Wilo to purposefully pursue external growth opportunities even in the uncertain conditions resulting from the coronavirus crisis. The acquisition of the Abionik Group will make a logical contribution to Wilo's strategic alignment as a solution provider for

* Further disclosures on the estimated costs incurred in connection with the coronavirus crisis and on adjusted EBITDA and the adjusted EBITDA margin, which constitute other information and thus have not been audited by KPMG AG Wirtschaftsprüfungsgesellschaft in line with the statutory provisions, can be found under 4) and 1) on page 75 of the Group management report.

water and wastewater treatment. With the Abionik Group's products, Wilo's existing portfolio and GVA, which was acquired in 2016, the Wilo Group will be able to offer its customers a significantly broader range of applications in the Water Management and Industry market segments in future.

Wilo regards itself as a climate protection company. This fundamental understanding is reflected in Wilo's corporate strategy as well as an explicit sustainability strategy. Innovative products and system solutions and the digital transformation of the entire Group are the visible results of a long-term approach with a focus on energy and resource efficiency. Production at the Group's headquarters at the Wilopark in Dortmund is already climate-neutral, and this goal will be achieved for all of Wilo's primary production locations by 2025. Wilo products offer customers improved energy efficiency throughout the entire operation phase. High-efficiency pumps reduce power consumption by up to 80 percent compared with older, unregulated pumps. One of Wilo's stated goals is to substantially reduce CO_2 emissions and generate significant energy savings of around 1.8 TWh every year through the use of highly efficient, environmentally friendly technologies in its products. As such, the Executive Board is particularly proud that an industrial company like Wilo was able to win the German Sustainability Award in the year under review. In August 2020, the Wilo Group was already selected as one of 50 global "Sustainability & Climate Leaders". The companies participating in this global sustainability and climate protection initiative all operate on the basis of the United Nations Sustainable Development Goals (SDGs). These awards serve to confirm the Wilo Group's great commitment as a climate protection pioneer and provide encouragement for it to press ahead with its clear focus on sustainability and resource efficiency.

In light of the extremely challenging environment in 2020 due to the specific circumstances resulting from the coronavirus pandemic and the specific factors for the Wilo Group's business, the Executive Board has a broadly positive assessment of the company's business performance and economic situation in terms of the growth generated after adjustment for exchange rate effects, its healthy operating cash flow and free cash flow, its strong market presence and innovative capacity and its solid financing structure. After adjustment for currency effects and costs in connection with the coronavirus pandemic and the planned restructuring measures, operating profitability measured by the EBITDA margin was in line with the Executive Board's strategic target range.*

The Wilo Group is excellently positioned thanks to its stable shareholder structure, clearly defined strategy and financial strength. In particular, it benefits from its innovative capacity, the dedication of its managers and employees and its strong market position. This is reinforced by its proximity to customers and its particular expertise when it comes to solving problems. In summary, the Executive Board still considers the economic situation of the Wilo Group to be highly stable and sustainable. This assessment is based on the results in the consolidated financial statements and the separate financial statements of WILO SE for 2020 and takes into account business performance up until the preparation of the 2020 Group management report. At the time of this Group management report being prepared, business performance in early 2021 is in line with the Executive Board's expectations.

The Wilo Group has handled the challenges of the coronavirus crisis extremely well, not least thanks to the exemplary attitude of all its employees, their great sense of solidarity and their outstanding commitment. The Executive Board would like to extent its particular gratitude to them.

* Further disclosures on adjusted EBITDA and the adjusted EBITDA margin, which constitute other information and thus have not been audited by KPMG AG Wirtschaftsprüfungsgesellschaft in line with the statutory provisions, can be found under 1) on page 75 of the Group management report.

REPORT ON RISKS AND OPPORTUNITIES

- **Integrated risk management system ensures transparency and security**
- **Opportunities management enables systematic identification and realisation of operational and strategic opportunities**
- **Overall risk situation largely unchanged year-on-year**
- **No identified risks that could jeopardise the future of the company**

Risk and opportunities policy

The Wilo Group's corporate strategy and business policy are primarily aimed at ensuring the independence of the company, growing profitably and increasing enterprise value in the long term. As an enterprise with global operations, the Wilo Group is exposed to various risks. At the same time, however, the global focus also gives rise to numerous opportunities. In this respect, business activity requires the careful monitoring of all relevant risks and opportunities. As a matter of principle, the Executive Board makes its strategic and operational decisions on the basis of a systematic analysis and assessment of identified risks and opportunities with regard to the income, financial and liquidity situation of the Wilo Group in addition to future development. Risks that could jeopardise the future of the company as a going concern, or that are inappropriately high or unclear, are categorically not entered into.

Accordingly, the comprehensive and systematic risk management system that is installed throughout the entire Wilo Group and the forward-looking procedure for managing opportunities are fixed components of corporate management.

Opportunities management

The systematic identification and realisation of operational and strategic opportunities is essential for promoting and ensuring the profitable growth that is the aim of the corporate strategy.

As opportunities management is not directly integrated into the risk management system, opportunities are not assessed in line with the methodology prescribed by risk management.

Instead, the Wilo Group identifies and assesses operational opportunities directly in the regions, market segments and central functions, where the respective markets are monitored and analysed. This allows trends and new developments to be recognised at an early stage and any potential opportunities to be derived. These are evaluated in detail as part of the planning process and incorporated directly into medium-term planning via scenario calculations. Resources are coordinated and allocated at Group level.

Opportunities of elevated strategic significance arising from acquisitions or partnerships are analysed, assessed and implemented at Executive Board level, as are changes in strategy. The corporate foresight process is used to derive and analyse the risks and opportunities potentially arising from the relevant global megatrends and the accompanying future implications for the Wilo Group. In this way, the corresponding opportunities are systematically included in the ongoing development of the corporate strategy.

Risk management system

The Wilo Group has a state-of-the-art, integrated, globally available risk management system. It ensures that business risks are identified at an early stage and effective countermeasures are initiated promptly. Monitoring of the measures initiated and their consistent implementation is a key component of this system. Once identified, risks are assessed, managed as far as possible, and monitored at all times. The risk management system is audited annually by Internal Audit on the basis of Audit Standard No. 2 promulgated by Deutsches Institut für Interne Revision (DIIR).

Risk management at the Wilo Group is organised on a decentralised basis. Level-two managers throughout the Group who act as risk management officers are responsible for risk tracking and reporting. They work in close cooperation with the Group risk manager and are aided by Controlling. Checklists and risk classification ensure uniform risk assessment and procedural comparability throughout the entire Wilo Group. The relevant communication and information platform is provided by software in line with Group requirements.

The Executive Board bears overall responsibility for risk management and defines the risk strategy for the Wilo Group. The risk strategy is implemented throughout the Group using uniform guidelines and processes.

Integral components of the risk management system are:

- the Risk Management Directive
- the risk atlas
- risk management officers in the regions and central functions
- the Group risk manager
- regular risk reporting
- ad hoc risk reporting

The Risk Management Directive of the Wilo Group sets out the principles for handling risks. It also stipulates the requirements for risk reporting, procedures for the measurement of risk and compulsory reporting thresholds. Furthermore, it defines the duties and authorisations of all persons involved in the risk management process.

The risk atlas sets out uniform categories to be used for the structuring of risk identification. To ensure that all relevant risk areas are tracked at all times, the risk atlas is checked for completeness on an ongoing basis and adjusted as required.

The respective risk management officers of the Wilo Group ensure that risks are tracked and controlled in the divisions for which they are responsible. In this way, specific risks are identified and reported on for the individual sales regions and central functions. The Group risk manager coordinates this decentralised risk management process and reports regularly to the WILO SE Executive Board on a quarterly basis and on an ad hoc basis as necessary.

As part of risk identification, information on customers and suppliers is analysed and market and competition analyses are prepared in line with the respective data protection regulations and for internal purposes only. Furthermore, risks relating to the political and macroeconomic environment are monitored and assessed.

The risks identified are analysed using a uniform methodology set out by the Risk Management Directive. The specific probability of occurrence (in the next twelve months), gross and net risk are calculated for each identified risk. The net risk already includes suitable measures to prevent or mitigate risk. The aim of these measures is to reduce the potential loss or the probability of occurrence. Where possible and economically feasible, risks are limited at the Wilo Group by insurance policies or, for financial risks, by the use of suitable derivative financial instruments. The Risk Management Directive also defines binding reporting thresholds. It stipulates that the risk management officers must report every risk for which the net potential loss exceeds a defined value regardless of the probability of occurrence.

The risks reported by the divisions are aggregated at Group level in the risk management system. The Executive Board receives quarterly and, if necessary in individual cases, immediate reports on the findings of risk analyses. In addition, the Supervisory Board and the Audit Committee it appoints are comprehensively and constantly informed of the status and development of the risk management system.

The basic aim of this controlling system is to keep the Wilo Group's overall risk exposure transparent and within acceptable business limits.

Risk classification and risk assessment

The sections below describe the key risks to the Wilo Group. In line with the net risk analysis approach, suitable countermeasures, hedges and the general conditions are already taken into account in calculating the respective probability of occurrence and potential loss resulting from risks.

The risks, their probabilities of occurrence and their possible financial impact on EBITDA are measured and classified as follows:

Probability of occurrence

Unlikely	≤ 20%
Possible	> 20% ≤ 50%
Likely	> 50%

If the probability of occurrence of a potential risk is between 20 percent and 50 percent, the corresponding risk is classed as possible. A potential risk is considered likely if the possibility of the risk actually occurring is higher than 50 percent and unlikely if the possibility is no greater than 20 percent.

Potential negative impact on EBITDA

Low	≤ 10%
Medium	> 10% ≤ 50%
High	> 50%

In the event of the assumed occurrence of a risk, the possible financial impact on EBITDA that can be derived is classified into one of the three categories low, medium or high based on the forecast percentage deterioration of EBITDA. An EBITDA deterioration of between 10 percent and 50 percent is considered a medium earnings impairment. An earnings reduction that is feasible but considered low would therefore have an estimated negative effect on EBITDA of up to 10 percent, while a high financial impact would be an expected negative effect of more than 50 percent.

The overarching risk classification in the Wilo Group's risk profile as summarised in the "Overview of business risks" table below did not change compared with the previous year.

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Overview of business risks

	Probability of occurrence	Potential negative impact on EBITDA
General risks		
Economic environment	Possible	Medium
Extraordinary external disruptions	Possible	Medium
Legal and regulatory environment	Possible	Medium
Industry-specific risks		
Competition	Possible	Medium
Company-specific risks		
Research and development	Possible	Low
Production	Unlikely	Medium
Human resources	Possible	Low
Information technology	Unlikely	Medium
Acquisitions and strategic partnerships	Possible	Medium
Financial risks		
Exchange rates	Likely	Low
Interest*	Possible	None
Commodities	Possible	Low
Defaults	Possible	Low
Financing and liquidity	Unlikely	Low

* The possible impact of interest rate risk relates to net financial costs and is classed as low. More detailed information can be found in the "Financial risks and opportunities" section of the Group management report.

General risks and opportunities

Economic environment

Economic and market risks can arise due to general economic, political and social trends. The specific development of the construction sector, the sanitary industry and the water and wastewater industries in the respective countries and regions is considered particularly important in terms of industries. The Wilo Group is dependent on these developments to a significant extent. However, the broad international presence of the Wilo Group also helps to balance risk between activities in individual regions.

On account of the uncertainties and risks involved, the Wilo Group carefully observes and continuously analyses economic developments and expectations from a macroeconomic and political perspective as well as with a view to developments in its customers' industries. This allows corresponding countermeasures to be taken at an early stage where necessary in order to secure the current or planned future economic situation of the Wilo Group to the best possible extent. In particular, this involves specific country risks, which are minimised by way of targeted countermeasures. Although the conditions on the global markets remain extremely uncertain in some cases, meaning that future expectations are subject

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to risk, selected markets in Asia, Latin America and Africa offer extremely good growth opportunities. However, these populous, high-growth markets also involve heightened risk. The Wilo Group reduces its risk potential considerably by adopting targeted organisational changes, expanding and upgrading local production capacity, optimising their use and leveraging synergies.

The coronavirus pandemic led to a global recession of historic dimensions in 2020. Almost all economies suffered significant losses and world trade contracted considerably. Although economic researchers are unanimous in their verdict that the world economy will recover from the pandemic-related setbacks in 2021, the coronavirus pandemic is likely to continue to dominate the economic outlook for the time being and there is considerable uncertainty with regard to the ongoing development of the pandemic and the consequences for the economy. Delays in vaccine production and the vaccination of the population, dangerous mutations of the virus and stricter or more widespread lockdowns could seriously jeopardise the forecast economic growth. Other fundamental economic risks have also increased of late. The IMF has cited loss of income due to the coronavirus crisis and the substantial increase in national debt as key risk factors. In addition, the possibility of renewed escalation in the world's geopolitical hotspots in 2021 cannot be ruled out. The Wilo Group is closely monitoring these developments and, if necessary, will selectively adjust business policy decisions in a timely manner in order to limit the financial risks to the Group and reassess the opportunities. All in all, the Wilo Group considers the potential negative impact of the economic environment on the company's results of operations to be moderate (medium earnings impact according to risk classification).

Extraordinary external disruptions

As a globally operating group of companies, Wilo is exposed to various external risks. Natural disasters, terrorist attacks, epidemics, fire and political unrest can potentially impair business activity at the affected location. The Wilo Group classifies the probability of occurrence of such extraordinary disruptions as possible.

The Wilo Group faced considerable challenges as a result of the coronavirus pandemic and its social and economic consequences. In 2020, the risks to employee health, supply chains, production and sales were largely restricted thanks to targeted measures as well as the establishment of an interdisciplinary team of experienced managers – the Go-Ahead Task Force – to coordinate and implement these measures. Consequently, the Wilo Group largely avoided production downtime as a result of officially mandated plant closures, including as a result of the extensive and carefully developed hygiene concepts for protecting its employees. Wilo was also classified as a systemically relevant producer in many countries. Meanwhile, critical supply chains were maintained at all times in close cooperation with suppliers and, in some cases, at the expense of increased logistics costs. For activities that lent themselves to remote working, the conditions for this were established at an early stage in order to minimise the risk of infection.

Targeted measures have also been taken to proactively minimise the potential impact of geopolitical crises in individual countries and regions and the relevant forecast risks for the Wilo Group's business. In the event of a further escalation, additional steps will be taken to limit the risk to which the Group is exposed. To the extent possible and reasonable, the Wilo Group is also adequately insured against operational shutdowns and property damage. In addition, Wilo has developed and implemented appropriate emergency plans and preventive measures to minimise the potential negative effects. The Wilo Group classes the earnings effect of extraordinary external disruptions as moderate (medium earnings impact according to risk classification).

Legal and regulatory environment

Material changes in legal conditions and the regulatory environment (e.g. restrictions on trade, tax legislation, product quality, energy efficiency and safety standards) can have a negative or positive effect on the business activities of the Wilo Group.

On the one hand, restrictions on trade could make commodity procurement more difficult or more expensive and the sale of products in certain markets or regions may be restricted. A global rise in protectionist tendencies and a general rejection of free trade and globalisation had been observable in recent years. Although the new US administration is unlikely to intensify the trade conflicts between the USA and other regions and a hard Brexit has been prevented in Europe, the possibility that new rules and restrictions will impair trade between individual countries or regions cannot be ruled out. In addition, heightened requirements as a result of product quality or safety standards may lead to increased production or research and development costs. On the other hand, changes in legal conditions and the regulatory environment can also give rise to opportunities. For example, the introduction or tightening of energy efficiency directives could lead to increased demand for energy-efficient products.

With its broad range of high efficiency pumps, the Wilo Group is in an ideal position to serve the respective markets quickly and comprehensively. The legal conditions and the regulatory environment in all its key markets are continuously observed in order to ensure that it can identify potential problem areas or opportunities at an early stage and quickly adapt its business activities accordingly. The occurrence of risks arising from the legal or regulatory environment is possible. The impact on the Wilo Group's results of operations is considered to be moderate (medium earnings impact according to risk classification).

Urbanisation

The rapid growth of the world's population is unabated; population explosions are being seen in Asia and Africa in particular. The United Nations (UN) expects the Earth will be home to nearly ten billion people in 2050. At the same time, the proportion of the population living in urban conurbations is increasing rapidly worldwide. Over half of all people currently live in cities. The UN estimates that it will be a good two-thirds by 2050. In addition to today's existing cities and metropolitan regions, which are constantly growing, other entirely new cities will be built. The emerging economies, especially in the Asian region, will account for much of this development. Although the ongoing coronavirus pandemic has the potential to slow this movement in the short term, the trend will not be permanently weakened. Cities will remain places of growth and innovation in future, making them the preferred destinations for international and national migration.

This dramatic urbanisation, particularly in the emerging economies, and sustained high population growth will go hand in hand with numerous ecological, economic and social challenges. Sustainable and intelligent urban development in these regions is therefore essential. However, the same applies to the growing established conurbations in industrialised nations, which are increasingly modernising and redesigning their urban structures and public networks with a view to environmental and climate protection. Globally, smart cities and smart urban areas are being designed that integrate digital infrastructures in order to make cities more efficient, less wasteful of resources and more social. The megatrend of urbanisation – especially in the shape of smart urban areas – is the source of considerable long-term growth potential for the Building Services Residential and Commercial and Water Management market segments.

Water shortage

Water is a scarce resource in more and more regions of the world. According to estimates from the WHO (World Health Organisation) and UNICEF, around 750 million people currently have no access to a rudimentary supply of drinking water. Around 2 billion people live without basic sanitation. Water supply and waste-water disposal present an increasing problem, especially in cities that are growing rapidly as a result of urbanisation. The overuse of groundwater reserves there often results in a drop in the water table, while huge quantities of drinking water are lost due to outdated and dilapidated pipe systems. In future, it will therefore be all the more important to use the available resources efficiently and to utilise intelligent technologies for water extraction and treatment.

Wilo has responded to this megatrend with its products and system solutions in the Water Management market segment and provides professional solutions for the complex requirements for drinking water extraction, water pumping and wastewater transportation and processing. With the acquisition of the Abionik Group, Wilo is strengthening its position as a solution provider and expanding its portfolio in the area of water treatment in a targeted manner in order to allow it to participate in the attractive growth opportunities offered by this megatrend to a greater extent.

Climate change & energy shortage

Man-made climate change is becoming increasingly visible and tangible thanks to global warming and the growing incidence of extreme weather conditions. The continued melting of the polar ice caps and Alpine mountain glaciers, rising sea levels and the clustering of droughts and storms even in temperate climate zones are just a few of the expected effects of climate change that are already relevant. Drastic action is required worldwide to stop, or at least limit, climate change and its consequences. Almost all countries in the world have now initiated new packages of measures aimed at reducing green-house gases, particularly in the transport and energy sectors. In addition to the increased use of renewable energies, there is an increased focus on developing and using more energy-efficient processes and technologies. At the same time, the long-term increase in world trade, the drastic growth of cities in the wake of urbanisation and the rapid economic development of emerging economies entail significant growth in demand for energy. Demand also remains high in the industrialised nations. The global competition for raw materials is coming up against the finite nature of fossil resources such as oil, coal and gas. In this respect, renewable energies have to be used and sustainable energy savings made for ecological, social and economic reasons.

As such, the megatrends of climate change and energy shortage offer substantial growth opportunities for all five of the Wilo Group's market segments in all of the regions in which the company has a presence. In particular, numerous opportunities are arising in urban conurbations, where increasing populations, stricter environmental standards and heightened requirements for energy and resource efficiency are posing new challenges for urban planners. Around the world, innovative urban infrastructures are being created on the basis of smart systems and digital solutions. Demand for forward-looking, resource-conserving products and system solutions will increase as a result of the tightening of minimum legal standards. Wilo products already offer customers improved energy efficiency throughout the entire operation phase. High-efficiency pumps reduce power consumption by up to 80 percent compared with older, unregulated pumps. Wilo aspires to shape the future as an innovation leader and digital pioneer and to evolve into the leading system provider with tailored, intelligent, and resource-efficient solutions in line with the company's vision. In this way, Wilo is helping to reduce energy consumption and hence lessen the impact of CO_2 on the environment.

Digitalisation

The digital transformation of society, trade and industry is ever-present. The fundamental changes driven by the establishment of new technologies are affecting almost everything. Modern information and communication technologies are increasingly finding their way into all areas of life and commerce. New digital technologies are changing traditional production and business processes. Companies' complete value chains are being affected by the digital transformation (Internet of Things, Industry 4.0). Established business models are being called into question and new, innovative business models are emerging. The digital transformation presents significant opportunities for the Wilo Group. The optimisation of existing business processes can result in significant efficiency and productivity improvements, while there is also the possibility of new and innovative business models for the pump industry. The Wilo Group leverages this potential with its smart products and system solutions, for example. Digitalising the Wilo Group itself and taking advantage of the resulting opportunities requires a fundamental and sustainable reorganisation of the value chain and business processes. To this end, Wilo has defined a digitalisation strategy that is a fixed component of the wider corporate strategy. An interdisciplinary group of experts has been specially formed within the company in order to drive the Wilo Group's digital transformation in a targeted, strategic manner.

Wilo expects the digitalisation of the company to have a positive impact on its business activities in the medium to long term. The smart urban areas emerging around the world have been identified as a particular source of business potential in this context. The Wilo Group is systematically tapping into new business areas here.

Industry-specific risks and opportunities

Competition

Competition risk remained largely unchanged compared with the previous year. Although the growing price competition involves uncertainties, the Wilo Group mitigates these risks by making increased use of product lines with unique selling propositions in particular. It also ensures a high level of competitive capability through its technological edge, especially in the area of energy efficiency and digitalisation, and through its outstanding product quality and extensive global network. The occurrence of competition risks is possible. Wilo rates the risk of earnings effects for the Group that emerge from the competitive environment and differ from corporate planning as moderate (medium earnings impact according to risk classification).

Technological progress in building management

Manufacturers and consumers are increasingly focusing on smart living. In smart homes, everyday devices and systems in private households are electronically integrated in order to combine higher energy efficiency with greater convenience, economic efficiency, flexibility and safety. The devices and systems can be controlled and accessed centrally and remotely. Smart homes offer attractive growth opportunities for the Building Services Residential and Building Services Commercial market segments. Wilo has wide-ranging systems and solutions expertise in this area. The opportunities arising from this can positively influence the business activities of the Wilo Group in the medium to long term.

Company-specific risks and opportunities

Research and development

Wilo is firmly committed to technological progress. The company invests continuously and with great commitment in the development of new technologies and products to strengthen its market position. In 2020, research and development costs including capitalised development costs amounted to 4.7 percent of consolidated net sales. In order to allow the opportunities of new technologies to be identified at an early stage, Wilo conducts regular technology screening and maintains continuous dialogue with universities and research institutions. The Wilo Group limits the risk of paying insufficient attention to customer requirements in the development process with customer surveys, trend analyses and targeted market tests.

The effectiveness and target conformity of all development activities are examined continuously. This serves to minimise qualitative, time and financial risks in development projects. Professional project management and regular deviation analyses ensure a constant focus on customer requirements. Binding Group-wide standards and guidelines are applied here. The occurrence of risks from research and development is possible, but the impact on the Wilo Group's EBITDA is considered to be low.

Production

The company mitigates quality risk through the uniform Group-wide production standards of the Wilo Production System (WPS) and comprehensive quality management. This risk is classed as unlikely. The risk of production stoppages is strictly limited through the use of state of-the-art production plants and professional control systems. The Wilo Group counters procurement risks by way of integrated procurement and supplier management. Supply bottlenecks are primarily prevented by ensuring the availability of second-source suppliers.

In light of the coronavirus pandemic and the potential impact of similar events on the Group's supply chains and production, the Executive Board has decided to scrutinise the existing make-or-buy strategies and redefine the appropriate degree of vertical integration for Wilo in the individual regions and countries where necessary. Insourcing activities for critical components will be broadly intensified in future. In addition, the expansion of multiple sourcing will further reduce dependency on individual suppliers.

Insurance is also taken out to offset the financial consequences of these business risks. If such risks occur despite this, the company estimates that this could entail a medium earnings effect for the Wilo Group.

Human resources

One of the basic criteria for the Wilo Group's success is its qualified employees and their expertise, commitment and motivation. The loss of qualified personnel in strategic positions can lead to the loss of company-specific knowledge, capacity bottlenecks or decreased productivity. The Wilo Group counters this risk with methods such as coordinated demographic management. Its core elements are active succession planning and the development of new staff as part of Group-wide talent management. The occurrence of HR risks is generally possible. However, the impact on the Group's results of operations is classified as low.

Information technology

All important business processes for the Wilo Group are integrated into efficient IT systems. In extreme circumstances, the failure of key systems or substantial data losses could lead to business interruptions. Wilo mitigates these IT risks with daily backups of critical business data. In particular, the business database aiding production, materials management, order processing, financial accounting and cost accounting in particular conforms to top security standards. The Wilo Group runs its critical business applications in two separate, certified and highly powerful data centres. Certified processes and business recovery plans are also in place for the event of disasters. An annual monitoring audit is performed to maintain the certificate. System downtime is further minimised by targeted utilisation of an in-house support team and outside service providers. Given these measures, the occurrence of IT risks is unlikely and the earnings effects have been limited to a medium level.

Acquisitions and strategic partnerships

In order to expand its technological spectrum and geographical presence, the Wilo Group also provides for the realisation of external growth opportunities as part of the corporate strategy. The opportunities arising from acquisitions and strategic partnerships are varied and offer additional potential for growth and efficiency. They can also provide access to new sales channels and markets. However, company acquisitions are considered only if they are considered beneficial from both a strategic and economic perspective. With regard to research and development in particular, the Wilo Group enters into strategic partnerships in order to advance joint technology projects. The company cooperates with prominent universities and research institutes in this area.

