

NOTICE TO ALL CUSTOMERS



2/21/2022

*This document is specifically written to make all **long term customers** aware of a change to WEG's quarterly price adjustment policy. The affected product group is **all three phase Utility distribution transformers 45 kVA through 5,000 kVA, all voltages.***

Over the past three (3) decades our customers and WEG Transformers USA (WEG) have worked hand-in-hand with price adjustment models successfully. The successful model is based on the calculation of a the new sales price for orders received based on the percentage content of the sales price that each of the key transformer material components represent in the pricing structure of the product.

Due to today's fluctuations in costs of raw materials, labor shortages, and supply chain disruptions, disequilibrium rather, WEG is facing unprecedented times. For most, 2021 has proven more challenging than 2020 and we feel 2022 will really test the entire T&D market in terms of market outlook and subsequent uncontrolled reaction to a perceived market outlook. WEG understand that due to the perceived market outlook every distribution transformer manufacturer is struggling, and inflation with supply chain issues, and shortages are here and show no signs of slowing in the next upcoming twenty-four (24) months.

Considering these **unprecedented times of inflation**, WEG is forced to change our price adjustment model for the long term market segment and spot market segment.

Long term agreements in place are unsustainable due the change of business cycle experienced over the past six months. The long term distribution transformer business was traditionally a short term cycle business and therefore forecasted material price was predictable and stable. Today, this business segment became a long term cycle business where standard lead times of **over 48 weeks** have been recorded in the market, if not more.

Due to this business cycle change and its unsustainability financially, WEG is forced to change our "price adjustment policy" for long term customers.

Previously our Utility price adjustment policy called for "**a bi-monthly price adjustment at time of order receipt**" which due to current release behavior, as observed, is not sustainable anymore.

WEG will change their bi-monthly pricing adjustment policy from bi-monthly-end price adjustment for orders placed/received in subsequent two (2) months to bi-monthly-end price adjustment for orders shipped in subsequent two (2) months.

Our new policy for long term customer orders shipped will be effective starting March 1, 2022.

WEG publishes the periodic* adjustment in accordance to the schedule as published in table 1 hereafter.

NOTICE TO ALL CUSTOMERS



Publication date*	Period used in calculation	Applied to shipment - Start/Stip date
Mid-February	Base Period - January	March 1 - April 30
Mid-April	Base Period - March	May 1 - June 30
Mid - June	Base Period - May	July 1 - August 31
Mid - August	Base Period - July	September 1 - October 31
Mid - October	Base Period - September	November 1 - December 31
Mid-December	Base Period - October	January 1 - February 28

* WEG reserves the right, at their discretion, to later the update frequencies to accommodate market conditions

Table 1

All our long term contract customers are assured that there is no change as to what the price adjustment (escalation/de-escalation) principle is concerned; WEG is not changing these basic principles, what we change is the timing hence it is prior shipment per table 1 above.