

# Legal Statement CS3D Prewave Software

Prewave's software solution enables legal compliance with the core due diligence obligations of the Corporate Sustainability Due Diligence Directive (CS3D) and simplifies the fulfilment of said obligations using software. In particular, the risk analysis required by the CS3D can be performed via Prewave, in compliance with the law.

The Prewave system essentially assesses suppliers based on country, industry and commodity group risks, in addition to an AI-supported web screening. The evaluation does not require the completion of any additional surveys by suppliers. Supplier self-disclosures and other data sources can be included in the evaluation via the Prewave system on an optional basis.

A distinctive characteristic of the Prewave system is that it not only identifies risks but also allows suitable mitigative measures to be scheduled based on criteria specified in the CS3D.

Another notable feature of the Prewave software is the ability to make parts of the deeper supply chain transparent through Tier-N mapping. This transparency may become necessary should risk-laden supply chains be identified under the CS3D; enabling a further analysis of supplier risk in the deeper supply chain and the ability to take remedial measures.

It is important to consider that the degree of legal compliance that can be achieved with Prewave depends on the user not inappropriately changing Prewave settings, likewise on the quality of data supplied by users. Prewave relies on the user to provide accurate, complete, and up-to-date supplier and CS3D-specific information. The Prewave software solution does not exempt the user from their own responsibility to meet the requirements of the CS3D or from dealing with individual CS3D criteria. Regardless of systemic mapping by Prewave, it is the responsibility of the user to take the necessary internal company information into account. Specifically, the user must check whether their risk analysis requires additional measures beyond the Prewave solution and take these measures.

This legal opinion cannot yet be considered as conclusive, as concrete information from authorities on the CS3D is still lacking at the present time. Likewise, the topic is still developing. You should also consider that Prewave has not yet completed all systemic adjustments to the CS3D.

## Legal requirements of CS3D and coverage by Prewave in detail:

Legal requirement	Prewave
<p><b>Risk management:</b> Integrating due diligence into company policies and risk management systems (Art. 7)</p>	<p>This duty of care must be carried out internally within the company.</p>
<p><b>Risk analysis:</b> Identification of adverse impacts should include assessing the human rights and environmental context in a dynamic way and at regular intervals: without undue delay after a significant change occurs, but at least every 12 months, throughout the life cycle of an activity or relationship, and whenever there are reasonable grounds to believe that new risks may arise. (Recital 41)</p>	<p>The risk analysis can be carried out at any time via Prewave and is generated in a few minutes. The onboarding process for the initial risk analysis of new companies usually takes 1-3 months.</p>

