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To the Business Partners
of Würth Industrie Service GmbH & Co. KG

Information on the Status and Implementation of the CBAM Basic Directive (EU) 2023/956 of the European Union

Current Status: June 25, 2025

Dear Sir or Madam,

The Carbon Border Adjustment Mechanism (CBAM) in accordance with the CBAM Directive (EU) 2023/956, the CBAM Implementing Regulation (EU) 2023/1773, and the implementation-relevant Omnibus I Package of May 2025 is a climate policy instrument of the European Union aimed at reducing EU greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. Specifically, it seeks to compensate for the competitive disadvantage of intra-EU production, which arises from the fact that certain products manufactured within the EU (e.g., steel) are subject to pricing under the EU Emissions Trading System (EU ETS), in place since 2005.

The ETS-induced cost increases will become more noticeable from 2026 onwards, as the total number of available emission allowances and free allocations will gradually be reduced starting that year. This will lead to a shortage of ETS certificates and, consequently, to higher costs for products whose emissions-intensive production requires the purchase of such certificates. In the further course of the value chain, all subsequent products (e.g., fasteners) are also affected.

To counteract the potential relocation of CO₂ emissions to countries with lower environmental standards for these products, CBAM requires importing companies to purchase CBAM certificates to account for the greenhouse gas emissions generated during the production of goods in third countries. Affected are EU-based companies importing iron, steel, cement, aluminum, electricity, and fertilizers or products manufactured from these materials from non-EU countries. Exempt from CBAM are goods originating in the EU as well as products from EFTA countries (CH, NO, LI, IS).

The CBAM-induced additional costs, which will first materialize in 2026, will gradually build up over a period until 2034 due to the transitional effect of the applied CBAM factor. This gradual introduction is intended to enable third-country manufacturers, traders, and importers to familiarize themselves with the changed framework conditions of emissions pricing for imported goods. Furthermore, this phased model is harmonized with the upcoming reduction of the free quotas available under ETS certificate trading, so that the CBAM-initiated increase in prices for imported goods from third countries - in our case, particularly steel fasteners - corresponds to the foreseeable increase in prices for EU steel products as a result of the EU ETS.

We have been intensively involved with the CBAM Regulation from the very beginning to identify the resulting need for action and initiate all necessary measures at an early stage. For this purpose, we are also involved in in-house working groups within the Würth Group as well as in external task forces and coordinate all activities via a central internal office. After having already informed all affected sub-suppliers in third countries in 2023, we have set up the stipulated reporting and notification system since the fourth quarter of 2023. We are currently converting the ongoing CBAM reports from using the EU standard emission values to the real values of our suppliers. At the same time, we are continuing to work on setting up a system solution to collect CO₂ data and transfer it to our SAP system. The registration process as a certified CBAM declarant is imminent, the successful completion of which is necessary to continue importing CBAM-affected goods into the EU beyond December 31, 2025.

For you as a customer of Würth Industrie Service, there is currently no organizational need for action for the goods you purchase from us. However, if you should import affected goods into the EU yourself, you will be directly affected by the CBAM Regulation and will be subject to corresponding registration, documentation, and reporting obligations. Alternatively, you can also contact us to source CBAM-relevant products through us to avoid organizational efforts and expenses.

Concrete implications will arise in any case for all upcoming price agreements, which we will conclude with you or other customers. Thus, we will jointly have to find a way to offset the foreseeable, CBAM-induced additional costs, which - although retroactively in 2027 - will already affect imports and deliveries in 2026. However, due to the prevailing uncertainties regarding individual factors of the cost determination model (e.g., CBAM certificate price, EU benchmark values) as well as

unresolved EU-related questions on operational implementation, it is hardly possible for us to qualitatively incorporate these costs into the current offer prices. Therefore, we have rejected the approach of calculatively considering an anticipated estimated CBAM surcharge, as its determination would have to be based on uncertain, only conditionally reliable assumptions. The risk is too great that such proactive pricing, due to the still pending regulatory and procedural clarifications, would result in a situation requiring extensive correction and readjustment measures at a later stage.

In addition, not all product groups of the CBAM-relevant supply portfolio will be affected to the same extent: Since the majority of emissions for a fastener occur during the production of the raw material used (e.g. wire rod, rolled sheet), the extent of CBAM's price-driving effect depends primarily on the material value share of a product. The simpler and less costly the production and inspection process for a connecting element, and the greater the proportion of the raw material value reflected in the manufacturing price (e.g. not-quenched and tempered threaded bolt), the more significant the impact of CBAM on the resulting purchase price of the goods. If, on the other hand, the share of production and inspection costs in the end product is very large and the material value share is correspondingly small (e.g. machined special screw with sorting), the cost increase will hardly be noticeable due to the dampening effect of the CBAM factor during the start-up phase.

Against this background, we will decide on a case-by-case basis - depending on the specific product requested or a customer's delivery portfolio - to what extent we will issue price offers and enter into price agreements over the coming months, excluding future CBAM costs. Thus, such offers or agreements will therefore only be made under the reservation of a subsequent price adjustments. And only when all relevant factors are sufficiently determined will we present the price adjustment need in a transparent procedure, applying the calculation model in accordance with point 123 of the EU publication: "Carbon Border Adjustment Mechanism (CBAM) - Questions and Answers" (as of August 8, 2024). Further information on this can be found on our website at:

https://www.wuerth-industrie.com/web/en/wuerthindustrie/ueberuns/aktuelle_informationen.php

Independent of this, we can also make alternative agreements on pricing and the allocation of CBAM costs for the year 2026 on an individual basis, provided that a different method offers greater compatibility with your internal business processes. After all, it is in the mutual interest to find practical solutions that enable reliable and predictable collaboration in light of increasingly complex regulatory frameworks. We will continue to work on setting up system solutions over the next few months, using significant IT resources, to collect CO₂ data and record it in our ERP system (SAP). The goal is to present CBAM emission values and associated CBAM price components in a transparent manner on our sales documents.

Finally, we would like to point out that you can always inform yourself via our homepage under: "Current Information" to find out about any new developments on the subject of CBAM. Independently of this, we recommend the publications and training materials provided by the European Commission (e.g., webinars, see above) as well as the regulations, directives, and implementing provisions issued, which you can find on the homepages of the European institutions (e.g., <https://eur-lex.europa.eu>).

Best regards,
Würth Industrie Service GmbH & Co. KG

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

Martin Jauss

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