

LkSG Report 2023

Implementation of the German Supply Chain Act at the Fraunhofer-Gesellschaft



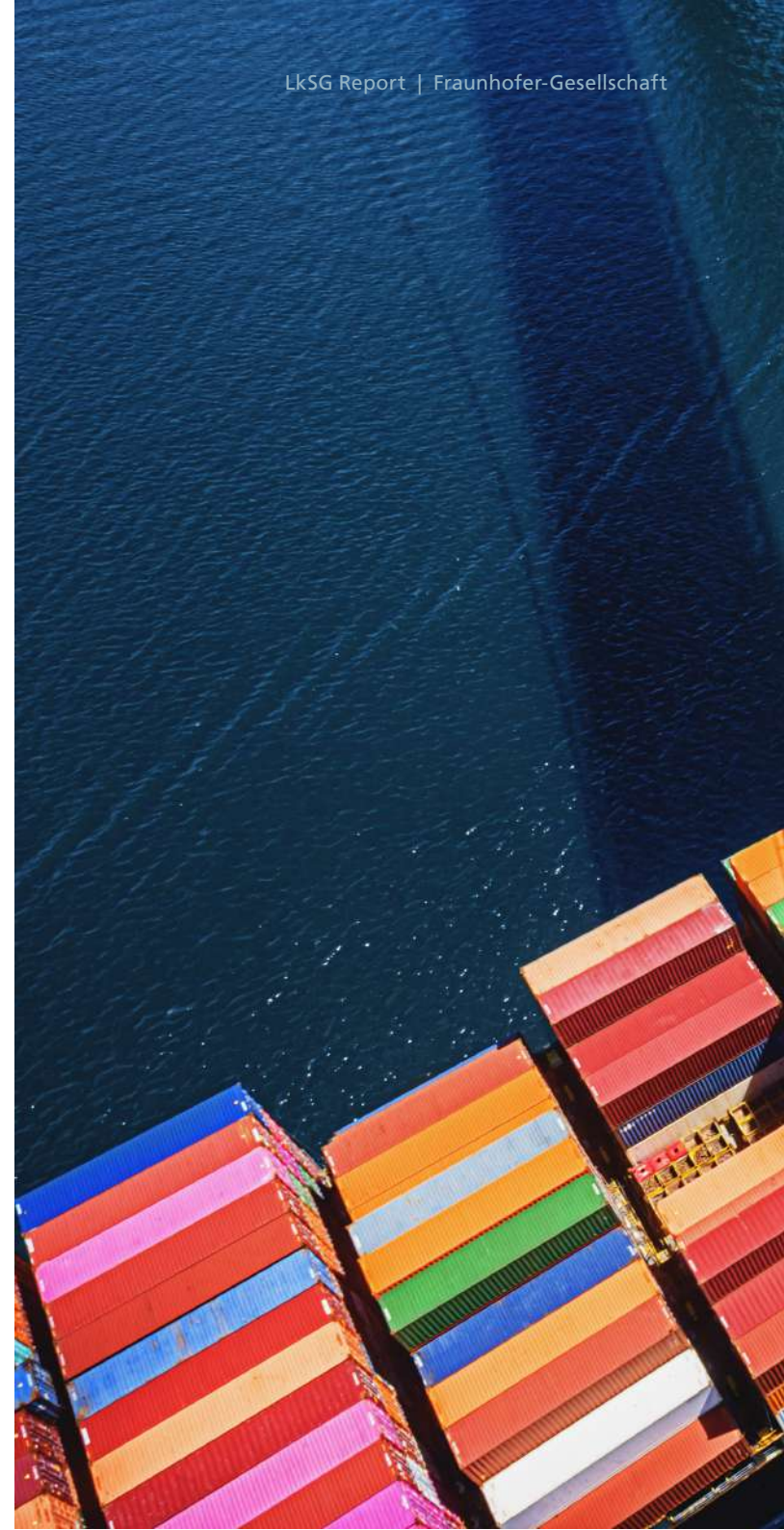
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1 Introduction

