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 a 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 Inhouse Banking segment, as shown in the table below.

in TEUR	2018	2019	2020	2021	2022
Hedge accounting effect management accounting	3,742	2,993	1,492	–548	–619
Impairment for credit loss	3,698	–739	8,558	–6,450	4,615

- 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 consolidated financial statements of the Würth Group. This position represents the expected credit loss (ECL) on loans and receivables as at the balance sheet date and until 2021 also the Würth Finance Group's impairment of the capital relinquishment to Internationales Bankhaus Bodensee AG. 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 increased to 0.79% as at 31 December 2022 (31 December 2021: 0.44%), thus an additional ECL of EUR 4.6 million is recognised in the income statement.

2022

in TEUR	APM Inhouse Banking	Hedge accounting effect management accounting	Impairment for credit loss	Segment Inhouse Banking
Income distribution				
Group Financing	48,440	–1,291	–4,615	42,534
Net interest income	30,154	–1,291	0	28,863
Income from factoring activities	17,733	0	0	17,733
Other ordinary income	553	0	0	553
Expected credit loss (expenses) / recovery	0	0	–4,615	–4,615
Central Settlement	34,029	0	0	34,029
Income from trading activities and financial instruments	9,815	1,910	0	11,725
Trading	15,340	1,910	0	17,250
Securities investments	–5,525	0	0	–5,525
Total income	**92,284**	**619**	**–4,615**	**88,288**
Total expenses	**–22,758**	**0**	**0**	**–22,758**
Total Inhouse Banking	**69,526**	**619**	**–4,615**	**65,530**

2021

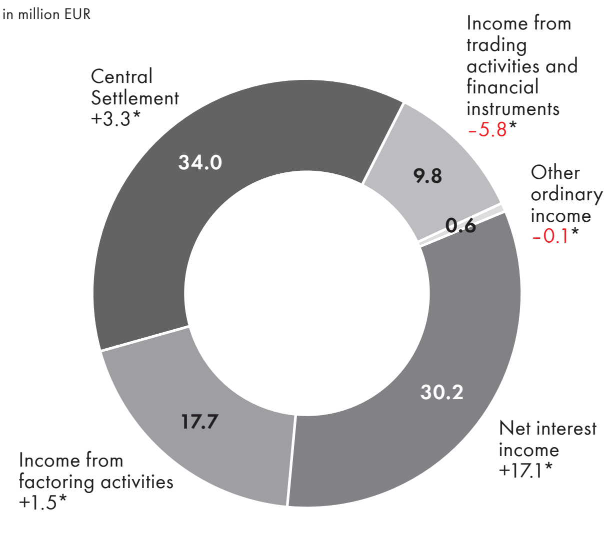
in TEUR	APM Inhouse Banking	Hedge accounting effect management accounting	Impairment for credit loss	Segment Inhouse Banking
Income distribution				
Group Financing	30,015	596	6,846	37,457
Net interest income	13,114	596	0	13,710
Income from factoring activities	16,234	0	0	16,234
Other ordinary income	667	0	0	667
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**

Key events

Record profit

The stars aligned for the Inhouse Banking division in financial year 2022. At EUR 69.5 million, the adjusted pre-tax profit hugely exceeded the previous year's record level, rising by 27% or EUR 14.8 million. This is largely attributable to the doubling of net interest income, which was bolstered by the higher financing requirements of Würth Group companies and substantially higher interest income on the investment of liquidity reserves during the year. The other segments that correlate strongly with the Würth Group's core business (central settlement of payments to suppliers, factoring, currency hedging) posted double-digit growth and compensated for the significant negative performance of securities investments.

Income distribution



*Change vis-à-vis 2021

Economic environment and Group performance

The year 2022 will be remembered as a year of multiple – sometimes overlapping – crises. The COVID-19 pandemic, the Ukraine war, disrupted supply chains, looming energy shortages and soaring inflation preoccupied almost all players in the real economy and on the financial markets. The global political situation, which increasingly indicated a return to the East-West bloc that had long been considered resolved, and, at times, even the threat of potential nuclear strikes dominated the news flow and occupied many companies worldwide – including the Würth Group.