Legal requirement	Prewave
<p><b>Risk analysis:</b> companies shall take appropriate measures to: (a) map their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners, in order to identify general areas where adverse impacts are most likely to occur and to be most severe. (Art. 8 para. 2 lit. a))</p> <p>‘Risk factors’ means facts, situations or circumstances that relate to the severity and likelihood of an adverse impact, including company-level, business operations, geographic and contextual, product and service, and sectoral facts, situations or circumstances. (Art. 3 para. 1 lit. u))</p>	<p>To ensure that a risk assessment of negative impacts throughout the supply chain is performed to an adequate level, Prewave has developed a <b>scoping mechanism</b>. Scoping takes place on two levels – for the direct (Tier-1) supply chain and for the indirect (Tier-N) supply chain. The same process can also be used for the risk analysis of the user’s own business activities and those of subsidiaries. By combining statistical <b>country, industry and commodity group risks, based on different indices</b>, Prewave identifies areas of the supply chain where negative impacts are most likely or severe. Using this assessment, a decision can be made on suppliers that require a more in-depth risk assessment.</p> <p>On an independent, manual basis, companies can add suppliers (or areas where negative effects are likely/severe) to the scope. Such additions may become necessary as internal findings, company-specific data or results from stakeholder consultations can indicate the need for a more detailed look at these risks.</p> <p>If a <b>country, industry, or commodity group assessment is associated with a potentially high risk in the deeper (Tier-N) supply chain, Tier-N mapping of the deeper supply chain can be initiated</b>, in which companies that are downstream of the immediate supplier are also identified (see Tier-N mapping).</p>
<p><b>Risk analysis:</b> Even if not explicitly mentioned in the CS3D, the concrete identification and mitigation of risks at suppliers requires companies to know risk-prone direct and indirect suppliers in their supply chain. The company must create transparency in the deeper supply chain, which may also require obtaining information directly from direct and indirect suppliers.</p>	<p>All relevant direct and indirect suppliers of the company (known to the user) can be imported into Prewave from the ERP system (depending on customer data delivery).</p> <p>Prewave also enables transparency in the deeper supply chain through <b>Tier-N mapping</b>. This transparency may be necessary in risky supply chains under the CS3D because of the need to further analyze the risks of suppliers in the deeper supply chain and take measures. Various methods and data sources are combined to provide as complete a picture of the supply chain as possible:</p> <ul style="list-style-type: none"> <li>• Known suppliers in the deeper supply chain can be entered directly;</li> <li>• <b>Relevant supply relationships can be determined using international customs and trade data;</b></li> <li>• Automated, AI-powered <b>media analytics augments this information through web screenings that consider bills of materials, product descriptions, published associations, and partnerships;</b></li> <li>• An AI-based <b>prediction mechanism predicts</b> the probability of a supply relationship between companies <b>based on known information</b> about common trade relationships, geographical and industry-specific aspects, and other factors.</li> </ul>

## Legal requirement

**Risk analysis:** companies shall take appropriate measures to: b) [...] carry out an in-depth assessment of their own operations, those of their subsidiaries and, where related to their chains of activities, those of their business partners, in the areas where adverse impacts were identified to be most likely to occur and most severe. (Art. 8 para. 2 lit. b))

## Prewave

Prewave classifies suppliers in scoped areas (see above) into different levels of risk. This is done on via a classification of suppliers:

- (i) into high-risk and non-risk countries ("**country risk**") (based on the registered office of the contractual partner) and;
- (ii) depending on the goods or services supplied, into a high-risk or non-risk commodity group/industry category ("**commodity risk**") as well as;
- (iii) based on a web screening for selected suppliers. Optionally, the assessment may also include;
- (iv) self-disclosures, completed by suppliers and;
- (v) information provided by the company on individual risk suppliers.

Re (i): Country risks are calculated based on 70 different publicly-available indices and categorised as no risk, low risk, mid risk, high risk, and critical risk. These indices deal thematically with the human rights and environmental risks mentioned in the CS3D and are adjusted annually.

Re (ii): To determine industry and commodity risk, Prewave uses its own data on over 1.5 million suppliers. These are classified into industries (ISIC standard) and commodity groups. Prewave has a history of incidents in the individual industries and for individual product groups. Prewave also assesses this frequency of incidents according to no risk, low risk, mid risk, high risk and critical risk.

Re (iii): In addition, AI-supported web screening is carried out for a certain range of suppliers (ideally those with the highest risk). The companies that are monitored by means of web screening is decided by the user. Prewave's scoping supports this decision with data. Web screening checks social media, news, and other online information using the supplier as a keyword and a risk keyword search. Reports are communicated to the user as "risk alerts".

Re (iv): Optionally, risk identification can be supplemented by the results of supplier self-disclosures, completed by risky suppliers. Prewave has developed its own questionnaires on the topics of "working conditions and human rights", "health and safety," and "environment". Direct and indirect suppliers can be contacted via Prewave to complete the questionnaires. Supplier responses are automatically evaluated and integrated into the risk assessment of the respective supplier.

Re (v): Optionally, Prewave can name individual risk suppliers, e.g. by using any (CS3D-relevant) negative human rights or environmental incidents associated with the company. Here, a risk classification is also assigned.

