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 under 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 provide a better overview of the development of the Inhouse Banking activities and their added value for the Würth Group, APM adjustments are made. They affect the operating income and net profit of the segment Inhouse Banking, as shown in the table below.

in TEUR	2017	2018	2019	2020	2021
Hedge accounting effect management accounting	4,353	3,742	2,993	1,492	-548
Impairment for credit loss	0	3,698	-739	8,558	-6,450

- Hedge accounting effect management accounting refers to the effect of the market valuation of interest rate derivatives to hedge 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 0.4 million and expected credit loss (ECL) on loans and receivables as at the balance sheet date. The ECL calculation is probability-weighted applying 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 decreased to 0.44% as at 31 December 2021 (31 December 2020: 1.29%); thus a reduction in ECL of EUR 6.8 million is recognised in the income statement.

2021

in TEUR	APM Inhouse Banking	Hedge accounting effect management accounting	Impairment for credit loss	Segment Inhouse Banking
Income distribution				
Group Financing	30,015	596	6,846	37,457
Net interest income	13,114	596	0	13,710
Income from factoring activities	16,234	0	0	16,234
Other ordinary income	667	0	0	667
Other	667	0	0	667
Income from participations	0	0	0	0
Expected credit loss (expenses) / recovery	0	0	6,846	6,846
Central Settlement	30,653	0	0	30,653
Income from trading activities and financial instruments	15,640	–48	–396	15,196
Trading	14,104	–48	–396	13,660
Securities investments	1,536	0	0	1,536
Total income	**76,308**	**548**	**6,450**	**83,306**
Total expenses	**–21,541**	**0**	**0**	**–21,541**
Total Inhouse Banking	**54,767**	**548**	**6,450**	**61,765**

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
Net interest income	14,922	–1,663	0	13,259
Income from factoring activities	16,275	0	0	16,275
Other ordinary income	1,701	0	0	1,701
Other	1,135	0	0	1,135
Income from participations	566	0	0	566
Expected credit loss (expenses) / recovery	0	0	–7,886	–7,886
Central Settlement	24,926	0	0	24,926
Income from trading activities and financial instruments	13,486	171	–672	12,985
Trading	11,415	171	–672	10,914
Securities investments	2,071	0	0	2,071
Total income	**71,310**	**–1,492**	**–8,558**	**61,260**
Total expenses	**–19,413**	**0**	**0**	**–19,413**
Total Inhouse Banking	**51,897**	**–1,492**	**–8,558**	**41,847**

Key events

Group performance

Depending on location and definition, the Würth Group's financial year began in the second COVID-19 wave and ended in the fifth. In the event, the recovery that followed the sharp downturn in the first half of 2020 had a decisive impact on the Würth Group's financial year 2021. The following specific points can be highlighted:

- catch-up effects in consumer behaviour with favourable forecasts
- low interest rates amid rising inflation
- increased materials prices and very good economic activity in the construction sector
- bottlenecks along entire supply chains and in logistics

At times it looked as if some customers were busy stocking up on the C-parts that the Würth Group sells.

The strength of demand and the speed with which suppliers were pushing through price increases prompted the Central Managing Board to focus on securing the company's gross profit and safeguarding its ability to deliver. In order to maintain a high level of service, a certain increase in inventory levels in the Würth Group's warehouses was also tolerated.

As a result, a significant build-up in inventories was reported in the financial figures along with records in terms of sales and the operating result. Nonetheless, operating cash flow was so strong that net debt remained relatively low until the end of the year. All in all, a remarkable year for the Würth Group, with noticeable effects on the performance of the Inhouse Banking division at the Würth Finance Group.

Communications

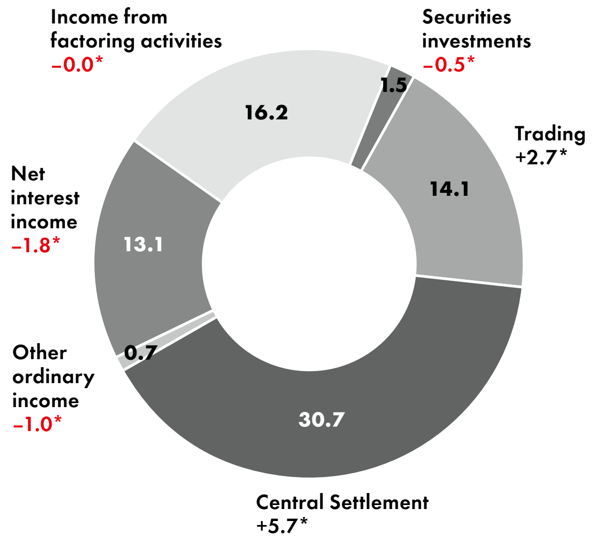
The integration of the Würth Finance Group into the Würth Group's overall business operation requires close communication and an understanding of the different business models at the Group companies that lie behind the transactions and cash flows that are handled. Close personal contacts with Group companies, suppliers, banks and central Würth Group functions are therefore a prerequisite for the optimisation of the business model and an important success factor for the Würth Group's inhouse bank. Unfortunately, the first sentence of this report makes it clear why, even in 2021, the majority of meetings had to be held via online channels, and it was not uncommon for meetings to be conducted remotely from home.