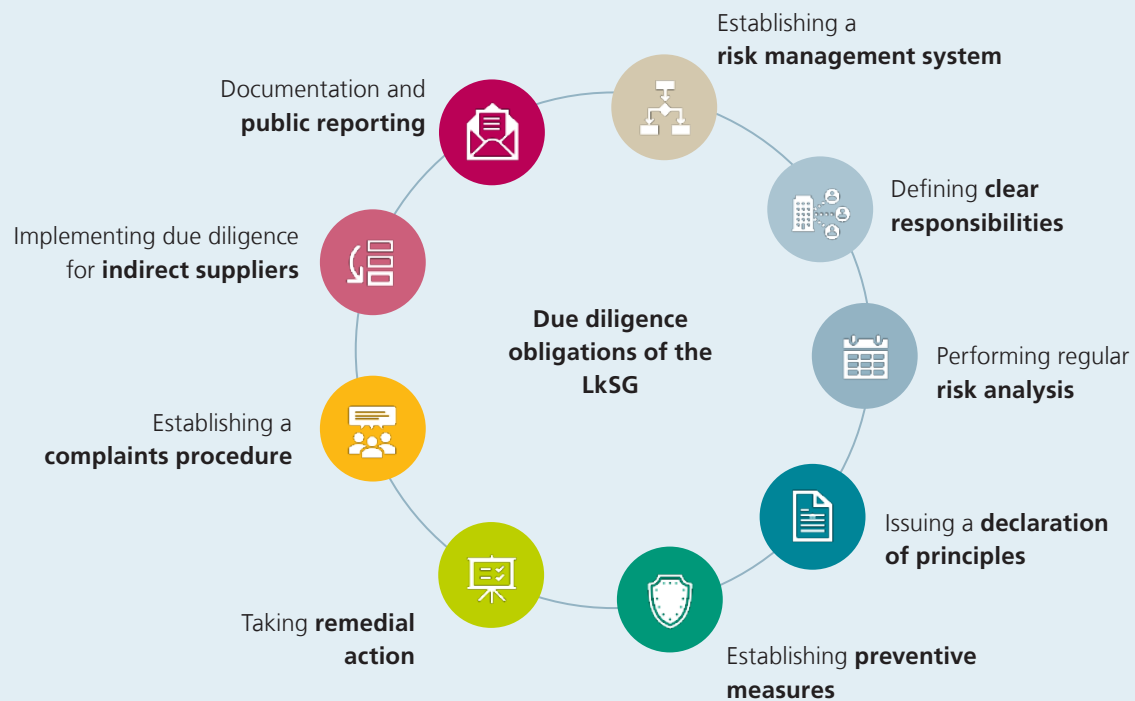
The Act on Corporate Due Diligence Obligations for the Prevention of Human Rights Violations in Supply Chains (Lieferkettensorgfaltspflichtengesetz, LkSG), also known as the German Supply Chain Act, came into effect on January 1, 2023. This German federal law regulates the economic activities of German-based companies over a certain size (initially 3,000 employees, 1,000 employees since January 1, 2024) by imposing due diligence obligations on them. These obligations aim to minimize human rights and environmental risks in the supply chains. The Fraunhofer-Gesellschaft is aware of its social responsibility and has fully implemented the requirements of the LkSG.

This report provides in-depth insight into the implementation of the LkSG at the Fraunhofer-Gesellschaft.



2 Overview of the measures taken

Overview of the due diligence requirements of the LkSG



Section 3 of the LkSG imposes nine due diligence obligations on the companies affected and requires the implementation of a wide array of measures.

The Human Rights Officer position was assigned to a new department that monitors the human rights and environmental risks in Fraunhofer's own value chain and supply chain.