In addition to the opportunities resulting among other things from the expected synergies, company acquisitions also always entail risks. Accordingly, each investment decision is preceded by a careful assessment and analysis of the commercial, technical, legal, tax and financial conditions (due diligence). The aim is to identify, quantify and limit the risks associated with the acquisition. In addition, an individual strategy for integration into the Wilo Group is developed and corresponding measures are planned and implemented for each acquisition.

Even with extremely careful examination, however, risks may emerge after an acquisition that were not identified during the due diligence process, not considered to be material or not accurately quantified. In addition, the identified benefits and synergies may not occur to the expected extent, within the expected timeframe, or at all. An unexpectedly difficult and cost-intensive integration process could also jeopardise the realisation of the planned goals and synergies. If business develops more poorly than expected in the long term, the necessary goodwill impairment may have an impact on earnings.

The occurrence of risks arising from acquisitions and strategic partnerships is generally possible. The Wilo Group classifies the corresponding impact on its earnings as moderate (medium earnings impact according to risk classification).

Financial risks and opportunities

Exchange rates

The Wilo Group's global presence makes it important to manage changes in exchange rates. Currency risk for the company primarily results from its operating and financing activities. Wilo limits currency risk, which largely relates to the supply of goods and services to Group companies, through same-currency offsetting transactions and derivative financial instruments.

The occurrence of exchange rate risks from the operating activities of Group companies with third-party customers and suppliers is probable, but the Wilo Group considers the associated earnings impact to be low. These activities are predominantly transacted in local currency.

Currency risk from financing activities mainly results from foreign-currency borrowing from third-party lenders. Foreign-currency loans are also granted to Group companies for financing purposes. Wilo uses derivative financial instruments to reduce such currency risks.

To prepare the consolidated financial statements, the annual financial statements of the subsidiaries that are based outside the euro area, or whose functional currency is not the euro, are translated into the reporting currency (euro). Changes in the average exchange rate of a currency can therefore notionally influence both net sales and income as a result of translation. However, this translation risk is not associated with any effects on the cash flows in local currency.

In summary, the occurrence of currency risks is considered likely, but the Wilo Group classes the associated impact on earnings as low. ➔ *Further information on currency risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found in section (12) "Risk management and derivative financial instruments" on* ***page 122 et seq.*** *of the notes to the consolidated financial statements.*

Interest

The interest rate risk mainly results from floating rate financial liabilities and the investment of cash. Both rises and falls in the yield curves result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments on a case-by-case basis. The occurrence of interest rate risk is considered possible, but the impact on net finance costs is considered to be low as most financial liabilities have fixed long-term interest rates. On the other hand, favourable interest rate developments in connection with the investment of cash could have a positive effect on net interest income. Group Treasury monitors and analyses developments on the financial markets in order to optimise the balance between liquidity retention and the investment of cash in term money or debt instruments with an excellent credit standing and a maximum time horizon of up to two years. ➔ *Further information on interest rate risks in accordance with IFRS 7 can be found in section (12) "Risk management and derivative financial instruments" on* ***page 124*** *of the notes to the consolidated financial statements.*

Commodities

The Wilo Group is mainly exposed to commodity price risk as a result of price fluctuations on the global markets for copper, aluminium, stainless steel and their alloys. The Wilo Group uses commodity derivatives in a targeted manner to minimise commodity price risk. They are used if the effect on earnings from the change in commodity prices is significant to the Wilo Group and corresponding financial instruments are available and can also be used efficiently at the same time.

The prices for a substantial proportion of the copper procurement volume for the 2021 financial year have already been determined in order to minimise the impact on earnings from the change in copper prices for the Wilo Group. In contrast, Wilo actively refrains from hedging the prices for the procurement volume for stainless steels and their alloys, as the available financial instruments are not suitable for effectively minimising the risk of price changes for these specific commodities.

According to current information, the Wilo Group's results of operations could primarily be affected by price fluctuations on the global markets for copper and aluminium from the 2022 financial year.

Commodity price risks are possible, but the Wilo Group classifies the associated impact on earnings as low. ➔ *Further information on commodity price risks in accordance with IFRS 7 and a corresponding sensitivity analysis can be found in section (12) "Risk management and derivative financial instruments" on **page 124** of the notes to the consolidated financial statements.*

Defaults

Customer credit risk is countered by way of a uniform and effective Group-wide system that encompasses systematic receivables management and the monitoring of payment behaviour. As the Group does not generate more than 10 percent of its total net sales with any one customer, dependency on individual customers is limited. A Liquidity Task Force was established in 2020 in order to counteract the expected higher default rates in the immediate wake of the coronavirus pandemic and secure the Wilo Group's liquidity and financial flexibility at all times. It coordinated and managed all the measures aimed at securing liability and, in particular, the intensified, tightly knit credit management at a group-wide level. The Wilo Group did not experience any significant negative influence from its customers' payment practices in the year under review. The possible effect on earnings of default is currently also considered low for 2021. The Wilo Group will keep a close eye on ongoing developments and take corresponding countermeasures as required.

There is also a risk of default with regard to the banks with which investments are conducted, at which credit facilities are held, or with which hedges are concluded. The potential default of these partners would have a negative impact on the Wilo Group's financial position and results of operations. All in all, however, the occurrence of this risk is considered to be unlikely as Wilo enters into such transactions only with those banks that have good to very good credit ratings. Group Treasury permanently monitors and assesses the credit ratings of these banks and takes appropriate measures to reduce counterparty risk as required.

Financing and liquidity

Liquidity risk stems from a potential lack of cash for paying due liabilities in full and on time in the agreed currency. There is also a risk of having to accept unfavourable financing terms in the event of liquidity bottlenecks and volatility on the international financial and capital markets. To minimise liquidity and financing risks, the Wilo Group aims to ensure long-term, cost-effective coverage of liquidity and capital requirements at all times. Various financing instruments are used for this purpose. Liquidity management therefore makes a valuable contribution to the profitable growth of the Wilo Group.

The financing instruments include committed cash credit facilities and guarantee and margin facilities for the parent company and subsidiaries of more than EUR 410 million with international banks of good to very good credit standing. EUR 36.3 million of the cash credit facilities and EUR 34.5 million of the guarantee and margin facilities were utilised as at 31 December 2020. Furthermore, there were promissory note loans of EUR 64.3 million and senior notes of EUR 226.5 million as at 31 December 2020 that were issued in US private placements, as well as a KfW development loan with a carrying amount of EUR 17.1 million as at 31 December 2020.

The Wilo Group's leverage, i.e. the ratio of the net financial position (financial liabilities and lease liabilities less cash) to consolidated EBITDA (adjusted for restructuring expenses), increased from 1.08 at the end of the previous year to 1.20 as at 31 December 2020.

In order to achieve a needs-driven supply of cash with matching maturities and the optimum allocation of cash within the Group, the Wilo Group prepares corresponding liquidity and finance plans based on the budget planning and strategic five-year planning process in addition to the year-to-date forecast. Rolling three-month liquidity planning is also prepared on a monthly basis for each Group company. The cash directly available to the Wilo Group over the course of 2020, including committed cash credit facilities, was at all times higher than the minimum reserve of EUR 100.0 million defined by the Executive Board of WILO SE.

The Wilo Group uses cash pooling, netting and borrowing arrangements to the extent advisable and permitted under local commercial and tax regulations. At Group level, all financial transactions are tracked by central treasury software and monitored by WILO SE, enabling risks to be balanced between the individual companies of the Group.

The Wilo Group is required to maintain standard financial ratios (financial covenants) under the terms of its long-term financing agreements. If it were to fall short of certain minimum values in terms of these financial covenants, the lenders would be entitled to demand early repayment, among other things. As such, a failure to meet the agreed minimum values would potentially have a substantial financial impact. These figures are regularly reviewed, planned and reported to the Executive Board of WILO SE in order to ensure compliance with the required minimum values at all times and to enable suitable countermeasures to be initiated at an early stage as necessary. Due to its strong equity base and profitability, the Wilo Group still expects to comply with its financial covenants throughout the term of the existing financing agreements.

The Wilo Group believes that liquidity and financing risks are unlikely to arise on account of the cash and credit facilities available, the financing structure and the business model. The financial impact on the Group is therefore rated as low. ➔ *More detailed information on the use of derivative financial instruments can be found in note (11) and (12) of the notes to the consolidated financial statements on **page 115 et seq.** and **page 122 et seq.** respectively.*

Overall assessment

The Wilo Group's current risk situation is largely unchanged compared with the previous year. The integrated risk management system ensures that all of the identified risks are controlled at all times. In the view of the Executive Board, no risks or combinations of risks that could jeopardise the company as a going concern are currently discernible. Taken together with the attractive opportunities available to it in the medium and long term in particular, the Wilo Group has a balanced, future-oriented risk-reward profile allowing it to continue to grow profitably in line with its corporate strategy.

OUTLOOK

- **Global economy set to see a substantial upturn while remaining affected by the pandemic**
- **High risks due to worldwide escalation of national debt**
- **Moderate net sales growth and improved profitability forecast**
- **Realisation of investments in modern, future-oriented corporate infrastructure in China, India and the USA**

General economic and industry-specific conditions

Substantial recovery in the world economy as the pandemic is overcome

Economists from leading research institutions are currently unanimous in their verdict that the world economy will see a substantial recovery from the pandemic-related setbacks in 2021. The Kiel Institute for the World Economy (IfW) expects the economic environment to progressively return to normal as the population is increasingly vaccinated and infection risks decline on a sustained basis. Applying these premises, it expects the world economy to grow by 6.1 percent in 2021. In its latest outlook in January, the IMF adjusted its forecast for global economic growth in 2021 to 5.5 percent.

Generally speaking, there will be extensive fiscal policy momentum while monetary policy is set to remain expansive. This will support a broad-based recovery. The uncertainty surrounding potential disruptions to trade is fading into the background now that the EU and the United Kingdom have reached a fundamental agreement on key post-Brexit rules and following the change of government in the USA. In the wake of the recent contraction, the IMF and the IfW expect world trade to expand by more than 8 percent in 2021.

In regional terms, China is the most important engine for the global economic upturn. According to the latest IMF forecast, the industrialised nations are expected to see economic growth of 4.3 percent in 2021. Meanwhile, the IMF is forecasting economic growth of 6.3 percent for the emerging economies in 2021.

The coronavirus pandemic will continue to dominate the economic outlook for the time being. New setbacks such as vaccination delays, dangerous virus mutations and new strict lockdowns could significantly jeopardise the current expectations of economic growth. Fundamental economic risks have also increased of late. The IMF defines the key risk factors as loss of income due to the coronavirus crisis and the substantial increase in national debt. In addition, the possibility of renewed escalation in the world's geopolitical hotspots in 2021 cannot be ruled out. The Executive Board of the Wilo Group keeps a close eye on developments and will take suitable measures to limit the negative impact on the company as necessary.

The following section presents the expected macroeconomic and industry-specific developments in 2021 in the regions that are relevant to the Wilo Group. In addition to the general economic development of individual countries and regions, the economic performance of the Wilo Group is influenced in particular by the construction and sanitary industries as well as the water and wastewater industries.

Mature Markets – European construction industry to enjoy robust recovery, sustained upturn for construction in Germany and the USA

EUROPE. The last-minute agreement between the EU and the United Kingdom prevented bilateral trade at the start of 2021 from being impacted by Brexit chaos. The turn of the year saw the start of European vaccination programmes on a broad regional basis. However, high infection levels meant that European countries saw strict lockdown rules being extended well into the first quarter of 2021 or existing rules being tightened in response to the rapid spread of new mutations of the virus. However, the pandemic restrictions are expected to be successively lifted as vaccination rates increase and infection rates fall. This will lead to a gradual return to normal everyday life and economic activity in Europe.

Even in the absence of significant momentum from private consumer spending, Europe is expected to emerge from its recession in 2021 on the back of industry. Irrespective of economic cycles, the propensity to invest is also expected to be stimulated by the unbroken megatrends of digitalisation, urbanisation and climate change. Investment will receive an additional boost from the more stringent climate protection provisions resolved by the EU as part of its "European Green Deal", which is aimed at achieving climate neutrality by 2050. In January, the IMF revised its growth forecast for the euro area to 4.2 percent. The Kiel Institute for the World Economy (IfW) also expects the euro area to see a recovery that is driven by all countries, with France, Spain, Italy and Portugal enjoying a particularly strong upturn. The Scandinavian and Eastern European nations and Switzerland are also expected to record robust growth, while the United Kingdom should also be positioned for a substantial recovery.

The second strict lockdown at the turn of 2020/2021 interrupted the economic recovery in Germany. According to the IfW, the restrictions curbed private consumer spending in particular. In light of the favourable financing conditions, however, German industry is likely to emerge from this phase largely undamaged and return to substantial growth. The IfW expects Germany to see GDP growth of 3.1 percent in 2021, while the IMF forecast is 3.5 percent.

The Euroconstruct industry network expects the European construction industry to see a robust recovery at first, followed by a solid and steady upturn until 2023 as the positive medium-term drivers of high demand for housing in urban centres and considerable demand for improving the energy efficiency of buildings and infrastructure modernisation successively take effect. Euroconstruct expects construction output in Europe to increase by 4.1 percent in real terms in 2021 (Western Europe +4.5 percent, Eastern Europe -0.8 percent). Residential buildings and other buildings are forecast to see growth of 4.7 percent and 2.5 percent respectively. Most European countries are also expected to see new or expanded subsidy programmes aimed at climate protection. This is likely to provide additional impetus for better heat insulation in buildings and investments in the modernisation of heating and air conditioning systems.

The German construction industry entered 2021 with a substantial order backlog in building construction. In the first eleven months of 2020, the number of permits for residential construction was 3.9 percent higher than one year previously. This includes permits for new-build apartments as well as construction work in existing buildings. In the same period, approvals for non-residential construction such as industrial, factory and office buildings and warehouses increased by as much as 8.3 percent. The IfW expects construction investment to see broad-based growth of 2.6 percent in real terms in 2021 (commercial construction +2.0 percent, residential construction +3.1 percent, public-sector construction +1.6 percent). According to the industry experts from DIW, the total volume of new construction and work on existing buildings, such as expansion, conversion, maintenance and modernisation, is expected to increase by 3.7 percent to EUR 264.6 billion in the area of residential construction and by 1.6 percent to EUR 113.4 billion in the area of non-residential construction in 2021.

Strict statutory climate protection provisions and subsidy programmes are aimed at supporting investments in efficient, environmentally friendly heating systems. The corresponding framework is provided by the German Federal Climate Protection Act (KSG) and the Climate Protection Plan 2050. According to the industry association BDH, heating buildings and water accounts for almost one-third of total energy consumption in Germany. Speeding up the modernisation of around twelve million outdated heating systems would achieve around half of the intended CO_2 saving of 55 percent between now and 2030. However, this would require the pace of modernisation to increase to around one million systems a year (the current figure is around 580,000). In late 2020, the EU raised the targets under its European Green Deal again and is now aiming to reduce CO_2 emissions by 60 percent by 2030. This is also likely to deliver additional momentum for the heating industry.

USA. In the USA, an extensive stabilisation package was adopted in early 2021 to curb the impact of the coronavirus crisis, while the US Federal Reserve's monetary policy approach is likely to remain expansive for the foreseeable future. Both of these moves are aimed at the domestic economy in particular. Foreign trade is also expected to pick up again in 2021. As such, the USA looks set to enjoy a broad-based economy recovery as it gradually overcomes the pandemic. The IMF expects the US economy to grow by 5.1 percent in 2021.

At the turn of 2020/2021, the US construction industry reported strong momentum and a robust order situation. In residential construction, the volume of building permits and construction starts exceeded the number of completions, meaning that orders on hand are likely to have increased further. As private construction activity is also being supported by lower interest rates, the economic recovery is expected to deliver impetus for residential and commercial construction. The new US government has also announced investments in infrastructure. As the national budget remains under pressure due to the coronavirus situation, however, it currently appears relatively unlikely that this will be prioritised in the near future with corresponding scope for increased public investment in construction and infrastructure projects in 2021. However, momentum is expected in the medium term, not least since the new US administration intends to significantly intensify its investments in climate protection.

Emerging Markets: China driving the global recovery, positive construction performance expected in individual countries

CHINA. Given the size of its economy and its integration into global value chains, China is extremely important to the world economy and is likely to be a particularly major driver of global economic development in 2021. According to official figures, the country's economy quickly returned to normal during 2020 and has now returned to a growth path. In addition to extensive government support programmes, the prolonged restructuring of the economy is likely to have a positive effect by strengthening domestic demand and encouraging investment in high-tech sectors. The IMF is forecasting strong economy growth of 8.1 percent for China in 2021.

The current data on Chinese construction investment suggest that the recovery of the construction industry will continue in 2021. Firstly, projects under construction were up 3.7 percent at the end of 2020, thereby providing strong foundations for further growth. This was driven by residential construction, which increased by 4.4 percent. Secondly, the volume of construction starts is far greater than the volume of completions. In the long term, urbanisation will not only boost residential construction, but also investments in all kinds of public buildings, including schools, administrative buildings, hospitals and museums. The government is also planning substantial measures to protect the climate and expand and modernise the water and wastewater industries.

KOREA. The Bank of Korea is forecasting a substantial economic upturn in 2021. All the major globally oriented industries are expected to benefit from the recovery in the world economy, leading to a broad-based upturn in exports. Investment activity is also forecast to increase as non-IT sectors begin modernising and maintaining their systems once again. Meanwhile, private consumer spending is set to gradually recover thanks to rising household income. In its base scenario, the Bank of Korea is anticipating GDP growth of 3.0 percent in 2021.

On the back of low interest rates and an upturn in the domestic economy, the central bank expects the Korean construction industry to emerge from its growth phase in the second half of the year before enjoying substantial growth. On a full-year basis, construction investment is set to rise by 0.5 percent in real terms in 2021. Following an extended phase of weak performance, residential construction is expected to see an upturn over the course of the year, with this assessment being backed up by leading indicators like building permits and construction starts. Additionally, the upswing in civil engineering is forecast to continue thanks to public contracts. However, commercial construction is not yet expected to recover in 2021.

INDIA. The economy is likely to recover from a low base in 2021. However, the momentum of this upturn is expected to be curbed by the structural weakness in the financial sector. There has been a significant increase in the proportion of non-performing loans recently. As a result of the economic burdens, the World Bank is increasingly expecting to see insolvencies among companies in the financial sector, banks and other lenders, meaning that private investment is unlikely to recover. Accordingly, the IMF is forecasting economic growth of just 11.5 percent in 2021.

In this environment, the construction industry is also expected to recover. However, the problems affecting the financial sector means that there are no signs of a boom in 2021. The strong growth in online retail is making investments in logistics more attractive. New impetus for the construction industry is expected to result from the extensive economic package launched by the government in May 2020 with a view to supporting the construction of social housing in particular. The government is also focusing on infrastructure expansion, with a broad-based investment programme of EUR 1.3 trillion between 2020 and 2025. A good EUR 100 billion of this figure relates to the water infrastructure.

SOUTHEAST ASIA. The economic environment in Southeast Asia is also expected to improve as international demand picks up again. In particular, the growth in China is likely to have a positive knock-on effect for the economies in the region. Although these Southeast Asian nations have succeeded in securing capital flows to date thanks to their stabilisation programmes to curb the impact of the pandemic, private and public debt have increased dramatically. According to the World Bank, this will weigh on profitability, investment activity, private consumer spending and government spending in future. For 2021, the IMF is forecasting growth of 5.0 percent for Singapore and combined growth of 5.2 percent for the ASEAN-5 countries.

In line with the general economic upturn, the construction industry in the region is expected to enjoy renewed tailwind in 2021. Investments in infrastructure will drive the sector at a structural level, although future potential is limited by the high level of debt. The construction sector in the Philippines is expected to grow by almost 10 percent, while Singapore is also likely to see further growth. Construction growth in Vietnam and Thailand is forecast to continue. However, high oversupply means the outlook for commercial and residential construction in Malaysia is negative.

RUSSIA. The Russian economy is likely to see robust growth in 2021 assuming a gradual emergence from the pandemic, a recovery in the world economy and hence a return to rising commodity prices, particularly for oil and gas. In the absence of significant demand-side pressure, the central bank expects inflation to remain moderate, thus offering scope for further interest rate cuts. Private consumer spending and investment are expected to recover accordingly. In its base scenario, the Bank of Russia is forecasting GDP growth of 3.0-4.0 percent in 2021. The IMF anticipates growth of 3.0 percent.

As a key player in the Russian economy, the construction industry is extremely important. Accordingly, various measures have been implemented at a political level to support and stimulate this sector. For example, the coronavirus emergency programme initiated in 2020 to support the construction industry led to an unprecedented volume of subsidised mortgage loans, with residential construction and project planning companies enjoying a substantial improvement in their order situation as a result. This suggests that residential construction will reap the rewards. The government is also planning to realise major infrastructure projects whatever happens. The modernisation of water management is one of Russia's environmental policy priorities. An extensive subsidy programme has been launched in order to combat the extremely patchy supply and the huge investment backlog. Water purification and drinking water supply are set to be comprehensively modernised by 2024. Investments totalling 245 billion roubles (around EUR 3.5 billion) are planned in this area. Products manufactured in Russia are preferred when contacts are awarded. With its own production facility near Moscow, Wilo meets this condition and is ideally positioned to benefit from this project.

TURKEY. Despite the sharp interest rate hike, the World Bank expects the Turkish economy to enjoy a substantial upturn in 2021 with GDP growth of 4.5 percent. Private domestic demand is set to increase considerably in 2021 on the back of the recent massive expansion in lending. However, the significant interest rate rise is likely to gradually curb economic development as the year progresses. The tourism sector is also expected to remain weak in 2021.

The outlook for the Turkish construction industry is mixed. On the one hand, structural weaknesses and oversupply in the housing sector are having an adverse effect on construction. On the other hand, the government is promoting home buying through subsidised property loans. Building permits had skyrocketed as at the end of September 2020 (+74 percent). The majority of this figure was attributable to buildings comprising two or more apartments, where the number of permits doubled. The figures for office buildings (+63 percent), industrial buildings and warehouses (+68 percent) and commercial buildings (+45 percent) also suggest an upturn in construction activity. However, the trend in the hotel segment and public buildings (including schools and hospitals) remains negative. Given the intensified interest rate situation and the continued high level of uncertainty concerning investments in Turkey, however, it remains to be seen whether these vastly improved indicators will translate into the industry emerging from its crisis mode in 2021.

MIDDLE EAST & AFRICA. The individual countries in this region are extremely varied both politically and economically and must therefore be considered separately. The World Bank expects North Africa and the Middle East to see a moderate recovery of 2.1 percent in 2021. However, this forecast assumes that the oil price will stabilise and geopolitical tensions in the region will remain dormant. In Egypt, growth is set to flatten to 2.7 percent due to the slump in tourism and the slowdown in the industrial sector. In the Sub-Saharan region, the potential for a strong recovery is limited by the significant loss of income resulting from the coronavirus crisis and the lack of fiscal policy scope. Nigeria and South Africa are expected to record comparatively moderate growth.

In the Middle East and North Africa, the prospects for the construction industry remain uncertain and subject to risk. However, there are still good opportunities for selected projects. Despite the extremely high level of demand in residential construction, infrastructure and water management, there is an absence of important momentum in the construction industry at present. The often unstable environment and the strained budget situation in countries like Nigeria and South Africa are weighing on the investment climate. In Saudi Arabia, a massive downturn in incoming orders for 2021 indicates an imminent slump in construction activity. Meanwhile, the weak performance of the industry in Tunisia and Morocco shows no signs of improvement. However, the environment in Egypt is more positive as the country focuses on investments in social housing and infrastructure. The corresponding financing is often secured by international investors, including from China.

LATIN AMERICA. The World Bank expects the region to see moderate growth of 3.7 percent in 2021 providing that the pandemic is gradually overcome as vaccination takes place and assuming rising commodity prices and improved external conditions. According to the World Bank, Brazil will grow by 3.0 percent in 2021. This development will be driven by a recovery in consumer spending and investment on the back of more favourable financing conditions. Mexico is expected to benefit from increased exports to the USA, with economic growth forecast at 3.7 percent. The World Bank also anticipates that Argentina will return to a growth path (+4.9 percent) following three years of recession and the avoidance of national bankruptcy. In this environment, Chile and Peru are also expected to see a return to economic growth.

Outlook for the Wilo Group

Future orientation

Assuming the increased availability of effective vaccines against the coronavirus, economic researchers expect the world economy to normalise during the course of 2021 following last year's slump as the progressive vaccination of the population continues. The sooner and the more extensively the lockdown restrictions on people and companies are lifted, the stronger and more broad-based the economic recovery in 2021 will be. However, contact-intensive consumer sectors in particular will be able to participate in this development only after some delay. By contrast, the outlook for industry and the construction sector are comparatively positive. Investment activity is expected to increasingly pick up. In key markets for the Wilo Group, however, developments in the first quarter of 2021 are likely to still be dominated by the pandemic and the resulting lockdowns. Virus mutations and the slow vaccine roll-out in some areas are proving to be obstacles to a more rapid recovery, meaning that the uncertainties and risks will remain considerable for the time being. The Executive Board of the Wilo Group is keeping a close eye on developments concerning the coronavirus pandemic and will adjust the measures already implemented in 2020 in response to the respective situation in order to limit the health risk to employees and the economic impact on the company.

