Report of the Management

INHOUSE BANKING

Alternative performance measures (APMs)

In presenting and discussing the Würth Finance Group's financial position, operating results and net profit, Management uses certain alternative performance measures not defined by IFRS. These alternative performance measures (APMs) should not be viewed in isolation as alternatives to the equivalent IFRS measures and should be used as supplementary information in conjunction with the most directly comparable IFRS measures. APMs do not have standardised meaning under IFRS, and therefore may not be comparable to similar measures presented by other companies.

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

in TEUR	2016	2017	2018	2019	2020
Hedge accounting effect management accounting	4,297	4,353	3,742	2,993	1,492
Impairment for credit loss	0	0	3,698	-739	8,558

- Hedge accounting effect management accounting refers to the effect of the market valuation of interest rate derivatives to hedge the interest rate risk where historically no hedge accounting was applied.
  As of the implementation of IFRS 9 Hedge Accounting, new hedge relations will be presented as such.
- Impairment for credit loss refers only to related party loss and therefore does not apply to the Würth Group.
  This position represents the Würth Finance Group's impairment of the capital relinquishment of EUR 0.7 million and expected credit loss (ECL) on loans and receivables as at the balance sheet date. The ECL calculation is probability-weighted using a combination of probability of default (PD), exposure at default (EAD) and loss given default (LGD). The LGD is based on the global corporate average of 60% and the PD is based on the Bloomberg default risk of the Würth Group. The PD increased to 1.29% as per 31.12.2020 (31.12.2019: 0.39%); therefore an additional impairment for credit loss of EUR 7.9 million is recognised in the income statement.

2020

in TEUR	APM Inhouse Banking	Hedge accounting effect management accounting	Impairment for credit loss	Segment Inhouse Banking
Income distribution				
Group Financing	32,898	–1,663	–7,886	23,349
Credit loss (expenses)/recovery	0	0	–7,886	–7,886
Income from factoring activities	16,275	0	0	16,275
Interest income	14,922	–1,663	0	13,259
Other ordinary income	1,701	0	0	1,701
Other	1,135	0	0	1,135
Income from participations	566	0	0	566
Central Settlement	24,926	0	0	24,926
Income from trading activities and financial instruments	13,486	171	–672	12,985
Securities investments	2,071	0	0	2,071
Trading	11,415	171	–672	10,914
Total income	**71,310**	**–1,492**	**–8,558**	**61,260**
Total expenses	**–19,413**	**0**	**0**	**–19,413**
Profit Inhouse Banking	**51,897**	**–1,492**	**–8,558**	**41,847**

	Segment Inhouse Banking	Segment External Financial Services	Eliminations	Total Würth Finance Group
Segment profit before taxes (adjusted)	41,847	620	–55	42,412

2019

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

	Segment Inhouse Banking	Segment External Financial Services	Eliminations	Total Würth Finance Group
Segment profit before taxes (adjusted)	52,279	385	128	52,792

Key events

Coronavirus pandemic and Würth Group performance
The year 2020 will probably forever be remembered as the "year of the pandemic" or the "COVID-19 crisis". In retrospect, the effects on the Würth Group and its inhouse bank were quite noteworthy. The parent company's sales performance quickly recovered after a dramatic slump from March to May. At the end of the year, the Würth Group actually reported sales and an operating result that were level with the previous year's.

In addition, strict cost management, prudent inventory management, and adjusted capital expenditure and acquisition targets led to record high net cash flow and consequently to a sharp decline in net debt. Overall, the Würth Group has emerged from the pandemic stronger than before.