The Fraunhofer-Gesellschaft's human rights strategy was adopted at the end of 2022. This was set out in a declaration of principles by the executive board and has been published on the Fraunhofer website since January 1, 2023.

The Fraunhofer complaints mechanism has been expanded to include an LkSG channel, ensuring that incoming reports of possible violations can be processed systematically and anonymously.

The existing risk management system at the Fraunhofer-Gesellschaft has been expanded to include the LkSG and is being continuously developed in order to identify human rights and environmental risks. The first regular risk analysis took place in 2023 to determine the human rights and environmental risks in Fraunhofer's own business areas and those of its direct suppliers. A specialized external provider was consulted to assist with the risk analysis. First, an abstract risk analysis was carried out based on the requirements of the LkSG and the guidelines of the Federal Office of Economics and Export Control (Bundesamt für Wirtschaft und Ausfuhrkontrolle, BAFA). The results were then manually checked for plausibility. Risks, but no violations, were identified and appropriate preventive measures were initiated. Processes for implementing corrective measures have been defined for the event that violations are identified in the future.

In relation to indirect suppliers, a process for incident-related risk analyses has been defined in order to be able to take immediate action if substantiated knowledge of violations in the supply chain is uncovered.

The implementation of the LkSG will be continuously documented and stored for seven years in accordance with the requirements of the LkSG.

Public reporting in accordance with BAFA requirements has been carried out by completing the BAFA questionnaire and publishing this report.