The "Würth culture" is based on a high degree of freedom, flat hierarchies and a clear customer focus.

For the vast majority of employees, averaging 64 for the year (previous year: 64), working from home became a mode of operation that was highly valued as a supplement to traditional in-office work activity. Not surprisingly, the proverbial "Würth culture", based on a high degree of freedom, flat hierarchies and a clear customer focus, made a noticeable contribution to the company's resilience in the year under review.

Income distribution

in million EUR



*Change vis-à-vis 2020

Business performance

Central settlement of payments to suppliers

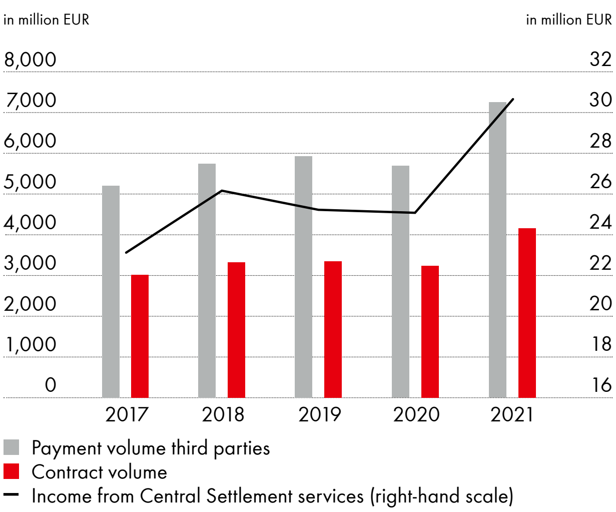
Würth Finance International B.V. is the central partner for the companies of the Würth Group with regard to settling supplier invoices. Contractual relationships exist with the respective suppliers for a large part of the payment volume. This means the Würth Group's volume of payments correlates with the income realised in this aspect of Inhouse Banking's business. Thus, in the year under review payment volumes increased by 27.1% to EUR 7,300 million, while record income of EUR 30.7 million was generated.

The degree of automation and the security of the systems have always played an important role in payment transactions. In order to keep pace with the rise in volumes, with the efficiency expectations of the Group companies and also with the increasing threat of cyber attacks, further investments were made and various improvement projects realised in the past 12 months.

Intercompany factoring activities

Most of the Group companies procure a large proportion of their merchandise from central purchasing companies of the Würth Group. Settlement of the associated receivables is mainly handled via intra-Group accounts at the Würth Finance Group and includes a pre-financing component. As a result, this leads to savings in bank fees, easier accounts receivable management and more efficient coordination. The purchasing Group companies benefit from a straightforward pre-financing solution and from the fact that, in the event of discrepancies, colleagues at the inhouse bank are there to help. The volumes handled correlate closely with purchasing behaviour within the Würth Group. Falling refinancing costs have repeatedly led to price reductions in recent years, and financial year 2021 was no exception. However, owing to the disproportionate increase in volumes in this business, the contribution to earnings was almost unchanged compared with the previous year.

Central Settlement: payment volume/revenue

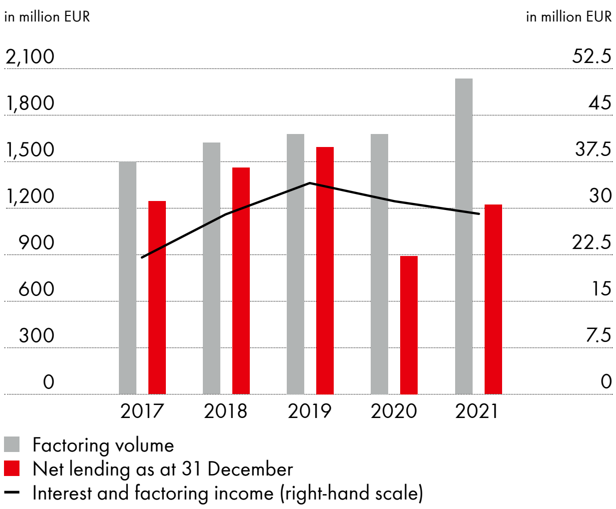


Net interest income

The market environment continued to be characterised by very favourable financing conditions. Despite a significant rise in inflation rates in the euro area, most recently approaching 5%, the central banks kept in place negative reference rates and their various bond-buying programmes.