In addition to the general uncertainty surrounding the continued development of the pandemic and the international economic risks resulting from delays and setbacks in combating the pandemic, two direct consequences of the pandemic constitute additional external risk factors. Firstly, the substantial loss of income has already had a pronounced negative impact on the emerging economies in particular. This increased poverty could endanger political and economic structures. Secondly, the significant worldwide escalation in national debt poses a considerable risk to global economic development and exchange rate turbulence and upheaval on the capital markets cannot be ruled out, including in the short term. Both these negative consequences of the pandemic will curb the potential for the world economy to expand in the medium and long term. For example, the extremely high level of public debt will make it harder for governments to invest in infrastructure in future. At the same time, the economic outlook for 2021 is comparatively positive for China in particular, which is already seeing an upturn, and the industrialised nations in general. The economic stabilisation programs have had the planned effect, interest rates are low and the construction industry is intact. The propensity to invest is being stimulated by digitalisation and measures to combat climate change. Furthermore, fears of growing protectionism are on the wane now that a hard Brexit has been prevented and the new US administration has promised a change of policy with regard to its key partner countries. All in all, the risk and opportunity profile for the global economy is more positive than it was one year ago.

A high degree of business flexibility and pronounced adaptability are key factors for success in high-risk, challenging markets of this nature. These are especially important in crisis situations and in the event of upheaval in the Wilo Group's core segments. The Wilo Group possesses these attributes, which are firmly enshrined within its corporate culture, strategy and management. Their success is reflected in the profitable growth that the Wilo Group has achieved for many years even in a shifting environment and in the face of intense global competition.

In order to secure the success factors of flexibility and adaptability going forward, the Wilo Group has established three specific implementation plans as part of its Ambition 2025 corporate strategy: a ten-point plan for each of Mature and Emerging Markets and a five-point plan for the Strategic Business Unit OEM. These plans set out clearly defined, action-based, project-driven measures that will be implemented on a structured basis in 2021 and the following years. With these measures, the Wilo Group is reinforcing its aspiration of continuously evolving into a solution provider with a clear customer focus, irrespective of whatever short-term fluctuations in external economic and political influences 2021 may bring and regardless of the impact of the pandemic and efforts to combat it. Accordingly, Wilo is also making targeted and substantial investments in the development of intelligent products, systems, services and solutions, as well as pressing ahead with the digital transformation of the Group as planned. The pandemic has shown that companies with efficient digitalised structures are far better positioned to maintain their business processes, thus giving them a considerable competitive advantage. The Group will continue to systematically expand its product portfolio with a focus on core competencies in heating, air conditioning and cooling as well as water supply and wastewater disposal. This means the Wilo Group is fit for the future. In addition to accelerated organic growth, acquisitions to promote growth play an important role provided they make good strategic and economic sense. With the acquisition of the Abionik Group, the Wilo Group is strengthening its expertise as a solution provider and expanding its portfolio in the area of wastewater and water treatment.

The clear and sustainable implementation of the future-oriented business policy and balancing risk within the company are extremely important. Wilo will continue to harness its established strengths in future. In particular, this includes its successful customer orientation and its pronounced innovative ability with the continuous development of new technologies and products. In addition, the Wilo Group's broad international market presence and diversification in terms of regions and market and product segments typically enable it to offset individual risks and temporary market disruption to a certain extent.

Identifying trends and changes on the market at an early stage and analysing them quickly remains a fundamental management principle for Wilo. This allows alternative scenarios to be devised and implemented very quickly and countermeasures to be initiated at short notice. The particular challenges for 2021, especially the coronavirus pandemic, require effective crisis management. The same is true of considerable upheaval on the international financial and currency markets and the renewed escalation of geopolitical crises with negative consequences for the real economy. If necessary, the Wilo Group will continue to initiate appropriate and prompt countermeasures from this position of strength in future.

The megatrends relevant to the Wilo Group are the cornerstones of its Ambition 2025 corporate strategy, regardless of short-term crises and fluctuations in demand. These megatrends will change, drive and shape the Wilo markets in the decades to come. They are contributing to one major global trend: the creation of smart urban areas. These are cities and metropolitan regions that are networking their digital infrastructures in order to make them more efficient, less wasteful of resources, and more social. Wilo has identified smart urban areas as offering business potential and will systematically tap into new lines of business in this area.

Two of these megatrends, climate change and digital transformation, will already shape the coming years to a significant extent. With its innovative products and system solutions involving highly efficient technology, the Wilo Group is already making an important contribution to slowing climate change and achieving the climate protection targets. Wilo products enable higher energy efficiency throughout the entire operation phase. Modern high-efficiency pumps reduce electricity consumption by up to 80 percent compared with older, uncontrolled pumps. The intelligent connectivity of pumps and pump systems opens up additional potential for extensive energy savings. In this way, Wilo is helping to reduce energy consumption and hence lessen the impact of CO_2 on the environment. Demand for forward-looking, resource-conserving products and system solutions will increase to an even greater extent in future as a result of the tightening of minimum legal standards and heightened requirements in terms of energy and resource efficiency. The Wilo Group is well positioned to benefit from this trend with its portfolio of smart, energy-efficient products, systems and solutions.

The digital transformation of the company necessitates extensive initiatives in order to effectively leverage the resulting opportunities and prevent future disadvantages for the company. Wilo is systematically pursuing its own path of digital transformation. Its own value chain and existing business processes are being fundamentally and sustainably reorganised with high levels of investment. The central element is the intelligent, digital networking of production methods and logistics as well as products. This extensive internal digital transformation is sustainably improving the Wilo Group's competitiveness while also generating direct benefits for customers, particularly in terms of quality standards, punctual deliveries and optimised service. In addition, the Wilo Group is focusing its innovative capacity on providing its customers with intelligent, connectible solutions.

Outlook for the regions

MATURE MARKETS. Leading economic researchers currently expect the European economy to gradually pick up pace during the course of 2021 as the vaccination of the population progresses. Low interest rates and the wide-scale special programs initiated by individual countries and the EU in response to the coronavirus are helping to cushion the financial impact and have so far prevented the collapse of the labour market and a wave of insolvencies. If there are no significant setbacks in combating the pandemic, companies are expected to become more confident and more willing to make investments again. Additionally, the environment for the European construction sector remains favourable. This means that, unlike in previous years, the European economy is likely to be driven by export-oriented industry and the construction sector rather than private consumer spending in 2021. In spite of the lively construction industry, however, the European markets are characterised by a high degree of maturity and intense competition. Wilo's product mix in Europe is highly attractive, but the market varies considerably throughout the region and is largely saturated in the German-speaking nations.

There is high demand for energy-saving and environmentally friendly heating and air conditioning systems in Europe. The majority of the installed systems are outdated and need to be replaced in order to meet more stringent environmental protection requirements. This is stimulating demand in the areas of new construction and modernisation. In late 2020, the European Union raised the targets under its European Green Deal again and is now aiming for this to reduce CO_2 emissions by 60 percent by 2030. in Germany, the corresponding statutory framework is provided by the German Federal Climate Protection Act (KSG) and the Climate Protection Plan 2050, and similar regulations have been initiated throughout the European Union. As previously, investments in climate-efficient and economically beneficial heating and air conditioning systems and the modernisation of water and wastewater plants will continue to be boosted by the extremely favourable financing conditions in 2021. Building renovation, modernisation and digitalisation are also becoming structurally more important in Europe. Smart, connected and digitally controllable devices and systems are playing a central role in this process. The Wilo Group therefore expects innovation-driven demand for high-quality energy-efficient pumps to continue to grow throughout Europe over the coming years.

As a high-tech, high-volume market for pumps, pump systems and associated services, Europe is of central strategic significance for the Wilo Group. The Wilo Group secures its strong market position in Europe through innovative strength, high quality and close customer relationships. This is particularly important in light of the intense competition. In order to continue to overcome the challenges of this market and take advantage of the opportunities presented in future, Wilo is focusing on the following cornerstones of its business in particular: the clearly defined digitalisation strategy, the future-oriented alignment of the organisation, a clear growth strategy, defined measures to reduce costs and increase efficiency, and targeted investments in the future.

The USA is showing signs of a robust economic upturn in 2021 as it gradually overcomes the pandemic. This development is supported by low interest rates and extensive government aid programmes in connection with the coronavirus. Residential and commercial construction are also likely to benefit from the economic upturn. Furthermore, the US government has announced significant investments in infrastructure. The USA is already making substantial investments in water management. The Wilo Group is well established on the US market, not least thanks to the acquisitions made in recent years, meaning it is positioned to benefit from these positive demand trends.

In light of the risks resulting from the pandemic, the Wilo Group's forecasts for 2021 are deliberately conservative. The company's diversified positioning in terms of regional and product- and service-specific markets allows it to continually balance different trends, including within individual regions. All in all, the Wilo Group expects the Mature Markets region to generate lower net sales growth than the Group as a whole in 2021.

EMERGING MARKETS. The sheer size of the economy means that China offers significant growth potential for companies. Additionally, the Chinese economy already returned to growth in 2020 with the support of substantial government aid. The prospects for the construction industry are favourable for 2021 and extremely positive in the medium to long term. In response to continued urbanisation and wide-scale environmental pollution, the government is also planning substantial investments in protecting the climate and expanding and modernising the water and wastewater industries. These developments are extremely relevant for the Wilo Group, which is why it expects to enjoy positive business development in China in 2021.

The Wilo Group expects the other key Asian markets to see positive and, in some cases, extremely dynamic performance in 2021. For example, the construction industry in Korea is likely to emerge from several years of weakness to record moderate growth once again, while India is expected to see a strong recovery. In the high-growth nations, the markets that are relevant for the Wilo Group – building construction, water and wastewater management – are benefiting from significant government investment that is expected to generate positive impetus for net sales in 2021.

In Russia, the outlook for the economy and the Wilo Group's business in 2021 has improved again. The Russian government is supporting the important construction industry with various measures and projects, including a coronavirus emergency programme. The order situation in residential construction has improved considerably of late, while efforts to modernise water management are being intensified. Substantial investments in the modernisation and expansion of water treatment and drinking water supply are planned between now and 2024. As these are government contracts, domestic manufacturers take precedence. Thanks to its own production site near Moscow, the Wilo Group satisfies this condition. As such, it expects this to translate into significant positive effects for its business in Russia in 2021 and beyond, irrespective of how the wider economy develops.

Despite the recent upturn in the number of building permits in Turkey, construction demand could be curbed by interest rate hikes. North Africa and the Middle East are set see a moderate economic recovery. However, the slump in tourism means that the substantial growth enjoyed by Egypt in recent years will flatten in 2021. In Nigeria and South Africa, the economic improvement is extremely modest and the political environment remains delicate. However, individual projects in all of the aforementioned countries, i.e. Turkey, the Middle East and Africa, could be economically attractive and feasible for the Wilo Group taking into account the local risk situation. Accordingly, the corresponding potential will be harnessed and monitored extremely closely.

The economic outlook in Latin America is improving. The broad-based economic upturn in Mexico, Brazil, Argentina, Chile and Peru is likely to have a positive impact on the Wilo Group's business in 2021.

The Wilo Group expects the largely positive business development in the Emerging Markets region to continue in 2021. Here, too, varying trends within the region can be largely absorbed thanks to the Group's broad-based regional presence and market-appropriate product mix. Countries seeing a temporary slowdown in demand or a less favourable financing environment for investments will again be offset by markets enjoying dynamic structural growth in 2021. All in all, the Emerging Markets region is expected to see higher net sales growth than the Group as a whole in 2021.

Statement by the Executive Board on forecast development

Economic researchers are unanimous in their verdict that the economic environment will gradually stabilise in 2021 accompanied by a substantial recovery in the world economy. However, these forecasts are subject to considerable risks and imponderables. Setbacks in combating the pandemic could substantially jeopardise the expected growth. This pronounced uncertainty in terms of economic development, and hence the Wilo Group's business development, requires particularly anticipatory, risk-conscious and flexible company management. Assuming that the world economy recovers as forecast and the effects of the risks remain limited and manageable, 2021 is likely to see a substantial upturn in demand in most of the countries and market segments of importance to the Wilo Group. Current developments are continuously observed and new trends are anticipated, analysed and evaluated in a timely manner. This allows Wilo to leverage the growth potential in regions and countries that are enjoying positive development on a targeted basis, as well as implementing additional risk mitigation measures in regions and markets that could be affected by potential setbacks.

On the basis of the forecast business development in the individual regions as described above, the Executive Board is anticipating growth in the Wilo Group's net sales of up to 4.5 percent in the 2021 financial year. In line with the more dynamic development of their economies and, in particular, their construction sectors, the Executive Board expects the Emerging Markets to generate stronger growth than the demanding and attractive but more established Mature Markets. This is based on the underlying assumptions that the world economy will see a considerable recovery as forecast and that there will be no major upheaval on the currency and capital markets.

To ensure the availability of goods and services, even during the pandemic, the Wilo Group monitors its supply chain closely and takes appropriate action at an early stage where necessary in order to prevent disruptions and bottlenecks in the production process. One particular focal point in 2021 will be to continue imposing extremely strict hygiene and distancing rules in line with the pandemic situation in order to guarantee a safe workplace for all employees. This also serves to ensure safe and uninterrupted operations for the Wilo Group's business partners and customers to the greatest possible extent.

The Executive Board has adopted strict profitability targets with a view to ensuring the Wilo Group's capacity for action, flexibility and independence at all times. The restructuring measures initiated in 2020 are intended to further reduce the cost base and increase the resilience of regional value chains. These measures are an important structural condition for profitable growth and will sustainably strengthen the Wilo Group's future viability. In the past year, profitability was significantly impacted by negative exchange rate effects as well as additional expenditure resulting from the coronavirus pandemic and the aforementioned restructuring measures. To this end, profitability is forecast to improve in 2021. EBITDA is expected to increase significantly in absolute terms, as is the EBITDA margin. Leverage is forecast to increase slightly compared with the year under review. These forecasts also depend in particular on the world economy recovering as forecast and the coronavirus pandemic not having any further unexpected impact on profitability.

All in all, the risks and consequences of potential misjudgements concerning the development of the sales and procurement markets and, in particular, the currency markets in the 2021 financial year are classified as particularly high. The further development of the coronavirus pandemic and its economic impact remain an incalculable risk. Accordingly, the Wilo Group's net sales and EBITDA expectations are subject to considerable uncertainty. Although regional economic fluctuations can be partially offset by the Wilo Group's global orientation, the Wilo Group's growth and profitability targets could still be substantially affected by setbacks in combating the coronavirus pandemic or the intensification or considerable extension of lockdowns accompanied by unexpectedly long and extensive disruptions to value chains with a significant impact on the world economy.

The Wilo Group systematically aligns its research and development to its medium- and long-term corporate strategy. The key objectives of Ambition 2025 are remaining independent and generating profitable growth. This requires consistently strong innovation. The Wilo Group is synonymous with future-oriented, innovative products and system solutions and is evolving into a solution provider in a targeted manner. Research and development have traditionally played an important role at Wilo and will continue to do so in future. Accordingly, expenditure for research and development will remain at a high level in 2021 irrespective of temporary factors affecting the economy or the Group's markets.

In recent years, the Wilo Group has made substantial investments in a modern, efficient, future-oriented corporate infrastructure that will promote growth, thereby laying broad foundations for the accelerated, profitable growth it is targeting. Multi-year projects like the strategic location development project at the headquarters in Dortmund will continue. Construction work on the Smart Factory was completed in 2019. In 2020, the Group completed and moved into its new administrative building, the Pioneer Cube. In future, the Dortmund site will be home to the Networking Cube, a new centre for customers, training, events and seminars. At all other locations, too, the Wilo Group is continuously examining the existing infrastructure and capacities to ensure that they are fit for the future and making targeted investments if this can generate positive effects for the company.

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In light of the coronavirus pandemic and its negative consequences for value chains, the Executive Board has decided in particular to intensify the localisation efforts that had already been initiated prior to the pandemic. The appropriate degree of vertical integration for Wilo in the individual regions and countries is being redefined, while vertical integration along the value chains is generally increasing. The Wilo Group will construct new, state-of-the-art production and administrative buildings in China, India and the USA over the coming years. As well as meeting the requirements of modern digital factories, the new smart production sites have been designed with sustainability as a guiding principle in order to make an important contribution to climate protection in future. In this way, the Wilo Group is establishing the conditions for participating in the significant growth potential of these markets in a targeted manner. In addition, the Wilo Group's digital transformation will continue to be pursued at a fast pace. Therefore, Wilo will continue to make substantial investments in innovative manufacturing technologies and the expansion of the existing sales and production locations in the coming years. The Wilo Group's capital expenditure will remain high in 2021 and is likely to increase year-on-year due to the start of construction work in China, India and the USA. In line with Ambition 2025, the Group is also focusing on company acquisitions that are beneficial from a strategic and economic perspective.

The long-term financing structure, the very high equity ratio of around 45 percent and cash of over EUR 180 million constitute a solid basis for the long-term profitable growth of the Wilo Group. Under the terms of the long-term financing instruments in place as at 31 December 2020, WILO SE is required to comply with certain standard financial ratios (covenants). WILO SE fully complied with these covenants at all times in the 2019 and 2020 financial years and there are currently no indications that it will be unable to comply with them in future.

The business targets for 2021 as presented in this report are based on a professional and detailed planning process and are embedded in the Ambition 2025 corporate strategy. They take into account all information on and knowledge of internal and external factors that were available at the time of this management report being prepared. Future unforeseeable developments and events may lead to changes in expectations and deviations from forecasts. All estimates for 2021 assume an unchanged basis of consolidation and unchanged exchange rates compared with the previous year.

1) Adjusted EBITDA is calculated by adjusting reported EBITDA for restructuring expenses and estimated costs incurred in connection with the coronavirus pandemic. Transaction and translation effects in connection with currency translation are also eliminated. The estimated costs incurred in connection with the coronavirus pandemic constitute other information (see also 4)). The adjusted EBITDA margin is calculated by dividing adjusted EBITDA by reported net sales adjusted for translational currency effects. In line with the statutory provisions, KPMG AG Wirtschaftsprüfungsgesellschaft has not audited adjusted EBITDA or the adjusted EBITDA margin as this constitutes other information, and consequently does not express an opinion or any other form of assurance conclusion thereon.

2) The report of the Supervisory Board does not form part of this Group management report. In line with the statutory provisions, KPMG AG Wirtschaftsprüfungsgesellschaft has not audited the report of the Supervisory Board, and consequently does not express an opinion or any other form of assurance conclusion thereon.

3) The content accessed via the link does not form part of this Group management report. In line with the statutory provisions, KPMG AG Wirtschaftsprüfungsgesellschaft has not audited the references or the information to which they refer, and consequently does not express an opinion or any other form of assurance conclusion thereon.

4) The estimated costs incurred in connection with the coronavirus pandemic constitute other information. In line with the statutory provisions, KPMG AG Wirtschaftsprüfungsgesellschaft has not audited this other information, and consequently does not express an opinion or any other form of assurance conclusion thereon.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement

for the period 1 January to 31 December 2020

EUR thousand	Note	**2020**	2019
Net sales	(8.1)	1,451,494	1,477,830
Cost of sales	(8.2)	–977,321	–970,360
Gross profit		**474,173**	**507,470**
Selling expenses	(8.3)	–252,998	–264,627
Administrative expenses	(8.3)	–89,216	–94,638
Research and non-capitalised development costs	(8.4)	–52,037	–50,332
Other operating income	(8.5)	20,040	14,231
Other operating expenses	(8.6)	–38,612	–8,916
Earnings before interest and taxes (EBIT)		**61,350**	**103,188**
Net finance costs	(8.7)	–7,971	–5,553
Consolidated net income before taxes		**53,379**	**97,635**
Income taxes	(8.8)	–28,505	–25,213
Consolidated net income		**24,874**	**72,422**
Basic and diluted EPS: EUR 2.54 (previous year: EUR 7.38) per ordinary share	(8.9)		

Consolidated statement of comprehensive income

for the period 1 January to 31 December 2020

EUR thousand	Note	**2020**	2019
Consolidated net income		**24,874**	**72,422**
Items not reclassified to profit or loss in the future			
Remeasurement of pension obligation and plan assets		–1,229	–10,246
On which current income taxes	(8.8)	318	3,282
		–911	**–6,964**
Items that may be reclassified to profit or loss in the future			
Currency translation differences		–35,861	6,593
Currency translation differences deferred taxes	(8.8)	–312	–20
		–36,173	**6,573**
Cash flow hedges – reclassified to consolidated income statement	(11.1)	624	–1,511
Other comprehensive income		**–36,460**	**–1,902**
Total comprehensive income		**–11,586**	**70,520**

Consolidated statement of financial position

as at 31 December 2020

Assets EUR thousand	Note	2020	2019
Non-current assets			
Intangible assets	(9.1)	238,961	233,140
Property, plant and equipment	(9.2)	590,870	571,222
Investments carried at equity		2,640	2,640
Trade receivables	(9.4)	6,763	1,976
Other financial assets	(9.5)	8,178	7,307
Other receivables and assets	(9.6)	6,398	7,322
Deferred tax assets	(8.8)	93,754	85,732
		947,564	**909,339**
Current assets			
Inventories	(9.3)	235,877	243,112
Trade receivables	(9.4)	272,513	288,535
Other financial assets	(9.5)	9,036	4,029
Other receivables and assets	(9.6)	23,878	30,023
Cash	(9.7)	188,952	166,056
Assets held for sale	(9.8)	613	307
		730,869	**732,062**
Total assets		**1,678,433**	**1,641,401**

WILO Annual Report 2020 | Consolidated Financial Statements | **Consolidated Statement of Financial Position**

Equity and liabilities EUR thousand	Note	2020	2019
Equity	(9.9)		
Issued capital		26,980	26,980
./. Nominal amount of treasury shares		–1,477	–1,477
Subscribed capital		25,503	25,503
Capital reserves		26,161	26,161
Other reserves		742,956	770,459
Treasury share reserve		–29,766	–29,766
		764,854	**792,357**
Non-current liabilities			
Financial liabilities	(9.10)	229,160	205,406
Trade payables	(9.11)	0	71
Other financial liabilities	(9.12)	24,600	32,464
Other liabilities	(9.13)	3,572	3,787
Provisions for pensions and similar obligations	(9.14)	92,746	91,083
Other provisions	(9.15)	6,386	3,743
Deferred tax liabilities	(8.8)	67,345	58,929
		423,809	**395,483**
Current liabilities			
Financial liabilities	(9.10)	117,095	113,503
Trade payables	(9.11)	182,564	172,955
Other financial liabilities	(9.12)	39,358	42,299
Other liabilities	(9.13)	87,089	78,812
Other provisions	(9.15)	63,664	45,992
		489,770	**453,561**
Total equity and liabilities		**1,678,433**	**1,641,401**

Consolidated statement of cash flows

for the period 1 January to 31 December 2020

EUR thousand	2020	2019	Change
Earnings before interest and taxes (EBIT)	**61,350**	**103,188**	**–41,838**
Depreciation and amortisation of intangible assets and property, plant and equipment	79,870	76,906	2,964
Increase in provisions	21,809	5,282	16,527
Losses/gains on disposals of intangible assets and property, plant and equipment	1,204	–453	1,657
Increase/decrease in inventories	–2,913	27,955	–30,868
Increase in trade receivables	–4,193	–2,678	–1,515
Increase/decrease in trade payables	14,226	–1,243	15,469
Increase/decrease in other assets and liabilities not related to investing or financing activities	10,995	–8,201	19,196
Other non-cash expenses and income	4,543	–3,191	7,734
Operating cash flow before income taxes	**186,891**	**197,565**	**–10,674**
Income taxes paid	–25,345	–29,056	3,711
Cash flow from operating activities	**161,546**	**168,509**	**–6,963**
Purchases of intangible assets	–21,147	–20,131	–1,016
Disposals of property, plant and equipment	2,960	2,840	120
Purchases of property, plant and equipment	–97,229	–126,842	29,613
Purchases of consolidated companies	–937	–5,900	4,963
Other purchases attributable to investing activities	–112	–359	247
Cash flow from investing activities	**–116,465**	**–150,392**	**33,927**
Dividend payment	–15,890	–14,811	–1,079
Proceeds from assuming financial liabilities	108,551	53,579	54,972
Repayment of financial liabilities	–81,205	–3,150	–78,055
Repayment of lease liabilities	–15,706	–15,986	280
Interest payments received	1,281	2,503	–1,222
Interest payments made	–10,743	–10,434	–309
Cash flow from financing activities	**–13,712**	**11,701**	**–25,413**
Change in cash	31,369	29,818	1,551
Effects of exchange rate changes on cash	–8,763	826	–9,589
Changes on cash resulting from the basis of consolidation	290	0	290
Cash at beginning of period	166,056	135,412	30,644
Cash at end of period	**188,952**	**166,056**	**22,896**

Detailed information can be found in note (10).

Consolidated statement of changes in equity

for the period 1 January to 31 December 2020

	Subscribed capital			Other reserves						
EUR thousand	Issued capital	Nominal amount of treasury shares	Capital reserves	Retained earnings	Currency translation reserve	Hedging reserve	Reserve for remea-surement of pensions	Treasury share reserve	Equity attributable to the shareholders of WILO SE	**Equity**
1 January 2019	**26,980**	**–1,477**	**26,161**	**791,259**	**–53,353**	**–769**	**–20,679**	**–29,766**	**738,356**	**738,356**
Consolidated net income 2019	0	0	0	72,422	0	0	0	0	72,422	72,422
Other comprehensive income	0	0	0	0	6,573	–1,511	–6,964	0	–1,902	–1,902
Dividend payments	0	0	0	–14,811	0	0	0	0	–14,811	–14,811
Other changes	0	0	0	–1,708	0	0	0	0	–1,708	–1,708
31 December 2019	**26,980**	**–1,477**	**26,161**	**847,162**	**–46,780**	**–2,280**	**–27,643**	**–29,766**	**792,357**	**792,357**
1 January 2020	**26,980**	**–1,477**	**26,161**	**847,162**	**–46,780**	**–2,280**	**–27,643**	**–29,766**	**792,357**	**792,357**
Consolidated net income 2020	0	0	0	24,874	0	0	0	0	24,874	24,874
Other comprehensive income	0	0	0	0	–36,173	624	–911	0	–36,460	–36,460
Dividend payments	0	0	0	–15,890	0	0	0	0	–15,890	–15,890
Other changes	0	0	0	–27	0	0	0	0	–27	–27
31 December 2020	**26,980**	**–1,477**	**26,161**	**856,119**	**–82,953**	**–1,656**	**–28,554**	**–29,766**	**764,854**	**764,854**

Detailed information can be found in note (7) and note (9.9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1.) General information

WILO SE ("the company"), based in Dortmund, Germany, is registered with the Dortmund Local Court in section B no. 21356 and is the parent company of the Wilo Group. The Group's core business is the production and worldwide sale of machinery, notably liquid pumps and appliances. The Wilo Group develops, manufactures and markets pumps and building technology systems, primarily for heating, refrigeration, air conditioning and ventilation systems, for water supply and for sewage and effluent disposal.