3 Risk analysis and preventive measures

3.1 Implementation, procedures and results of the risk analysis

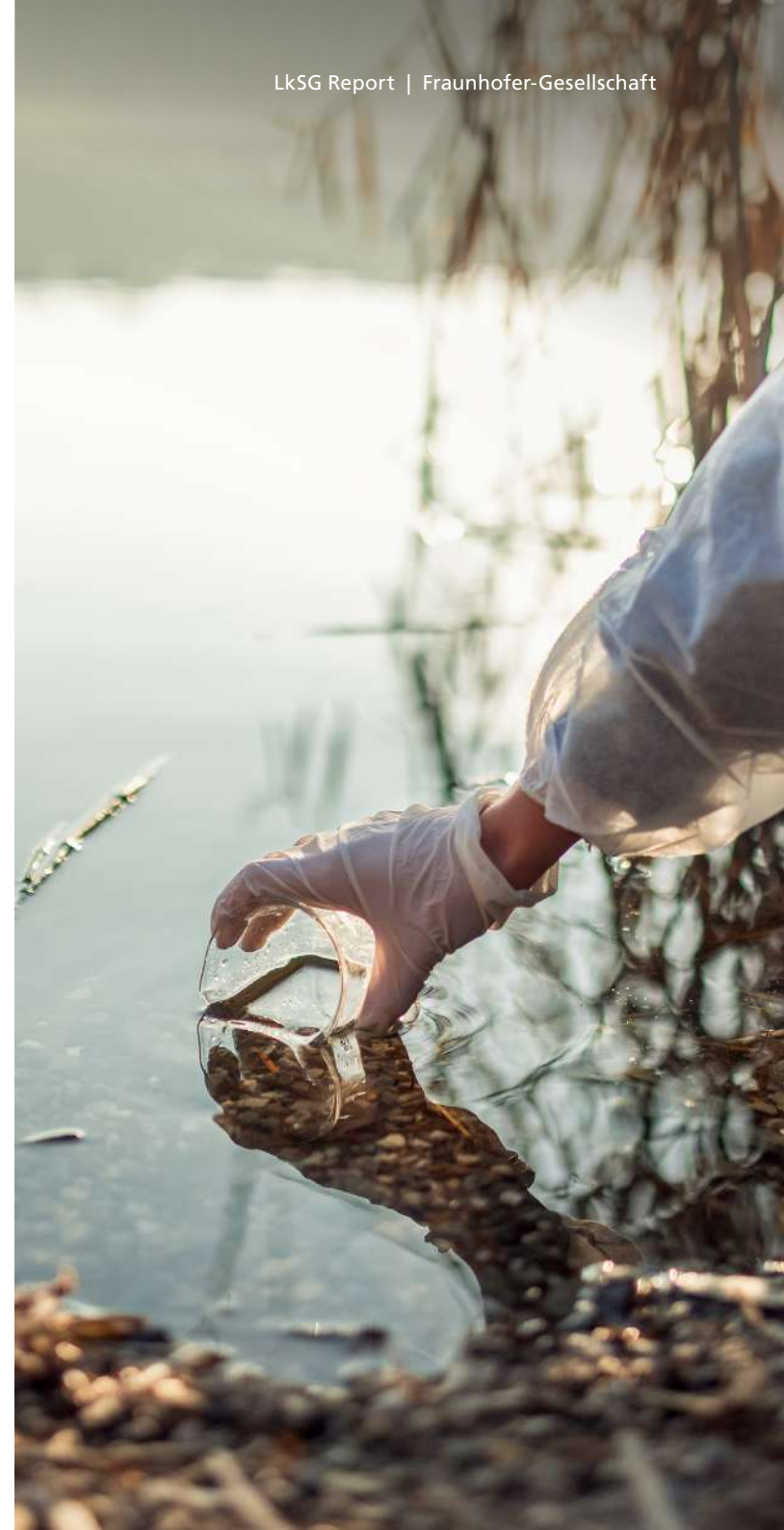
3.1.1 Annual risk analysis

The Fraunhofer-Gesellschaft carried out its annual risk analysis for the period from January 01, 2023 to December 31, 2023.

The risk analysis is carried out and adjusted with a risk management tool. The data used, such as press releases, indices and rankings, are updated annually to ensure continuous and dynamic abstract risk identification for all suppliers. Once the abstract risks have been identified, companies at risk are subject to a concrete risk analysis, which is also carried out annually on the basis of the dynamic, abstract analysis.

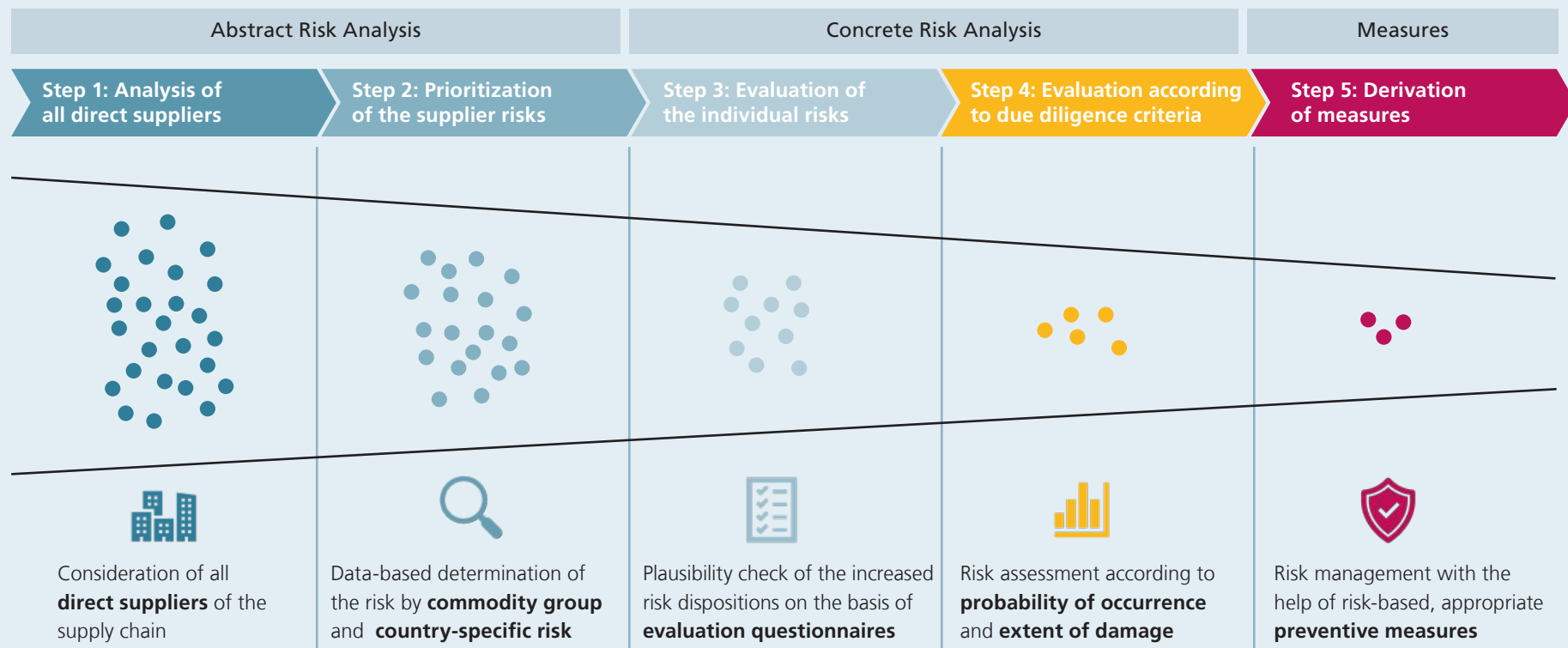
The risk analysis process follows a multi-stage procedure in which a variety of quantitative and qualitative data sources are used to assess human rights and environmental risks. To carry out the risk analysis, the Fraunhofer-Gesellschaft uses a tool specially adapted to the requirements of the LkSG. The system offers a semi-automated software solution for implementing the risk analysis and thus enables risk and supplier management based on the criteria of the LkSG.

