

# RISK REPORT

The principles of value-oriented, responsible corporate management include the exploitation of business opportunities and the proactive control of the associated risks. Continuous risk and opportunity management with efficient early risk identification and monitoring is an integral element of the strategy and business development and of the internal management and control systems in the Bechtle Group.

## RISK AND OPPORTUNITY MANAGEMENT

### Basic Understanding

At Bechtle AG, risk and opportunity management are closely interlinked, just as they should be. An “opportunity” can be the possibility of an event or trend that is favourable for the company or a potential positive variance from a planned scenario. The internal opportunity management of Bechtle AG is mainly derived from the strategy of the business segments and their goals. The group’s Executive Board and the operational management in the individual business segments and holding companies are directly responsible for the early and continuous identification, assessment, and control of opportunities. Thus, like the risk management, these tasks are an integral part of the corporate planning and control system. Therefore, the management of Bechtle AG puts a lot of emphasis on detailed evaluations and comprehensive scenarios concerning the market and competition situation, relevant cost drivers, and critical success factors affecting the company. From this, concrete potential opportunities are derived for the individual business segments and discussed in planning meetings between the Executive Board and the division heads, and suitable goals are agreed to exploit the potential. The individual opportunities of the Bechtle Group are presented in the Forecast Report, pages 100 ff.

The possibility that an event could have a negative impact on the business is referred to as “risk”. Thus, a risk is the danger of not being able to achieve goals or successfully implement strategies. This includes all internal or external events, actions, or omissions that constitute a potential threat to the company’s success or existence. The definition of risk is not limited to negative developments or events, but also expressly includes the failure to use or the inadequate use of positive development possibilities.

At Bechtle AG, “risk management” is defined as the entirety of all organisational arrangements and measures to identify risks and to effectively counter these risks. The main objective of the risk management is the due identification of material and existential risks and the initiation of suitable measures with the framework of risk control, thereby minimising or averting harmful consequences of the potential occurrence of a risk for the company. Efficient risk management makes sure that personnel and resources can be deployed in such a way that the attainment of corporate goals is supported in the best way possible.

**Missing opportunities  
also entails a risk**

The risk management does not intend to avoid all risks. To successfully exploit opportunities, a company must deliberately take risks in the course of its business activity. However, it is important to limit risks to an acceptable degree. This degree is governed by the risk policy and risk strategy that is tuned to the primary basic orientation of the company. At Bechtle AG, the risk strategy is based on the corporate culture, the corporate guidelines, and the company's strategic goals. The key elements of these basic cultural definitions are rooted in the corporate philosophy of Bechtle AG.

With its Vision 2020, Bechtle AG pursues the ambitious goal of achieving revenues of 5 billion euros with 10,000 employees. The targeted profitable growth will inevitably be accompanied by business risks. The risk policy of Bechtle AG must take this into account.

### Organisation

The risk management organisation forms the institutional framework for the risk management. In line with the organisational structure of the Bechtle Group, the risk management clearly distinguishes between duties and responsibilities of the group holding and of the operational subsidiaries. In its controlling structure, the holding has established a reporting system that enables the early identification of developments that threaten the company's success. On this basis, suitable standards have been defined for the subsidiaries, which, if applied consistently, allow appropriate and effective risk management. Thus, the directors of the individual companies bear a substantial part of the responsibility (risk owners). This basic understanding also corresponds to the decentralised business model and the management philosophy of Bechtle AG.

Functionally, the following elements can be distinguished within the scope of the risk management organisation:

– Process-independent monitoring

This monitoring comprises the verification of the operability of all processes. The Internal Audit department forms an important part of the process-independent monitoring. It audits business happenings retroactively for compliance and suitability. The activities of the Internal Audit department are based on the provisions of Section 91 (2) of the German Stock Corporation Act (AktG). At Bechtle AG, the tasks of the Internal Audit department are continuously performed during the review of the monthly financial statements and at other times by the group accounting. The effectiveness of the early risk identification and individual risk control measures is checked by the statutory auditor within the scope of the audit of the annual financial statements and by the company during the year.

– Early warning and monitoring system

The structure of the systems is adjusted to the strategic and operational threats and ensures the operability of the risk management and the other corporate processes. Early warning systems are instruments that assist the company in identifying risks and opportunities in good time. In connection with the identification of latent risks, special attention is paid to early indicators. "Monitoring" means the continuous review of the effectiveness, adequacy, and efficiency of the measures and of the necessary audit structures with respect to the identified risks.

