

Würth Finance Group

REPORT OF THE MANAGEMENT

The world has now been fighting the COVID-19 pandemic for more than two years. According to Johns Hopkins University, 3.5 million people died as the result of a COVID-19 infection in 2021. In 2020, the figure was just under two million people. Major efforts have been made and initiatives implemented by governments, public health authorities, scientists and researchers, the pharmaceutical industry, companies and employers, as well as central and commercial banks to mitigate the negative health, economic and social impact. Given the complexity of such a pandemic, it is not possible to quantify the concrete benefits of the measures and aid programmes initiated. However, it was possible to rapidly develop effective vaccines, which have been widely administered. About half a billion vaccinations are currently given each month, vastly reducing the likelihood of a serious illness and thereby preventing millions more deaths. Nevertheless, more than 5,000 people worldwide continue to die every day, with about 1,000 deaths in the EU alone. Doctors, nursing staff and the entire medical care infrastructure in many places remain massively overstretched. The efforts must continue.

In this environment, the global economic upswing continued, although its momentum slowed during the year. In many OECD countries, production has now surpassed end-2019 levels and is gradually returning to the pre-pandemic trend. The sharp rise in demand for goods led to bottlenecks in production chains. Labour shortages, pandemic-related plant shutdowns, rising energy and raw materials prices, and shortages of some key materials slowed growth and increased cost pressure in 2021. Inflation rose significantly in many regions. In addition to cost pressures due to supply bottlenecks in the manufacturing sector and higher food prices, imbalances on the energy market were a major factor that pushed up inflation in all economies.

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Consumers have generally been spending less on services and more on goods since the start of the COVID-19 pandemic. Companies with logistics expertise and a link to the construction industry benefited from the upturn in the trade in goods, which was reflected in the Würth Group's remarkable sales growth of 18.5% to EUR 17,100 million. This exceeded the expectations of the Central Managing Board. Exceptionally strong growth figures were achieved in the construction-related Würth Line business area, electrical wholesale and the eiSos Group, as well as in the southern European markets in general. By delivering these results, the Würth Group has clearly demonstrated its ability to withstand the pandemic so far and strengthened its competitive position thanks to the broad diversification of its business model. Excellent relationships with a large number of suppliers around the world ensured a relatively high delivery capability.

The strong growth resulted in high capacity utilisation and a corresponding improvement in productivity ratios. Despite rising manufacturing and procurement prices, the operating result of the Würth Group improved to a record level of EUR 1,200 million based on preliminary figures (2020: EUR 775 million).

To ensure the continuous expansion of the business model, investments were increased moderately to approximately EUR 500 million (2020: EUR 473 million). Thanks to the positive cash flow and disciplined investment and working capital management, the Würth Group's financial position remained very stable. This allowed the company to repay from liquidity the USD 200 million US private placement due in September 2021 and is reflected in Standard & Poor's "A" rating. Equity as at 31 December 2021 amounted to EUR 6,800 million, corresponding to an equity ratio of 45%. With liquidity of around EUR 1,100 million and undrawn credit lines of EUR 400 million committed until 2023, the Würth Group has very comfortable liquidity reserves available. In the meantime the 1% Eurobond maturing in May 2022 was redeemed early from the company's own funds on 21 February 2022.

Responsibility Statement

In accordance with the EU Transparency Directive and the Dutch Financial Supervision Act (Wet op het Financieel Toezicht), the Management of the Würth Finance Group hereby confirms that, to the best of its knowledge, the Financial Statements for the financial year ended on 31 December 2021 give a true and fair view of the assets, liabilities, financial position and

profit or loss of the Group, and that the Management report includes a fair review of the development and performance during the financial year and of the financial situation of the Group at the balance sheet date, as well as of the risks associated with its business.

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The terms “resilience”, “agility” and “sustainability” currently feature prominently in many companies’ mission statements and strategies. They reflect a company’s ability to deal with the risks and opportunities that arise when conditions in the core business change. This may be triggered by strong growth or collapsing demand, by sharp procurement price increases or by persistent supply bottlenecks, for example. In recent months, these themes have dominated consultations with many clients and business partners and ensured a high level of demand for the insurance and financial services solutions offered by the Würth Finance Group, whether in terms of adjusting insurance coverage as part of corporate restructuring, optimising risk insurance for employees, protecting against asset losses due to cyber attacks or hedging against a strong appreciation of the Swiss franc or rapidly rising interest rates for corporate financing. At the same time, the Würth Finance Group acts as an interface connecting its clients with investors, lending banks and insurance companies, ensuring that their increasing transparency requirements with regard to sustainability are met.

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In financial year 2021, the Würth Finance Group achieved solid progress in the important area of digitalisation. For example, Würth Financial Services AG deployed new systems that significantly enhance efficiency in the processing of tenders and invoices. With the introduction of a new product called “Powertrader”, Würth Finance International B.V. provided Würth Group companies with a sophisticated and secure electronic trading system that is available around the clock in all time zones for the processing of financial transactions. Significant successes have also been achieved in the further development and introduction of electronic payment services. The strategic partnership with Twint AG makes it possible to instantly insure products purchased online in Switzerland via the Twint payment app. The payment volume processed by the Würth Group’s clients via the Würth Omnichannel Payment Gateway – the e-payment

platform of Würth Finance International B.V. – recorded growth of around 25% in the year under review. Value was also created through the introduction of a multibank-compatible e-banking system for Würth Group companies. These initiatives resulted in satisfied clients and will be continued in the coming years.