(2.) Basis of preparation

The consolidated financial statements of WILO SE as at 31 December 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with all interpretations of the IFRS Interpretations Committee (formerly International Financial Reporting Interpretations Committee, IFRIC) applicable for the 2020 financial year. WILO SE exercises the option provided for in section 315e (3) of the Handelsgesetzbuch (HGB – German Commercial Code) and is therefore not required to prepare consolidated financial statements in accordance with German commercial law. To ensure equivalence with consolidated financial statements prepared in accordance with German commercial law, the disclosure requirements of section 315e (1) HGB are met in addition to the IFRS disclosure requirements.

A number of items of the income statement and statement of financial position have been combined for clarity of presentation. These items are reported and explained separately in the notes. The consolidated income statement has been prepared using the cost-of-sales method. The amounts in the consolidated financial statements are generally presented in thousands of euro (EUR thousand).

The outbreak of the COVID-19 pandemic and the measures imposed by governments around the world to curb the spread of the virus did not significantly impact the Wilo Group. The products manufactured and marketed by the Wilo Group for applications in building services, drinking water supply and polluted water and wastewater disposal are essential to everyday life. There are no uncertainties that could cast doubt as to the Wilo Group's ability to continue as a going concern.

(3.) Adoption of new and amended IFRS

The following standards, interpretations and amendments to existing standards were adopted for the first time in the 2020 financial year, but had no or no material effect on the consolidated financial statements of WILO SE:

- Amendments to References to the Conceptual Framework in the IFRS Standards
- Amendments to IAS 1 and IAS 8 Regarding the Definition of "Material"
- Amendments to IFRS 3 "Definition of a Business"
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- COVID-19-Related Rent Concessions (Amendment to IFRS 16)

The following standards, amendments to existing standards and interpretations issued by the IASB and the IFRS Interpretations Committee are not yet effective in the 2020 financial year or have not yet been endorsed by the European Union. WILO SE is not adopting early these standards, interpretations or amendments to existing standards or interpretations:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRSs 2018–2020
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
- IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance Contracts
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

(4.) Basis of consolidation

The consolidated financial statements include WILO SE and all significant companies that WILO SE controls directly or indirectly. WILO SE controls an entity when it is exposed, or has rights, to changing returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All consolidated companies' financial statements are prepared as at 31 December. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is achieved until it ends and fully consolidated in accordance with IFRS 10.

In February 2020, WILO N.V./S.A., Ganshoren, Belgium, acquired 100 percent of the shares in TUMAR BVBA, Merelbeke, Belgium, a specialist for the sale and installation of wastewater pumps and submersible mixers in the wastewater sector. The acquisition expands the Wilo Group's existing areas of application in the wastewater sector. The company is not material to the consolidated financial statements.

In addition to WILO SE, the consolidated financial statements as at 31 December 2020 include seven (previous year: seven) German entities and 63 (previous year: 62) foreign subsidiaries. In addition, one joint venture (previous year: one) is included in the consolidated financial statements using the equity method.

A list of all of WILO SE's direct and indirect shareholdings can be found in the annex to the notes to the consolidated financial statements.

(5.) Consolidation methods

The financial statements of the German and foreign companies included in the consolidated financial statements were prepared using uniform accounting policies.

Business combinations are accounted for using the acquisition method in accordance with IFRS 3, with all hidden assets and liabilities disclosed. The assets, liabilities and contingent liabilities of the acquiree identified in accordance with IFRS 3 are measured at fair value at the acquisition date and offset against the purchase price of the acquisition in capital consolidation.

Any excess of the purchase price over the value of acquired, remeasured equity is capitalised as goodwill and tested for impairment annually at the level of the cash-generating unit to which the goodwill is allocated. If the acquired equity exceeds the purchase price at the acquisition date, the difference is reassessed and recognised in profit or loss. Intangible assets are recognised separately from goodwill if they can be separated from the company or result from a contractual or other right.

The increase in the shareholding in a controlled and thereby fully consolidated company is treated as a transaction between owners under IFRS 10 in the consolidated financial statements. Any resulting difference is recognised directly in retained earnings and allocated to the shareholders of WILO SE.

Intragroup sales, income, expenses, receivables, payables and contingent liabilities are eliminated. Profits and losses resulting from intragroup trading and recognised in inventories are eliminated. Any temporary differences arising on consolidation are accounted for by recognising deferred tax items as appropriate.

(6.) Currency translation

Foreign-currency transactions in the separate financial statements of WILO SE and consolidated subsidiaries are translated into functional currency at the transaction date exchange rate. Foreign-currency monetary assets and liabilities are translated at the average rate as at the end of the reporting period and any exchange gains or losses are recognised in profit or loss. Non-monetary assets and liabilities measured at cost are translated at the transaction date exchange rate. Non-monetary items measured at fair value are translated at the measurement date exchange rate.

Items in the separate financial statements of consolidated entities are measured in the currency of the primary economic environment (functional currency).

Financial statements prepared in functional currencies other than the euro are translated into euro for consolidation. The reporting currency used in the consolidated financial statements is the euro. All assets and liabilities are translated at the exchange rate as at the end of the reporting period. Consolidated income statement items are translated for inclusion in the consolidated financial statements at annual average rates that appropriately approximate the transaction date exchange rates. Translation differences are accounted for as a separate item in consolidated equity until a subsidiary is disposed of.

The main exchange rates used in currency translation are as follows:

Exchange rates

		Annual average rate		Rate as at 31 Dec.	
	EUR 1 =	**2020**	2019	**2020**	2019
Pound sterling	GBP	0.8893	0.8754	0.8990	0.8508
Chinese yuan	CNY	7.8975	7.7211	8.0225	7.8205
Indian rupee	INR	84.9444	78.7247	89.6604	80.1873
Polish zloty	PLN	4.4680	4.2976	4.5597	4.2568
Russian rouble	RUB	84.2246	72.2101	91.4670	69.9565
Swedish krona	SEK	10.4815	10.5841	10.0343	10.4468
Swiss franc	CHF	1.0709	1.1111	1.0802	1.0854
South Korean won	KRW	1,350.2378	1,302.9606	1,336.0000	1,296.2805
Turkish lira	TRY	8.0898	6.3626	9.0079	6.6506
US dollar	USD	1.1470	1.1190	1.2271	1.1234

(7.) Accounting policies

The accounting policies applied in the previous year have been retained. Notes on the first-time adoption of new or amended standards and interpretations can be found in note (3). Items presented in the statement of financial position are broken down into current and non-current items. An asset or liability is classified as current if it is expected to be realised within twelve months of the end of the reporting period.

ESTIMATES AND ASSUMPTIONS The preparation of consolidated financial statements in line with IASB standards requires management to make estimates and assumptions that affect the amounts and reporting of recognised assets and liabilities, income and expenses and contingent assets and liabilities. Essentially the following matters are affected by estimates and assumptions:

- assessment of impairment on goodwill
- assessment of impairment on capitalised development costs
- measurement of intangible assets and items of property, plant and equipment (recognition of useful life)
- assessment of impairment on trade receivables
- assessment of impairment on deferred tax assets
- recognition and measurement of provisions for pensions and similar obligations
- recognition and measurement of other provisions

In goodwill impairment testing, the recoverable amount of cash-generating units is measured as the higher of fair value less costs to sell and value in use. Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of a cash-generating unit in an arm's length transaction. Value in use is the present value of the future cash flows expected to be derived from continuing use of a cash-generating unit.

The Wilo Group uses the value in use as calculated using the discounted cash flow method in impairment testing for goodwill. The discounted cash flows are based on the strategic planning for a period of five years.

The cash flows forecasts take into account past experience and are based on the best estimate of future development by the company's management. Cash flows after the detailed planning period are extrapolated using growth rates specific to the business area.

The most important assumptions on which the calculation of value in use is based relate to long-term cash flows, average annual EBIT growth rates and the weighted average cost of capital. In particular, the planning premises take into account expected net sales and EBIT development and the development of sales markets. The forecast growth for the individual divisions also takes account of past growth rates. Future company acquisitions are not included in planning. For each product, moderate to substantial EBIT growth is assumed during the planning period. These estimates and the underlying methods can have a significant influence on the respective values and ultimately on the amount of possible goodwill impairment. The Wilo Group reported goodwill of EUR 101,671 thousand as at the end of the reporting period (previous year: EUR 104,840 thousand). Further information can be found under "Intangible assets" and "Impairment of assets" (note (7)) and in note (9.1).

For intangible assets and items of property, plant and equipment, the useful lives applied are based on management estimates. Moreover, if necessary, impairment tests determine the recoverable amount of an asset or the cash-generating unit assigned to the asset as the higher of fair value less costs to sell or the value in use.

Fair value is the best estimate of the amount obtainable at the end of the reporting period from the sale of an asset in an arm's length transaction. The discounted future cash flow of the asset in question must be determined to calculate its value in use. The estimate of discounted future cash flows includes significant assumptions that themselves are subject to estimation uncertainty, e.g. the discount rate. Although the management presumes that its assumptions of general economic conditions, estimates of discounted future cash flow and of relevant expected useful lives are appropriate, a change in assumptions or circumstances could require a change in analysis. This could result in additional impairment losses in the future if the trends identified by the management reverse or if its assumptions or estimates prove to be inaccurate. The Wilo Group reported intangible assets of EUR 238,961 thousand (previous year: EUR 233,140 thousand) and property, plant and equipment of EUR 590,870 thousand (previous year: EUR 571,222 thousand) as at the end of the reporting period.

Further information can be found under "Intangible assets", "Property, plant and equipment" and "Impairment of assets" (note (7)) and in notes (9.1) and (9.2).

Credit risks and risks of default can arise for trade receivables to the extent that customers do not meet their payment obligations and asset losses occur as a result. The necessary write-downs are calculated taking into account the credit rating of the respective customer, any collateral and experience of historical default rates. The actual default on payment by the customer can differ from the expected default on account of the underlying factors. The Wilo Group recognised total write-downs on trade receivables of EUR 24,531 thousand (previous year: EUR 24,701 thousand) as at the end of the reporting period. Further information can be found under "Financial assets" (note (7)) and in note (9.4).

The recognition of a deferred tax asset requires the expectation of future taxable profit. The assessment of whether deferred tax assets are impaired starts by taking into account deferred tax liabilities with the same taxable entity and the same taxation authority and the taxable profits that are sufficiently likely to occur in the future. The Executive Board makes a best estimate of the probability of future taxable profits on the basis of strategic corporate planning.

The calculation of provisions for pensions and similar post-employment obligations is based on key premises, such as the discount rates, salary trends, life expectancies and assumptions regarding trends in healthcare. The discount rates used are determined on the basis of the returns on government bonds of the same term and currency as at the end of the reporting period. Actual developments may differ from the premises assumed on account of the fluctuating market and economic situation. This can have a significant effect on the obligations for pensions and similar post-employment benefits. The resulting differences are recognised in other comprehensive income. In total, provisions for pensions and similar obligations of EUR 92,746 thousand (previous year: EUR 91,083 thousand) were reported as at the end of the reporting period. Further information can be found under "Pensions and similar obligations" (note (7)) and in note (9.14).

The amount and probability of utilisation are estimated for the recognition and measurement of other provisions. The measurement is based on the most likely settlement amount or the expected settlement amount if there are equal probabilities. The amount of actual utilisation can differ from estimates. The Wilo Group primarily reports provisions for possible warranty claims, restructuring and provisions for bonuses and customer rebates under other provisions.

In total, other provisions of EUR 70,050 thousand (previous year: EUR 49,735 thousand) were reported as at the end of the reporting period. Further information can be found under "Other provisions" (note (7)) and in note (9.15).

The assumptions and estimates are based on current knowledge and the data currently available. Actual developments can differ from estimates. If the actual developments differ from estimates, the resulting consequences for the carrying amounts of the relevant assets and liabilities are taken into account accordingly.

JUDGEMENTS Judgements must be made in the application of accounting policies. In particular, this applies to the following:

- Judgements must be made when allocating financial assets in accordance with IFRS 9 to the measurement categories at amortised cost, at fair value through profit and loss (FVTPL) and at fair value through other comprehensive income (FVOCI).
- The cash-generating units for goodwill impairment testing are formed and defined by product and application and are subject to management judgement. The allocation of goodwill to individual cash-generating units is likewise subject to judgement.
- When using derivatives to minimise the financial risks of hedged items, it must be decided whether hedge accounting is to be used within the meaning of IFRS 9.
- In realising revenues in accordance with IFRS 15 determining whether control is transferred to the customer at a point in time or over time requires the exercise of judgement.

EXPENSE AND REVENUE RECOGNITION In accordance with IFRS 15, Wilo realises sales when control of distinct goods or services is transferred to the customer, that is, when the customer has the ability to determine the use of the transferred goods or services and obtain substantially all the remaining benefits. This requires that an agreement with enforceable rights and obligations exists and receiving the consideration – taking into account the customer's creditworthiness – is probable. Revenue corresponds to the transaction price to which Wilo expects to be entitled. At Wilo the transaction does not generally include considerations with various amounts in the transaction price. However, if the transaction price does include considerations with various amounts, the amount of the consideration with the most probable amount is determined. If the period of time between the transfer of goods or services and the agreed time of payment exceeds a period of twelve months, and a significant benefit results from the financing, then significant financing components are reclassified from revenues to net financial costs. If a contract covers several distinct goods and/or services, the transaction price is allocated to the performance obligation on the basis of the relative stand-alone selling prices. If stand-alone selling prices are not directly observable, then these are estimated at an appropriate level. For each performance obligation, revenue is realised either at a point in time or over a specific period time. At the Wilo Group, revenue is typically realised at a point in time. Exceptions relate in particular to warranty revenue, which is realised over a specific period of time. Net sales are presented net of trade discounts and rebates.

Cost includes all direct costs and overheads incurred in generating net sales, including depreciation on production machinery. This item also includes amounts recognised for guarantee provisions. Operating expenses are recognised in profit or loss when service is rendered or the expenses incurred. Interest income and interest expenses are recognised on an accrual basis.

ADMINISTRATIVE AND SELLING EXPENSES Administrative expenses and selling expenses include attributable labour and material costs plus depreciation applicable to each functional area.

RESEARCH AND DEVELOPMENT COSTS Development costs are capitalised as intangible assets at cost and amortised over their useful lives, provided the capitalisation criteria described in IAS 38 are met. Development costs that do not meet the capitalisation criteria in accordance with IAS 38 and research costs are reported as a separate line item in the income statement. In the year under review, development costs were capitalised in the amount of EUR 16,634 thousand (previous year: EUR 17,320 thousand). Furthermore, the addition to capitalised development costs also includes borrowing costs of EUR 714 thousand (previous year: EUR 421 thousand), meaning that the addition totals EUR 17,348 thousand (previous year: EUR 17,741 thousand).

BORROWING COSTS Borrowing costs are recognised in profit or loss, provided they do not relate directly to the acquisition, development or production of qualifying assets.

If this is the case, these direct borrowing costs are capitalised as incidental costs of acquisition of the qualified asset. Qualifying assets are assets which require a substantial period of time to bring them to a condition suitable for use or sale. In the 2020 financial year, borrowing costs were capitalised in the amount of EUR 1,638 thousand (previous year: EUR 2,844 thousand). The borrowing cost rate, which forms the basis for determining the capitalisable borrowing costs, was 2.13 percent in the year under review (previous year: 2.09 percent).

INTANGIBLE ASSETS Acquired intangible assets with a finite useful life are capitalised at cost and amortised on a straight-line basis over their useful lives (three to five years in the Wilo Group).

In accordance with IFRS 3 and IAS 38 in conjunction with IAS 36, goodwill is not amortised but instead tested for impairment annually and whenever there is an indication that it has become impaired.

If the conditions of IAS 38 are met, development costs with a finite useful life are capitalised and amortised on a straight-line basis over their expected useful life of 15 years. Capitalised development costs for intangible assets that are not yet available for use are tested for impairment annually.

PROPERTY, PLANT AND EQUIPMENT Physical assets used in the business for longer than one year are measured at cost less straight-line depreciation. Cost comprises the purchase price plus all directly attributable costs incurred in bringing an asset to the location and condition necessary for it to be capable of operating.

The estimated useful life of a building is between ten and 60 years; leasehold improvements and buildings on third-party land are depreciated over the shorter of the lease term or their useful life. The useful lives for technical equipment and machinery are between three and 14 years. Operating and office equipment subject to normal use are depreciated over three to 13 years. Significant parts of an asset that meet the criteria set out in IAS 16 are accounted for using the component approach. The depreciation for the financial year is allocated to the corresponding functional areas.

ASSETS HELD FOR SALE Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition and its sale must be highly probable. Assets held for sale are no longer written down, and are instead measured at the lower of fair value less costs to sell and carrying amount.

LEASES Wilo does not lease out any items itself, instead acting as a lessee only. The starting point for the initial measurement of the lease liability is the present value of the payments to be made over the lease term. The lease liability is carried forward to subsequent periods depending on the agreed repayment.

The right-of-use assets acquired are capitalised at cost on initial recognition and depreciated on a straight-line basis over the term of the lease. Subsequent measurement is based on the provisions for non-current assets.

Leased property is returned to the lessor at the end of the lease term.

IMPAIRMENT OF NON-FINANCIAL ASSETS The recoverable amount is measured using the discounted cash flow method on the basis of the planning approved the Supervisory Board, which covers a strategic planning horizon of five years. An appropriate, unit-specific growth factor is applied. The plans are based on past experience and projected market development. The product divisions of the Wilo Group are broken down by product groups and applications to form the cash-generating units. As the Wilo Group does not perform voluntary segment reporting in accordance with IFRS 8, a further subdivision of the cash-generating units into additional segments is unnecessary.

The Wilo Group uses the value in use of each product division as its recoverable amount for the purposes of goodwill impairment testing.

The main assumptions used to determine the value in use of each product division for goodwill impairment testing are shown in the table below:

Assumptions used to determine value in use

2020 financial year / **Product division**	Goodwill in EUR thousand	Long-term growth factor in %	Discount rate before income taxes in %
Heating, Ventilation, Air-Conditioning	7,579	0.2	10.5
Clean and Waste Water	94,092	0.5	10.1

Goodwill impairment testing confirmed that there was no need to recognise impairment losses. Furthermore, a potential change in the aforementioned parameters would not result in the impairment of the listed groups of cash-generating units. Goodwill is tested for impairment as part of the annual impairment test on 30 November of every year.

The impairment test for capitalised development costs performed in the 2020 financial year resulted in no impairment losses (previous year: EUR 0 thousand).

FINANCIAL ASSETS The Wilo Group's financial assets comprise loans and receivables, acquired equity and debt securities, cash and derivative financial instruments that are assets. Within the Wilo Group, these financial assets are reported under trade receivables, other financial assets and cash.

On initial recognition, a financial asset is classified and measured as follows:
- at amortised cost
- FVOCI debt instruments (investments in debt instruments measured at fair value through other comprehensive income)
- FVOCI equity investments (equity investments measured at fair value through other comprehensive income)
- FVTPL (at fair value through profit or loss)

Purchases and sales of non-derivative financial assets are accounted for on the settlement date, i.e. the date of delivery and transfer of ownership. Derivative financial instruments are accounted for at the trade date.

Financial assets are not reclassified after initial recognition unless the Group changes its business model for controlling financial assets. In this case, all the affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is carried at amortised cost if both of the following conditions are met and it has not been designated as FVTPL:
- It is held within a business model whose objective is achieved by collecting the contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is designated at FVOCI if both of the following conditions are met and it has not been designated as FVTPL:
- It is held within a business model whose objective is achieved by both holding financial assets to collect the contractual cash flows and selling financial assets, and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

When an equity investment that is not held for trading is recognised for the first time, the Group may irrevocably elect whether to present subsequent changes in the fair value of the investment in other comprehensive income. This is done on a case-by-case basis for each investment.

All financial instruments not measured at amortised cost or FVOCI are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably elect to designate as FVTPL financial assets that otherwise meet the conditions for recognition at amortised cost or FVOCI if this serves to eliminate or significantly reduce accounting mismatches that would otherwise occur.

The following section describes the subsequent measurement of financial assets and the effects on the income statement:

- *Financial assets at FVTPL* These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- *Financial assets at amortised cost* These assets are subsequently measured at amortised cost using the effective interest method. Amortised cost is reduced by impairment losses. Interest income, currency gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

- *Debt instruments at FVOCI* These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, currency gains and losses and impairment losses are recognised in profit or loss. Other net gains or losses are recognised in other comprehensive income. The cumulative other comprehensive income is reclassified to profit or loss on derecognition.

- *Equity investments at FVOCI* These assets are subsequently measured at fair value. Dividend income is recognised in profit or loss unless the dividend evidently covers part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

- *Derecognition of financial assets* The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the cash flows in a transaction that also transfers substantially all the risks and opportunities associated with ownership of the financial asset.

  A financial asset is also derecognised when the Group neither transfers nor retains substantially all the risks and opportunities of ownership and does not retain control of the transferred asset.

- *Impairment of assets* The risk provision and thus any impairment loss is based on the expected loss credit model of IFRS 9. These measurement provisions cover all financial assets not measured at FVTPL, such as loans, lease payments, trade receivables, credit enhancements, contract assets, specific finance guarantees or credit agreements. The measurement approach depends on the change in credit risk since initial recognition. In accordance with IFRS 9, the measurement model consists of the measurement approaches that the risk provision is based either on a twelve-month expected loss or a life time expected credit loss of the financial assets. A lifetime expected credit loss is determined only when the credit risk has significantly increased since initial recognition. An example would be if a receivable is more than 30 days past due or the rating has been downgraded by two or more notches.

For the subsequent measurement of trade receivables and contract assets, there is a simplified approach using an impairment matrix. These receivables are subject to the lifetime expected credit loss.

INVENTORIES Raw materials, supplies and merchandise are measured at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Work in progress and finished goods are carried at cost. This includes all costs directly attributable to production and appropriate portions of production overheads. Production overheads include production-related depreciation, pro rata administration costs and pro rata social security costs. Cost does not include borrowing costs. Discounts are recognised on raw materials, supplies and merchandise for quality and functional defects and for risks of failure to sell. Inventories are measured as at the end of the reporting period at the lower of cost and net realisable value.

DERIVATIVES AND HEDGING The Wilo Group uses derivatives solely to reduce exchange rate, interest rate and commodity price risk. These instruments are hedges from an economic perspective. Wilo uses hedge accounting in accordance with IAS 39.

If the hedges do not meet the requirements of IAS 39 or IFRS 9, they are recognised and measured under FVTPL. Measurement is performed using standard measurement methods based on market parameters specific to each instrument. The fair value of forward exchange contracts and cross-currency interest rate swaps is calculated using net present value models, while the fair value of options is calculated using option pricing models. Where possible, the relevant market prices and interest rates at the end of the reporting period are used as the input parameters for these models.

The fair value of forward exchange contracts is determined using the middle spot exchange rate as at the end of the reporting period and taking into account the forward premiums and discounts for the remaining contract term with respect to the agreed forward exchange rate. The fair value of cross-currency interest rate swaps is determined by discounting the expected cash flows using applicable market rates with the same term as at the reporting date. Commodity futures are measured on the basis of current quoted market prices, taking corresponding forward premiums and discounts into account. In contrast, currency and commodity options are measured using option pricing models. The fair value of derivative financial instruments is calculated by banks.

Changes in the fair value of derivatives as at the end of the reporting period are taken directly to profit and loss under other net finance costs. Income and expenses from the realisation of derivatives are disclosed in the income statement in the item in which the effects of hedged items are reported. Income or expenses from the realisation of currency derivatives are recognised under other operating income or expenses, provided the hedged item is assigned to the operating area and the income and expenses from the measurement of this item were recognised accordingly in the same item. If the item relates to financial activity, the realised income and expenses from the currency forward or currency option are reported in other net financial income. Income or expenses from the realisation of cross-currency interest rate swaps are reported in net interest income. Income or expenses from the realisation of commodity derivatives without physical delivery are reported in cost of sales.

OTHER RECEIVABLES AND ASSETS Other receivables and assets primarily include tax receivables, advance payments, employer pension liability assets, deferrals and receivables from employees that are not financial assets. These other receivables and assets are measured at amortised cost.

DEFERRED TAXES Deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 for all temporary differences between the carrying amount of an asset or liability in the IFRS financial statements and its tax base.

Deferred tax assets are also recognised in respect of the expected utilisation of unused tax loss carryforwards in subsequent years provided that, according to the estimates made by the Executive Board, the tax loss carryforwards are sufficiently likely to be utilised. Deferred tax assets are tested for impairment as at the end of the reporting period. To this end, a tax plan is derived from the five-year strategic planning approved by the Supervisory Board. The plans are based on past experience and projected market development, as well as the results of planned measures and measures that have already been initiated. Deferred tax assets on loss carryforwards of EUR 40,203 thousand (previous year: EUR 41,159 thousand) were recognised as at the end of the reporting period.

The Wilo Group also recognises deferred tax liabilities for the tax expenses to arise on the expected profit distributions by the consolidated subsidiaries to WILO SE in the subsequent year. Deferred tax assets and liabilities are measured at the tax rates that apply or that are expected to apply at the realisation date according to the current legal situation in the individual countries.