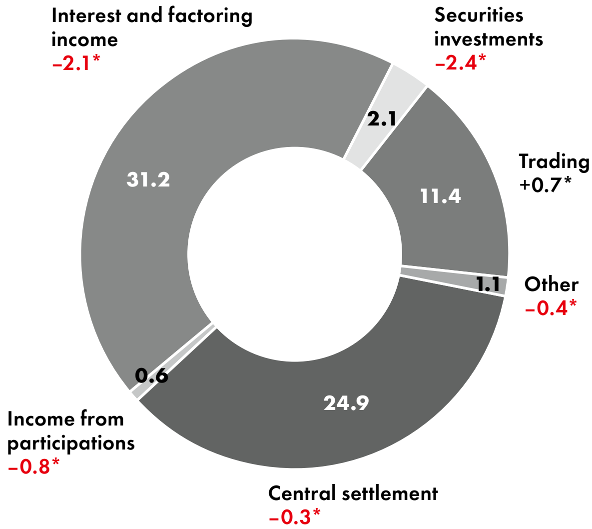
Management of liquidity reserves
During this period, Würth Finance International B.V. assisted the parent company primarily as a financing unit. At the height of the pandemic, preparations were made to repay the EUR 500 million bond maturing in May 2020 by means of a new issue and to increase the stock of liquidity by a further EUR 250 million in the process. In order to provide a safety net in advance, bridge-to-bond financing was temporarily arranged with the four lead banks. Active management of liquidity reserves remained of central importance in the months that followed.

Stakeholder management at the inhouse bank
The inhouse bank acted not just as a point of contact with Würth Group head office. There was also an increased need for communication with the Group companies, as the entire financial management operation was subject to closer scrutiny, in particular accounts receivable and accounts payable management, liquidity provision including credit limit management, external communication with banks and currency hedging. The proximity of Würth Finance International B.V. to the relevant decision-makers at both the Würth Group companies and the headquarters proved to be helpful in this respect. As a result, communication paths were short, the level of information provision was good and decisions were always focused.

New working methods
In addition to the requirement to ensure employees' safety, the business operations of Würth Finance International B.V. had to be maintained in full at all times. There was a great deal of reliance on staff working at home. Fortunately, no major problems occurred in the process. The IT environment proved to be crisis-proof. Our greatest gratitude goes to the employees at the 's-Hertogenbosch and Rorschach sites, who ensured the continuity of business operations at all times from their home offices, as well as to those employees who continued to carry out necessary work at the office premises, but had to tolerate restrictions in this respect owing to the various protective measures at their place of work and during their commute. Thus, these special circumstances also proved to be a touchstone for the corporate culture.

Income distribution

in million EUR



*Change vis-à-vis 2019

"'Cash is king.' The Central Managing Board of the Würth Group and the 400 Group companies trust us to provide them with solutions and means to ensure solvency at all times – even in times of crisis. We did that very well in 2020."

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

Business performance

Group Financing
For several weeks in the run-up to the maturity of the bond, it was not clear whether and on what terms refinancing would be possible. As a safety measure, the aforementioned bridge-to-bond financing was therefore set up in advance, the first time this had been used. However, the maturing bond was easily refinanced in May by a new issue in the amount of EUR 750 million with a term of 7.5 years. This gave a boost of EUR 250 million to liquidity reserves in the context of the economic and health crisis. At that time, the capital markets were characterised by low market interest rates, heavy involvement of state institutions, declining credit risk premiums and very high demand for refinancing on the part of corporates.

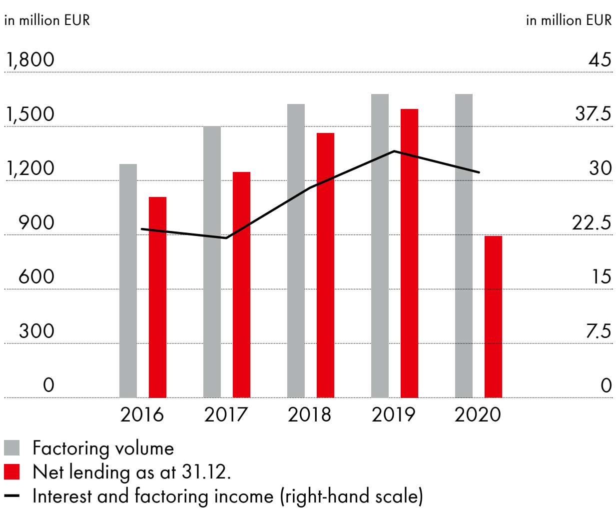
In the months that followed, the Würth Group's balance sheet displayed similar effects to those seen during the financial crisis more than 10 years ago: the company reacted swiftly to the drop in sales caused by the crisis, and the measures taken (especially with regard to capital expenditure, acquisitions, inventories and cost savings) acted to free up liquidity given stable gross cash flows. As a result, Group net debt fell by EUR 750 million to EUR 600 million. The effects were also reflected in the balance sheet of the Würth Finance Group, in the form of lower financing requirements on the part of Group companies.

