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	2019	2020	2021	2022	2023
Hedge accounting effect management accounting	2,993	1,492	–548	–619	–203
Impairment for credit loss	–739	8,558	–6,450	4,615	–4,273

- 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 decreased to 0.45% as at 31 December 2023 (31 December 2022: 0.79%), thus a reduction in ECL of EUR 4.3 million is recognised in the income statement.

2023

in TEUR	APM Inhouse Banking	Hedge accounting effect management accounting	Impairment for credit loss	Segment Inhouse Banking
Income distribution				
Group Financing	61,929	1,096	4,273	67,298
Net interest income	47,946	1,096	0	49,042
Income from factoring activities	13,573	0	0	13,573
Other ordinary income	410	0	0	410
Expected credit loss (expenses) / recovery	0	0	4,273	4,273
Central Settlement	33,736	0	0	33,736
Income from trading activities and financial instruments	22,758	-893	0	21,865
Trading	16,071	–893	0	15,178
Securities investments	6,687	0	0	6,687
Total income	**118,423**	**203**	**4,273**	**122,899**
Total expenses	**–25,865**	**0**	**0**	**–25,865**
Total Inhouse Banking	**92,558**	**203**	**4,273**	**97,034**

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**

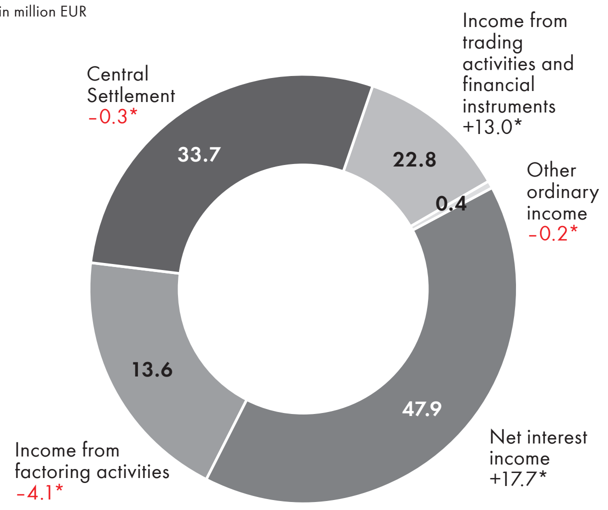
Key events

Record profit

Financial year 2023 was another record year. With a pre-tax profit of EUR 92.6 million, the previous year's result was once again exceeded, this time by EUR 23.0 million. The main reason for this considerable improvement was record-high net interest income. Securities investments also made a large contribution of EUR 6.7 million to earnings. However, the other segments (centralised settlement of payments to suppliers, factoring, currency hedging), which correlate closely with the Würth Group's core business, declined in comparison with the previous year.

Income distribution

in million EUR



*Change vis-à-vis 2022

Economic environment and Group performance

The supply chain situation eased significantly in 2023. For the Würth Group, which mainly operates as a trading company, this was initially good news on the purchasing side. As a result, safety stocks in the warehouses were reduced, while the level of service for customers was improved to the usual pre-crisis level. However, this is only one of many factors; most of the macroeconomic conditions deteriorated noticeably. The general political climate continued to be overshadowed by the war in Ukraine and, later in the year, by the Gaza-Israel conflict. Domestic political issues in the Würth Group's core markets (particularly in Germany) and persistently high inflation coupled with a sluggish economy also did little to boost the confidence and planning security of economic actors. Inflation in the core markets in Europe and the US fell significantly over the course of the year, but most recently was still in excess of the central banks' targets. The central banks progressively raised their policy rates and did not take a breather until autumn. In the fourth quarter, the expectation prevailed on the capital markets that the central banks will begin to cut interest rates in the first half of 2024. This led to rising bond prices and falling yields to maturity.