Deferred tax assets are only offset against deferred tax liabilities if they relate to the same taxation authority and have matching terms. Information on the deferred taxes as at 31 December 2020 is provided in note (8.8).

GOVERNMENT GRANTS In accordance with IAS 20, a government grant is only recognised if there is reasonable assurance of compliance with the conditions attached to it and that the grant will be received. Research and investment grants received by the Wilo Group are recognised in profit or loss over the periods necessary to match them to the costs they are intended to compensate. Investment grants are recognised as deferred income and reversed to profit and loss over the term of the subsidised assets.

In response to the COVID-19 pandemic, wage subsidies (e.g. allowances for short-time work, waiver of social security contributions) were introduced in various countries in which Wilo subsidiaries are active. In the 2020 financial year, the Group received wage subsidies in the amount of EUR 2,594 thousand. Wilo offsets these income-related subsidies against the staff costs of the individual functional areas.

EQUITY Treasury shares in the notional amount of EUR 1,477 thousand (previous year: EUR 1,477 thousand) are openly deducted from issued capital.

FINANCIAL LIABILITIES Financial liabilities primary comprise liabilities and derivative financial instruments with negative fair values.

In accordance with IAS 32, primary liabilities such as financial liabilities due to banks, trade payables and liabilities reported under other financial liabilities are recognised in the consolidated statement of financial position if the Wilo Group has a contractual obligation to transfer cash or other financial assets to another party. The primary liabilities are assigned to the “at amortised cost” measurement category within the meaning of IFRS 9 and are carried at settlement amount or amortised cost using the effective interest method. Non-interest-bearing and low-interest liabilities with a term of more than one year are discounted if the time value of money is not immaterial. For liabilities with a term of less than one year, the fair value is assumed to be the same as the settlement amount. Transaction costs that are directly attributable are also recognised for all financial liabilities not subsequently measured at fair value and then amortised over their term using the effective interest method.

In accordance with IFRS 9, derivative liabilities are recognised at fair value with changes in value recognised through profit or loss (FVTPL).

Financial liabilities are derecognised when the corresponding contractual obligations are settled or cancelled or have expired.

Financial assets and financial liabilities are generally reported without offsetting.

PENSIONS AND SIMILAR OBLIGATIONS Provisions are recognised for uncertain liabilities from pension obligations and other post-employment benefits. In accordance with IAS 19, pension obligations for defined benefit commitments are calculated using the internationally recognised projected unit credit method. The calculations are based on actuarial appraisals and biometric parameters.

Actuarial gains and losses and gains and losses from the remeasurement of plan assets are recognised in full in other comprehensive income.

The expense relating to pension obligations, with the exception of the interest portion reported in net finance costs, is allocated to the relevant functional areas. The amount of pension obligations is determined using actuarial methods, for which estimates are essential.

The calculations for pension obligations use the following parameters, shown here on a weighted-average basis:

Calculation parameters for pension obligations

Figures in %	31 December 2020	31 December 2019
Discount rate	0.90	1.20
Pension adjustment	1.83	2.00
Salary increase	3.02	3.14

The net interest expense is calculated by multiplying the net pension liability by the discount rate.

The actuarial present value of pension obligations calculated using the projected unit credit method is reduced by the amount of the corresponding assets at the third-party pension provider if the requirements of IAS 19 for plan assets are met.

OTHER PROVISIONS Other provisions are recognised in accordance with IAS 37 when there is a present obligation to a third party resulting from a past event, settling the obligation will probably require an outflow of resources and the amount of the obligation can be reliably estimated. Non-current provisions for obligations not expected to result in an outflow of resources in the next year are recognised at the net present value of the expected outflow of resources. The discount rate is based on market interest rates.

The settlement amount includes expected cost increases. Provisions are remeasured as at the end of each reporting period. Provisions are not offset against rights of recourse.

(8.) Notes to the consolidated income statement

(8.1) Net sales

Net sales break down according to the following regions:

Net sales

EUR thousand	2020	%	2019	%
Mature Markets	853,850	58.8	850,019	57.5
Emerging Markets	597,644	41.2	627,811	42.5
Total	**1,451,494**	**100.0**	**1,477,830**	**100.0**

The Mature Markets and Emerging Markets sales regions consisted of the following countries as at 31 December 2020:
- Mature Markets: All European nations, USA and Canada
- Emerging Markets: China, India, South Korea, the Southeast Asian nations, Australia and Oceania, Russia, Belarus, the Caucasian nations, Turkey, the Middle East, Africa, Latin America

Net sales include revenue from the sale of goods of EUR 1,344,336 thousand (previous year: EUR 1,356,687 thousand) and service income of EUR 107,158 thousand (previous year: EUR 121,143 thousand). The prior-year figures have been restated to reflect a change in the allocation of the sales regions.

(8.2) Cost of sales

This item consists of costs of the products and merchandise sold.

Cost of sales

EUR thousand	2020	2019
Cost of materials	-670,313	-676,677
Miscellaneous costs	-307,008	-293,683
Total	**-977,321**	**-970,360**

(8.3) Selling and administrative expenses

Selling and administrative expenses		
EUR thousand	**2020**	2019
Selling expenses	-252,998	-264,627
Administrative expenses	-89,216	-94,638
Total	**-342,214**	**-359,265**

Selling expenses include staff costs, depreciation and amortisation, and customer service, advertising, sales promotion, market research and shipping costs for sales in particular.

(8.4) Research and non-capitalised development costs

Research and non-capitalised development costs		
EUR thousand	**2020**	2019
Research and development costs	-68,671	-67,652
of which capitalised development costs	16,634	17,320
Total	**-52,037**	**-50,332**

(8.5) Other operating income

Other operating income		
EUR thousand	**2020**	2019
Foreign-currency gains from operating activities	11,642	5,195
Government grants	3,049	2,298
Income from disposals of intangible assets and property, plant and equipment	854	1,445
Insurance compensation	307	328
Other	4,188	4,965
Total	**20,040**	**14,231**

The foreign-currency gains from operating activities of EUR 11,642 thousand (previous year: EUR 5,195 thousand) mainly consist of gains due to exchange rate changes between the inception and settlement of foreign-currency receivables and liabilities, and foreign-currency gains resulting from measurement at the exchange rate as at the end of the reporting period. Foreign-currency losses of EUR 15,373 thousand (previous year: EUR 4,818 thousand) from these items are reported under other operating expenses (see note (8.6)). As subsidiaries mostly trade with customers and suppliers in local currency, these foreign-currency gains and losses mainly arise on intragroup transactions. The prior-year figures for foreign-currency gains from operating activities and foreign-currency losses from operating activities have been restated to reflect exchange rate changes due to hedge accounting.

(8.6) Other operating expenses

Other operating expenses		
EUR thousand	**2020**	2019
Restructuring costs	-17,681	0
Foreign-currency losses from operating activities	-15,373	-4,818
Losses on disposals of intangible assets and property, plant and equipment	-2,058	-992
Other	-3,500	-3,106
Total	**-38,612**	**-8,916**

(8.7) Net finance costs

Net finance costs break down as follows:

Net finance costs		
EUR thousand	**2020**	2019
Net interest costs	-7,824	-5,087
Other net finance costs	-147	-466
Total	**-7,971**	**-5,553**

Net interest costs consists of the following interest income and expenses:

Net interest costs		
EUR thousand	**2020**	2019
Interest income from cash and cash equivalents	1,281	2,503
Interest income	**1,281**	**2,503**
Interest expenses on financial liabilities	-9,623	-9,034
Interest expenses for leases	-1,120	-1,400
Capitalised borrowing costs	1,638	2,844
Interest expenses	**-9,105**	**-7,590**
Total	**-7,824**	**-5,087**

Other net finance costs break down as follows:

Other net finance costs		
EUR thousand	**2020**	2019
Gains on derivative financial instruments	1,706	2,440
Foreign-currency gains from financing activities	2,530	435
Other	307	577
Other financial income	**4,543**	**3,452**
Losses on derivative financial instruments	-665	-993
Foreign-currency losses from financing activities	-3,471	-1,218
Interest rate effects from pensions, non-current liabilities and receivables	-554	-1,707
Other financial expenses	**-4,690**	**-3,918**
Total	**-147**	**-466**

The foreign-currency gains and losses from financing activities result from the translation of intragroup foreign-currency loans.

In the current financial year, the gains and losses on derivative financial instruments resulted primarily from positive and negative utilisation and measurement effects of forward exchange contracts. In addition, positive and negative utilisation and measurement effects resulted from commodity derivatives used to hedge prices for commodities within the Wilo Group.

(8.8) Income taxes

The income tax expense contained in consolidated net income is composed as follows:

Income taxes		
EUR thousand	**2020**	2019
Current tax expense/income		
– Reporting year	-26,246	-25,404
– Adjustments for prior periods	-1,859	232
Current income taxes	**-28,105**	**-25,172**
Deferred tax expense/income		
– from unutilised loss carryforwards	-956	5,917
– from changes in tax rates	986	253
– from the creation and reversal of temporary differences	-276	-5,671
– from write-downs on deferred tax assets	-154	-540
Deferred tax expense	**-400**	**-41**
Income taxes	**-28,505**	**-25,213**

Deferred taxes are determined according to local income tax rates. For Germany, this is a combined tax rate of 32.1 percent (previous year: 32.1 percent) consisting of corporation tax, solidarity surcharge and trade tax. As in the previous year, local income tax rates for foreign entities range from 9.3 percent to 34.0 percent (previous year: from 9.0 percent to 34.0 percent).

Deferred taxes by item in the statement of financial position

Deferred tax assets and liabilities are recognised as follows in relation to measurement differences on individual items of the statement of financial position and tax loss carryforwards:

Deferred taxes by item in the statement of financial position

	Deferred tax assets		Deferred tax liabilities	
EUR thousand	**2020**	2019	**2020**	2019
Intangible assets	3,754	2,399	35,653	30,922
Property, plant and equipment	1,345	1,022	16,579	16,605
Inventories	5,780	4,639	973	885
Receivables and other assets	8,507	6,373	3,305	2,349
	19,386	**14,433**	**56,510**	**50,761**
Financial liabilities	2	19	1,140	457
Trade payables	1,203	1,400	7	264
Pensions and similar obligations	17,471	17,649	0	0
Other provisions and liabilities	15,489	11,072	9,688	7,447
Tax loss carryforwards	40,203	41,159	0	0
	74,368	**71,299**	**10,835**	**8,168**
Carrying amount	**93,754**	**85,732**	**67,345**	**58,929**

The change in deferred tax assets and liabilities in the reporting year was as follows:

Change in deferred taxes

EUR thousand	Net amount of deferred tax assets/liabilities as at 31 Dec. 2019	Recognised in profit or loss	Recognised in other comprehensive income	**Net amount of deferred tax assets/liabilities as at 31 Dec. 2020**
Intangible assets	-28,523	-3,376	0	-31,899
Property, plant and equipment	-15,583	367	-18	-15,234
Inventories	3,754	1,074	-20	4,808
Receivables and other assets	4,000	1,340	-160	5,180
Financial liabilities	-438	-701	0	-1,139
Trade payables	1,136	150	-90	1,196
Pensions and similar obligations	17,649	-496	318	17,471
Other provisions and liabilities	3,229	2,199	-24	5,404
Initial application of IFRS 9 and IFRS 15	420	0	0	420
Tax loss carryforwards	41,159	-956	0	40,203
Total	**26,803**	**-400**	**6**	**26,409**

The change in deferred tax assets and liabilities in the previous year was as follows:

Change in deferred taxes

EUR thousand	Net amount of deferred tax assets/liabilities as at 31 Dec. 2018	Recognised in profit or loss	Recognised in other comprehensive income	Net amount of deferred tax assets/liabilities as at 31 Dec. 2019
Intangible assets	-24,744	-3,779	0	-28,523
Property, plant and equipment	-8,386	-7,177	-20	-15,583
Inventories	4,808	-1,054	0	3,754
Receivables and other assets	4,899	-899	0	4,000
Financial liabilities	-686	248	0	-438
Trade payables	673	463	0	1,136
Pensions and similar obligations	14,213	154	3,282	17,649
Other provisions and liabilities	-2,857	6,086	0	3,229
Initial application of IFRS 9 and IFRS 15	420	0	0	420
Tax loss carryforwards	35,242	5,917	0	41,159
Total	**23,582**	**-41**	**3,262**	**26,803**

EUR -312 thousand of the deferred tax income of EUR 6 thousand recognised in other comprehensive income relates to currency differences. The remaining EUR 318 thousand relates to the actuarial changes in the present value of the pension obligations and the remeasurement of the related plan assets.

Unutilised tax loss carryforwards amounted to EUR 224,183 thousand (previous year: EUR 171,266 thousand) as at the end of the reporting period, EUR 184,058 thousand of which (previous year: EUR 125,623 thousand) can be carried forward indefinitely. The limited tax loss carryforwards amount to EUR 40,125 thousand (previous year: EUR 45,643 thousand) and can be carried forward between five and 20 years.

Applying local income tax rates, deferred tax assets on loss carryforwards of EUR 40,203 thousand (previous year: EUR 41,159 thousand) were recognised as at the end of the reporting period. A potential deferred tax asset on loss carryforwards of EUR 25,953 thousand (previous year: EUR 8,901 thousand) was not recognised on the remaining loss carryforwards as future utilisation did not seem sufficiently likely at the end of the reporting period.

As WILO SE is anticipating profit distributions from its consolidated subsidiaries next year, deferred tax liabilities of EUR 2,368 thousand (previous year: EUR 2,486 thousand) have been recognised on these distributions.

In addition, there were retained profits of EUR 222,523 thousand at subsidiaries as at 31 December 2020 (previous year: EUR 177,628 thousand) intended for long-term investment, for which no deferred tax liabilities were therefore recognised.

RECONCILIATION OF INCOME TAXES The combined statutory tax rate of 15.8 percent consisting of corporation tax and the solidarity surcharge plus the trade tax rate of approximately 16.3 percent was used in the reconciliation of income taxes in the 2020 financial year. This corresponds to a total tax rate of 32.1 percent (previous year: 32.1 percent). The Wilo Group reported tax expenses of EUR 28,505 thousand (previous year: EUR 25,213 thousand) in its consolidated income statement for 2020. This is EUR 11,370 thousand higher (previous year: EUR 6,128 thousand lower) than the expected tax expense of EUR 17,135 thousand (previous year: EUR 31,341 thousand) that results from applying the domestic rate of 32.1 percent (previous year: 32.1 percent) at Group level.

The difference is attributable to the following causes:

Tax reconciliation

EUR thousand	2020	2019
Consolidated net income before taxes	53,379	97,635
Expected tax expense	**-17,135**	**-31,341**
Tax rate changes	986	253
Difference from current tax rates	11,293	12,750
Temporary differences arising on consolidation	301	-128
Other permanent differences	-7,659	-7,523
Tax-free income	3,986	2,855
Change in unrecognised deferred taxes on loss carryforwards	-14,581	-475
Withholding tax	-3,560	-2,342
Prior-period taxes	-1,859	175
Other	-277	563
Current tax expense	**-28,505**	**-25,213**

(8.9) Earnings per share

Earnings per share are determined by dividing consolidated net income attributable to WILO SE shareholders by the weighted average number of shares outstanding in the financial year. Both basic and diluted earnings per ordinary share amounted to EUR 2.54 (previous year: EUR 7.38).

Earnings per share

	2020	2019
Consolidated net income in EUR thousand	24,874	72,422
Number of ordinary shares as at 31 Dec.	9,808,760	9,808,760
Weighted average number of ordinary shares outstanding	9,808,760	9,808,760
Earnings per ordinary share (EUR)	**2.54**	**7.38**

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(9.) Notes to the consolidated statement of financial position

(9.1) Intangible assets

Intangible assets developed as follows in the financial years 2020 and 2019:

Intangible assets

EUR thousand	Patents, property rights and customer base	Goodwill	Capitalised development costs	Advance payments	**Total**
Cumulative cost					
As at 1 January 2019	87,569	109,853	80,346	9,183	286,951
Currency translation	356	631	-8	0	979
Additions	3,454	0	17,741	1,788	22,983
Disposals	-3,192	0	0	-3	-3,195
Reclassifications	520	0	-6	-514	0
As at 31 December 2019	**88,707**	**110,484**	**98,073**	**10,454**	**307,718**
As at 1 January 2020	88,707	110,484	98,073	10,454	307,718
Currency translation	-1,692	-3,891	-69	0	-5,652
Additions	2,201	644	17,348	3,266	23,459
Disposals	-753	0	0	-25	-778
Reclassifications	9,975	0	0	-9,975	0
As at 31 December 2020	**98,438**	**107,237**	**115,352**	**3,720**	**324,747**
Cumulative depreciation					
As at 1 January 2019	56,898	5,674	2,374	0	64,946
Currency translation	44	-30	0	0	14
Depreciation in the financial year	8,326	0	4,435	0	12,761
Disposals	-3,143	0	0	0	-3,143
As at 31 December 2019	**62,125**	**5,644**	**6,809**	**0**	**74,578**
As at 1 January 2020	62,125	5,644	6,809	0	74,578
Currency translation	-724	-78	0	0	-802
Depreciation in the financial year	7,631	0	4,790	0	12,421
Disposals	-411	0	0	0	-411
As at 31 December 2020	**68,621**	**5,566**	**11,599**	**0**	**85,786**
Residual carrying amounts					
As at 1 January 2019	30,671	104,179	77,972	9,183	222,005
As at 31 December 2019	**26,582**	**104,840**	**91,264**	**10,454**	**233,140**
As at 1 January 2020	26,582	104,840	91,264	10,454	233,140
As at 31 December 2020	**29,817**	**101,671**	**103,753**	**3,720**	**238,961**

Goodwill is tested for impairment at least annually. Detailed information on impairment testing is provided in note (7).

Goodwill allocated to the product divisions developed as follows in the 2020 financial year:

Development of goodwill by product division

EUR thousand	1 Jan. 2020	Additions	Currency translation	31 Dec. 2020
Product division				
Heating, Ventilation, Air-Conditioning	7,619	0	–40	7,579
Clean and Waste Water	97,221	644	–3,773	94,092
Total	**104,840**	**644**	**–3,813**	**101,671**

(9.2) Property, plant and equipment

Property, plant and equipment developed as follows in the 2020 and 2019 financial years:

Property, plant and equipment

EUR thousand	Land and buildings	Technical equipment and machinery	Operating and office equipment	Advance payments and assets under construction	Total
Cumulative cost					
As at 1 January 2019	268,666	230,204	335,081	109,754	943,705
Initial application of IFRS 16	29,718	1,048	8,425	0	39,191
Currency translation	2,430	–117	943	192	3,448
Additions	13,660	10,557	24,009	93,884	142,110
Additions from business combinations	2,967	0	445	0	3,412
Reclassifications	110,520	4,620	4,950	–120,090	0
Disposals	–3,296	–1,904	–9,941	–470	–15,611
As at 31 December 2019	**424,665**	**244,408**	**363,912**	**83,270**	**1,116,255**
As at 1 January 2020	424,665	244,408	363,912	83,270	1,116,255
Currency translation	–13,112	–3,511	–5,654	–541	–22,818
Additions	53,812	10,686	27,713	15,540	107,751
Reclassifications	27,272	22,154	15,956	–65,382	0
Disposals	–37,036	–11,954	–18,094	–767	–67,851
As at 31 December 2020	**455,601**	**261,783**	**383,833**	**32,120**	**1,133,337**
Cumulative depreciation					
As at 1 January 2019	78,850	160,340	253,301	0	492,491
Currency translation	–29	–94	269	0	146
Depreciation in the financial year	17,490	15,191	31,464	0	64,145
Reclassifications	0	–1	1	0	0
Disposals	–1,479	–1,679	–8,591	0	–11,749
As at 31 December 2019	**94,832**	**173,757**	**276,444**	**0**	**545,033**
As at 1 January 2020	94,832	173,757	276,444	0	545,033
Currency translation	–2,201	–2,444	–3,461	0	–8,106
Depreciation in the financial year	18,686	16,405	32,358	0	67,449
Reclassifications	0	278	–278	0	0
Disposals	–35,529	–11,087	–15,293	0	–61,909
As at 31 December 2020	**75,788**	**176,909**	**289,770**	**0**	**542,467**
Residual carrying amounts					
As at 1 January 2019	189,816	69,864	81,780	109,754	451,214
As at 31 December 2019	**329,833**	**70,651**	**87,468**	**83,270**	**571,222**
As at 1 January 2020	329,833	70,651	87,468	83,270	571,222
As at 31 December 2020	**379,813**	**84,874**	**94,063**	**32,120**	**590,870**

LEASES There are leases for low-value assets in the area of operating and office equipment in particular (e.g. laptops and mobile phones). In accordance with the expedients provided by IFRS 16, no right-of-use assets or lease liabilities are recognised in the statement of financial position for these leases.

The carrying amounts of property, plant and equipment as at 31 December 2020 contained right-of-use assets in the amount of EUR 32,884 thousand. In the previous year, the carrying amounts of the right-of-use assets recognised in accordance with IFRS 16 amounted to EUR 41,834 thousand. The net carrying amounts of the recognised right-of-use assets are composed as follows:

Right-of-use lease assets

EUR thousand	IFRS 16, 31 Dec. 2020	IFRS 16, 31 Dec. 2019
Land and buildings	21,988	29,444
Technical equipment and machinery	922	1,179
Operating and office equipment	9,974	11,211
Total	**32,884**	**41,834**

The right-of-use assets recognised as property, plant and equipment in the 2020 financial year in accordance with IFRS 16 developed as follows:

Development of right-of-use lease assets

EUR thousand	Land and buildings	Technical equipment and machinery	Operating and office equipment	Total
As at 1 January 2020	**29,444**	**1,179**	**11,211**	**41,834**
Currency translation	-1,004	-3	-159	**-1,166**
Additions to right-of-use assets	2,655	444	7,423	**10,522**
Disposals of right-of-use assets	-14	-6	-2,124	**-2,144**
Depreciation in the financial year	-9,093	-692	-6,377	**-16,162**
As at 31 December 2020	**21,988**	**922**	**9,974**	**32,884**

Wilo applies the exemptions provided by IFRS 16 for leases relating to low-value assets and for short-term leases. The following amounts for leases are reported in the income statement:

Amounts reported in the income statement

EUR thousand	2020	2019
Interest expenses for lease liabilities	1,120	1,400
Lease expenses for low-value assets	2,627	1,739
Expenses for short-term leases	4,829	5,807
Expenses for variable lease payments not included in the measurement of lease liabilities	264	489
Total	**8,840**	**9,435**

The consolidated statement of cash flows includes cash outflows in the amount of EUR 15,706 thousand (previous year: EUR 15,986 thousand) in cash flow from financing activities for leases for which a lease liability has been recognised in accordance with IFRS 16.

(9.3) Inventories

Inventories

EUR thousand	31 Dec. 2020	31 Dec. 2019
Raw materials, supplies and merchandise	79,558	89,918
Work in progress	23,605	27,867
Finished goods and merchandise	131,946	124,494
Advance payments	768	833
Total	**235,877**	**243,112**

As at 31 December 2020, the write-down on inventories amounted to EUR 23,660 thousand (previous year: EUR 22,281 thousand) with a gross carrying amount of EUR 259,537 thousand (previous year: EUR 265,393 thousand). Inventories are not subject to any restrictions on title beyond the suppliers' customary retention of title.

(9.4) Trade receivables

The trade receivables result from normal goods and services transactions of the Wilo Group. Current trade receivables of EUR 272,513 thousand (previous year: EUR 288,535 thousand) are due in the 2021 financial year. Non-current trade receivables of EUR 6,763 thousand (previous year: EUR 1,976 thousand) are due after more than one year. There are no restrictions on title on trade receivables.

The Executive Board is of the opinion that the carrying amounts of trade receivables are approximately equal to their fair values. Adequate provision is made for default risk by write-downs in the form of specific and valuation allowances and the expected credit loss. Specific valuation allowances are recognised on the basis of information available in a specific case as at the end of the reporting period. Specific valuation allowances are recognised in an appropriate amount in relation to any legal, collection or insolvency proceedings against debtors, overdue payments, complaints, third-party collateral, changes in agreed terms of payment and all other transactions or information affecting the collectability of trade receivables.

If trade receivables are past due, assumptions are made regarding the expected settlement date. If a long-range settlement date is assumed, the receivables are discounted accordingly.

Specific valuation allowances and the expected credit loss on trade receivables changed as follows in the 2020 and 2019 financial years:

Specific valuation allowances

EUR thousand	2020	2019
As at 1 January	17,369	16,379
Currency translation	-839	30
Additions	6,139	4,203
Utilisation	-1,872	-816
Reversals	-2,733	-2,427
As at 31 December	**18,064**	**17,369**

IFRS 9 expected credit loss 31 Dec. 2020

EUR thousand	Expected loss rate	Gross carrying amount	Risk provision
Europe	0.2–1.5%	132,315	991
Asia Pacific	1.5–8.4%	91,203	4,578
MEA	2.7–4.0%	19,659	680
Others	0.5–3.5%	19,505	218
As at 31 December 2020		**262,682**	**6,467**

IFRS 9 expected credit loss 31 Dec. 2019

EUR thousand	Expected loss rate	Gross carrying amount	Risk provision
Europe	0.2–1.0%	132,063	892
Asia Pacific	0.5–13.1%	97,870	5,790
MEA	2.8%	18,226	467
Others	0.5–1.0%	27,669	183
As at 31 December 2019		**275,828**	**7,332**

The regions Europe, Asia Pacific, MEA and Others, consist of the following countries:
- **Europe:** All European nations except Russia and Belarus
- **Asia-Pacific:** India, China, South Korea, the Southeast Asian nations, Australia and Oceania
- **MEA:** The Middle East, Turkey and Africa
- **Others:** The Americas, Russia and Belarus, the Caucasian nations

Further information on the expected credit loss is provided in note (12.) "Risk management and derivative finance instruments".