The Würth Group did not participate in the refinancing markets in the past financial year as there was no need to raise additional funds. Considering the fact that a US private placement dating from 2011 fell due for redemption in September 2021, and that the credo of very conservative financial management continued to prevail, this shows how ample the liquidity reserves were over a number of months.

Group Financing volume and revenue from intra-Group lendings



The development of earnings in the Group Financing segment is obvious at first glance: high cash inflows from the underlying business, combined with moderate capital expenditure and acquisition activity, led to a decrease in the financial requirements of the Group companies (reduction in average net lendings to related parties from approximately EUR 1,300 million to EUR 900 million) and, in conjunction with higher liquidity holdings, to a decrease in net interest income from EUR 14.9 million to EUR 13.1 million. On closer analysis, this is nevertheless surprising. In the Würth Group's business model, the capital commitment effects in net working capital usually predominate in high-growth years and lead to an increase in financing requirements. This tendency materialised in the year under review only in the second half of the year, which meant that any effect on net interest income remained limited in financial year 2021.

On the assets side of the Würth Finance Group's balance sheet, a higher loan volume to Group companies (in particular to the US subgroup in connection with the redemption of the US private placement) and the corresponding decrease in liquidity are clearly discernible. On the liabilities side, the changes are more marginal. Overall, the total assets of the Würth Finance Group were hardly changed as at 31 December 2021.

Longer-term loans to Group companies continued to be hedged with interest rate swaps in order to secure still low long-term interest rates for the Group. Nevertheless, the interest rate sensitivity of the Würth Finance Group's equity decreased noticeably, as the lower residual term of the outstanding bonds along with a higher equity capital more than offset the effect from these hedging transactions by a wide margin.

> The Würth Finance Group's expertise and credibility in the financial risk management of the Würth Group are based on its track record in managing its own positions in the financial markets.

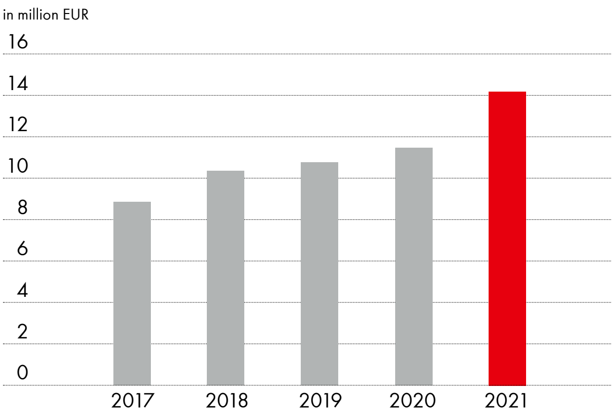
Currency hedging and trading with financial instruments
The Würth Finance Group's expertise and credibility in the financial risk management of the Würth Group are based, among other things, on its track record in managing its own positions in the financial markets. Owing to the broad international basis of the Würth Group's core business, the management of exchange rate risk is the main activity. The volume of currency exchange and exchange rate hedging transactions with Group companies correlates with the volume of transactions in these companies' underlying business, albeit to a much lesser extent than the two sources of revenue for Inhouse Banking mentioned above. The constant flow of funds in different currencies and the knowledge of the needs of the Group companies require ongoing management of currency positions by the traders and offer the opportunity to generate additional income from this within clearly

defined limits. In addition, the maturity mismatch of asset and liability items on the balance sheet of the Würth Finance Group gives rise to additional income opportunities. In the year under review net trading income of EUR 14.1 million was recorded, significantly exceeding the record result from the previous year.

