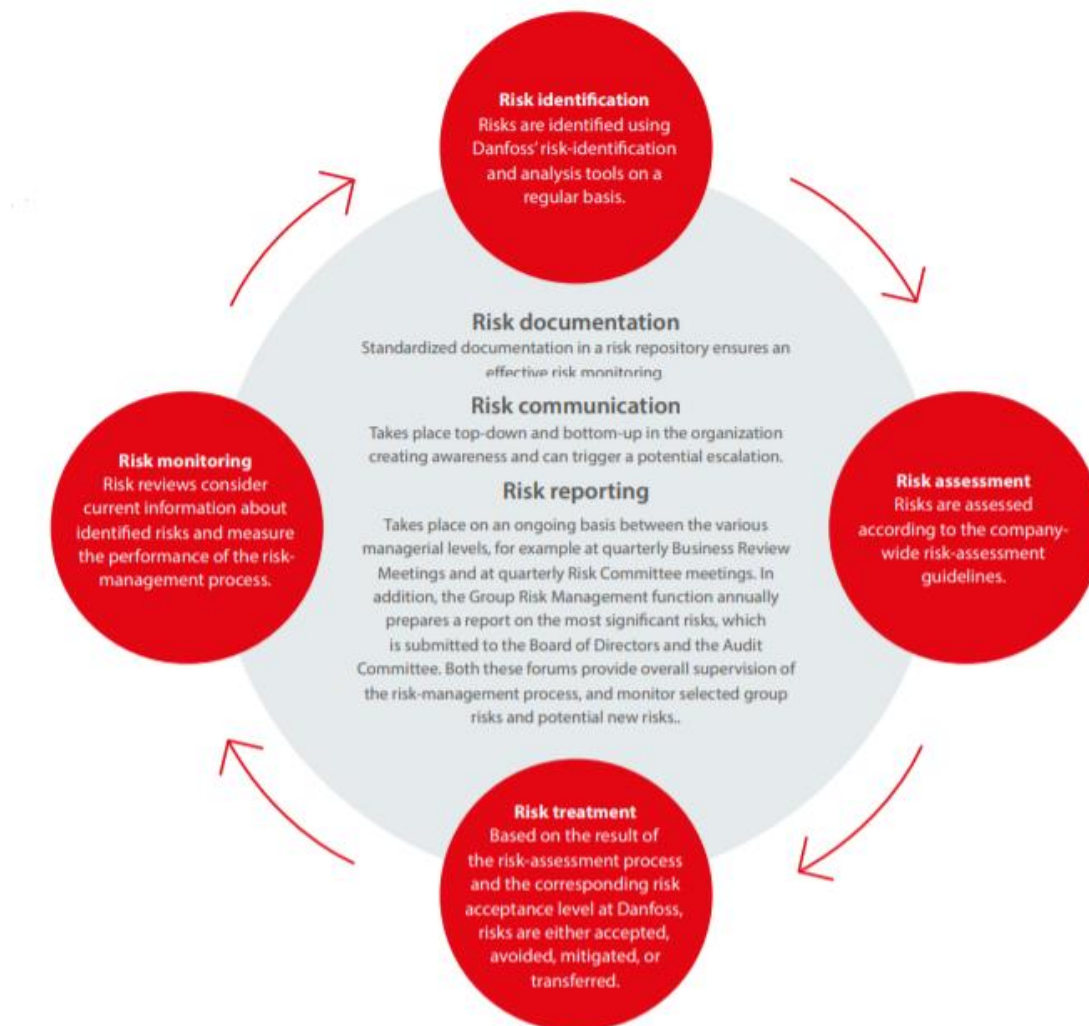


# Risk management and Business Continuity related topics at Danfoss

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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 procedures, the Danfoss Board maintains a strategic overview of overall risk and the Audit Committee

assesses the effectiveness of Danfoss Risk Management.

Operationally, 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 Audit – 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 provide overall supervision of the risk management process and monitor selected Group risks as well as potential emerging 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 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 operational risks with a significant impact or required scenarios defined by IATF, corrective actions are defined and documented in a Business Continuity Plan. In addition, Danfoss' Business Continuity Program 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 Global Business Continuity Management 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 a Business Continuity Program.

### **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.

### **Information Security**

The Danfoss Information Security approach is governed through the ISO27000 framework and the organization continuously measures its maturity against the 114 controls defined within ISO27002. Internal and external audits validate that processes and behaviors are in place, and board-level visibility and support anchors accountability throughout the group. Employees receive regular training on important security topics and are randomly selected for social engineering tests to validate its effectiveness.

### **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 rent 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 always be worn in a visible place during the stay. Furthermore, visitors are always escorted by an employee except during stay in open areas (canteens, customer training facilities, etc.) Vehicles entering Danfoss premises are required to use designated controlled or monitored access points.

### **Fire safety**

It is Danfoss' strategy to keep the fire risk as low as reasonably possible and ensure that 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.