The Würth Group started the business year 2023 with high single-digit sales growth, but lost momentum from month to month, which was attributable to challenging economic trends in its core markets. Nevertheless – according to preliminary figures – it ultimately managed to post record sales and the second-highest operating result in the company's history. Once again, the Electrical Wholesale unit should be highlighted, as it enjoyed significant double-digit sales growth until autumn 2023, before a correction set in here too. The Würth Group's growth strategy in this segment remains focused on organic growth and targeted acquisitions; several acquisitions were also made in financial year 2023, not all of which had been completed as at the balance sheet date.

Both capital expenditure and the M&A activities were at their highest for several years. The number of employees once again increased slightly to reach just over 87,000 full-time equivalents.

Although the Würth Group is not immune to recessionary trends, the company once again demonstrated its solidity in financial year 2023.

Significantly positive operating cash flow reduced the need for financing and boosted the cash reserves of many Group companies. Refinancing measures on the capital market were therefore not necessary.

Although the Würth Group is not immune to recessionary trends, the company once again demonstrated its solidity in financial year 2023. This is also reflected in the renewed confirmation of its A credit rating by Standard & Poor's.

Business performance

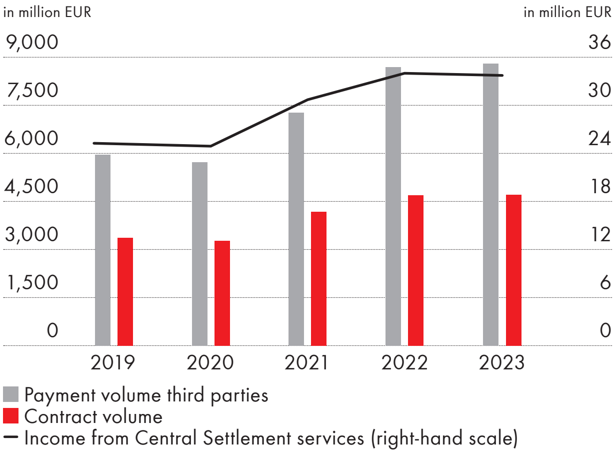
Intercompany factoring activities

A large part of intra-Group receivables are settled by means of an internally developed factoring mechanism via the Group's inhouse bank. As in all the inhouse bank's other areas of business, the fees payable for factoring are compared with third-party fees. The inhouse bank endeavours to smooth out sharp market fluctuations. Nevertheless, long-term trends have an impact on the fee model. Because of the low interest rate environment in recent years, a decision was made in the course of 2022 to reduce factoring fees starting from 2023. This is the main reason for the sharp fall in earnings in this area of business. The volumes transacted stagnated as a result of the reduction in safety stocks in the Würth Group's warehouses.

Central settlement of payments to suppliers

In this segment, too, the combination of sales momentum in the underlying business, the change in purchase prices and the management of inventories is crucial to payment volumes at Würth Finance International B.V.: With 540,000 payments and a value of EUR 8,800 million they remained almost unchanged compared to the previous year. The contribution to earnings from the central settlement of payments to suppliers totalled EUR 33.7 million, EUR 0.3 million down on the previous year.

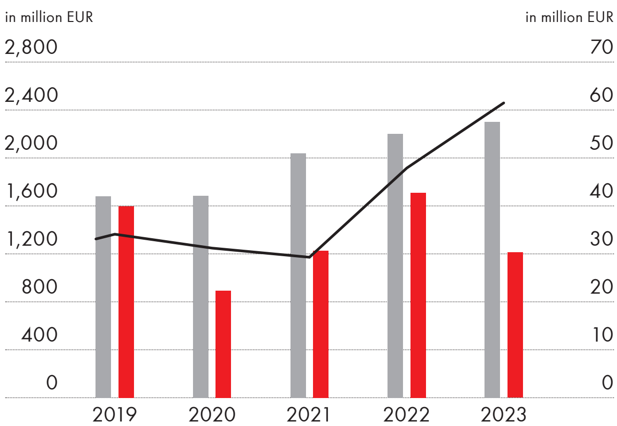
Central Settlement: payment volume/income



Net interest income
The decline in inflation started from levels of around 10% and began rather slowly, which is why the central banks initially continued with or further amplified their cycle of monetary policy tightening. This also directly pushed up the short-term interest rates paid on Würth Finance International B.V.'s cash investments with its banking partners. The sharp rise in cash reserves during the financial year also meant that significantly higher interest income was earned than in previous years.