The stock of liquidity grew rapidly and amounted to EUR 1,127 million as at the end of the year – a record in the company's history. This figure exceeded the previous year's level by EUR 855 million.

Net interest income in the Inhouse Banking division was heavily affected by the measures taken against the pandemic. The bridge-to-bond financing involved costs that were fully recognised in the 2020 annual results. The reduced funding requirements of the Würth Group companies from the second half of the year onwards had a dampening effect on income. Negative interest rates on liquidity investments also played a significant role for the first time. A positive counter-effect was the lower coupon on the new bond, which reduced the refinancing costs of the Würth Group overall.

The interest rate sensitivity of the shareholders' equity of Würth Finance International B.V. increased significantly with the bond issue and most recently amounted to 12% (as of 31 December 2020). The flatness of the yield curve and the conviction that rising interest rates represent a greater risk for the Group than the missed opportunity of a further fall in interest rates led to this conservative positioning.

Group Financing volume and revenue from intra-group lendings



The Intercompany Factoring business area deals with the settlement and pre-financing of internal payment flows between the Würth Group companies. Volumes and income in this business area were somewhat below the performance of the Würth Group sales.

Central settlement of payments to suppliers

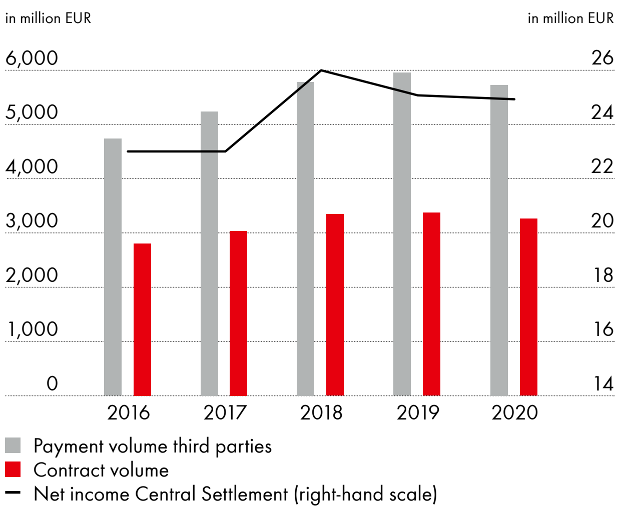
With a slight time lag, the volume of supplier payments moved in step with the Würth Group's sales. Thus, the slump in sales between March and May led to a slightly delayed decline in purchasing volumes. While the Würth Group sales were already up year on year in July, the volume of payments processed via the Inhouse Banking division did not exceed the previous year's figure until December. Overall, the decline in volumes in the central settlement of payments to suppliers in the 2020 financial year was 3%. Income dropped by only 1% to EUR 24.9 million, even though the acquisition of new central settlement agreements was somewhat difficult due to the ongoing travel restrictions.

The processing of 500,000 payments with a volume of EUR 5,700 million in the Payment Factory of the Würth Finance Group was carried out under difficult conditions during the crisis months and partly from home offices. The successful launch of the new Global Payment System in 2019 proved to be a stroke of luck in this regard. The end-to-end digitalisation of all process steps achieved through this brought a significant improvement in efficiency and security. And it made error-free processing possible with reduced personal interaction of the employees involved.