Income and expenses from valuation allowances, recoveries and the derecognition of trade receivables are recognised in note (8.3) Selling and administrative expenses.

(9.5) Other financial assets

Other financial assets break down as follows as at 31 December 2020 and 2019:

Other financial assets

EUR thousand	31 Dec. 2020 of which with a remaining term			31 Dec. 2019 of which with a remaining term		
	Total	**Less than one year**	**More than one year**	Total	Less than one year	More than one year
Receivables from unconsolidated subsidiaries, jointly controlled entities and associates	247	247	0	215	215	0
Receivables from derivative financial instruments	4,078	2,577	1,501	500	499	1
Loans	132	0	132	212	0	212
Equity instruments	1,994	0	1,994	1,994	0	1,994
Miscellaneous other financial receivables	10,763	6,212	4,551	8,415	3,315	5,100
Total	**17,214**	**9,036**	**8,178**	**11,336**	**4,029**	**7,307**

Equity instruments in the amount of EUR 1,994 thousand (previous year: EUR 1,994 thousand) are measured at fair value. As the fair value could not be derived from stock exchange or market prices, or from discounting reliably determined future cash flows, the fair value is estimated on a cost basis.

The carrying amounts of other financial assets are approximately equal to their fair values. There are no restrictions on other financial assets.

(9.6) Other receivables and assets

Other receivables and assets are composed as follows as at 31 December 2020 and 2019:

Other receivables and assets

EUR thousand	31 Dec. 2020 of which with a remaining term			31 Dec. 2019 of which with a remaining term		
	Total	**Less than one year**	**More than one year**	Total	Less than one year	More than one year
Tax assets	16,463	11,689	4,774	22,370	16,646	5,724
Advance payments	7,147	7,132	15	7,581	7,568	13
Employer pension liability assets	1,510	0	1,510	1,477	0	1,477
Deferred expenses	4,771	4,740	31	5,448	5,406	42
Unconsolidated subsidiaries	51	0	51	51	0	51
Receivables from employees	334	317	17	418	403	15
Total	**30,276**	**23,878**	**6,398**	**37,345**	**30,023**	**7,322**

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(9.7) Cash and cash equivalents

Cash and cash equivalents in the amount of EUR 188,952 thousand (previous year: EUR 166,056 thousand) mainly comprises cash and sight deposits at banks. There are restrictions on title amounting to EUR 967 thousand (previous year: EUR 645 thousand).

(9.8) Assets held for sale

Assets held for sale in the amount of EUR 613 thousand (previous year: EUR 307 thousand) relate to a building of Wilo Italia S.r.l. in Milan that is being sold to a third party. The disposal process for the asset began in 2019 but had not been concluded as at the reporting date. The item also includes a building of American Marsh Pumps, Lakeland, Florida, that is being sold to a third party.

(9.9) Equity

ISSUED CAPITAL As in the previous year, the issued capital of WILO SE amounted to EUR 26,980 thousand as at the end of the reporting period and is fully paid in. It is divided into 10,117,331 no-par-value ordinary registered shares and 259,418 no-par-value preferred registered shares without voting rights. There were 9,808,760 ordinary shares (previous year: 9,808,760) and, as in the previous year, no preferred shares in circulation as at 31 December 2020.

Treasury shares in the notional amount of EUR 1,477 thousand (previous year: EUR 1,477 thousand) are openly deducted from issued capital.

CAPITAL RESERVES The capital reserves of EUR 26,161 thousand (previous year: EUR 26,161 thousand) result from the capital increase implemented in the 2011 financial year of EUR 15,507 thousand, EUR 14,527 thousand of which was appropriated to the capital reserves of WILO SE.

OTHER RESERVES In addition to retained earnings, other reserves include differences from the translation of the foreign-currency financial statements of the companies included in the consolidated financial statements, actuarial gains and losses from pension obligations and gains and losses from the revaluation of plan assets. Retained earnings also include the legal reserve in accordance with section 150 (2) of the Aktiengesetz (AktG – German Stock Corporation Act) in the amount of 10.0 percent of the issued capital of WILO SE.

Other reserves developed as follows in the financial years 2020 and 2019:

Other reserves

EUR thousand	**2020**	2019
As at 1 January	**770,459**	**716,458**
Interest of the shareholders of WILO SE in:		
Consolidated net income	24,874	72,422
Other comprehensive income	-36,460	-1,902
Dividend payment	-15,890	-14,811
Other changes	-27	-1,708
As at 31 December	**742,956**	**770,459**

TREASURY SHARES As at 31 December 2020, the company held 567,989 treasury shares, or 5.5 percent of the share capital. As at 31 December 2020, the company reported 308,571 ordinary shares (previous year: 308,571) and 259,418 preference shares (previous year: 259,418) as treasury shares.

DIVIDENDS The Annual General Meeting on 26 March 2020 resolved to distribute EUR 15,890 thousand from the unappropriated surplus as at 31 December 2019 (previous year: EUR 14,811 thousand). This corresponds to a dividend per ordinary share of EUR 1.62.

CAPITAL MANAGEMENT A business objective of the Wilo Group is to sustain the strongest possible equity base in order to foster confidence in all key stakeholders and promote the Group's onward development. A sound equity base is also a key factor in ensuring a stable risk rating with lenders, which is important for obtaining acceptable borrowing terms for the Wilo Group. The Executive Board, the Supervisory Board and the shareholders of WILO SE ensure a responsible dividend policy and an appropriate return on invested capital to promote value growth and safeguard the company's future.

The Executive Board of WILO SE is kept informed about the equity position of the Wilo Group as part of monthly reporting. The equity positions of consolidated subsidiaries are also reviewed at regular intervals and on an ad hoc basis. Measures are implemented as necessary, taking the tax and legal frameworks into account, to sustain an appropriate capital base that enables each subsidiary to attain its operating targets and the Wilo Group to meet its strategic goals.

The total equity of the Wilo Group as at 31 December 2020 was EUR 764,854 thousand (previous year: EUR 792,357 thousand).This is mostly accounted for by EUR 853,421 thousand (previous year: EUR 844,464 thousand) in freely disposable retained earnings. The freely disposable retained earnings do not include the legal reserve of WILO SE of EUR 2,698 thousand (previous year: EUR 2,698 thousand). Taken together, the freely disposable retained earnings and the legal reserve make up the Group's retained earnings of EUR 856,119 thousand (previous year: EUR 847,162 thousand).

In the context of the borrowing of senior notes and promissory note loans, WILO SE is required to report a minimum equity ratio. The company satisfied this requirement in full in the 2020 and 2019 financial years. More detailed information on these senior notes and promissory note loans can be found in note (9.10).

(9.10) Financial liabilities

Financial liabilities break down as follows as at 31 December 2020 and 2019:

Financial liabilities

EUR thousand	**31 Dec. 2020**	31 Dec. 2019
Long-term borrowings		
with a remaining term		
of between one and five years	88,121	146,429
of more than five years	141,039	58,977
Total	**229,160**	**205,406**
Current financial liabilities		
with a remaining term		
of less than one year	117,095	113,503

WILO SE reported the following material financing agreements as at 31 December 2020:

- **USPP 2035** In April of the year under review, WILO SE issued a senior note of EUR 90.0 million maturing in 2035 with an interest rate of 1.55 percent p.a. as part of a US private placement ("USPP 2035"). The senior note is not secured against real property or financial assets of WILO SE.

- **USPP 2027** In May 2017, WILO SE issued a senior note of USD 30.0 million maturing in 2027 with an interest rate of 3.22 percent p.a. as part of a US private placement ("USPP 2027"). It is not secured against real property or financial assets of WILO SE. The senior note had a carrying amount of EUR 24.4 million as at 31 December 2020.

- **USPP 2023 & USPP 2021** In February 2011 and March 2013, WILO SE issued senior notes of EUR 75.0 million and EUR 37.0 million as US private placements. The senior notes were both borrowed in euro and are not secured against real property or financial assets of the company. The senior note of EUR 75.0 million ("USPP 2021") matures in 2021 and has an interest coupon of 4.50 percent p.a. The senior note of EUR 37.0 million ("USPP 2023") matures in 2023 and bears interest at 3.1125 percent p.a.

- **PROMISSORY NOTE LOAN 2030** In June of the year under review, WILO SE took out a promissory note loan ("promissory note loan 2030") of EUR 15.0 million, maturing in 2030, at an interest rate of 1.50 percent p.a. The promissory note loan is repayable semi-annually from December 2020 in the amount of EUR 750 thousand. It is not secured against real property or financial assets of the company. The promissory note loan had a carrying amount of EUR 14.25 million at the reporting date.

- **PROMISSORY NOTE LOAN 2027** In June 2017, WILO SE took out a promissory note loan ("promissory note loan 2027") of EUR 50.0 million, maturing in 2027, at an interest rate of 1.35 percent p.a. The promissory note loan is repayable semi-annually from December 2022 in the amount of EUR 5.0 million. It is not secured against real property or financial assets of the company.

- **KFW DEVELOPMENT LOAN 2027** To finance the construction project at the Dortmund location, a KfW development loan of EUR 19.5 million with a term of ten years and an interest rate of 1.15 percent was concluded in November 2017 for the administrative building ("KfW development loan 2027") and secured by a land charge. The loan amount has been fully drawn down in instalments since 2018 according to the progress of construction. Repayment in instalments began in 2020 after two redemption-free years. The KfW development loan had a carrying amount of EUR 17.1 million at the reporting date.

- **SYNDICATED LOAN 2024** In July 2013, WILO SE entered into an agreement on a syndicated loan with a revolving credit facility with a volume of EUR 120.0 million and an original term of five years ("syndicated loan 2024"). In July 2017, the syndicated loan was extended ahead of schedule until 2022 and increased to EUR 200.0 million in line with the anticipated financing requirements. The contractually agreed option to increase the credit facility to EUR 300.0 million and to extend the term by a maximum of two years was subsequently exercised, meaning that the loan now has a term until 2024. The interest rate is calculated quarterly on the basis of leverage and the amount in which the credit facility has been utilised. The syndicated loan is not secured against real property or financial assets of the company. At the reporting date, the credit facility had been utilised in the amount of EUR 30.0 million (previous year: EUR 105.0 million), meaning that EUR 270.0 million was still freely disposable (previous year: EUR 95.0 million).

The company is required to satisfy certain standard financial ratios (ratio of consolidated EBITDA to consolidated interest expenses (interest cover ratio), ratio of consolidated net debt to consolidated EBITDA (leverage) and the equity ratio) for the senior notes and promissory note loans it has issued. WILO SE fully complied with this obligation in the 2020 and 2019 financial years. The agreements also include a number of standard grounds for termination.

Incidental costs were incurred in connection with these financing arrangements that are deducted from the financial liabilities and reported in profit or loss over the term of the financing arrangements using the effective interest method. The incidental costs of acquisition outstanding as at the end of the reporting period amounted to EUR 383 thousand (previous year: EUR 595 thousand).

The fair value of the financial liabilities calculated using net present value models was EUR 356,703 thousand as at 31 December 2020 (previous year: EUR 330,417 thousand).

Current financial liabilities mainly consist of a syndicated loan and the current portion of non-current financial liabilities to be repaid in the 2021 financial year.

(9.11) Trade payables

Trade payables break down as follows as at 31 December 2020 and 2019:

Trade payables

EUR thousand	**31 Dec. 2020**	31 Dec. 2019
Trade payables		
with a remaining term		
of between one and five years	0	71
of less than one year	182,564	172,955
Total	**182,564**	**173,026**

Trade payables consist of outstanding obligations to suppliers. The Executive Board assumes that the carrying amounts of non-current trade payables are approximately equal to their fair values.

(9.12) Other financial liabilities

Other financial liabilities

EUR thousand	31 Dec. 2020	31 Dec. 2019
Non-current other financial liabilities	**24,600**	**32,464**
of which		
Lease liabilities		
with a remaining term of between one and five years	18,132	24,296
with a remaining term of more than five years	2,405	3,754
Liabilities from derivative financial instruments		
with a remaining term of between one and five years	18	246
Miscellaneous financial liabilities		
with a remaining term of between one and five years	4,045	4,168
Total	**24,600**	**32,464**
Current other financial liabilities	**39,358**	**42,299**
of which		
Bills payable	9,570	10,828
Liabilities to non-consolidated subsidiaries, jointly controlled entities or associates	2,650	2,650
Lease liabilities	12,368	13,482
Liabilities from derivative financial instruments	422	1,252
Miscellaneous financial liabilities	14,348	14,087
Total	**39,358**	**42,299**

Current other financial liabilities have a remaining term of less than one year. Miscellaneous financial liabilities include amounts for tax consulting, financial statement costs, commissions, del credere commissions and other financial obligations to external companies. The Executive Board assumes that the carrying amounts of other financial liabilities are approximately equal to their fair values.

(9.13) Other liabilities

Other liabilities break down as follows as at 31 December 2020 and 2019:

Other liabilities

EUR thousand	31 Dec. 2020	31 Dec. 2019
Non-current other liabilities		
Contract liabilities (IFRS 15)	2,282	2,096
Deferred income	1,290	1,691
Total	**3,572**	**3,787**
Current other liabilities		
Tax liabilities	24,704	21,948
Staff liabilities	31,142	29,463
Advance payments received	21,437	17,523
Social security liabilities	4,533	4,222
Deferred income	161	202
Miscellaneous other liabilities	5,112	5,454
Total	**87,089**	**78,812**

Non-current other liabilities have a remaining term of between one and five years. Current other liabilities have a remaining term of less than one year.

Staff liabilities include accumulated holiday pay, management bonuses and gratuities, outstanding salaries, employer's liability insurance contributions and severance pay.

(9.14) Provisions for pensions and similar obligations

Pension obligations and other post-employment benefits are composed as follows as at 31 December 2020 and 2019:

Provisions for pensions and similar obligations

EUR thousand	31 Dec. 2020	31 Dec. 2019
Provisions for pensions	88,927	87,172
Similar obligations	3,819	3,911
Total	**92,746**	**91,083**

Provisions for pensions are composed as follows:

Provisions for pensions

EUR thousand	31 Dec. 2020	31 Dec. 2019
Present value of the pension obligation	101,556	99,367
Fair value of plan assets	-12,629	-12,195
Provisions for pensions	**88,927**	**87,172**

Pension obligations are recognised for accrued entitlements and current benefits under defined benefit plans for eligible active and former employees of the Wilo Group and their surviving dependants.

The benefit amount depends on country-specific circumstances and is generally based on years of service and pay level. The beneficiaries predominantly receive benefits in the form of lifetime old age, disability and surviving dependants' pensions. Benefits are granted to a smaller extent in the form of lump-sum payments on retirement.

The corresponding provisions are recognised on the basis of annual actuarial assessments of existing pension obligations.

Defined benefit obligations are recognised in accordance with the actuarial assessment over the service life of employees and consist of staff cost and interest cost. The staff costs are allocated to the relevant functional areas. The interest expense is reported in other net finance costs after netting against the interest income from plan assets. Actuarial gains and losses and the effects of the revaluation of plan assets are recognised in full in other comprehensive income.

WILO SE's defined benefit plan was discontinued on 31 December 2005. A defined contribution plan has been set up in its place for WILO SE employees for whom a pension obligation has existed from 1 January 2006. An expense of EUR 3,195 thousand (previous year: EUR 2,853 thousand) was recognised in the reporting year for defined contribution plans in the Wilo Group.

The present value of the pension obligation developed as follows:

Present value of pension obligations

EUR thousand	2020	2019
As at 1 January	**99,367**	**87,771**
Current service cost	3,544	3,118
Past service cost	16	51
Interest expense	1,073	1,537
Remeasurement		
Actuarial gains/losses from the change in demographic assumptions	499	393
Actuarial gains/losses from the change in financial assumptions	1,020	9,351
Actuarial gains/losses from experience adjustments	-247	550
Pension payments	-3,065	-3,361
Currency effects and other changes	-651	-43
As at 31 December	**101,556**	**99,367**

The pension obligation breaks down among the beneficiaries as follows:

- Active members: EUR 57,751 thousand (previous year: EUR 55,383 thousand)
- Deferred members: EUR 10,060 thousand (previous year: EUR 9,800 thousand)
- Pensioners: EUR 33,745 thousand (previous year: EUR 34,184 thousand)

The measurement of pension obligations is based on actuarial assumptions. Accordingly, the Wilo Group is exposed to certain actuarial risks. In particular, these include interest risks, risks of rising pensions, salary risks and longevity risks.

Changes in the significant actuarial assumptions would have affected the present value of pension obligations as follows:

Sensitivity analysis		Present value of the pension obligation Change in %	
		2020	2019
Discount rate	+0.5%	-7.3	-7.5
	-0.5%	7.6	7.6
Pension factor	+0.25%	2.6	2.6
	-0.25%	-2.5	-2.5
Salary factor	+0.25%	0.3	0.6
	-0.25%	0.0	-0.6
Life expectancy	+10%	6.7	6.7

Sensitivities are calculated assuming a change in just one individual factor with the other actuarial assumptions remaining constant. The assumed deviations are realistic assumptions based on past experience and future market forecasts.

As at 31 December 2020, the weighted average duration of the defined benefit obligation was 16.1 years (previous year: 16.2 years).

72.2 percent of the pension obligations of EUR 101,556 thousand (previous year: EUR 99,367 thousand) relate to Germany (previous year: 73.2 percent).

In Germany in particular, the Wilo Group has decided to use the internal financing effect of provisions for pensions and to back pension obligations with plan assets only to a relatively limited extent. The fair value of plan assets changed as follows:

Fair value of plan assets EUR thousand	**2020**	2019
As at 1 January	**12,195**	**11,346**
Interest income	185	243
Remeasurement		
Gain/loss on plan assets (excluding interest income)	43	48
Payments	-416	-524
Amounts paid in by employer	892	1,221
Currency effects and other changes	-270	-139
As at 31 December	**12,629**	**12,195**

Plan assets break down as follows:

Components of plan assets EUR thousand	**2020**	2019
Cash	10,579	10,307
Qualifying insurance policies	1,634	1,482
Investment funds	416	406
As at 31 December	**12,629**	**12,195**

Furthermore, there are employee pension liability policies to cover provision-funded pension obligations in the amount of EUR 1,510 thousand (previous year: EUR 1,477 thousand) though these do not satisfy the requirements for classification as plan assets under IAS 19.

The Wilo Group is not currently assuming any material payments into plan assets in the coming years.

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SIMILAR OBLIGATIONS Similar obligations for post-employment benefits amount to EUR 3,819 thousand for 2020 (previous year: EUR 3,911 thousand). The gross obligation amounts to EUR 7,675 thousand and includes gross partial retirement obligations for WILO SE in the amount of EUR 5,751 thousand (previous year: EUR 5,617 thousand). The EUR 3,983 thousand fair value of plan assets as at the end of the reporting period (previous year: EUR 3,882 thousand) is deducted insofar as it relates to obligations under the partial retirement scheme. Excess plan assets not attributable to obligations under the partial retirement scheme in the amount of EUR 127 thousand (previous year: EUR 0 thousand) are reported under employer pension liability assets in non-current other assets. The present value of the obligations under the partial retirement scheme at 31 December 2020 was determined using a discount rate of -0.13 percent (previous year: 1.20 percent). Furthermore, an annual wage and salary increase of 1.5 percent was assumed (previous year: 3.30 percent).

(9.15) Other provisions

Non-current and current provisions for guarantees are recognised for potential warranty claims on the basis of past experience and planned measures.

The provision for bonuses and rebates relates to customer reimbursement for the 2020 financial year. The Wilo Group expects that the corresponding repayments of EUR 21,741 thousand (previous year: EUR 22,325 thousand) will be almost fully paid to customers by the middle of 2021.

Other provisions EUR thousand	**1 Jan. 2020**	Currency translation	Utilisation	Reversal	Addition	**31 Dec. 2020**
Non-current						
Guarantees	3,743	-69	288	107	506	3,785
Restructuring	0	0	0	0	2,601	2,601
Total	**3,743**	**-69**	**288**	**107**	**3,107**	**6,386**
Current						
Bonuses and rebates	22,325	-785	11,225	3,825	15,251	21,741
Guarantees	14,861	-310	1,278	2,076	3,738	14,935
Restructuring	0	0	0	0	14,848	14,848
Other	8,806	-241	1,344	688	5,607	12,140
Total	**45,992**	**-1,336**	**13,847**	**6,589**	**39,444**	**63,664**

In the year under review, the Wilo Group initiated growth-oriented restructuring measures aimed at safeguarding the company's future by further reducing its cost base and increasing its independence from regional value chains. These measures relate to all areas of the company and also include the relocation of functions and the consolidation of locations. The measures are an important structural conditions for profitable growth and will sustainably strengthen the Wilo Group's future viability. In total, the planned measures impacted other operating income in the amount of EUR 17.7 million.

(10.) Notes to the consolidated statement of cash flows

The consolidated statement of cash flows is broken down according to cash flows from operating, investing and financing activities. Cash flows from operating activities are calculated using the indirect method and reported after adjustment for currencies. The effects of exchange rate changes and changes in the composition of the consolidated group on cash are shown separately. Cash as at 31 December 2020 consisted of EUR 188,952 thousand (previous year: EUR 166,056 thousand) in cash and sight deposits with banks, EUR 967 thousand (previous year: EUR 645 thousand) of which was subject to restrictions on title.

The changes in cash due to exchange rate changes of EUR –8,763 thousand (previous year: EUR 826 thousand) relate to the effect of translating foreign-currency items of cash into the reporting currency. Purchases of intangible assets include payments in connection with capitalised development costs of EUR 17,348 thousand (previous year: EUR 17,741 thousand).

The cash flow from financing activities shows the following changes in financial liabilities:

Changes in financial liabilities

EUR thousand	**1 Jan. 2020**	Reclassification	Proceeds from assuming financial liabilities	Repayment of financial liabilities	**31 Dec. 2020**
Financial liabilities (non-current)	205,406	–80,688	104,442		229,160
Financial liabilities (current)	113,503	80,688	4,109	81,205	117,095
Financial liabilities	**318,909**	**0**			**346,255**
Cash flow from financing activities			**108,551**	**81,205**	

Interest received, like interest paid, is allocated to net cash flow from financing activities because the interest received mainly includes payments in connection with the short-term reinvestment of funds borrowed but not yet required.

(11.) Disclosures on financial instruments

(11.1) Derivative financial instruments

The following table shows the fair values of derivative financial instruments as at 31 December 2020 and the changes as against the previous year:

Derivative financial instruments

	Fair value				Nominal amount	
	Maturity from 31 Dec. 2020					
EUR thousand	Less than one year	Between one and five years	More than 5 years	Previous year	**31 Dec. 2020**	31 Dec. 2019
Forward exchange contracts	103	1,229	253	–1,201	57,955	89,671
Commodity derivatives	2,053	0	0	203	6,152	10,598

Net finance costs include gains of EUR 1,706 thousand (previous year: EUR 2,440 thousand) and losses of EUR 665 thousand (previous year: EUR 993 thousand) (see note (8.7)).

CASH FLOW HEDGE ACCOUNTING FOR LONG-TERM LOANS

WILO SE has extended various long-term loans to WILO USA LLC with a total volume of USD 65.0 million (previous year: USD 45.0 million). USD 34.5 million was recognised as of the end of the reporting period (previous year: USD 23.5 million). The loan agreements provide for interest and principal payments. Even though the loans (hedged items) are eliminated in the consolidation process, there remains a currency risk and net foreign-currency result in net financial income in the consolidated financial statements from the currency translation of the Group loans in the financial statements of WILO SE. The risk relates to the variable value of the USD cash flow for repayments at the respective repayment dates in the EUR required.

For this reason, WILO SE held a total of 16 (previous year: five) external forward exchange contracts (hedging instruments) as at 31 December 2020; these hedge the repayment tranches of this loan to 2 November 2026 and are designated as cash flow hedges. As at the reporting date, the fair value of these derivatives was EUR 1,792 thousand (previous year: EUR –358 thousand) and was recognised in other financial assets (previous year: liabilities).

In future periods, the following amounts are to be reclassified from other comprehensive income to net foreign-currency income.

2020	Carrying amount	Expected reclassification		
EUR thousand		Less than one year	Between 1 and 5 years	More than 5 years
Other comprehensive income	1,512	816	654	42
Nominal amount in USD million		10.0	22.0	3.0
Average exchange rate hedge USD/EUR		1.1816	1.1658	1.1732
Fair value	1,793	300	1,239	254

2019	Carrying amount	Expected reclassification		
EUR thousand		Less than one year	Between 1 and 5 years	More than 5 years
Other comprehensive income	1,350	507	843	0
Nominal amount in USD million		9.0	14.5	0.0
Average exchange rate hedge USD/EUR		1.1541	1.1919	0.0
Fair value	–358	–127	–231	0

In the financial year, a result for the market performance of the derivatives of EUR 2,023 thousand (previous year: EUR –1,217 thousand was recognised in other comprehensive income. In the same period, part of the deferred result of EUR –2,691 thousand (previous year: EUR 387 thousand) for existing derivatives and EUR 507 thousand (previous year: EUR 249 thousand) for settled derivatives was reclassified to the net foreign-currency income. This resulted in the same amount of net foreign-currency income of the Group loan being compensated. There was no ineffectiveness in the financial year. Hedge effectiveness results from matching the value-critical parameters of hedged item and hedging instrument and a "dollar-offset measurement" for accounting recognition on the reporting date.