With regard to the interest expense paid to external counterparties, the fact that the existing borrowings on the capital markets are of a long-term nature (funds committed at fixed interest rates) has a positive effect. Following two bond issues in the previous year, the Würth Group stayed away from the capital markets in 2023. No new funds had to be raised at higher interest rate levels. The negative impact of higher market interest rates was therefore limited to the relatively small proportion of older bond borrowings swapped into short-term rates.

Group Financing volume and revenue from intra-Group lendings



Factoring volume
Net lending as at 31 December
Interest and factoring income (right-hand scale)

The conservative balance sheet management of the Würth Group had a clearly positive effect and led to record-high net interest income at the inhouse bank.

With high levels of operating cash flow, many Group companies were able to repay loans and borrowings from the in-house bank or to increase their cash holdings. Net loans from Würth Finance International B.V. to Group companies fell by around EUR 550 million to EUR 1,000 million between the end of 2022 and the end of 2023. With interest rates rising, this had a positive effect on the net interest income of those Group companies that were able to build up high levels of liquidity.

With the yield curve clearly inverted of late, some specific opportunities were utilised for balance sheet management; targeted use was made of derivatives for this purpose. All in all, the conservative balance sheet management of the Würth Group had a clearly positive effect in the financial year and led to record-high net interest income at the in-house bank.

Currency hedging and trading with financial instruments
Wherever possible, all currency exchanges at the Würth Group are effected via Würth Finance International B.V. Colleagues in the Treasury department endeavour always to effect currency exchanges at optimum times and terms and to enhance planning security by means of tailored, systematic hedging strategies. In terms of intercompany business, most of the volumes originate either from Group companies that purchase in a foreign currency from the Group's central purchasing companies, or from payments to external suppliers whose invoices are in a foreign currency. These volumes

declined as a result of the slowdown in the Würth Group's sales in conjunction with the progressive reduction in inventories. In financial year 2023, declining trading volumes were again used specifically to enter into risk positions within defined position and loss limits. As a result, the overall contribution to earnings from trading with financial instruments increased by 4.8% to a gratifying EUR 16.1 million.

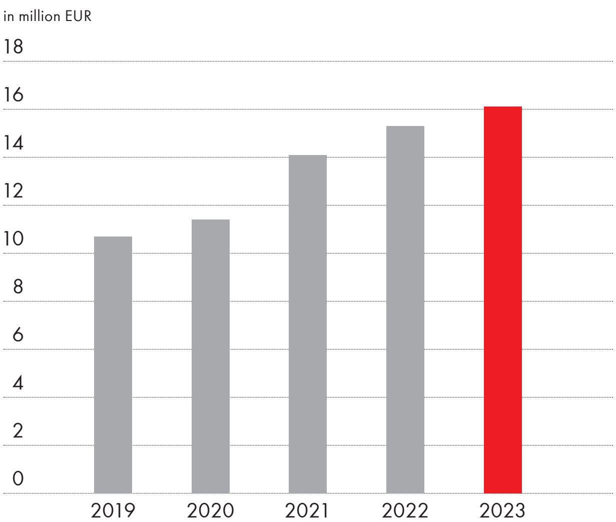
Securities investments

The Würth Group's inhouse bank continued with its policy of investing part of the strategic liquidity reserves for the longer term. The aim is to achieve a return that is 200 basis points above the interest rate on an ESTR money market investment in the long run.