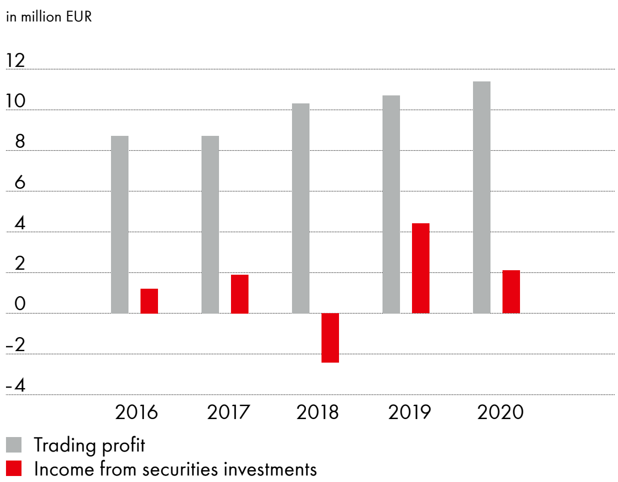
Currency hedging and trading with financial instruments

The currency experts in the Group treasury unit are available to the Würth Group companies at all times for foreign currency trading in all common currencies and for prior advice. The most important objective is to stabilise the gross profit of the Würth Group companies with respect to exchange rate fluctuations by means of individual hedging strategies. During the stress phases of the pandemic, sales and purchasing volumes changed, while fluctuations on the foreign exchange market were large. As the year progressed, the core business stabilised and exchange rate volatility decreased. In some cases, favourable rates were deliberately used for disproportionate hedging into 2021. The high hedging volume and successful management of risk positions in proprietary trading resulted in income of EUR 11.4 million, the highest contribution to earnings in the company's history.

Central Settlement: payment volume/revenue



Trading/securities investments: income development



"Volume growth of 40% in the year of the coronavirus crisis proved the relevance of electronic payment options. That is why we continue to expand our WOPG services for efficient and secure access."

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

Securities investments
The investment year 2020 was also significantly influenced by the coronavirus crisis. In mid-March, prices plummeted on the financial markets. Even prices of relatively low-risk asset classes such as top-class bonds, gold and defensive stocks fell dramatically. "Cash is king" was the order of the day.

In this environment, the very defensive orientation of the securities portfolio paid off. In the absence of attractive investment opportunities, the investment volume at the beginning of the year amounted to only EUR 63 million, with by far the largest share being attributable to investment grade corporate bonds of medium duration. This risk-averse management of investments with a low equity allocation paid off in the spring. Nevertheless, the plunge in share prices in March 2020 led to a significant decline in the performance.

The subsequent stock market upswing was largely supported by the large-scale monetary policy measures taken by central banks and the record fiscal stimulus provided by all industrialised nations. Moreover, following the news that a vaccine against this new sort of virus had been successfully tested, the stock market gained momentum later in the year. During this phase, the investment volume was continually increased and amounted to EUR 69 million as at 31 December 2020, although in retrospect the allocation to shares in the Würth Finance Group's securities portfolio remained too low.

Nevertheless, the annual performance of EUR 2.1 million or 3.5% is good for an absolute return portfolio with benchmarks in the negative interest rate range.

Würth Omnichannel Payment Gateway (WOPG)

Closed shops and nationwide contact restrictions led to a sharp increase in online shopping, including at the Würth Group. Customers made significantly more purchases using the online shops, the Würth app and e-procurement solutions. E-business sales rose disproportionately by 5.8% to EUR 2,800 million, almost 20% of total sales.

With the Würth Omnichannel Payment Gateway (WOPG), the Würth Finance Group offers its clients a global infrastructure for processing electronic payments at the point of sale (POS). The pandemic led to a sharp increase in demand for WOPG services.

The volume of payments processed via the WOPG platform rose by around 40% in 2020 compared with the previous year. In collaboration with the Group companies, a range of projects were implemented, from setting up high-performance POS solutions in the sales branches to the establishment of contactless payment options via smartphones and the implementation of e-payment solutions in Europe and Asia. In the further development of such products it was ensured that all solutions met the relevant compliance regulations regarding electronic payment transactions (e.g. compliance with the Payment Card Industry Data Security Standard and two-factor authentication in accordance with the EU Payment Services Directive).