With an adjusted pre-tax profit of EUR 55.5 million, the Würth Finance Group achieved a record-high result.

Encouragingly, the Würth Finance Group was able to continuously increase its earnings forecasts for the financial year as the year progressed. Growth in the volume of payments processed via the Würth Finance Group remained stable in the double-digit range, for instance. The premium volume in insurance brokerage was also increased in the second half of the year. Successful financial market positions resulted in improved securities investment and trading performance compared with the previous year. At EUR 89.6 million (2020: EUR 84.0 million), the Würth Finance Group’s adjusted operating income therefore significantly exceeded the target despite considerably lower income from Group Financing. Operating expenses increased year on year by around 8%, from EUR 31.5 million to EUR 34.0 million. This is partly due to a catch-up effect following the previous year’s cost savings, including the postponement of IT projects, as well as a general reduction in travel and restraint in filling vacant positions and awarding consulting contracts. With an adjusted pre-tax profit of EUR 55.5 million, the Würth Finance Group achieved a record-high result (2020: EUR 52.5 million) and made a significant contribution to the consolidated result of the Würth Group.

Details on the course of business in the Inhouse Banking and External Financial Services divisions follow on pages 8 to 19. The Würth Finance Group's report on risk management and control can be found on pages 20 to 27. The Würth Finance Group does not have its own audit committee and is therefore integrated into the Würth Group's audit process.

Outlook for 2022

The COVID-19 pandemic and the response to it have triggered developments and changes in many respects – with medium- and long-term consequences for politics, the economy and society. Institutions, traditions and values are being questioned and recalibrated. This may be unsettling, but it is also a great opportunity to give the concepts of resilience, sustainability and agility the substance they need to shape the future, including in the area of corporate governance.

These developments and the changes on the insurance and financial markets are creating long-term growth opportunities, which the Würth Finance Group is focusing on. Consequently, investments are continuously made in the further development and digitalisation of the business model in the Inhouse Banking and External Financial Services divisions – while keeping in mind the scope and quality of client services. This requires significant willingness to learn and adapt on the part of employees. The Würth Finance Group promotes the continuous professional development of its managers and employees throughout their entire working lives as the key to securing the company's future. Protecting assets – against cyber attacks, for example – and fulfilling regulatory requirements are important prerequisites for financial and insurance service providers to conduct their business successfully over the long term. The Würth Finance Group has the necessary critical mass and organisational structure to ensure effective and efficient IT risk and compliance management.

At the beginning of 2022 the OECD expected robust growth of around 4% in the euro area and the US in the current year. Inflationary pressures were anticipated to be stronger and more sustained than was expected just a few months ago. Nevertheless, consumer price inflation was expected to gradually abate during the year as supply constraints were expected to ease, production capacity to be increased and disruptions in world trade to normalise.

The escalation of the conflict and the invasion of Ukraine by Russian military forces in February 2022, followed by international economic and financial sanctions against Russia, reduce the value of such forecasts. The further developments of the war are unknown. Hopefully the negative spiral of further escalations can be interrupted soon. The economic outlook for Europe and the world has deteriorated abruptly – at least for the coming quarters – and this is accompanied by a re-pricing of financial assets, which is underway.

What is clear is that faster, more coordinated global vaccination efforts are critical in the fight against COVID-19 to save lives and prevent the emergence of new variants. They would also help relieve some of the bottlenecks currently stalling recovery, as factories, ports and borders could fully reopen. The removal of government pandemic assistance must be cautious and gradual so as not to weaken the economy.

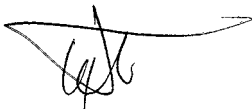
To stabilise market confidence and public support, it is critical that the fiscal and monetary authorities clearly communicate their strategies.

There is a high level of uncertainty. Nevertheless, the Würth Group intends to take advantage of the current momentum and, as an adaptable and competitive company with a clear customer focus, is confidently aiming for growth once again. Investment, acquisition and development projects are aligned with the relevant markets and the growth targets for the next five years, but will be adjusted to the speed of the economy.

If a recession can be avoided, the Management of the Würth Finance Group anticipates stable income in both the External Financial Services and Inhouse Banking divisions in financial year 2022. The Management is aware of the risk of setbacks from the Ukrainian-Russian war and in the fight against the COVID-19 pandemic, which could put a brake on economic recovery and trigger turbulence on the financial markets. Consequently, growth-oriented investment projects and capacity expansion will be implemented gradually and can be postponed if necessary.

Thanks

The Management of the Würth Finance Group is very satisfied with the results achieved in financial year 2021 and would like to thank all employees for their important contribution to the success achieved. These results were achieved under the sometimes difficult conditions of the remote work environment and while focusing on digital communication channels with clients. Thanks also go to our clients and business partners, whose trust in the Würth Finance Group has made our success possible in the first place. We look forward to continuing to work with them in 2022.



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