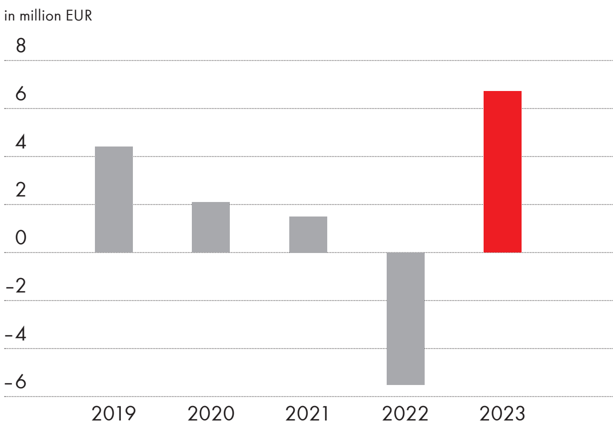
Based on the assessment that yields to maturity had reached an attractive level of well over 3% p.a., the bond portfolio was expanded from EUR 84.4 million to EUR 92.9 million in the first half of the year and to EUR 101.4 million in the second half, with a focus on good credit ratings and relatively long maturities. This paid off. Share prices also moved in a positive direction – with two pronounced upward phases in the first and fourth quarters – and predominantly posted significant double-digit price gains. The inhouse bank benefited from this, too. With a record result of EUR 6.7 million, which equates to a performance of +6.5%, the losses from the previous year were fully recouped. The average annualised return achieved over five years is 2.0%, around 150 basis points higher than the benchmark.

Because of the central banks' zero interest rate policy, over several years the funds from maturing bonds were only partially reinvested, as a result of which the securities portfolio steadily contracted. However, in the last two years up to 31 December 2023 the portfolio was expanded by 67.6% to reach EUR 114.8 million mainly through the acquisition of more bond positions. This reflects the management's positive assessment of the prospects for returns on the markets.

Trading: income development



Securities investments: income development



E-payment services

Electronic payment instruments (e-payments) are becoming increasingly important for the Würth Group companies, as they offer customers the opportunity to pay using their preferred means of payment, such as debit and credit cards, PayPal, Apple Pay and Google Pay. In 2023, the volume of e-payments (incoming customer payments) processed via the Würth Omnichannel Payment Gateway (WOPG) increased by approximately 27%. This growth was spread across various customer contact points, such as the online shop, sales branches, mobile POS and telesales. One of the most challenging initiatives launched in 2023 is an e-payment solution for a new online marketplace.

The inhouse bank's e-payment team works in very close collaboration with the IT companies and the various Group companies active in this market with a view to optimising the e-payment experience for customers. Together, these people form the Würth Group's e-payment competence centre.

Operating expenses

The inhouse bank's operating expenses increased by around half as much as operating income in the year under review. They rose by 13.7% to EUR 25.9 million. Around two-thirds of this increase was attributable to higher IT costs for projects to optimise the technical infrastructure, processes and IT security, particularly for the Payment Factory. In addition, personnel expenses were higher because of an increase in staff (annual average: +5.2%) and wage rises.

Outlook for 2024

At the time this annual report went to press, leading business indicators, global political uncertainties and the current macroeconomic trend (particularly in the construction sector) still leave little room for exuberant optimism. However, thanks to falling rates of inflation, central banks now have greater room for manoeuvre for an accommodative monetary policy.

In keeping with the tradition of a family-owned company, the management of the Würth Group takes a long-term view when making its decisions. There is solid confidence in the agility and resilience of the individual Group companies, and this confidence has been bolstered recently by major acquisitions and is backed by large cash reserves. In general, there is optimism that the period of economic weakness is coming to an end and that the company will emerge stronger from the competition with rival business partners.

For Würth Finance International B.V., this means that positive momentum in volume-dependent business is not expected until the second half of the year at the earliest. As part of the Würth Group's financing strategy, long-term funds at fixed rates may be raised on the capital markets in the course of the year – at significantly higher interest rates than last time. This will tend to have a negative impact on net interest income. And after an exceptionally strong result in 2023, income from securities investments is also likely to be significantly lower, as the bond and equity markets have probably already priced in a large part of the potential for interest rate cuts.

After a number of positively correlated developments contributed to a record profit in 2023, and assuming that there is no escalation at the geopolitical hotspots and no negative surprises for the global economy, the management of the inhouse bank expects a low double-digit percentage decline in its operating result in financial year 2024.