

OUR RESPONSIBILITY THROUGHOUT THE SUPPLY CHAIN

B. BRAUN ON THE IMPLEMENTATION OF THE REQUIREMENTS OF THE SUPPLY CHAIN DUE DILIGENCE ACT

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At B. Braun, we take a holistic approach to corporate responsibility. This also applies to the relationship with our business partners. When selecting our suppliers, we make sure that they meet the required quality and sustainability standards and guarantee a secure supply. To this end, we are continuously expanding our existing supplier management approaches and have anchored them in our strategy. For many years, we have been implementing management processes, conducting audits on our own initiative, and joining forces in initiatives to improve the human rights situation and optimize the related environmental and climate policy framework.

Compliance with due diligence

In particular, comprehensively respecting and ensuring compliance with human rights is a key concern in a globalized world with complex supply and goods flows. At B. Braun, we are committed to complying with our human rights due diligence obligations along our entire value chain through our Code of Conduct. We respect the applicable core labor standards of the International Labor Organization (ILO), ensure good working conditions beyond the legal requirements, and strictly reject any form of child labor, forced labor, and other exploitation. With integrated software solutions (e.g. Ecovadis, IntegrityNext) for supplier qualification and monitoring, the B. Braun companies strengthen their sustainable supply chains. B. Braun holds expert exchanges on current topics in the area of human rights in DICO e. V. (German Institute for Compliance) and with the support of Chemie3 (sustainability initiative of the German Chemical Industry Association (VCI), the Mining, Chemical and Energy Industrial Union (IG BCE), the German Chemical Employers' Association (BAVC)) and our industry associations, among others.

The Law on Corporate Due Diligence in Supply Chains (LkSG) passed by the German government requires companies to transparently implement human rights and environmental due diligence requirements in the supply chain as of January 1st, 2023. In this way, it contributes to making global supply chains resilient and aligning them with fair social standards.

Overview of the Supply Chain Due Diligence Act

The Supply Chain Due Diligence Act obliges companies with their head office, principal place of business, administrative headquarters, registered office or branch office in Germany to respect human rights by implementing defined due diligence requirements. Core elements of due diligence include the establishment of a risk management system to identify, prevent, or minimize the risks of human rights violations and damage to the environment. The law specifies what preventive and remedial measures are necessary, requires complaint procedures and regular reporting. The due diligence obligations relate to the company's own business operations

and actions throughout the supply chain. This means that companies' responsibility no longer ends at their own factory gates, but exists along the entire supply chain. From 2023, the law will initially apply to companies with at least 3,000 employees, and from 2024 also to companies with at least 1,000 employees in Germany.

To monitor companies' supply chain management, the Federal Office of Economics and Export Control (BAFA) will be equipped with effective enforcement tools and will thus have extensive monitoring powers. For example, it can enter company premises, demand information, and inspect documents, as well as demand that companies take specific action to fulfill their obligations and enforce this by imposing periodic penalty payments. To help companies implement their due diligence obligations, BAFA develops and publishes guidelines and makes them available on its own Supply Chain Act website www.bafa.de/lieferketten.

Risk avoidance

B. Braun's goal has always been to use the B. Braun Group's comprehensive risk management system to help identify, record, assess, and minimize risks that may arise in its own business operations and in global supply chains. The due diligence obligations of the B. Braun Group required by law also include the anchoring of preventive measures towards direct suppliers.

Since the LkSG was passed in summer 2021, the B. Braun Group has been preparing for its implementation on an interdisciplinary basis. As early as January 2022, B. Braun companies have been contractually assuring suppliers that they will comply with human rights-related and environmental expectations. By upholding these commitments, we aim to help further strengthen the rights of people affected by human rights abuses and environmentally harmful practices in supply chains. In addition, we are currently developing appropriate and effective risk management for compliance with due diligence requirements with further preventive and remedial measures.

At present, according to legal assessment, the LkSG will apply directly to the following companies of the B. Braun Group as of January 1st, 2023: B. Braun Holding GmbH & Co. KG, B. Braun Melsungen AG and Aesculap AG. From 2024, B. Braun Avitum AG will also be directly affected.

Outlook

In just six months, the German Supply Chain Act will take effect. The sometimes unclear specifications have been the subject of much criticism, which has exacerbated the legal uncertainty. The Scientific Advisory Board at the Federal Ministry of Economics and Climate Change (BMWK), which presented an expert opinion on the German law and the EU Commission's even more comprehensive plans, also believes that these concerns are justified. The most important recommendation of the independent economists and lawyers envisages, within the framework of European rules, a list of "safe countries of origin" that have both ratified the relevant conventions on human and workers' rights and have a functioning rule of law. Suppliers from these safe countries would then not have to be pre-screened by EU companies. According to the Council, violations of human and workers' rights can be effectively brought to justice in such countries. Therefore, it would be inefficient to require EU companies to "monitor" these suppliers.

The Council's proposal goes in a decisive and correct direction, and it makes sense for such restrictive legislative proposals to be regularly evaluated in terms of their impact on global value chains, the international human rights situation, and the competitiveness of the companies concerned. Experience shows that the European legislative process takes at least one to two years. Provided that the European process is now driven forward in a timely manner, the EU directive could be adopted in the course of 2023.

Regulations of the European Union

In addition, in February 2022, the European Commission published its draft for the "Directive on Corporate Sustainability Due Diligence", the so-called EU Supply Chain Act. Through this project, it aims to require companies to identify risks of human rights abuses and environmental degradation in their supply chains and take countermeasures. The rules are to apply to all companies in the EU internal market with more than 500 employees and an annual net turnover of at least 150 million euros. In the event of violations, fines and civil liability are envisaged, so that European companies could be sued for wrongdoing along their supply chain.

For many observers, the European draft is surprisingly strict and thus goes far beyond the German regulation. The EU draft stipulates that companies must review their entire supply chain and not just their direct suppliers. In addition, the German law initially affects companies with at least 3,000 employees, which can be sanctioned exclusively with fines in the event of violations. Although the draft contains important approaches in many points, there is a fear of excessive bureaucracy, especially for medium-sized companies. Intensive efforts are currently being made to reach a compromise in the European legislative process. B. Braun would also be affected by the strict rules, which is why we are working intensively through our associations in the discussion process to achieve feasible and sensible requirements.

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