



Challenges in supply chain

Preamble

SAFINA, a.s. is aware, that companies are facing many challenges when trying to manage issues in the supply chain as each supply chain has its own specifics and can be difficult to find general approach. Although successful implementation of sustainable practice in supply chain depends on different actors (as many companies have hundreds or even thousands of suppliers) SAFINA, a.s. expects that all our suppliers will comply with our Responsible-sourcing Policy that contains key topics as:

- War crimes nor genocide
- Violation of international human rights laws
- Torture and inhuman treatment
- Corruption
- Money laundering
- Financing of terrorism
- Child labour
- Forced labour

SAFINA, a.s. is committed to our vision of a responsible world-wide supply chain, what means that SAFINA, a.s. is cooperating with suppliers who acts in accordance with law, ethical and social standards and conduct business in honest manner. Potential risks of noncompliance could result not only in criminal investigation but also lost or damage on SAFINA's good reputation and potential business closure or suspension.

SAFINA, a.s. also appeals to its partners to help us improve our Responsible-sourcing Policy and to provide valuable feedback and to help us to transform supply chains to be more responsible and sustainable.

Working together with the RMI to harmonise our standards is one example of our approach to partnerships and tool how transform the supply chain. SAFINA, a.s. will complete annual compliance audit and certification, and will inform suppliers about results/finding.

SAFINA identified several challenges and would like to turn attention to it:

• **The impact of war**

The characteristic feature of the crisis is uncertainty, with unpredictable impacts on businesses. Disruptions caused by the Russian invasion of Ukraine and economic sanctions on Russia have affected global markets. The war is hitting economies heavily by pushing up energy prices, impacting energy-intensive industries. Industries also face interruptions to non-energy Russian imports, including metals (Russia produces about a third of the global palladium supply and Russia's war on Ukraine have exposed vulnerabilities to the security of the supply of raw materials critical for industrial production), as well chemicals.

Companies will be forced to relocate manufacturing efforts and identify new suppliers of raw materials. Nevertheless rapid changes of suppliers (caused by current situation) erode the effectiveness of responsible supply chain approach and has great impact on traceability of raw



material. A lack of transparency in the supply chain is often linked to the decrease in standards, as primary suppliers may subcontract to secondary entities, making it difficult or even impossible for companies to address the problem. Therefore supply chains in today's world, must be more resilient and agile to respond to increasing supply uncertainties, but still have to be transparent and comply with the system of Responsible-sourcing Policy. Perhaps the conflict will push supply chain relationships between countries with like-minded values

• **The impact of the Covid-19 pandemic and travel restriction**

Lockdowns, stopped or limited business activities and led to economic contraction. Disruption spread along global supply chains, compounded by heavily restricted movement of persons and material. Supply chains that are international and complex in character have been affected heavily. Added to the lack of materials we have been facing also difficulties in logistics and labour shortages. Travel restriction was a key obstacle (when Covid-19 restrictions were put in place) and caused that SAFINA could no longer conduct visits of business partners and vice versa, and had an impact on relationship with them. Although most supply chains recovered rapidly and have been affected less during subsequent waves of infections there still persists the risk of lockdowns in the nearest future. Therefore it is necessary to build strong relationships with key suppliers and to diversify supply chains from a geographic perspective to reduce the supply-side risks from any one country or region.

• **Human rights risks in the supply chain**

Ensuring respect for human rights has always been an integral part of SAFINA identity and it became an official part of the corporate strategy. SAFINA highlights the importance of adhering to social standards throughout the entire value chain and is fully aware the fact, that companies face many social issues in the supply chain and most of the responsible Supply Chain approaches limit themselves to a few basic human rights. Therefore it is necessary to create flexible approach to its supplier code, allowing collaborative approaches to mitigate risks to human rights.

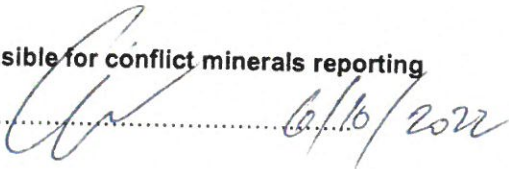
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SIGNATURE:  6/16/2022