Partnerships with leading service providers were also further expanded, so that the Würth Finance Group can now offer its WOPG services to the Würth Group companies in Europe, North America and various countries in the Asia-Pacific region.

Income from participations

Reduced income from participations of EUR 0.6 million reflects the sale of the shares held in Internationales Bankhaus Bodensee AG to another company in the Würth Group.

Outlook for 2021

Forecasts are difficult – especially when they concern the future. So goes a well-known bon mot. This is because the outlook for the Würth Finance Group's Inhouse Banking division in 2021 will depend on macroeconomic developments more than in almost any other year.

As this Annual Report goes to press, the COVID-19 pandemic still holds the world in its grip. Reports of virus mutations and new lockdowns tend to make the pessimists heard. And yet: the facts that effective vaccines were found, that new working methods were quickly established and that monetary and fiscal policy measures proved to be effective give cause for hope. Stock prices are anticipating this. Meanwhile, the Central Managing Board is also optimistic for the Würth Group.

The volume-dependent activities of the Inhouse Banking division are expected to perform positively, though a reduction in fees will have a countervailing effect in Intercompany Factoring. In the business areas of trading and securities investments, planning is as conservative as usual. No forecasts can be made in this respect at present. Revenue from Group Financing is expected to decline. Negative interest rates, reduced financing requirements on the part of the Würth Group companies and other effects will have a negative impact. Slightly higher IT expenses and filling vacant positions are expected to increase the cost base to a level comparable to 2019. It is still unclear what effect a possible increase in capital expenditure and acquisition activity in the Würth Group's core business will have.

In order to ensure performance in the long term as well, investments in the digitalisation of business processes will be consistently continued, including in the IT-supported deepening of stakeholder management and the further development of the system environment for the expansion of the Payment Factory's payment transaction services. Overall, Management expects a decline in the operating result in the high single-digit percentage range in the Inhouse Banking division.

Management Würth Finance International B.V. and Würth Invest AG


Björn van Odijk


Roman Fust


Philip Guzinski


Alejandro Muñoz


Daniel Ochsner


Jorre van Schipstal


Patrik Imholz
Würth Invest AG

INHOUSE BANKING AT A GLANCE

Core business

The Inhouse Banking division of the Würth Finance Group monitors the financial risks incurred by the Würth Group and takes the necessary measures to retain its financial stability.

In close collaboration with the Central Managing Board and the operational Group companies, the Inhouse Banking division ensures that the necessary liquid funds are available to the Würth Group at all times and employs the Group's funds in an optimal manner. The division consists of the legal entities Würth Finance International B.V. and Würth Invest AG.

Services

Central settlement of payments to suppliers
- Service provider for the central settlement of payments to beneficiaries worldwide
- Collection of outstanding invoices on behalf of over 9,500 Würth Group suppliers vis-à-vis all Group companies and, to a certain extent, insurance of default risk

Group financing and risk management
- Financing of the Würth Group on the capital market, principally by means of bond issues
- Competence centre and interface for banks, investors, financial market regulators, rating agencies and credit analysts
- Provision of comprehensive advice and a wide range of treasury products to Group companies
- Central management of bank accounts and financial risk management for the Würth Group

Cash and securities investments
- Securing of strategic freedom to act by managing the cash reserves of the Würth Group
- Central management of financial investments in the conflicting areas of security, liquidity and return

Facts and figures (at 31 December 2020)

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

500,000 payment transactions with a volume of EUR 5,700 million in the year under review

Outstanding capital market funding with a total volume of EUR 1,750 million

Account relationships with over 400 Würth Group companies

3,250 foreign exchange transactions with 280 Group companies and a hedging volume totalling EUR 1,090 million

11,565 treasury transactions with external counterparties (banks)