The results from (i) to (iii), and optionally (iv) and (v), are combined to form the supplier's 360 degree risk score.

Legal requirement	Prewave
<p><b>Determination of appropriate measures:</b> Decisive criteria for determining appropriate measures are (i) <u>the influence that a company has on direct polluters</u>, (ii) <u>the proximity to the negative impact</u> and (iii) <u>the nature of the company's causal contribution to the risk or injury.</u> (Article 10)</p>	<p>The risk of the individual supplier (result from the 360 degree risk score) is considered under the criteria of influence and causal contribution. These are used to assign an “action priority” to the identified risks. The user can use this prioritization to decide which preventive and remedial measures to take, and when. Prewave’s recommendations for action do not replace the user’s responsibility to check and decide on action relating to a specific company under the CS3D.</p> <p><b>"Influence"</b> is determined by:</p> <p>(i) the ratio between the company's order volume and the supplier's total turnover as far as is known, or;</p> <p>(ii) by a classification made by the company itself into critical, high, medium and low influence suppliers.</p> <p>For <b>suppliers at the lower level of the supply chain</b>, for whom no direct expenses can be allocated, the potential influence is derived from the supply relationship with the respective direct upstream supplier. This considers how many tiers are between the indirect supplier and the immediate upstream supplier, determining the priority of measures for the deeper supply chain as well.</p> <p>The <b>causation contribution</b> is determined by a classification made by the user (caused, jointly caused or caused by another business relationship).</p>
<p><b>Preventive measures (Art. 10 para. 2).</b> Companies shall be required to take the following appropriate measures, where relevant:</p> <p>(a) where necessary due to the nature or complexity of the measures required for prevention, without undue delay develop and implement a prevention action plan, with reasonable and clearly defined timelines for the implementation of appropriate measures and qualitative and quantitative indicators for measuring improvement; companies may develop their action plans in cooperation with industry or multi-stakeholder initiatives; the prevention action plan shall be adapted to companies’ operations and chains of activities;</p> <p>(b) seek contractual assurances from a direct business partner that it will ensure compliance with the company’s code of conduct and, as necessary, a prevention action plan, including by establishing corresponding contractual assurances from its partners, to the extent that their activities are part of the company’s chain of activities; when such contractual assurances are obtained, paragraph 5 shall apply;</p> <p>(c) make necessary financial or non-financial investments in, adjustments or upgrades of, for example, facilities, production or other operational processes and infrastructures;</p> <p>(d) make necessary modifications of, or improvements to, the company’s own business plan, overall strategies and operations, including purchasing practices, design and distribution practices;</p>	<p>Based on the priority of the measures identified, Prewave (considering measures already carried out in the past) suggests preventive measures. Many of these can be planned, booked or executed directly via Prewave and documented transparently via the Prewave Action Planner. Actions include worker surveys, desk audits, online training for employees, and complete ESG onsite audits.</p> <p>Specifically, the following preventive measures are available. These can be adapted and expanded by the Prewave customer if necessary:</p> <ul style="list-style-type: none"> <li>• Sending questionnaires (self-assessments)</li> <li>• Obtaining/requesting a code of conduct</li> <li>• Environmental action plans</li> <li>• Multi-stakeholder initiatives</li> <li>• Industry cooperation</li> <li>• Awareness training</li> <li>• Requesting certificates</li> <li>• Desk and onsite audits</li> <li>• Employee surveys and e-learning</li> </ul> <p>The choices in the Prewave system are non-binding suggestions for possible prevention measures. They do not replace a suitable risk-based prevention concept, which should be developed by the user, or the creation and implementation of suitable prevention measures.</p>