However, the family-owned business had already demonstrated its ability to deal with uncertainty during the COVID-19 pandemic in 2020 and 2021. The escalation of the threat situation further intensified the challenges faced. Ultimately, what was needed to address these challenges included scenario planning, developing an adaptable organisational structure and – especially in financial management – lending greater weight to security aspects than in less uncertain times. With its diversified business model and flat hierarchical levels, the Würth Group was very successful in this respect. A 17% rise in sales and a record operating profit of EUR 1,500 million are an impressive result.

Financial resources successfully raised on the bond and credit markets

To safeguard its ability to act, the Würth Group consciously increased its safety stocks and strengthened its liquidity reserves. To this end, Würth Finance International B.V. raised long-term fixed-interest funds on the capital market. The relevant decisions were taken in close consultation with the Management of the Würth Finance Group, taking into account the significant change in the interest rate and financial market environment.

The uncertain times and financial market turbulence increased the general need for discussion and advice on treasury issues among the Group's management committees and within the Group companies. The outbreak of war in Ukraine further intensified this dialogue. As already demonstrated during the pandemic, the importance of the inhouse bank's integration into the Group's overall business operations along the entire value chain, as well as the network built up over the past few years with personal contact between Würth Finance International B.V. and local colleagues, again became apparent.

Never before has Würth Finance raised such extensive financial resources within a single financial year.

The issue of two bonds and the early extension of the committed credit line with a total volume of more than EUR 1,400 million – never before has Würth Finance International B.V. raised such extensive financial resources within a single financial year. For the coming years, the Würth Group is well protected against potential further interest rate increases.

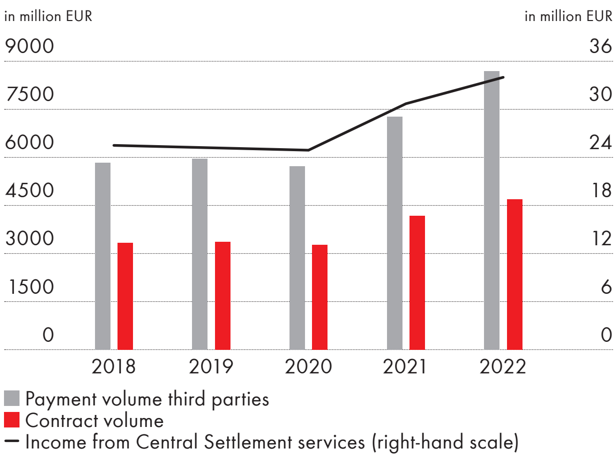
These major transactions unjustifiably overshadow the clear double-digit growth in the inhouse bank's payment volumes in parallel with the Group's growth. It is also notable that the financial year 2022 was tackled with a virtually unchanged average number of employees compared with the previous year.

Business performance

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 by a factoring system via accounts at the Würth Finance Group. The main advantages of the system are the avoidance of bank transactions and the corresponding fees, the pre-financing component, the easier accounts receivable management and the efficient Group reconciliation. Even after many years, this internally developed service is still proving extremely beneficial for the Würth Group companies. The transaction volumes handled correlate closely with purchasing behaviour within the Würth Group. In financial year 2022, these volumes increased by 8% to EUR 2,200 million.

Central settlement of payments to suppliers
Würth Finance International B.V. benefited from the significantly increased purchasing volumes in the Würth Group. Due to the predominantly central processing of payments to Group suppliers on behalf of the Group companies, 530,000 payments totalling EUR 8,700 million were processed through the inhouse bank. Payment settlement agreements are in place with the majority of the Group's strategic suppliers, resulting in income of EUR 34.0 million, up 11% on the previous year.

Central Settlement: payment volume/income



Net interest income
At the beginning of the year, inflation rates had already increased worldwide. But the outbreak of war in Ukraine prompted a massive energy price shock, the like of which had not been seen since the 1970s. As the year progressed, prices for a broad basket of goods and services rose, forcing central banks to tighten monetary policy rapidly and significantly. In the US, key interest rates were raised by 425 basis points in seven stages, while in the euro area rates were raised by 250 basis points in four steps. Long-term interest rates increased to the same extent.