The tool provides a detailed overview of Fraunhofer's business area, its direct suppliers and, with the appropriate knowledge, its indirect suppliers and correspondingly maps their specific human rights and environmental risks.



Process illustration of the risk analysis

Step-by-step implementation of the requirements of the risk analysis and measures



In preparation for the abstract risk analysis, the first step is to enter all direct suppliers and business unit locations into separate, predefined templates.

The second step is an abstract risk assessment based on the commodity group and the supplier's country of business. Using recognized indices and press releases, an abstract risk is determined for each supplier entered and each protected legal position. The determination of country and commodity group risks ensures that an appropriate classification is made according to suppliers who are determined to be at risk or risk free.

Country-specific risk: The country-specific risk for the individual protected legal positions is determined on the basis of over 50 data sources. Renowned index data and statistical information are used to make country-specific risk assessments for each protected legal position. Different individual risks per country of origin are therefore examined in accordance with the requirements of LkSG, Section 2.

Commodity group risk: The commodity group risk for the individual protected legal positions is determined on the basis of over 700 data sources. The results of SASB reports and information on past, country-specific violations of human and environmental rights in certain commodity groups (web-based incident analysis) are used. Different individual risks per commodity group and/or country of origin are therefore examined in accordance with the requirements of LkSG, Section 2.

Steps three and four are primarily concerned with checking the plausibility of the previous prioritization of risks in the abstract risk assessment and then evaluating them. Depending on the supplier's abstract risk disposition, the concrete risks are then determined for individual suppliers. The specific risk is calculated on the basis of a self-assessment, proof of compliance with audit-based standards, findings from the supplier relationship or information from the complaints procedure.

3.1.2 Incident-related risk analyses

No risk analyses were carried out in the 2023 reporting year on an ad-hoc basis, since the criteria for an incident-related risk analysis were not met due to substantiated knowledge of a risk at an indirect supplier in accordance with LkSG, Section 9, Paragraph (3) or due to a change in business activities in accordance with LkSG, Section 5, Paragraph (4) at Fraunhofer.

