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Current Situation in Ukraine with Regard to Supply Chains

Dear business partner,

„We woke up in a different world today“. This and similar phrases are being used by governments and international organizations worldwide to describe the escalation of the Ukraine conflict, which since February 24 has degenerated into an open war with disturbing images. This surprising as well as dramatic development happening right in front of our eyes makes us all deeply concerned and meanwhile affects the most diverse areas of our private and economic life.

With this letter, we would like to inform you about our current assessment of how the war in Ukraine will affect the Würth Industrie Service GmbH & Co. KG's supply chains and what the consequences may be.

First of all, we would like to state that we do not maintain any business relationships with suppliers in the immediate crisis area. Similarly, our current supply routes do not pass through regions affected by the armed conflicts. We can therefore state that a direct impact has largely been negated.

In this still tense situation, all Würth Industrie Service colleagues are working intensively, closely and in a solution-oriented manner with all partners in the supply chains to achieve the best possible supply for you. Thanks to the trusting cooperation with you, our customers, we have succeeded very well in this, even under the unsteady conditions of the past 14 months. I would like to take this opportunity to thank you very much for your trust and partnership!

Irrespective of this, however, strong indirect impacts of the Ukraine war are making themselves felt on the procurement markets, the short-, medium- and long-term effects and duration of which are not yet foreseeable. Therefore, it is our wish to inform you as comprehensively as possible, although you have certainly already heard this from other segments in your supply structure.

For example, the current price volatility on the energy and commodity exchanges and the need to redirect procurement volumes at short notice are leading to renewed cost increases in the freight sector and to capacity bottlenecks for manufacturers. To an extent unprecedented in Europe's recent history, the already implemented and forthcoming government sanctions and counter-sanctions are having a tightening and price-driving effect, with the acting governments willing to accept negative impacts on certain industries in pursuit of an overriding interest. These effects are being met by an unchanged fragile market environment, which since the outbreak of the Covid 19-pandemic has been characterized by continuing distortions, a critical capacity situation at manufacturing companies, and prices for raw materials, semi-finished products, production parts, and freight/transport space stagnating at a high level. As a result, a mixed situation has arisen which manifests itself in the fact that a large proportion of global supply chains are currently disrupted. The individual extent of this is difficult to quantify, as it is as heterogeneous as it is discontinuous, depending on the positioning of the market participant within the procurement and sales markets and on the industry and product segment.

Suppliers with energy-intensive production processes such as coating and electroplating or with a demand for certain alloying/tempering steels are currently experiencing cost developments that in some cases threaten their existence. In addition, manufacturers in Eastern Europe in particular have been affected by the recent closures and partial destruction of some of the largest steel mills in Ukraine, as well as rising gas costs for power generation. This is reflected - uniquely to date - in the fact that, irrespective of existing contractual agreements, orders from manufacturers are unilaterally cancelled, confirmed delivery dates are postponed and/or continued delivery is linked to short-term price increases.

In order to avert lasting damage to the medium- to long-term functionality of the supply chains and their competitiveness, and to maintain our ability to supply our customers as effectively as possible, we are currently forced, after careful consideration, to accept extraordinary price surcharges from upstream suppliers and manufacturers for current orders and contracts. We are working intensively with all partners in the supply chain to overcome these challenges in the best possible way.

Nevertheless, as a trading company in the industrial segment, we see no basis for unilaterally bearing the resulting additional financial burdens. This is particularly the case because, contrary to the easing of the market situation that was still emerging at the beginning of 2022, the situation has now worsened again. Against this background, we will approach you if necessary to implement appropriate adjustments to product and service prices as part of our responsibility to cooperate, assist and minimize damage.

Notwithstanding the above, we cannot rule out the possibility of disrupted availability, shortages and delays in the present, dynamic situation. For example, we currently cannot entirely ensure to maintain stock levels at the usual or agreed levels in all areas of our product range, which comprises more than 1 million articles, due to a wide variety of influencing factors outside our organizational sphere, which we are unable to control or compensate for.

When obstacles arise, it is essential to work out and implement solutions together as partners. We thank you in advance for your continued support.

Finally, we would like to point out that the implementation of continuous sanction screenings is part of our organizational self-understanding, which enables us to confirm at any time that we comply with all sanction lists of Western government institutions.

We have set up a separate section on our website where we provide the latest information for you: <https://www.wuerth-industrie.com/aktuelles>

We hope, especially for all those affected in the crisis region that the conflict will soon end.

Best regards

A handwritten signature in blue ink, appearing to read 'M. Jauss'.

Martin Jauss