CASH FLOW HEDGES – PURCHASES AND SALES OF GOODS
In addition, Wilo has used hedge accounting in accordance with IAS 39 to hedge currency risks relating to the purchase and sale of inventories since the 2019 financial year. The hedging strategy gives rise to the quarterly rolling hedging of currency risks at the level of individual monthly tranches. The hedge ratio for a specific future date increases over time and is continuously reviewed against current forecasts. This allows ineffectiveness and over-hedging to be fundamentally avoided to the greatest possible extent. Any ineffectiveness or over-hedging is reported in operating net foreign-currency income. The Group held the following forward exchange contracts for hedging changes resulting from operating currency risks:

Forward exchange contracts for hedging operating currency risks

31 Dec. 2020	1–6 months	6–12 months	More than one year
Nominal amount CHF: EUR in EUR million	3.9	2.2	1.3
Average forward exchange rate CHF:EUR	0.9304	0.9468	0.933
Nominal amount GBP: EUR in EUR million	5.9	4.7	0.0
Average forward exchange rate GBP:EUR	1.1147	1.1072	0
Nominal amount PLN: EUR in EUR million	3.2	0.7	0.0
Average forward exchange rate PLN:EUR	0.2255	0.2247	0
Nominal amount RON: EUR in EUR million	2.5	1.2	0.0
Average forward exchange rate RON:EUR	0.2007	1.1984	0

31 Dec. 2019	1–6 months	6–12 months	More than one year
Nominal amount CHF: EUR in EUR million	10.5	5.4	2.2
Average forward exchange rate CHF:EUR	0.9098	0.9122	0.9223
Nominal amount GBP: EUR in EUR million	10.3	4.8	0.9
Average forward exchange rate GBP:EUR	1.1356	1.1361	1.1561
Nominal amount PLN: EUR in EUR million	7.9	2.4	0.0
Average forward exchange rate PLN:EUR	0.2321	0.2298	0
Nominal amount RUB: EUR in EUR million	15.6	3.2	0.0
Average forward exchange rate RUB:EUR	0.0138	0.0137	0

Rolling FX hedging of cash inflows/supplier payments

2020 exchange rate risk in EUR thousand	Forward exchange contracts for sales	Forward exchange contracts for purchases
Change in other comprehensive income[1]	–3,021	105
Reclassification from other comprehensive income to profit and loss	2,179	–49
Carrying amount of other comprehensive income	**–842**	**56**
of which:		
Carrying amount of forward exchange contract asset[2]	233	0
Carrying amount of forward exchange contract liability[2]	–322	–76
Nominal amount at the reporting date	18,169	–1,277

2019 exchange rate risk in EUR thousand	Forward exchange contracts for sales	Forward exchange contracts for purchases
Change in other comprehensive income[1]	1,614	48
Reclassification from other comprehensive income to profit and loss	–684	–48
Carrying amount of other comprehensive income	**930**	**0**
of which:		
Carrying amount of forward exchange contract asset[2]	5	0
Carrying amount of forward exchange contract liability[2]	–935	0
Nominal amount at the reporting date	53,596	0

[1] The amount corresponds to the change in the value of the hedged items used to determine the ineffectiveness. With a reversed sign, the amount corresponds to the change in the value of the hedging instruments used to determine the ineffectiveness.
[2] The carrying amounts of the hedging instruments are reported in "Other financial assets" (9.5) or "Other financial liabilities" (9.12). The cash flow hedge reserve is reported in other comprehensive income (equity).

(11.2) Disclosures on the carrying amounts and fair values of financial instruments

The following tables show the financial assets and liabilities with their carrying amounts as at 31 December 2020 for each IFRS 9 measurement category and statement of financial position category.

Financial assets and liabilities as at 31 December 2020

EUR thousand	IFRS 9 measurement category	Carrying amount under IFRS 9: Amortised cost	Carrying amount under IFRS 9: Fair value	Derivatives used in hedge accounting
Current and non-current financial assets				
Trade receivables	Amortised cost	279,276		
Other financial assets				
Receivables from subsidiaries, jointly controlled entities and associates	Amortised cost	247		
Receivables from derivative financial instruments not used in hedge accounting	FVTPL		2,053	
Receivables from derivative financial instruments used in hedge accounting	n/a			2,025
Loans	Amortised cost	132		
Equity instruments	FVOCI in equity		1,994	
Miscellaneous financial receivables	Amortised cost	10,763		
Cash	Amortised cost	188,952		
Current and non-current financial liabilities				
Financial liabilities	Amortised cost	346,255		
Trade payables	Amortised cost	182,564		
Other financial liabilities				
Bills payable	Amortised cost	9,570		
Liabilities to subsidiaries, jointly controlled entities and associates	Amortised cost	2,650		
Liabilities from derivative financial instruments not used in hedge accounting	FVTPL		42	
Liabilities from derivative financial instruments used in hedge accounting	n/a			398
Miscellaneous financial liabilities	Amortised cost	18,393		
of which aggregated by IFRS 9 measurement category				
Amortised cost		1,038,802		
FVOCI in equity			1,994	
FVTPL			2,011	
Derivatives used in hedge accounting				1,627

Financial assets and liabilities as at 31 December 2019

EUR thousand	IFRS 9 measurement category	Carrying amount under IFRS 9: Amortised cost	Carrying amount under IFRS 9: Fair value	Derivatives used in hedge accounting
Current and non-current financial assets				
Trade receivables	Amortised cost	290,511		
Other financial assets				
Receivables from subsidiaries, jointly controlled entities and associates	Amortised cost	215		
Receivables from derivative financial instruments not used in hedge accounting	FVTPL		495	
Receivables from derivative financial instruments used in hedge accounting	n/a			5
Loans	Amortised cost	212		
Equity instruments	FVOCI in equity		1,994	
Miscellaneous financial receivables	Amortised cost	8,415		
Cash	Amortised cost	166,056		
Current and non-current financial liabilities				
Financial liabilities	Amortised cost	318,909		
Trade payables	Amortised cost	173,026		
Other financial liabilities				
Bills payable	Amortised cost	10,828		
Liabilities to subsidiaries, jointly controlled entities and associates	Amortised cost	2,650		
Liabilities from derivative financial instruments not used in hedge accounting	FVTPL		204	
Liabilities from derivative financial instruments used in hedge accounting	n/a			1,294
Miscellaneous financial liabilities	Amortised cost	18,255		
of which aggregated by IFRS 9 measurement category				
Amortised cost		989,077		
FVOCI in equity			1,994	
FVTPL			699	
Derivatives used in hedge accounting				1,299

The carrying amounts of the financial assets and liabilities in the scope of IFRS 7 are the same as their fair value per class. This only exception is financial liabilities, which have a carrying amount of EUR 346,255 thousand (previous year: EUR 318,909 thousand) and a fair value of EUR 356,703 thousand (previous year: EUR 330,417 thousand). The fair values of financial liabilities were calculated using net present value methods.

Since 2018, the Group has had two minority interests which are measured at fair value in other comprehensive income and whose fair value of EUR 1,994 thousand (previous year: EUR 1,994 thousand) corresponds to hierarchy Level 3.

WILO SE holds an 8 percent stake in EUROCARBO S.P.A., Corropoli/Italy, in the context of a strategic investment. The value of the stake is measured in line with strategic considerations largely based on the value of the equity stake and the hidden reserves in property, plant and equipment. The indicative valuation is based on the continuation of the investment decision. On the basis of all available information, in our view cost and fair value have the same measurement as at 31 December 2020.

WILO SE also holds a 2.6 percent stake in HydroPoint Data Systems, Inc., Petaluma/USA. The company is a specialist on the US smart water management market. This highly innovative and new business area involves considerable planning uncertainties. As a result of this uncertainty, fair value is determined based on cost.

However, neither impacts earnings or other comprehensive income. Sensitivity can be determined only on the basis of the overall value. An increase (reduction) of the respective value by 10 percent results in an increase (decrease) of other comprehensive income by EUR 199 thousand (previous year: EUR 199 thousand).

The calculation of the fair values of the receivables and liabilities from derivative financial instruments, which are assigned to the FVTPL category, of EUR 2,053 thousand (previous year: EUR 495 thousand) and EUR 42 thousand (previous year: EUR 204 thousand) respectively, is shown under note (7).

(11.3) Net gains and losses by measurement category

The table below shows the net earnings reported under profit and loss for the 2020 financial year in line with IFRS 7, consisting of interest, dividends, changes in fair value, impairment, impairment reversals and the effects of currency translation on each measurement category of financial assets and liabilities. This does not include the earnings effects of leases, as leases do not belong to any IFRS 9 measurement category.

Net gains and losses by measurement category 2020 financial year

Measurement category	Carrying amount 31 Dec.	Interest and dividends	Impairments	Impairment reversals	Effects of currency translation	Net gains/losses
Financial assets						
Amortised cost	479,370	2,919	–6,626	3,560	13,602	13,455
FVOCI in equity	1,994	0	0	0	0	0
FVTPL	2,053	0	0	0	0	0
Total financial assets		**2,919**	**–6,626**	**3,560**	**13,602**	**13,455**
Financial liabilities						
Amortised cost	559,432	–9,623	0	0	–8,930	–18,553
FVTPL	42	0	0	0	0	0
Total financial liabilities		**–9,623**	**0**	**0**	**–8,930**	**–18,553**

Net gains and losses by measurement category 2019 financial year

Measurement category	Carrying amount 31 Dec.	Interest and dividends	Impairments	Impairment reversals	Effects of currency translation	Net gains/losses
Financial assets						
Amortised cost	465,409	5,347	–6,696	2,782	637	2,070
FVOCI in equity	1,994	0	0	0	0	0
FVTPL	495	0	0	0	0	0
Total financial assets		**5,347**	**–6,696**	**2,782**	**637**	**2,070**
Financial liabilities						
Amortised cost	523,668	–9,034	0	0	–1,795	–10,829
FVTPL	204	0	0	0	0	0
Total financial liabilities		**–9,034**	**0**	**0**	**–1,795**	**–10,829**

(11.4) Fair value hierarchy of financial assets and liabilities

Financial assets and liabilities accounted for at fair value are divided into the following three levels in accordance with IFRS 13 on the basis of the measurement of their fair value:

Level 1: The fair value for an asset or liability is calculated using quoted market prices on active markets for identical assets and liabilities.

Level 2: The fair value for an asset or liability is based on value factors for this asset or liability that are observed directly or indirectly on a market.

Level 3: The fair value for an asset or liability is based on value factors for this asset or liability that do not refer to observable market data.

The following table shows the allocation of financial assets and liabilities that existed within the Wilo Group as at 31 December 2020 and 2019 that were recognised at fair value or for which the fair value was disclosed.

Fair value hierarchy

	31 Dec. 2020 Level 2	31 Dec. 2019 Level 2
Receivables from derivative financial instruments used in hedge accounting	2,025	5
Receivables from derivative financial instruments not used in hedge accounting (FVTPL)	2,053	495
Liabilities from derivative financial instruments used in hedge accounting	398	1,294
Liabilities from derivative financial instruments not used in hedge accounting (FVTPL)	42	204
Financial liabilities (fair value)	356,703	330,417
	Level 3	**Level 3**
Equity instruments (FVOCI in equity)	1,994	1,994

The Wilo Group did not report any financial assets or liabilities classified as Level 1 based on the method by which their fair value was determined as at 31 December 2020 and 2019. More detailed information on equity instruments (FVOCI in equity) can be found in note (11.2).

If reclassifications to another level in the valuation hierarchy are required these are made as at the end of the financial year in which the event occurs that results in reclassification being required.

(12.) Risk management and derivative financial instruments

RISK MANAGEMENT PRINCIPLES Due to the international nature of its business activities, the assets, liabilities and planned transactions of the Wilo Group are subject to market risks from changes in exchange rates, interest rates and commodity prices in particular. The objective of financial risk management is to mitigate this risk from operating and financial activities. This is achieved using derivative and primary hedging instruments selected according to estimated risk. Derivative financial instruments are solely used to hedge risk. They are not used for trading or other speculative purposes. The general credit risk on these derivative financial instruments is low because they are only entered into with banks of excellent credit standing. The Group is also subject to credit and default risk and liquidity risk.

The basic principles of financial policy and strategy are determined by the Executive Board and monitored by the Supervisory Board. Responsibility for implementing financial policy and strategy lies with Group Finance. Further information on risks and risk management can be found in the opportunities and risk report section of the Group management report.

CURRENCY RISK The Wilo Group is exposed to currency risk primarily in its financing and operating activities. Currency risk in financing activities relates to foreign-currency borrowing from external lenders and foreign-currency lending to finance Group companies. Currency risk in operating activities mainly relates to the supply of goods and provision of services to Group companies. Currency risk exposure on such transactions is countered by the use of same-currency offsetting transactions and derivative financial instruments. The currency risk on operating business between Group companies and external customers and suppliers is estimated to be low as most of such business is transacted in the functional currency of the Group companies.

The following table shows the foreign-currency risk position of the Wilo Group as at 31 December 2020 and 2019 in the respective foreign currency. This consists of foreign-currency transactions in operating activities and foreign-currency financing activities up to 31 December 2020 and 2019 as well as expected foreign-currency transactions in operating activities in 2021 and 2020. This analysis does not take into account the effects of the translation of the financial statements of subsidiaries into reporting currency (translation risk). The gross risk is before hedges.

Foreign-currency risk positions as at 31 December 2020

in EUR million	EUR	USD	CNY	GBP	PLN	RON	RUB
Cash	7.6	2.9	17.7	1.4	0.0	0.0	4.3
Trade and other receivables	14.4	3.3	22.7	0.0	0.0	0.0	0.0
Receivables from affiliated companies	2.5	11.6	67.9	0.5	5.4	2.1	52.8
Trade and other payables	-2.8	-6.7	-10.3	0.0	0.0	0.0	-0.1
Liabilities due to affiliated companies	-33.0	-0.1	0.0	0.0	0.0	0.0	0.0
Financial liabilities	-0.9	-2.1	-25.8	-1.3	-0.4	0.0	-94.9
Currency risk from assets and liabilities (gross)	**-12.2**	**8.9**	**72.2**	**0.6**	**5.0**	**2.1**	**-37.9**
Expected sales in 2021	67.1	37.2	138.0	4.9	95.3	17.2	4,000.0
Expected acquisitions in 2021	-94.3	-46.9	-215.9	-0.3	0.0	0.0	-829.9
Currency risk from expected transactions in operating activities in 2021 (gross)	**-27.2**	**-9.7**	**-77.9**	**4.6**	**95.3**	**17.2**	**3,170.1**
Hedging	0.0	0.6	0.0	0.0	0.0	0.0	0.0
Currency risk (net)	**-39.4**	**-0.2**	**-5.7**	**5.2**	**100.3**	**19.3**	**3,132.2**

Foreign-currency risk positions as at 31 December 2019

in EUR million	EUR	USD	CNY	GBP	PLN	RON	RUB
Cash	6.3	3.0	13.0	1.8	0.0	0.0	175.6
Trade and other receivables	16.3	4.5	0.0	0.0	0.0	0.0	0.0
Receivables from affiliated companies	2.4	11.6	61.1	1.5	8.7	4.1	44.9
Trade and other payables	-2.6	-8.0	-3.8	0.0	0.0	0.0	-0.1
Liabilities due to affiliated companies	-25.0	-2.0	-30.9	0.0	-0.1	0.0	-16.4
Financial liabilities	-2.3	-0.1	0.0	0.0	0.0	0.0	0.0
Currency risk from assets and liabilities (gross)	**-4.9**	**9.0**	**39.4**	**3.3**	**8.6**	**4.1**	**204.0**
Expected sales in 2020	79.8	31.2	175.0	15.1	129.5	35.0	3,850.0
Expected acquisitions in 2020	-102.2	-55.6	-261.5	-0.5	0.0	0.0	-101.1
Currency risk from expected transactions in operating activities in 2020 (gross)	**-22.4**	**-24.4**	**-86.5**	**14.6**	**129.5**	**35.0**	**3,748.9**
Hedging	0.0	0.9	-12.3	-9.1	-34.1	-11.0	-1,131.0
Currency risk (net)	**-27.3**	**-14.5**	**-59.4**	**8.8**	**104.0**	**28.1**	**2,821.9**

The foreign-currency receivables and liabilities, expected foreign-currency transactions and derivative financial instruments in the form of cross-currency interest rate swaps and forward exchange contracts have certain sensitivities to currency fluctuations. A 10.0 percent appreciation or depreciation in the respective currency compared with the other currencies as at 31 December would have the following hypothetical impact on earnings:

Sensitivity analysis

	2020		2019	
EUR million	**+10%**	**–10%**	+10%	–10%
EUR	–4.3	3.6	–3.0	2.5
USD	2.9	–2.4	–1.4	1.1
CNY	0.1	–0.1	–0.9	0.7
GBP	1.8	–1.5	1.2	–0.9
PLN	2.9	–2.3	2.7	–2.2
RON	0.9	–0.7	0.7	–0.5
RUB	3.8	–3.1	4.5	–3.7

In addition to a long-term Group loan in USD, Wilo began hedging exchange rate risks in connection with sales of products and purchases of inventories in the 2019 financial year. These derivative financial instruments used in hedge accounting have sensitivities to currency fluctuations. A 10.0 percent appreciation or depreciation in the respective currency compared with the other currencies as at 31 December would have the following hypothetical impact on other comprehensive income:

Sensitivity analysis

	2020		2019	
EUR million	**+10%**	**–10%**	+10%	–10%
USD	4.2	–1.1	2.8	–3.9
CHF	0.7	–0.7	0.8	–1.4
GBP	1.0	–1.2	0.7	–1.5
PLN	0.5	–0.3	0.7	–0.9
RUB	0.0	0.0	1.2	–2.0

The sensitivity analysis assumes that all other factors influencing value remain constant and that the figures at the reporting date are representative for the year as a whole.

INTEREST RATE RISK The Wilo Group faces interest rate risk mainly on floating rate financial liabilities and on invested cash. Both a rise and a fall in the yield curve result in interest rate exposure. The Wilo Group mitigates adverse changes in value from unexpected interest rate movements by using derivative financial instruments. Interest rate risk as defined in IFRS 7 is considered to be low as the financial liabilities have long-term fixed interest rates. The remaining interest rate risk from variable-interest financial instruments, and in particular from the utilisation of bank overdrafts, is negligible.

If interest rates declined with the consequence of negative interest rates on deposits, Wilo would align its investment strategy accordingly in order to minimise the negative impact on net interest costs.

COMMODITY PRICE RISK The Wilo Group is subject to commodity price risk primarily from price fluctuations on the global markets for copper and aluminium and their alloys. The Wilo Group uses commodity derivatives in a targeted manner to control the copper risk.

As things currently stand, the Wilo Group's result of operations would be influenced by price fluctuations on the global markets for copper and aluminium in the 2021 financial year as follows:

Sensitivity analysis

EUR thousand	**2020**	2019
Fair value of risk position for commodity price changes – gross –	**23,165**	**21,235**
Fair value hedges	1,868	203
Fair value of risk position for commodity price changes – net –	**21,297**	**21,032**
Earnings impact of 10% price increase	–1,575	–1,051
Earnings impact of 10% price decrease	1,575	1,051

The calculation takes into account all copper and aluminium derivatives at the reporting date and the planned procurement volume for the next year in each case.

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CREDIT RISK Customer credit risk is countered with a uniform and effective Group-wide system for systematic receivables management and the monitoring of payment behaviour. Dependency on individual customers is limited because Wilo does not generate more than 10.0 percent of its total revenues with any one customer.

The maximum credit risk is equal to the carrying amount of financial instruments.

Trade receivables are secured with retentions of title. The fair value of these retentions of title is equal to the carrying amount of trade receivables. The carrying amount of trade receivables before write-downs is EUR 303,808 thousand (previous year: EUR 315,212 thousand). As at 31 December 2020, EUR 18,064 thousand (previous year: EUR 17,369 thousand) in specific write-downs was recognised on past due trade receivables of EUR 39,071 thousand (previous year: EUR 36,112 thousand).

Wilo applies a central approach to the expected credit loss concept in accordance with IFRS 9. Four different risk groups were formed on the basis of regions. The probability of a future credit loss is determined on the basis of actual credit losses of the last three years for each region. For each region, time buckets are used to examine in which maturity period the receivable was when the credit loss occurred. In addition, indicators (e.g. gross domestic product, industry outlook) are used to assess the probability of a future credit loss. This data is used to determine a credit loss probability per region as a percentage. As at the reporting date, the Wilo Group recognised impairments of EUR 6,467 thousand using the expected credit loss model (previous year: EUR 7,332 thousand). Further information can be found in note (9.4) Trade receivables.

In addition, there is a maximum credit risk of EUR 1,994 thousand (previous year: EUR 1,994 thousand) for financial assets in the "fair value through OCI (FVOCI in equity)" measurement category and of EUR 2,011 thousand (previous year: EUR 699 thousand) for financial assets in the "fair value through profit or loss (FVTPL)" measurement category resulting exclusively from derivative financial instruments. With regard to other financial assets that are neither impaired nor past due, there are no indications as at the end of the reporting period that debtors will fail to make payment. As in the previous year, no impairment was recognised on other financial assets as at 31 December 2020.

Master agreements for financial futures have been concluded with various globally operating banks. Among other things, these agreements state that amounts in the same currency payable between parties on the same date are offset and therefore only the remaining net amount is paid by one party to the other. They also stipulate that, under certain circumstances, such as a party's default, all transactions still outstanding are cancelled. In the event of this happening, all transactions still outstanding will be offset.

These agreements do not satisfy the criteria for the netting of the corresponding assets and liabilities in the statement of financial position as they did not give rise to a legal right to offset the respective assets and liabilities at the current time. This right will only exist on the occurrence of future events, such as the default of one of the two parties.

The following financial assets and liabilities were reported in the statement of financial position without netting as the criteria of IAS 32.42 required to offset them were not met. However, they are subject to the agreements described above that allow offsetting given certain future events.

Offsetting financial assets and liabilities

EUR thousand	Carrying amount	Assets and liabilities before offsetting[1]	Net values
31 December 2020			
Receivables from derivative financial instruments	4,078	–440	3,638
Liabilities from derivative financial instruments	–440	440	0
31 December 2019			
Receivables from derivative financial instruments	500	–346	154
Liabilities from derivative financial instruments	–1,498	346	–1,152

[1] Assets and liabilities with a right of set-off but that do not meet the criteria for offsetting in the statement of financial position.

LIQUIDITY RISK The Wilo Group strives to cover its financial requirements for the operating business of its Group companies at all times and at low cost. Various instruments available on the financial market are used for these purposes. These instruments include committed and non-committed cash credit, guarantee and margin facilities from various reputable national and international banks with a volume of more than EUR 410 million. The cash credit facilities were utilised in the amount of EUR 36.3 million (previous year: EUR 108.3 million) and the guarantee and margin facilities were utilised in the amount of EUR 34.5 million (previous year: EUR 24.9 million). In addition, WILO SE has secured its long-term financial requirements by issuing promissory note loans, which were also placed with financially sound, reputable financial partners (see note (9.10)).

As a result of existing short- and medium-term credit facilities with various prominent banks, the long-term coverage of financial requirements with the promissory note loans and other refinancing options, the Wilo Group is not currently exposed to material credit, concentration or liquidity risk. There are also cash pooling and financing arrangements with Group companies where appropriate and permitted under local commercial and tax law.

The following overview shows the contractual maturities and corresponding cash outflows, including estimated interest payments, for financial liabilities as at 31 December 2020 and 2019:

Cash outflows for financial liabilities as at 31 Dec. 2020

			Maturities		
31 Dec. 2020	Carrying amount	Agreed payments	Less than 1 year	Between 1 and 5 years	More than 5 years
Financial liabilities					
Non-current	229,160	–262,052	–4,876	–101,475	–155,701
Current	117,095	–117,095	–117,095	0	0
Trade payables	182,564	–182,564	–182,564	0	0
Lease liabilities	32,905	–32,905	–12,368	–18,132	–2,405
Other financial liabilities	30,613	–30,613	–26,568	–4,045	0
Derivative financial instruments	440	–440	–422	–18	0
Total	**592,777**	**–625,669**	**–343,893**	**–123,670**	**–158,106**

Cash outflows for financial liabilities as at 31 Dec. 2019

			Maturities		
31 Dec. 2019	Carrying amount	Agreed payments	Less than 1 year	Between 1 and 5 years	More than 5 years
Financial liabilities					
Non-current	205,406	–223,896	–6,398	–155,761	–61,737
Current	113,503	–113,503	–113,503	0	0
Trade payables	173,026	–173,026	–172,955	–71	0
Lease liabilities	41,532	–41,532	–13,482	–24,296	–3,754
Other financial liabilities	31,733	–31,733	–27,565	–4,168	0
Derivative financial instruments	1,498	–1,498	–1,252	–246	0
Total	**566,698**	**–585,188**	**–335,155**	**–184,542**	**–65,491**

(13.) Other disclosures

(13.1) Waiver of disclosure

The following Group companies waived disclosure in accordance with section 264 (3) HGB: WILO-Mitarbeiter-Beteiligungsgesellschaft mbH, Dortmund, WILO Nord Amerika GmbH, Dortmund, WILO IndustrieSysteme GmbH, Chemnitz, and WILO Mitarbeiter Invest GmbH, Dortmund.

(13.2) Contingent liabilities and other financial obligations

The company reported contingent liabilities from warranties of EUR 7,498 thousand as at 31 December 2020 (previous year: EUR 3,193 thousand). No provisions have been recognised for contingent liabilities carried at nominal amount as the probability of the risk is estimated as low.

The contingent liabilities from warranties essentially result from operating activities with the customers and suppliers of the Wilo Group. Warranties with a nominal obligation of EUR 125 thousand (previous year: EUR 363 thousand) had an agreed remaining term of less than one year as at 31 December 2020, while nominal obligations of EUR 64 thousand (previous year: EUR 228 thousand) with an agreed remaining term of more than one year have been contractually stipulated. There are also indefinite guarantees with a nominal obligation of EUR 7,309 thousand (previous year: EUR 2,602 thousand).