**Effective communication is a material element of risk management**

Within the scope of the risk management, effective communication of important tasks and contents across the hierarchy levels is vital for the interlinking with the business operations. In this connection, board and team work is an important instrument for the organisation and control of the necessary information flow. At the highest level, this is done at Supervisory Board and Executive Board meetings and risk management meetings. At the management level, especially director conferences, so-called ERFA sessions (exchange of experience), strategy conferences, and planning and individual meetings with the Executive Board are held at the locations in order to meet this need.

### **Risk Identification and Assessment**

To record the relevant risks of Bechtle AG as comprehensively as possible, the company uses a risk map. The risk list structures various risk types in the form of a checklist. The content of this list can be customised by the executive staff members involved in the risk identification and assessment in order to take any peculiarities of individual business areas into consideration.

The risk list, whose purpose is to summarise possible risks as comprehensively as possible, serves as the basis for the risk assessment: each risk is assessed for probability of occurrence and expected extent of damage (risk potential) and positioned in a risk matrix indicating the significance (A, B, C risks). An assessment reveals how probable the occurrence of the risk is for the underlying risk potential. The result is a consolidated presentation of all identified risks in the form of a “risk map”, both for Bechtle AG as a group and for each of its business segments.

### **Risk Control**

The company responds to the identified risks on a case-specific basis and with different strategies:

- Risk prevention: Refraining from activities involving risks means that opportunities cannot be used either.
- Risk reduction: Reduction of the average probability of occurrence
- Risk limitation: Minimisation of the probability of occurrence
- Risk compensation: The risk is borne by the company and compensated by an offsetting transaction
- Risk transfer: Transfer of the risk to another (insurance) company
- Risk acceptance: No countermeasures taken

### **Risk Reporting and Documentation**

Bechtle AG holds regular risk management meetings whose contents are subject to ongoing development. In addition to the risk management meeting of Bechtle AG, separate meetings are held for each segment, at which the risks of the individual areas are explicitly discussed with the responsible executive staff members. The members of the Executive Board and the Chairman of the Supervisory Board attend each of these sessions. The division heads and individual employees entrusted with controlling and risk management responsibilities participate in meetings. Thus, all areas and responsibilities that are important for the company’s success are involved in the risk management process.

## RISKS

The management believes that the risks described below could have a considerable negative effect on the company's earnings, assets, and financial position and its reputation. Nevertheless, this list does not include all risks to which Bechtle AG is exposed. Other risks that Bechtle is currently not aware of or risks that are currently considered to be of little significance could also impair the company's performance.

### Macroeconomy and Industry

Bechtle AG sells IT products in eleven Western European countries and offers IT services in Germany, Austria, and Switzerland. Though the business greatly depends on the domestic market, the development of the European economy as a whole has a decisive effect on Bechtle's growth, as the presence in various European markets accounts for a proportion of about one third of the revenues.

In the fiscal year 2008, the global economy was greatly affected by the crisis in the financial markets. For 2009, economic forecasts predict a deterioration of the economic development. Thus, the outlook for the company's key market and the investment affinity in the industry is further clouded by risks for Bechtle's earnings, assets, and financial position.

Bechtle AG operates in a highly competitive and technologically short-lived market. Both the IT trading segment and the IT service segment are characterised by competition in terms of pricing, product quality, and service quality. Thus, Bechtle could be confronted with mounting price and margin pressure, weakening demand, and slower growth. The IT market is still undergoing a period of consolidation, which may culminate in several stronger competitors and changed market shares. The company's earnings position mainly depends on the effectiveness and, most importantly, on the efficiency with which Bechtle succeeds in fulfilling customers' growing need for smarter IT solutions.

Among other things, Bechtle counters these market risks by strengthening business areas with above-average growth potential, such as managed services. This business field not only offers excellent growth perspectives, it also reduces Bechtle's dependence on economic trends by means of longer contract terms. By strengthening the service offer in this field, Bechtle is actually investing in the future, laying the foundations for growth even in times of weak or halting economic development.

Another measure Bechtle is taking to counter the general economic risk is to strengthen the public clients division, which is of great significance especially in economically difficult times.

**Concentration on growth-intensive business fields reduces dependence on economic trends**

To further reinforce the market position of Bechtle AG in Europe, the company continually enters new country markets in the IT e-commerce segment. The establishment of new trading companies requires concerted efforts in the field of sales, which may not always be successful. The revenues and earnings could be impaired by start-up costs for the establishment and personnel as well as investments in country-specific sales and marketing activities. Moreover, there is a risk that the selected measures could later be found to lack sustainability or fail to gain the expected market acceptance. Bechtle AG limits this risk by means of extensive market and competition analyses before entering the market, central management of all e-commerce companies, and successive know-how transfer from previous market launches.