The rise in interest rates affects the Würth Group's financing costs with a time lag, since the company primarily finances itself through long-term bonds issued by Würth Finance International B.V.

The Würth Group is committed to sustainable corporate governance and Würth Finance also plays its part.

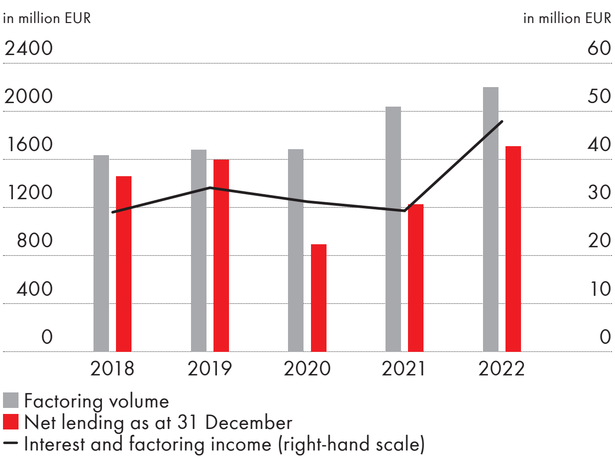
The focus on safeguarding high delivery capabilities and holding higher stock levels resulted in a substantial increase in financial requirements during 2022. Consequently, Würth Finance International B.V.'s net lending to Group companies increased by an average of more than EUR 600 million – from EUR 730 million to EUR 1,340 million.

In order to maintain liquidity reserves at an adequate level, a EUR 600 million bond with a term of 8.25 years and an interest coupon of 2.125% was issued in May. In addition, after a 13-year break, a CHF 300 million bond with a four-year term and an annual coupon of 2.1% was very successfully issued on the Swiss capital market in November. These transactions also refinanced the EUR 500 million bond (2015 - 2022), which was repaid early in February.

The significant increase in net lending and the relatively sharp rise in interest rates on cash investments resulted in record net interest income of EUR 30.2 million (previous year: EUR 13.1 million).

The Würth Group is committed to sustainable corporate governance and the finance segment also plays its part. In this regard, Würth Finance International B.V. used the early extension of the committed credit facility due in summer 2023 to include several sustainability targets as pricing components. Closing took place in September 2022. The pricing on the "sustainability-linked" syndicated loan provided by 13 core banks, which has a volume of EUR 500 million and a term to September 2027, is based on the target achievement of gradually reducing carbon emissions (scope 1 and 2) and increasing the proportion of recyclable packaging material at Adolf Würth GmbH & Co. KG, the largest single company within the Würth Group.

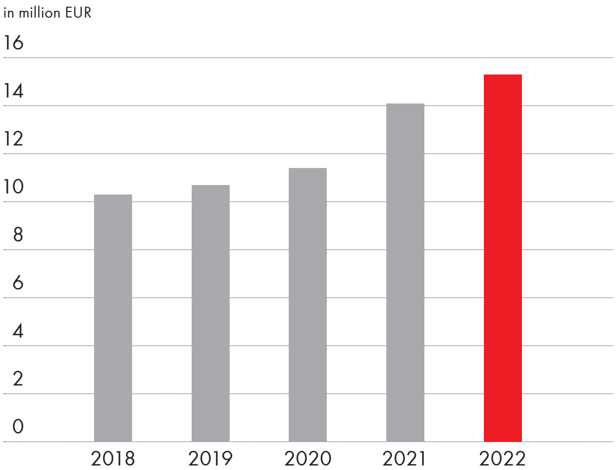
Group Financing volume and revenue from intra-Group lendings



Currency hedging and trading with financial instruments
Due to the above-mentioned sharp rise in interest rates and the prospect of stagflation, the financial markets also experienced a high degree of volatility and significant corrections in currencies, commodities, energy and all asset classes. For example, the euro declined by around 10% against the US dollar during the year. This development hints at the content of the discussions with those responsible at Würth Group companies with large dollar-based purchasing volumes.

The major stock market indices recorded double-digit price declines in an often nervous market environment – quite frequently with implied volatility of more than 30%. Oil price fluctuations even reached around 50% during the year. Encouragingly, the traders at Würth Finance International B.V. once again made a record contribution to earnings of EUR 15.3 million (previous year: EUR 14.1 million) through trading with financial instruments within tight trading limits.