Legal requirement	Prewrite
<p>(e) provide targeted and proportionate support to an SME which is a business partner of the company, where necessary in light of the resources, knowledge and constraints of the SME, including by providing or enabling access to capacity-building, training or upgrading management systems, and, where compliance with the code of conduct or the prevention action plan would jeopardise the viability of the SME, by providing targeted and proportionate financial support, such as direct financing, low-interest loans, guarantees of continued sourcing, or assistance in securing financing;</p> <p>(f) in compliance with Union law, including competition law, collaborate with other entities, including, where relevant, in order to increase the company's ability to prevent or mitigate the adverse impact, in particular where no other measure is suitable or effective.</p>	
<p><b>Corrective measures (Article 11(3))</b> Companies shall be required to take the following appropriate measures, where relevant: Such as preventive measures (Art. 10 para. 2) + remedial action (= financial reparation and restoration of the original situation) (Art. 11 para. 3 lit. g) in conjunction with Art. 12)</p>	<p>Based on the priority of the measures identified, Prewrite (considering measures already taken in the past) suggests mitigation measures. Many of these can be planned, booked or executed directly via Prewrite and documented transparently via the Prewrite Action Planner.</p> <p>Specifically, the following actions are available. These can be adapted and expanded by the Prewrite customer if necessary:</p> <ul style="list-style-type: none"> <li>• Incident review and statement requests</li> <li>• Industry cooperation</li> <li>• Awareness training</li> <li>• Employee surveys</li> <li>• Desk and onsite audits</li> <li>• Plans for reparation and compensation</li> <li>• Temporary cessation of trading relationship and offboarding</li> <li>• Multi-stakeholder initiatives</li> </ul> <p>The actions in the Prewrite system are non-binding suggestions for mitigation measures. They do not replace a suitable risk-based mitigation concept, which should be developed by the user, or the creation and implementation of suitable mitigation measures.</p>
<p><b>Stakeholder Engagement (Article 13)</b> Consultation of stakeholders shall take place at the following stages of the due diligence process:</p> <p>(a) when gathering the necessary information on actual or potential adverse impacts, in order to identify, assess and prioritise adverse impacts pursuant to Articles 8 and 9;</p> <p>(b) when developing prevention and corrective action plans pursuant to Article 10(2) and Article 11(3), and developing enhanced prevention and corrective action plans pursuant to Article 10(6) and Article 11(7);</p> <p>(c) when deciding to terminate or suspend a business relationship pursuant to Article 10(6) and Article 11(7);</p>	<p>A suitable approach to stakeholder engagement must be developed by the user.</p> <p>User-developed stakeholder engagement measures can be systemically documented via the Action Planner and are considered in information generated by Prewrite for reporting (see below).</p> <p>Consultations with individual stakeholders, such as employees, can also be initiated and carried out via the Prewrite Action Platform.</p>

Legal requirement	Prewave
<p>(d) when adopting appropriate measures to remediate adverse impacts pursuant to Article 12;</p> <p>(e) as appropriate, when developing qualitative and quantitative indicators for the monitoring required under Article 15.</p>	
<p><b>Appeal proceedings</b>  Companies must establish a fair, publicly available, accessible, predictable and transparent procedure for dealing with the complaints referred to in paragraph 1. (Art. 14)</p>	<p>Via Prewave, it is possible to submit a complaint anonymously, without creating an account. The complaint then appears as a notice on the platform with the customer's designated Grievance Manager, who can subsequently initiate the company's internal complaint process.</p> <p>Alternatively, the company's Prewave profile can be used to link directly to the company's complaints portal. Prewave does not replace the company complaints procedure required in the CS3D and does not constitute an external complaint procedure.</p>
<p><b>Coverage</b>  Companies [must] report on the matters covered by this Directive by publishing on their website an annual statement. (Art. 16)</p>	<p>Prewave supports users in documenting actions performed with the software. Prewave generates text passages and quantitative data on various due diligence obligations, which support reporting required under CS3D. The information provided by Prewave does not replace the CS3D or CSRD report, which must be prepared by the user.</p>