## Business Activity

### Procurement

Bechtle meets the risks in the supply markets with selective supplier management. However, the effectiveness of these measures is limited with respect to the development of the international supply markets. For example, should the current price slump persist for an extended period, this could endanger the group's profitability.

Bechtle procures its products from all renowned manufacturers and distributors in the IT industry. Across Europe, the company cooperates with about 300 manufacturers and more than 600 distributors. Should a partner be unable to supply goods, Bechtle can always offer alternative products at short notice. In terms of its economic situation and existence, the group does not depend on any single supplier. However, Hewlett-Packard products do feature strongly in the product portfolio of Bechtle AG.

The development in the IT market points to intensive competition among manufacturers. As a result of the competitive pressure, the expectations from their sales partners are on the rise. Therefore, Bechtle maintains cooperative and professional relationships with manufacturers in order to fulfil customer and manufacturer requirements in the best way possible.

Bechtle minimises storage risks and reduces the capital tie-up by continuously improving the procurement, throughput, and sales processes. The principle is to procure goods only shortly before they are shipped to the customer or to engage distributors as fulfilment partners. As the ordered goods are often shipped to the customer directly by the manufacturer or distributor, the company can save process and storage costs.

In order to avoid supply bottlenecks due to the short-term storage, the procurement processes are closely interlinked with the manufacturer and distributor systems. This ensures high availability and quick delivery to the customer. Bechtle also benefits from economies of scale from the group-wide volume bundling through central procurement and logistics processes.

### Service Range

In the field of managed services, long-term contracts account for the major part of the business. The fixed price guarantee that is often agreed for such projects can affect the generated margin due to changes of the cost basis during the term. Moreover, such contracts contain specific requirements for the project flow and for the compliance with legal regulations. Failure to meet these criteria could lead to damage claims or termination of the contract. Furthermore, in its capacity as general contractor, Bechtle bears the risk of contractual fines due to missed deadlines, unforeseeable developments at the project sites, deficient services of subcontractors, and possible logistical difficulties.

### Customers

Although individual companies of the Bechtle Group are somewhat dependent on a limited number of customers, the group as a whole has a very large customer base. Thus, Bechtle's existence does not depend on any single customer. There is no concentration of default risks on individual key accounts. What is more, the diversity of the industries that customers belong to spreads the risk of dependence on individual industry trends. Bechtle meets the potential solvency risk of customers by means of careful checks before entering into business relationships and by means of consistent debt collection management.

**Broad medium-sized customer base makes Bechtle independent of large customers**

### IT

Basic IT risks emerge from the use of computer-based databases and the deployment of ERP, controlling, and accounting systems. For example, a goods availability risk could result if the operability of IT systems necessary for smooth order handling is no longer guaranteed. This could happen due to hardware failures, operating errors, or defects in electronic data processing equipment.

The probability and extent of damage from viruses and hackers is difficult to estimate. The intrusion of unauthorised parties in the IT system could result in a confidentiality risk. Bechtle employs encryption and authentication technologies as well as firewalls to protect confidential information transmitted electronically. Despite high-level protective mechanisms and security standards, there is a danger that internal and confidential information could be used illegitimately.

For the Bechtle Group, backups are a top priority. The central computing centre in Neckarsulm, Germany, which is responsible for ensuring the operability of all IT systems, has developed a strategy of backup measures at various levels that prevent the failure of technical IT systems or at least minimise the probability of occurrence. As far as we can discern, Bechtle is not exposed to any integrity risk from incorrect processing, loss of data, or faulty storage of data.

Among other things, Bechtle protects the IT systems by means of firewalls and strict security regulations. The availability of the IT systems reflects the state of the art. Additionally, Bechtle protects the operation by means of redundant data lines. At all locations, the network connection takes place via backup lines. For the stability of the IT e-commerce systems, Bechtle always employs several providers with a mutual backup function. All material production systems are redundant and subject to a high-availability agreement with the manufacturer. Moreover, the systems are protected by a UPS and a power generator.

Performance-related compensation and consistent personnel development promote employee retention

### Personnel

Training, motivation, and commitment of the employees are key success factors of the Bechtle Group. Therefore, loss of expertise due to above-average fluctuation of qualified personnel and a lack of qualification and service orientation on the part of the employees are the major personnel risks. Furthermore, in the fast-growing business fields, there is a risk that the need for qualified personnel cannot be met sufficiently. For this reason, Bechtle is not only eager to recruit qualified specialists and executive personnel for the company and integrate them successfully, but most importantly to bind them to the company permanently.