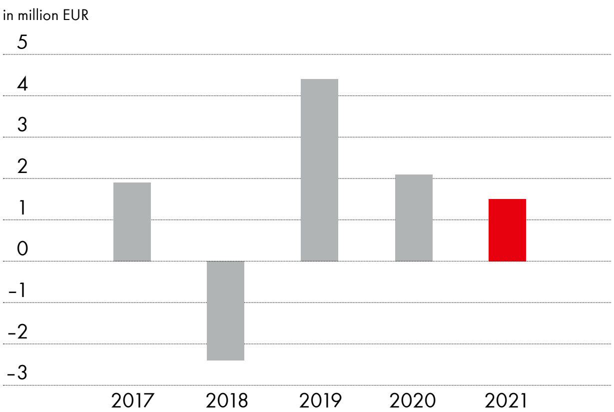
Securities investments

Taking investment risks, especially through positions in bonds, equities and commodities has also made a valuable financial contribution to the success of the Würth Finance Group for many years. However, the benefits of the expertise available here go much further, as the Central Managing Board is keen to draw on this expertise in a variety of ways in the financial management of the Würth Group.

Trading: income development



Securities investments: income development



In hardly any other field of activity is the benefit of hindsight so great:

- The rise in interest rates was moderate, so the basic focus on short durations was fundamentally the right one. However, in retrospect, bond positions were too small.
- Investments in US dollars benefited from a rise in the exchange rate. It seems the US Federal Reserve is thought capable of more than the European Central Bank. In retrospect, that is no surprise.
- Real estate investments generally performed well worldwide, but an overweight in US stocks against German companies would have made more sense, as regulatory fears in the wake of the parliamentary elections and distortions in individual stocks due to large-scale consolidation in Germany were market-dominating factors.
- Equity investments produced extremely good returns as a result of falling real interest rates and solid corporate data. Almost every setback could have been used to increase the equity allocation.

With regard to the long-term investment objective of delivering positive earnings contributions above the risk-free rate of return even at low volatilities, 2021 can nevertheless be considered a successful investment year: the return was 2.2% or EUR 1.5 million. The portfolio shrank slightly in size during the financial year and amounted to EUR 68.5 million at the end of the year.

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

Björn van Odijk
Managing Director

Roman Fust
Managing Director

Philip Guzinski

Alejandro Muñoz

Daniel Ochsner

Jorre van Schipstal

Patrik Imholz
Würth Invest AG

E-payment services

The COVID-19 pandemic continued to drive increasing demand for e-payment services. In cooperation with Group companies, a number of projects for establishing electronic payment options were implemented on new sales channels such as the customer contact centre and sales support applications. The services were optimised on an ongoing basis not only to offer new and efficient payment options in compliance with the highest security standards, but also to automate the entire payment process. With the Würth Omnichannel Payment Gateway (WOPG), the Würth Finance Group offers its clients a global infrastructure for processing electronic payments across all distribution channels. The volume of payments processed via the WOPG platform rose by around 25% in 2021 compared with the previous year.

Operating expenses

In the year under review, operating expenses of the division Inhouse Banking increased by 11% to EUR 21.5 million. Around half of the increase was attributable to higher personnel expenses. In addition, there was a certain base and catch-up effect for operating expenses, following a significant decline in the previous year. The cost-income ratio was thus maintained at almost the same level as in the previous year and the targets were clearly exceeded.

At a Glance

INHOUSE BANKING

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 10,000 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 2021)

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

530,000 payment transactions with a volume of EUR 7,300 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

3,370 foreign exchange transactions with 280 Group companies and a hedging volume totalling EUR 1,160 million

Outlook for 2022

In Europe, consumer spending is healthy, the savings rate is high, and investment in digitalisation must continue to increase – there is plenty of upside potential for another good financial year. The Central Managing Board is optimistic that the Würth Group will also continue growing, despite bottlenecks in goods and on the labour market. The risks should not be underestimated, however.

The breakout of the Ukrainian-Russian war at the end of February 2022 and the reaction of Western governments have substantially increased the risk for a less dynamic economic development in Europe and the world. The depth and breadth of the economic consequences and the revaluation of financial assets will depend on the further development of the war.

The Management expects that the process for balancing supply and demand in many markets, the normalisation of international trade and the stabilisation of prices will probably not come anytime soon. Also a renewed deterioration in the epidemiological situation could strain market confidence and public support. Thus, to avoid a phase of recession, it will be crucial that the fiscal and monetary authorities manage their strategies carefully and communicate them clearly, at the price of a further increase in government debt and the risk of inflation rates becoming entrenched above the target ranges.

If a recession can be avoided in Europe and a widespread financial crisis can be prevented, stable figures can be expected for income in the Inhouse Banking division. This takes into account the normalisation of liquidity reserves. In order to secure performance in the long term, investments in the digitalisation of business processes will be systematically continued and personnel resources will be gradually strengthened. This is likely to increase the cost base by a single-digit percentage. Overall, the Management currently expects no major deterioration in the operating result of the Inhouse Banking division in financial year 2022.