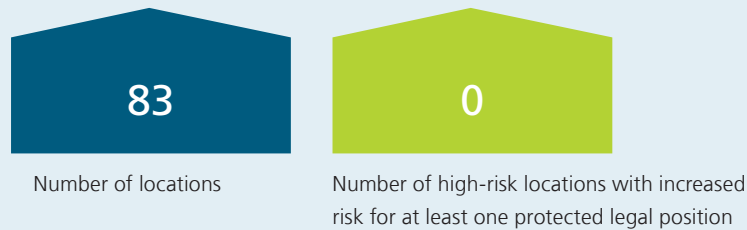
3.1.3 Results of the risk assessment

The Fraunhofer-Gesellschaft's headquarters and the 76 Fraunhofer Institutes with a total of 83 locations in Germany were subjected to an abstract risk analysis in Fraunhofer's own business area using the process described in section 3.1.1. No high-risk locations were identified, since neither human rights nor environmental risks within the meaning of the LkSG were identified.

* SASB stands for Sustainability Accounting Standards Board, an independent, non-profit organization founded in 2011 that sets standards for the voluntary disclosure of material financial sustainability information by individual companies to their investors.

Results of the abstract risk analysis in accordance with the LkSG

Own business activities

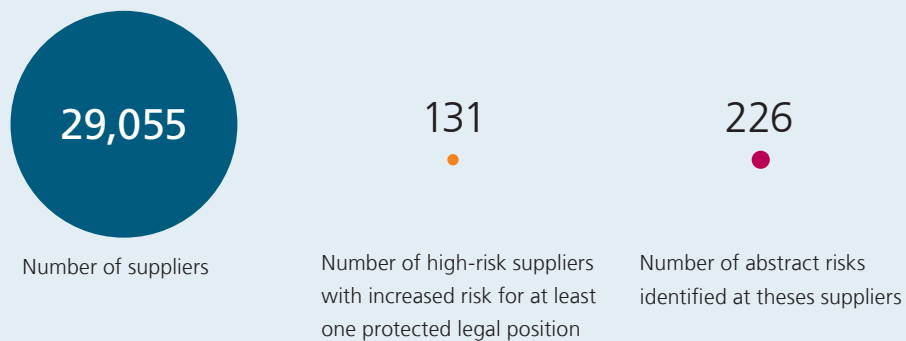


▶ The company's own business activities are based on 83 German locations. No human rights or environmental risks were identified within these locations.

In the 2023 reporting year, the abstract risk analysis examined 29,055 direct suppliers. Of these, 131 suppliers, i.e., 0.45%, were subject to abstract risks.