Due to the intense consolidation in the IT market, there is currently no shortage of well-qualified sales staff. In contrast, the replacement of highly qualified IT specialists is more difficult in individual competence areas, which may mean a risk for the operational business flow. However, the industry views Bechtle as an attractive, reliable employer, which can be seen from the high number of qualified and experienced applicants. Apart from creating a positive work environment, the HR work focuses on operational training and promotion of junior management staff by means of internal development programmes of the Bechtle Academy.

### Liability

In the service and trading business, Bechtle provides an industry-standard contractual warranty for supplied hardware according to its General Terms and Conditions. However, Bechtle only passes on the manufacturers' warranty. The risk of warranty claims being asserted against Bechtle without recourse to the manufacturer is low. Bechtle has taken out insurance or formed adequate provisions for the case that customers need to be granted warranty extensions or expansions. A D&O insurance covers any liability claims resulting from mismanagement. The insurance cover is checked regularly and adapted if necessary. Thus, negative financial effects of insurable risks on the business should be excluded or at least limited.

### Finance

#### Financial Instruments

Currency, interest, and liquidity risks are subject to active treasury management on the basis of guidelines that apply to the entire group. In this context, the specific requirements for the organisational separation of the operations and auditing of the functional divisions are observed.

Derivative financial instruments are used exclusively for the purpose of hedging basic operational transactions and mission-critical financial transactions in the form of interest swaps.

The financial risk management is characterised by the clear allocation of responsibilities, central rules for the fundamental limitation of financial risks, purposeful alignment of the employed instruments to the requirements of the business activity, and separate monitoring by a centrally controlled treasury management.

### Foreign Currencies

Currency risks exist especially in areas in which receivables, debts, funds, and planned transactions exist or will accrue in currencies other than the local currency of the parent company. The foreign currency risk is mainly limited to Swiss francs, as a considerable portion of the international business is generated in Switzerland. Except for Switzerland and Great Britain, procurement mainly takes place in euro countries and hence in euros. Goods are only purchased in US dollars in exceptional cases. One of the currency risk relates to the use of loans in Swiss francs. This risk is hedged indirectly in that payment flows generated in Switzerland in Swiss francs could be used to repay these loans. Additionally, forward transactions were executed in Swiss francs. (See notes to the consolidated financial statements, chapter "Information on the Risk Management of Financial Instruments", section "Currency Risk", pages 159 f).

### Liquidity

To ensure unlimited solvency, the company must have sufficient liquidity at all times. The liquidity situation is managed and monitored by the treasury management as an integral part of the group accounting. In view of the existing financial position of the Bechtle Group as of the end of the year with cash and securities worth 77.6 million euros, unused credit lines amounting to 39.9 million euros, and a positive cash flow from operating activities amounting to 49.9 million euros, the likelihood of a liquidity risk occurring is limited. Moreover, Bechtle AG has authorised capital of up to 10.6 million euros, which can be used to increase the equity base if necessary.

**Bechtle has a comfortable cash position**

The treasury department of Bechtle AG ensures the liquidity supply for the group divisions and subsidiaries by means of cash pooling. Furthermore, it controls the interest risk and is responsible for the assessment, analysis, and monitoring of positions subject to market risks.

### Receivables

The current credit squeeze in the financial markets and the creditworthiness of business customers play an increasingly important role in the assessment of the future risk situation. Bechtle could be more exposed to bad debt losses than in the past, as the financing options have become much more difficult, which means that customers may be unable to meet their payment obligations in due time or in their entirety. Detailed monitoring of customer relationships including ongoing solvency checks and proactive debt management help to avoid risks from bad debt losses.

Potential risks in connection with the investment of cash equivalents are limited by restricting short-term investments to first-class institutions. Bechtle AG reduces credit risks by exclusively executing transactions with banks with an excellent degree of creditworthiness and within the scope of defined limits. In addition, payment transactions are only handled via banks whose creditworthiness is beyond doubt.

### Interest

As a matter of principle, financial assets and debts with terms of more than one year involve an interest risk. In recent past years, Bechtle has further reduced long-term financial liabilities. As of the balance-sheet date, there were only a limited number of liabilities with terms of more than one year to maturity. The interest rate risks of the Bechtle Group are centrally analysed, and the resulting measures are actively managed by the group's finance department. The procedure applied by the department is subject to regular auditing as determined by the management. The risk of interest rate fluctuations of loans with variable interest rates is eliminated by means of interest rate swaps (see notes to the consolidated financial statements, chapter "Information on the Risk Management of Financial Instruments", section "Interest Rate Risk", page 160).