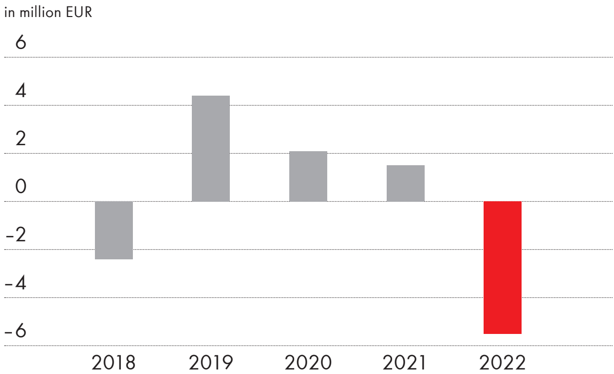
Trading: income development



Securities investments
Based on a strategic ratio of 80% investment grade bonds with a three-year duration, the Würth Finance Group aims to achieve a long-term return on its securities investments that is 200 basis points higher than the return on an ESTR money market investment. Following the above-average cumulative returns of 11.7% in the years 2019 to 2021, the value of securities investments fell by EUR 5.5 million in financial year 2022, causing a performance of –7.3% despite the relatively conservative investment strategy. This also reduced the annualised average return for 2019 to 2022 to 0.9%, 0.7 percentage points below the benchmark.

Equities, real estate and bonds – all major asset classes experienced losses in 2022, with 80% of the negative performance due to lower valuations in the investment grade bond portfolio. As a result, its yield to maturity improved to more than 3% p.a., with correspondingly positive earnings prospects for the future. Based on the assessment that yields had meanwhile probably reached an attractive level, the bond portfolio was increased to EUR 81.7 million in the course of the year.

Securities investments: income development



E-payment services

Absolutely no decline in transaction volumes was experienced in 2022 when the COVID-19 measures, which had pushed up demand for e-payment services, came to an end in almost all regions. Quite the opposite: the use of alternative payment methods to speed up cash receipts, reduce risk and increase the efficiency of processing incoming payments remains an unbroken global trend. The technical and organisational standards for integrating electronic payment methods, which were established in close cooperation with the Würth Group's internal IT service providers, were expanded and proved successful. This success took the form of more connected Group companies, an expansion of the payment methods into new sales channels (e.g. call centres and sales-enabling apps), and new functionalities that further support payment via electronic payment instruments for the benefit of Group companies and their customers.

The payment volumes processed via the WOPG (Würth Omnichannel Payment Gateway) platform again increased by well over 25% year on year in 2022.

Operating expenses

Operating expenses in the Inhouse Banking division increased by 5.6% year on year to EUR 22.8 million. The additional expense compared with the previous year amounted to EUR 1.2 million, of which around 60% is attributable to higher IT costs (mostly for planned projects) and the stronger Swiss franc. The latter increased operating costs at the Swiss branch.

Outlook for 2023

The EU and North American economies are expected to experience slow growth and a high rate of inflation over the coming quarters. There is still no end in sight to central bank monetary policy tightening, meaning that it is probably still too early for a trend reversal on the interest rate markets or a recovery of equity prices.

In light of this, the Würth Group remains relatively cautious with regard to growth-oriented investments. However, the company intends to continue to focus on the opportunities still available, such as those arising from the increasingly rapid sustainable transformation of the economy.

The Würth Group's inhouse bank filled vacant positions in the second half of 2022. The Management therefore expects operating expenses to rise in financial year 2023. At the same time, stagnating income and, consequently, a slightly lower operating result are anticipated. The flattening out of inventories is expected to lead to a slightly below-average performance in the central settlement of payments to suppliers and in factoring volumes. In 2023, the interest expenses on the two new bonds will be incurred across the entire12-month period and will therefore negatively impact net interest income. For securities investments, the Management believes that the current valuations now offer a more attractive profile of opportunities and risks, though ensuring the right timing will be crucial. Numerous risks and uncertainties could affect this outlook: an escalation of the war in Ukraine, electricity or gas shortages, a sharp recession or a widespread debt crisis.