Purchase commitments for planned capital expenditure on property, plant and equipment amounted to EUR 13,575 thousand as at 31 December 2020 (previous year: EUR 53,913 thousand). It is not practicable to disclose estimates of the financial effect of contingent liabilities, the uncertainties relating to the amount or timing of any outflows or the possibility of any reimbursement.

(13.3) Average number of employees over the year

Average employee numbers for the year were as follows:

Employees	2020	2019
Production	4,553	4,346
Sales and administration	3,283	3,403
Total	**7,836**	**7,749**
Germany	2,670	2,642
Outside Germany	5,166	5,107
Total	**7,836**	**7,749**

The average number of employees increased by 1.1 percent year-on-year (previous year: -1.0 percent).

(13.4) Expenses using the nature of expense method

Staff costs according to section 315e in conjunction with section 314 (1) no. 4 HGB of the financial year break down as follows:

Staff costs EUR thousand	2020	2019
Wages and salaries	333,630	324,541
Social security contributions and expenses for retirement benefits	72,252	75,255
of which for retirement benefit expenses EUR 8,082 thousand (previous year: EUR 9,875 thousand)		
Total	**405,882**	**399,796**

Wage subsidies received due to the COVID-19 pandemic in the amount of EUR 2,594 thousand are offset against staff costs.

Depreciation and amortisation for 2020, including leases in accordance with IFRS 16, is calculated as follows:

Depreciation and amortisation EUR thousand	2020	2019
Depreciation and amortisation	79,869	76,906

(13.5) Proposal for the appropriation of profits

At the proposal of the Executive Board, the Annual General Meeting of WILO SE on 15 April 2021 will resolve the payment of a dividend of EUR 0.83 per ordinary share, with the remaining unappropriated surplus of WILO SE being carried forward to new account.

(13.6) Events after the balance sheet date

On 8 February 2021, WILO SE acquired 100 percent of the shares in ABIONIK Group GmbH, Berlin/Germany. Accordingly, this acquisition is not included in the consolidated financial statements for the year ended 31 December 2020. The Abionik Group produces and markets products for wastewater and exhaust air treatment, rainwater treatment and flood control. The acquisition expands Wilo's product portfolio in the water management and industry market segments, allowing it to continue to systematically press ahead with its strategic alignment as a provider of solutions for water and wastewater treatment. As there was very little time between the acquisition of the shares and the submission of the consolidated financial statements for approval by the Supervisory Board, not all the disclosures relating to initial consolidation in accordance with IFRS 3 B64 were available at the time when the consolidated financial statements were prepared. Initial consolidation will take place in the 2021 financial year.

The Executive Board of WILO SE approved the consolidated financial statements for submission to the Supervisory Board on 8 March 2021. It is the responsibility of the Supervisory Board to examine the consolidated financial statements and to state whether it adopts them.

(13.7) Related party disclosures

The Wilo Group has business transactions for the provision of goods and services to non-consolidated subsidiaries, jointly controlled entities and associates. The outstanding trade receivables from these companies amounted to EUR 247 thousand (previous year: EUR 215 thousand). Liabilities to these companies amounted to EUR 2,650 thousand at the reporting date (previous year: EUR 2,650 thousand), of which EUR 2,650 thousand related to joint ventures (previous year: EUR 2,650 thousand). Sales and services passed on to these companies amounted to EUR 758 thousand (previous year: EUR 874 thousand).

The balances outstanding at the end of the financial year are unsecured, do not bear interest and will be settled via payment.

Members of the Supervisory Board control or influence companies that provide consultancy services for WILO SE. WILO SE generated net sales totalling EUR 1,353 thousand (previous year: EUR 1,562 thousand) from these companies in the 2020 financial year.

One of the shareholders owns a heating and air conditioning installation company that purchases standard quantities of pumps from the reporting entity. The same company installs and maintains the heating and air conditioning systems of the reporting entity. Revenues of EUR 34 thousand (previous year: EUR 59 thousand) were generated with the heating and air conditioning installation company in the 2020 financial year. There were receivables from this company of EUR 10 thousand as at 31 December 2020 (previous year: EUR 2 thousand). At the same time, the Wilo Group procured goods and services in the amount of EUR 64 thousand (previous year: EUR 436 thousand) from this company. There were no liabilities to this company as at 31 December 2020 (previous year: EUR 34 thousand).

There are also leases relating to land and buildings that are directly or indirectly owned by shareholders. Total lease payments of EUR 296 thousand were made to these shareholders in 2020 (previous year: EUR 360 thousand).

The Wilo Foundation holds the majority of ordinary shares in WILO SE. There is a service agreement between WILO SE and the Foundation for administrative work. WILO SE generated income of EUR 39 thousand from this service agreement in 2020 (previous year: EUR 39 thousand). As in the previous year, there were no receivables from the Foundation as at 31 December 2020.

(13.8) Auditor's fees

The following fees were recognised as an expense in the 2020 financial year for services provided by the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft:

Auditor's fees

EUR thousand	2020	2019
Audits of financial statements		
of which for the previous year: EUR 45 thousand (2019: EUR 0 thousand)	550	422
Other assurance services		
of which for the previous year: EUR 0 thousand (2019: EUR 12 thousand)	704	166
Other services		
of which for the previous year: EUR 6 thousand (2019: EUR 0 thousand)	38	250
Total	**1,292**	**838**

(13.9) Remuneration of the Executive Board and the Supervisory Board

The table below shows the remuneration of the Executive Board:

Remuneration of the Executive Board and the Supervisory Board

EUR thousand	2020	2019
Total remuneration of the Executive Board	**3,849**	**3,339**
Short-term benefits	3,212	2,906
Post-employment benefits	637	433

As at the end of the reporting period, EUR 0.6 million (previous year: EUR 0.7 million) was recognised as a liability that will not be paid out until the following financial year after approval of the consolidated financial statements.

The Supervisory Board has established a virtual management participation model for the members of the Executive Board of WILO SE under which the participating members contractually receive virtual shares entitling them to participate in the company's positive performance. This does not make them shareholders of the company with corresponding shareholders' rights (e.g. rights of information, voting rights at the Annual General Meeting, right to receive dividends). As at 31 December 2020, a total of 311,304 (previous year: 311,304) virtual shares have been granted to the Executive Board. As a matter of principle, the term of the individual virtual participation is unlimited. A participant's virtual participation ends automatically when he or she steps down from the respective management position on the Executive Board. The ordinary termination of the virtual participation ahead of schedule is excluded. The potential benefit earned by the participants of the management participation programme is calculated as the difference between the cost and the retransfer value of the virtual shares. Payment is made within a defined period after participation ends. The fair value (retransfer value) of the provisions recognised in connection with the virtual shares is calculated on the basis of historical averages. As in the previous year, no provision was reported as at 31 December 2020.

The total remuneration paid to former members of the Executive Board amounted to EUR 1.0 million in the 2020 financial year (previous year: EUR 1.0 million). As at the end of the reporting period, a pension provision of EUR 8.5 million (previous year: EUR 8.8 million) was recognised for former members of executive bodies, some of whom are also related parties.

The remuneration of the Supervisory Board amounted to EUR 0.5 million in the 2020 financial year (previous year: EUR 0.6 million).

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(13.10) Executive bodies of the company

SUPERVISORY BOARD

Prof. Dr. Norbert Wieselhuber
– Chairman –
Managing Director of Dr. Wieselhuber & Partner GmbH
Management Consultancy
Planegg

Lars Roßner
– Deputy Chairman –
Partner at Buse Heberer Fromm,
Rechtsanwälte · Steuerberater PartG mbB
Dusseldorf

Jean-Francois Germerie
European Works Council
Laval, France

Prof. Dr. Dr. h.c. Michael ten Hompel
Managing Director of the Fraunhofer-Gesellschaft
Dortmund

Dr. Hinrich Mählmann
Personally liable partner and
Managing Director of Otto Fuchs KG
Wiehl

Daniela Mohr
European Works Council
Dortmund

Dr.-Ing. E.h. Jochen Opländer
is the Honorary Chairman of the Supervisory Board.

EXECUTIVE BOARD

Oliver Hermes
– Chairman –
Essen

Dr. Patrick Niehr
Cologne

Georg Weber
Dusseldorf

Mathias Weyers
Essen

Dortmund, 8 March 2021

The Executive Board

Oliver Hermes   Dr. Patrick Niehr   Georg Weber   Mathias Weyers

Shareholdings

Shareholdings of WILO SE as at 31 December 2020
(Disclosure pursuant to section 315e HGB)

	Ownership interest in %
American-Marsh Pumps LLC, Collierville/USA	100.0
Circulating Pumps Ltd., King's Lynn, Norfolk/United Kingdom	100.0
EMU I.D.F. S.A.R.L., Ste. Geneviève-des-Bois/France**	50.0
Eurocarbo S.p.A., Corropoli/Italy*	8.0
HydroPoint Data Systems, Inc., Petaluma/USA*	2.6
Hydroserve GmbH, Leopoldsdorf/Austria*	100.0
PT. WILO Pumps Indonesia, Jakarta/Indonesia	100.0
S.E.S.E.M. S.A.S., Saint-Denis/France	100.0
STEMMA S.R.L., Trissino/Italy	100.0
TUMAR bvba, Merelbeke/Belgium	100.0
WILO (Singapore) Pte. Ltd, Singapore/Singapore	100.0
WILO (UK) Ltd., Burton-on-Trent/United Kingdom	100.0
WILO Adriatic d.o.o., Ljubljana/Slovenia	100.0
WILO Australia PTY Ltd, Brisbane City QLD/Australia	100.0
WILO Baltic SIA, Riga/Latvia	100.0
WILO Bel o.o.o., Minsk/Belarus	100.0
WILO Beograd d.o.o., Belgrade/Serbia	100.0
WILO Bulgaria EOOD, Sofia/Bulgaria	100.0
WILO Canada Inc., Calgary/Canada	100.0
WILO Caspian LLC, Baku/Azerbaijan	100.0
WILO Central Asia TOO, Almaty/Kazakhstan	100.0
WILO Chile SpA, Santiago de Chile/Chile	100.0
WILO China Ltd., Beijing/China	100.0
WILO CS s.r.o., Prague/Czech Republic	100.0
WILO Danmark A/S, Karlslunde/Denmark	100.0
WILO Eesti OÜ, Tallinn/Estonia*	100.0
WILO Egypt LLC, Cairo/Egypt	100.0
WILO Egypt for Import LLC, Cairo/Egypt	100.0
WILO ELEC China Ltd., Qinhuangdao/China	100.0
WILO EMU Anlagenbau GmbH, Roth/Germany	100.0
WILO Engineering Ltd t/a Wilo Ireland, Limerick/Ireland	100.0
WILO East Africa Ltd., Nairobi/Kenya	100.0
WILO Finland OY, Espoo/Finland	100.0
WILO France S.A.S., Chatou/France	100.0
WILO GVA GmbH, Wülfrath/Germany	100.0
WILO Hellas A.B.E.E., Athens/Greece	100.0
WILO Hrvatska d.o.o., Zagreb/Croatia	100.0
WILO Ibérica S.A., Alcalá de Henares/Spain	100.0
WILO Indústria, Comércio e Importação LTDA, City of São Paulo/Brazil	100.0
WILO Industriebeteiligungen GmbH, Dortmund/Germany	100.0

Shareholdings of WILO SE as at 31 December 2020
(Disclosure pursuant to section 315e HGB)

	Ownership interest in %
WILO IndustrieSysteme GmbH, Chemnitz/Germany	100.0
WILO Intec S.A.S., Aubigny/France	100.0
WILO Italia s.r.l., Peschiera Borromeo (Milan)/Italy	100.0
WILO Lebanon S.A.R.L., Beirut/Lebanon	100.0
WILO Lietuva UAB, Vilnius/Lithuania	100.0
WILO Logistic Nordic AB, Växjö/Sweden	100.0
WILO Magyarország Kft., Törökbálint/Hungary	100.0
WILO Malaysia Sdn. Bhd., Petaling Jaya/Malaysia	100.0
WILO Maroc S.A.R.L., Casablanca/Morocco	100.0
WILO Mather and Platt Pumps Private Ltd., Pune/India	100.0
WILO Mexico Bombas Centrifugas, S.A. de C.V., Querétaro/Mexico	100.0
WILO Middle East FZE, Dubai/United Arab Emirates	100.0
WILO Middle East LLC i.L., Riyadh/Saudi Arabia***	50.0
WILO Mitarbeiter Invest GmbH, Dortmund/Germany	100.0
WILO N.V./S.A., Ganshoren (Brussels)/Belgium	100.0
WILO Nasos Tizimlari LLC, Tashkent/Uzbekistan	100.0
WILO Nederland b.v., Westzaan/Netherlands	100.0
WILO Nord Amerika GmbH, Dortmund/Germany	100.0
WILO Nordic AB, Växjö/Sweden	100.0
WILO Norge AS, Oslo/Norway	100.0
WILO Polska Sp. z o.o., Lesznowola/Poland	100.0
WILO Pompa Sistemleri San. Ve Tic. A.S., Istanbul/Turkey	100.0
WILO Portugal, Lda, Porto/Portugal	100.0
WILO Pumpen Österreich GmbH, Wiener Neudorf/Austria	100.0
WILO Pumps Ltd., Busan/Korea	100.0
WILO Pumps Nigeria Ltd., Gbagada/Nigeria	100.0
WILO Pumps Pakistan (Pvt.) Limited, Islamabad/Pakistan*	100.0
WILO PUMPS SA (PTY) LTD, Johannesburg/South Africa	100.0
WILO Romania s.r.l., Bucharest/Romania	100.0
WILO Rus o.o.o., Moscow/Russia	100.0
WILO Safe Water LLP, Pune/India*	100.0
WILO SALMSON Argentina S.A., Buenos Aires/Argentina	100.0
WILO Saudi Arabia Ltd., Riyadh/Saudi Arabia*	100.0
WILO Schweiz AG, Rheinfelden/Switzerland	100.0
WILO Taiwan Company Ltd., New Taipei/Taiwan	100.0
WILO Tunisia SUARL, Tunis/Tunisia*	49.0
WILO Ukrainia t.o.w., Kiev/Ukraine	100.0
WILO USA LLC, Rosemont, IL/USA	100.0
WILO Vietnam Co. Ltd., Ho Chi Minh City/Vietnam	100.0
WILO-Mitarbeiter-Beteiligungsgesellschaft mbH, Dortmund/Germany	100.0

* These companies were not included in the 2020 consolidated financial statements.
** This is an associate accounted for at cost.
*** This is a joint venture accounted for using the equity method.

INDEPENDENT AUDITOR'S REPORT

To WILO SE, Dortmund

Audit opinions

We have audited the consolidated financial statements of WILO SE, Dortmund, and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the financial year from 1 January to 31 December 2020 and the notes to the consolidated financial statements, including the accounting policies presented therein. In addition, we have audited the group management report of the Wilo Group for the financial year from 1 January to 31 December 2020. In accordance with German statutory provisions, we did not audit the content of the elements of the Group management report set out in the "Other information" section of our auditor's report. The Group management report contains references that are not required by law and that are marked as unaudited. In accordance with German statutory provisions, we have not audited the content of the references and the information to which they refer.

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 IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020 and of its financial performance for the financial year from 1 January to 31 December 2020.
- 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. Our audit opinion on the Group management report does not extend to the content of the elements of the Group management report set out in the "Other information" section. The Group management report contains references that are not required by law and that are marked as unaudited. Our audit opinion does not cover these references or the information to which they refer.

Pursuant to Section 322 (3) sentence 1 HGB, 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 Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Other information

The legal representatives and the Supervisory Board are responsible for the other information. Other information refers to the disclosures contained in the Group management report that constitute non-management report information and that are marked as unaudited.

Our 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 opinion or any other form of assurance conclusion thereon.

As part of our audit, we have a responsibility to read the aforementioned other information and to evaluate whether it

- contains material discrepancies with the consolidated financial statements, the elements of the Group management report whose content we have audited or the knowledge we have obtained during our audit, or
- otherwise appears materially incorrect.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. Furthermore, the legal representatives are responsible for the internal controls that they deemed 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, management is 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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is 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, management is 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.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of 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 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 Section 317 HGB 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 judgement and maintain professional scepticism 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 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 controls.

- 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 opinion on the effectiveness of these systems.

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

- Conclude on the appropriateness of management's 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 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 IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express 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 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 management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management 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 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, 10 March 2021
KPMG AG
Wirtschaftsprüfungsgesellschaft

Velder	Huperz
German Public Auditor	German Public Auditor

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board monitored the work of the Executive Board on an ongoing basis while providing intensive support and advice throughout the 2020 financial year. At regular meetings, the Supervisory Board was kept fully informed about the development of the Wilo Group's business and all factors affecting it. Members of the Supervisory Board received regular written reports from the Executive Board on the current business situation and on current and planned Group activities. Measures requiring the approval of the Supervisory Board were discussed at length and submitted to the Supervisory Board for resolution. In addition, there was a direct exchange of information between the Chairman of the Supervisory Board and the CEO on important matters arising between the meetings.

The Supervisory Board held four meetings in person in 2020, although participation took the form of video and telephone conferences in some cases due to the restrictions on contact in connection with the measures to curb the coronavirus pandemic.

The Supervisory Board meeting on 26 March 2020 focused on the impact of the coronavirus pandemic as well as the annual financial statements and the consolidated financial statements as at 31 December 2019. The business performance of the Wilo Group was discussed in detail, particularly in light of the global economic situation. Another focal point of the meeting was protecting the health of the company's employees and corresponding measures in the workplace.

At its meeting on 30 June 2020, the Supervisory Board dealt in particular with the economic situation of the Wilo Group and the strategic implications of the coronavirus pandemic. In addition, the concept for a solidarity fund was presented, the aim being to use this to pay bonuses to employees at the production sites in recognition of their performance and the additional burdens incurred during the coronavirus pandemic. The status of the location development project in Dortmund was also discussed. Furthermore, the current status of ongoing M&A projects was discussed at the meeting.

At its meeting on 8 October 2020, the Supervisory Board dealt with current economic developments, the impact of the coronavirus pandemic and the status of the Dortmund location development project. The results of the annual international executive conference, which was held digitally, were also presented. The meeting also discussed the current status of the planned construction of new production sites in India and China.

At its meeting on 17 December 2020, the Supervisory Board approved the integrated planning for 2021–2025 and also discussed the impact of the coronavirus pandemic, a strategy update, the current economic situation, the current status of ongoing M&A projects, and the status of the Dortmund location development project. The Supervisory Board was informed about the planned acquisition of the Abionik Group and PumpsPro FZE and approved both of these measures.

Both the consolidated financial statements with the management report for the 2020 financial year presented with the annual report and the separate financial statements of WILO SE for the 2020 financial year, each comprising an income statement, statement of financial position and notes to the financial statements, have been audited and issued with an unqualified audit opinion by KPMG AG Wirtschaftsprüfungsgesellschaft, Essen, Germany. The auditor also ascertained that the internal control system (ICS) established by the Executive Board, the internal audit system and the compliance system are adequate and capable in their design and use of recognising developments that would jeopardise the company's continued existence in good time.

WILO Annual Report 2020 | **Report of the Supervisory Board**

The above documents were submitted to the Supervisory Board for examination in good time and subjected to comprehensive scrutiny. The auditor took part in the discussion of the annual financial statements and the consolidated financial statements in the meeting of the Audit Committee on 14 April 2021 in order to report on key audit findings and provide comprehensive supplementary information. The Audit Committee performed preparatory work for the Supervisory Board and, in particular, also appraised the findings of the risk management system and the internal control system.

There are no other committees.

After thorough examination and discussion of the annual financial statements, the consolidated financial statements, the management report and the Group management report, the Supervisory Board endorsed the opinion of the auditor and approved the annual financial statements and the consolidated financial statements prepared by the Executive Board in its meeting on 15 April 2021, which was also attended by the auditor. The annual financial statements were thereby adopted. The Supervisory Board also approved the proposal for appropriation of the net profit of WILO SE.

There were no changes to the composition of the Supervisory Board in the year under review. There were the following changes to the composition of the Executive Board:

Mr. Oliver Hermes was reappointed as a member of the Executive Board of WILO SE and its Chairman for a period of six years with effect from 1 January 2021, i.e. until 31 December 2026.

In the interests of good, responsible corporate governance, WILO SE and its executive bodies voluntarily comply with the current version of the German Corporate Governance Code. There are departures from the Code relating to the specific nature of the company (primarily as to the preparation and holding of Annual General Meetings, the publication of reports, Supervisory Board committees) on the one hand and the individual disclosure of Executive Board and Supervisory Board remuneration on the other, in which connection the statutory provisions are complied with. Detailed information on the few departures from the Code was again compiled in full for banks and institutional partners in a declaration of compliance in line with section 161 of the German Stock Corporation Act.

Subject to the above qualification, WILO SE intends to continue to comply with the recommendations of the Government Commission on the German Corporate Governance Code in future.

The coronavirus pandemic had a sustained impact on the Wilo Group's business and activities in 2020. Despite these exceptionally challenging conditions, Wilo can look back on a successful financial year in which it continued on its profitable growth path.

The Supervisory Board wishes to thank the members of the Executive Board, the employees and employee representatives of the Wilo Group for their work and the exemplary commitment and outstanding loyalty that has been a vital factor in this success.

Dortmund, April 2021

The Supervisory Board
Prof. Dr. Norbert Wieselhuber
Chairman

GLOSSARY

Cash flow
Net inflow of cash generated from business activities.

Cash pooling
Instrument for optimisation of liquidity management. Daily liquidity equalisation is performed within the Group by the parent company, whereby excess liquidity is siphoned from Group companies to cover liquidity shortages.

Corporate foresight process
In the corporate foresight process, both risks and opportunities are derived and analysed from forecast future developments with respect to the global megatrends, and hence systematically taken into account in the ongoing development of corporate strategy.

EBIT/EBIT margin
EBIT is earnings before net finance costs and income taxes. The EBIT margin describes the ratio of EBIT to net sales.

EBITDA/EBITDA margin
EBITDA is earnings before net finance costs, income taxes and depreciation and amortisation. The EBITDA margin describes the ratio of EBITDA to net sales.

Emerging Markets
As at 31 December 2020, the Emerging Markets sales region comprised China, India, Korea, the Southeast Asian nations, Australia and Oceania, Russia, Belarus, the Caucasian nations, Turkey, the Middle East, Africa and Latin America.

IFRS (International Financial Reporting Standards)
Collective term for all rules and interpretations of international financial reporting standards relevant to the Wilo Group: IAS (International Accounting Standards), IFRS (International Financial Reporting Standards), SIC rulings (Standing Interpretations Committee) and the interpretations of the IFRS Interpretations Committee.

Industry 4.0
The Industry 4.0 future project is part of the German government's high-tech strategy. Industry 4.0 stands for the fourth industrial revolution, in which the intelligent networking of machinery, products and storage systems finds its way into industrial value added. They exchange information autonomously, trigger actions and control each other independently. This allows the fundamental improvement of industrial processes in production and logistics.

Mature Markets
As at 31 December 2020, the Mature Markets sales region comprised the European nations, the USA and Canada.

Megatrend
This term describes far-reaching, long-lasting trends that have a significant impact on society, the economy, the environment and technology. Megatrends are long-term, i.e. observable over a period of decades, and tend to have a global effect. As part of our strategic management process, megatrends enable us to take a systematic view of the future and also help us identify opportunities and risks which inform the overall strategy.

Netting
Offsetting of receivables and liabilities between two or more partners. Payment, foreign-currency, credit or liquidity risks between partners can be reduced by way of netting agreements.

Second-source suppliers
In the materials management and manufacturing sector, the term second-source supplier (secondary supplier) is used to describe one or more alternative suppliers of a product that is structurally identical and therefore interchangeable or compatible with another product.

Smart home
This umbrella term refers to the intelligent networking of housing technology (heating, lighting, air conditioning, safety and security technology, etc.) and household appliances and the networking of consumer electronics components (audio/video). Intelligent management of these components using the internet and/or mobile devices can bring about significant efficiency gains in day-to-day life and increase comfort and safety.

Smart urban areas
Wilo defines smart urban areas as metropolitan areas where the organisation, infrastructure and aspects of life are digitally and intelligently connected. A smart urban area uses state-of-the-art information and communication technology to improve people's quality of life. Intelligent, innovative infrastructures help to make mobility in conurbations more efficient, conserve resources and reduce negative effects on the environment.

* We define smart pumps as an entirely new pump category that goes far beyond our high-efficiency pumps or pumps with pump intelligence. Only the combination of the latest sensor technology and innovative control functions (e.g. Dynamic Adapt plus and Multi-Flow Adaptation), bidirectional connectivity (e.g. Bluetooth, integrated analogue inputs, binary inputs and outputs, Wilo Net interface), software updates and excellent usability (e.g. thanks to the Setup Guide, the preview principle for predictive navigation and the tried and tested Green Button Technology) make this pump a smart pump.

MEDIA

This Annual Report was published on 15 April 2021 in German and English. Both versions can be downloaded at www.wilo.com.

The annual report is also available online

desktop mobile

www.wilo.com/annualreport2020

PUBLISHING INFORMATION

Publisher
WILO SE
Wilopark 1
44263 Dortmund, Germany

Concept and design
KorteMaerzWolff Kommunikation, Hamburg
Wilo Group Marketing

Litho/reproduction
delta E GmbH, Munich

Translation
EVS Translations GmbH, Offenbach

Printing
druckpartner, Druck- und Medienhaus GmbH, Essen

Picture credits
All images: WILO SE
Bundesregierung/Jochen Eckel (p. 12 r.)
DAAD/David Ausserhofer (p. 15 b. r.)

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climate neutral print
www.klima-druck.de
ID-No. 21101684
bvdm.

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www.bluegreenprint.de

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