### Others

#### Acquisitions and Divestments

The Bechtle Group intends to further strengthen and expand its market position by means of specific acquisitions. On principle, the decision to purchase a company and integrate it in the group always involves an entrepreneurial risk. It is always possible that the expectations placed on the acquired company might not fully materialise. Bechtle addresses this risk by conducting extensive due diligence audits in advance and by taking measures that support the acquisition process. The preparation, implementation, and audit of acquisitions take place in line with defined competence arrangements and approval processes. Moreover, Bechtle has years of experience in integrating companies. The company has established the structures that are necessary for this and operates according to a concept that meets the group's needs in connection with the integration of newly purchased companies in the best way possible.

The rapid growth of Bechtle and the new staff who join the company through acquisitions tie up human and organisational resources during the integration phase. At the same time, however, these risks are balanced by considerable entrepreneurial opportunities for further development of the group.

The growth and the strategic objectives of Bechtle AG necessitate divestments in certain areas, resulting in a concentration on the core business fields. These measures involve the risk of not being able to sell certain business activities or selected operational units as planned.

#### Legal Framework

Being active on an international scale, the Bechtle Group is subject to various national laws. This may involve risks for legal transactions – for instance when drawing up contracts – which Bechtle counters by engaging legal advisors at an early stage whenever necessary.

At present, the company is not involved in any legal disputes that could have a negative effect on the consolidated earnings. Bechtle AG will form provisions for legal disputes for all future legal disputes in connection with the group's business if liabilities are likely to result and the amount of the liabilities can be determined with reasonable certainty.

## OVERALL RISK ASSESSMENT

The evaluation of the group's overall risk situation is the result of the consolidated examination of all major compound and individual risks. The Executive Board is of the opinion that the presented risks are limited and manageable. The company boasts a solid financial basis, with an above-average equity ratio of 62.8 per cent and a comfortable liquidity situation.

**No existential risk  
evident for Bechtle**

Third-party ratings are another important indicator for the overall risk assessment. Apart from the company's own internal risk assessment, Bechtle's credit rating and aggregate default risk are regularly appraised and monitored by banks and rating agencies. All institutions are of the opinion that Bechtle's probability of default is very low: 0.09 to 0.30 per cent (based on the customary one-year term). This corresponds to the credit ratings of the rating agencies Bürgel and Creditreform for Bechtle AG (Bürgel solvency index: 1.4 and Creditreform solvency index 113 in January 2009). On the Standard&Poor's rating scale, which is widely used in financial markets worldwide, these probabilities of default correspond to a rating of A- to BBB+. On the bank-independent six-level IFD (Initiative Finanzstandort Deutschland) rating scale, Bechtle has a rating of I, which is the best level (probability of default up to 0.3 per cent per year).

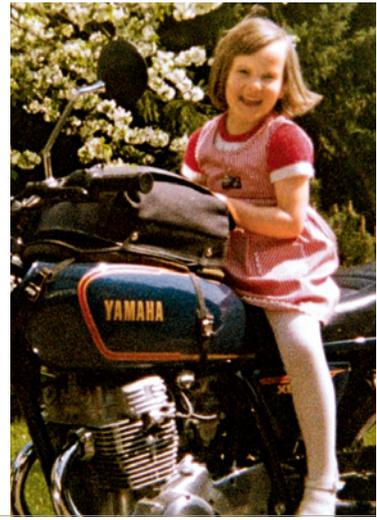
To date, the creditworthiness of Bechtle AG has not been appraised by the rating agencies Standard&Poor's, Moody's Investors Service, Fitch Ratings, or Dominion Bond Rating Service.

Bechtle AG is aware of its own risk and opportunity profile for its business activities. In connection with daily updated analyses of the business performance based on operational indicators, the presented measures play a significant role in enabling Bechtle to use the opportunities for further development of the company without losing sight of the risks involved.

All in all, there do not appear to be any risks for Bechtle AG that would endanger the company's existence as a going concern. The Executive Board is convinced that it will be able to make use of future challenges and opportunities without taking undue risk.

25 YEARS AGO

I dreamed of  
having my own  
horse.



Today, Kirsten Lang is the team leader of Bechtle's central returns department.

"Like many young girls, I considered the stable my home. I was determined to make my hobby into my profession in order to be around horses every day. In the end, however, I decided to get training that would provide security and a bright future – and joined Bechtle. Today, my customers are at the same time my colleagues from the various Bechtle system houses. Every return is an hurdle that I want to clear together with the customer – in a quick and elegant manner and without touching the obstacle. The challenge is to adapt to the individual requirements and to look for efficient solutions that are economic and acceptable for all involved."