Results of the abstract risk analysis in accordance with the LkSG

Direct suppliers

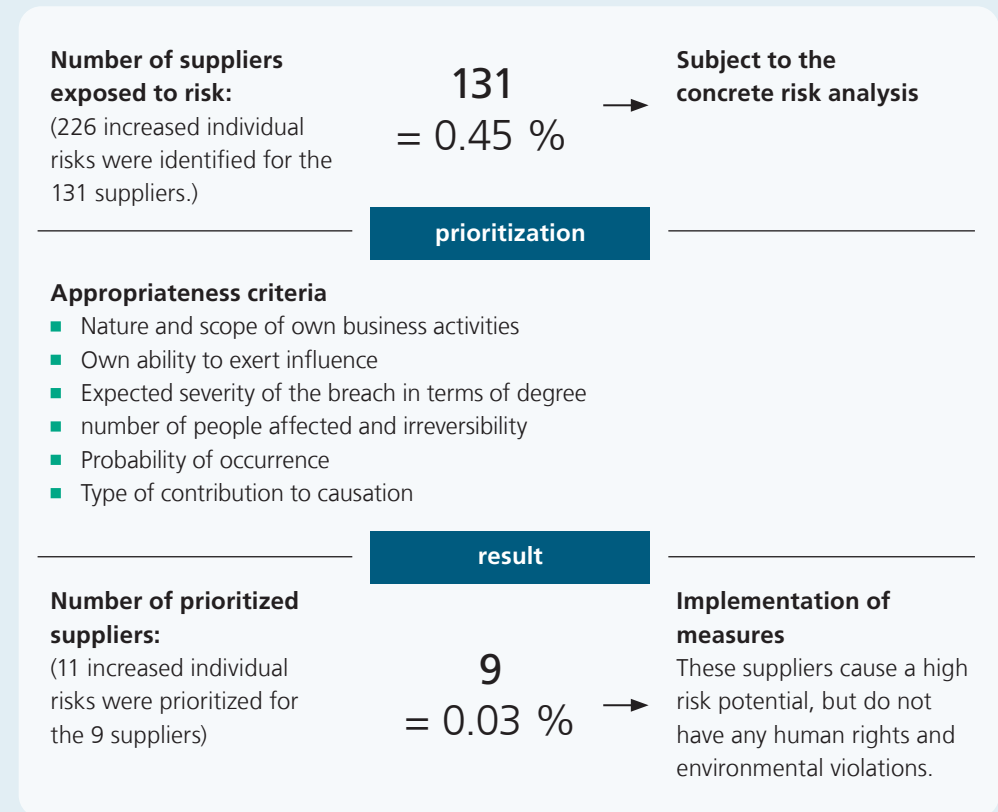


▶ Out of the 29,055 suppliers, 0.45% were subject to abstract risks

In the course of the concrete risk analysis, the suppliers with abstract risks were examined more closely and prioritized according to the adequacy criteria of the LkSG. After prioritization, nine suppliers remained that also posed a concrete risk, i.e., 0.03% of the Fraunhofer-Gesellschaft's suppliers. The suppliers with increased risk potential also have no human rights or environmental violations. Preventive measures were implemented for the suppliers with specific risks, see 3.3.

Concrete Risk Analysis

Prioritization



3.2 Preventive measures in Fraunhofer's own business area

No risks were identified in Fraunhofer's own business area.

The Fraunhofer-Gesellschaft has successfully implemented the human rights strategy in the relevant business units as set out in its declaration of principles. Furthermore, suitable procurement strategies and purchasing practices have been developed and introduced to prevent or minimize potential risks. Fraunhofer has also created and implemented a special guideline for sustainable purchasing.

In addition, a training course on the German Supply Chain Act was held for the relevant business areas. This training is available to all employees of the Fraunhofer-Gesellschaft to raise awareness of the requirements of the LkSG and to support implementation in all work processes.

3.3 Preventive measures for direct suppliers

Contracts with suppliers have been adapted to ensure the supplier's contractual compliance with human rights and environmental requirements and to include contractual control mechanisms. Thanks to the Fraunhofer sustainability standards, these are part of the contract award documents for all contracts and thus become an integral part of the contract. In addition, each bidder in the tender procedure must enclose a self-declaration regarding the absence of exclusion criteria, specifically in Section 22 of the LkSG.

For suppliers with prioritized risks, training material is provided to minimize and prevent risks. Scalable e-learning courses are made available to suppliers in their respective country's language and include a final test. The supplier must pass a final examination to be considered successfully trained.

No audits were carried out in the reporting period since the overall risk of prioritized risks is classified as low.

3.4 Preventive measures for indirect suppliers

There was no substantiated knowledge of risks or violations among Fraunhofer's indirect suppliers, which is why no preventive measures had to be implemented.

3.5 Communication of results

The results of the risk analyses were communicated internally to the executive board, the purchasing department and all other decision-makers affected by the provisions of the act in accordance with LkSG, Section 5, Paragraph (3).

4 Identification of violations and corrective measures

The annual risk analysis and specific review of prioritized risks as well as the established complaints procedure are used to identify violations.

During the reporting period, no risks or violations were identified in Fraunhofer's own business area or at direct suppliers.

Publishing notes

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