

Risk management and Business Continuity at Danfoss

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This brief offers an overview of the activities that take place within the main areas of risk management at Danfoss.

Introduction

In order to grow and stay profitable in increasingly complex business environments, Danfoss must manage risks and opportunities effectively. Danfoss takes a systematic and holistic approach to managing risk. Maintaining efficient risk management is a cornerstone at Danfoss as well as a prerequisite for running a business and responding rapidly, and flexibly, when conditions change.

Governance

In line with procedure, the Danfoss Board maintains a strategic overview of overall risk and the Audit Committee assesses the effectiveness of Danfoss Risk Management.

Ultimately, the Group Executive Team is responsible for risk management at Danfoss. It ensures that risk management policies and processes are effective and relevant at all levels. Responsibility for the day-to-day performance of risk management activities lies with the company's respective managers and corporate functions.

The structure for handling risk management at Danfoss:

- Internal Auditing – performs independent internal reviews and submit reports directly to the Board's Audit Committee.
- The Risk & Compliance Committee – approves risk management methodologies and processes, and assesses the effectiveness and adequacy of current risk management standards
- Group Risk Management – duties include responsibility for the content of the Group's risk management program.
- Group Ethics & Compliance – duties include preparing and implementing the Group's compliance programs, and the Group's whistle-blower function.
- Group Treasury – the central unit that manages the Group's financial risks, and provides insurance services.
- The day-to-day management is in charge of activities aimed at safeguarding assets and earnings, handling business risks, monitoring and interpreting legislation and standards, and managing IT security, patents and trademark rights, product quality, fire prevention, environmental and occupational health and safety standards, etc.

Risk reporting and control

Risks are reported on an ongoing basis between the various managerial levels; for example, at quarterly business review meetings. In addition, the Group Risk Management function annually prepares a report on the most significant risks, which is submitted to the Board of Directors and the Audit Committee.

The Risk & Compliance Committee provides overall supervision of the risk management process and monitors selected Group risks as well as potential new risks.

Risk Management process

At Danfoss, risk management is a continuous process of risk identification, risk assessment, risk treatment and risk monitoring. Depending on the accepted level of risk and the outcome of the risk assessment, the following four risk treatment strategies are available: Accept, Avoid, Mitigate and/or Transfer.

Risk Monitoring is not just a regular review and update of risks that come to light thanks to new information or because of a change in environment, it also includes compliance with the risk management process, which is checked by the Internal Audit function.

Business Continuity

Enabling the organization to maintain its business activities in the event of a major disruption is the main objective of Business Continuity. At Danfoss, Business Continuity is very closely connected to risk management because it requires the identification of risks, risk assessment, preparedness for treatment and overall monitoring. For identified risks with a significant impact, corrective actions are defined and documented in a Business Continuity Plan. In addition, Danfoss' Business Continuity Plan also contains elements of a Crisis Plan, which defines clear roles and responsibilities as well as identifying all the tasks that have been assigned to a dedicated Crisis/Business Continuity Team.

Danfoss is committed to complying with the requirements of IATF16949 and is regularly audited by external parties. Compliance with IATF16949 includes, among other things, the existence and effectiveness of Business Continuity.

Customs Authority Approved Certifications

Danfoss locations have Customer Authority Approved Certifications in place (e.g. C-TPAT (US), AEO (European Union)), which document the Group's reliability and trustworthiness and make clearing customs easier for Danfoss.

Site access control

Everyone entering Danfoss buildings and areas we occupy in multi-tenant buildings, are required to use designated and controlled access points.

The name, department, time and date, of the people entering, is registered in either an automated access control system or a manual register, and a badge issued by Danfoss must be worn in a visible place at all times during the stay. Furthermore, visitors are escorted by an employee at all times except during stay in Open Areas (canteens, customer training facilities, etc.)

Vehicles entering Danfoss premises must be registered. Drivers are not allowed to stay inside buildings except during registration.

Fire safety

It is Danfoss' strategy to have as low a risk from fire as is reasonably possible, and all Danfoss buildings meet national fire safety code requirements as a minimum. Furthermore, as part of a continuous improvement and risk reduction strategy, Danfoss has engaged a global risk consultant who rates current fire safety protection, and suggests improvements, for each factory site globally.

The general approach is to continuously invest where the most risk can be reduced per euro invested, and where the solutions involve the installation of sprinkler systems, installation of early detection systems, upgrades to fire compartmentation, and training to improve fire safety at each site etc. To ensure the best possible reliability of installed systems, only internationally recognized codes are used as a design reference. As a project reference for the years 2014-2016, the continuous improvement strategy included 7 projects in which the installation of sprinklers was part of the solution; further, similar projects are planned.

IT Continuity

To ensure a fast restoration of systems in case of a crisis, Danfoss has deployed an IT Continuity Plan. The plan is tested periodically, facilitated by a third party.

Business critical systems and critical infrastructure components are built on a redundant platform and located in geographically separate data centers.