

Danfoss

Modern Slavery Statement 2020

Danfoss Entities within Australia &
New Zealand

March 2021

Reporting Period: 1 January 2020 – 31 December 2020

1. Introduction

The Danfoss Group (based in Denmark) and our Pacific based entities, recognize that business plays an important role in respecting and promoting human rights and for the eradication of modern slavery.

It is important to Danfoss that results are generated in an ethical manner. Our company name must always be associated with respect for human rights, proper working conditions and social and environmental considerations.

We recognise that modern slavery is a complex problem that is best addressed by collective commitment and responsibility to ensure such practices do not occur and are brought to an end. The Danfoss Group are committed to the abolition of forced labour, slavery and human trafficking by implementing and enforcing effective systems and controls to ensure modern slavery is not taking place within our business and our supply chains.

2. Reporting Entities

The reporting entities covered by this statement are:

- Danfoss (Australia) Proprietary Limited (ABN 93 004 385 997), with its registered office at 2 – 18 National Drive, Dandenong South, Victoria 3175. 60 Employees.
- Danfoss Power Solutions Pty Ltd (ABN 82 094 010 769), with its registered office at 17 Healey Circuit, Huntingwood, New South Wales, 2148. 15 Employees.
- Sondex Australia Pty Ltd (ABN 17 080 993 826), with its registered office at 40 Spinnaker Terrace, Safety Beach, Victoria, 3936. 14 Employees
- Sondex Engineering Pty Ltd (ABN 63 141 739 577), with its registered office at Unit 11, 899 Wellington Road, Rowville, Victoria, 3178. Nil employees – Real Estate holding only.
- Danfoss (New Zealand) Limited (wholly owned subsidiary of Danfoss (Australia) Proprietary Limited), New Zealand Company Number 316409, with its registered office at Unit 2, 24 Bishop Dunn Place, Flat Bush, Auckland 2013, New Zealand. 6 Employees.
- Total employees as at 31 December 2020 was 95 employees in Pacific.

All Australian based Directors of the above companies are members of the Pacific Management Team, along with the other Sales Directors and Pacific General Manager.

3. Our Structure, Operations and Supply Chain

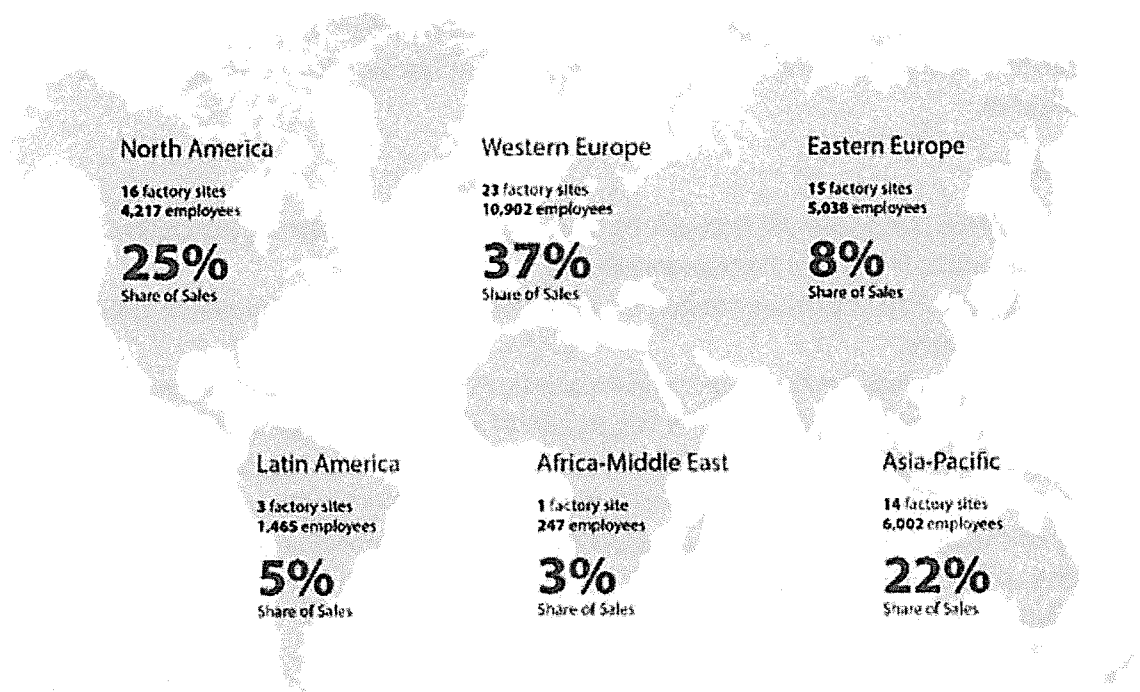
3.1 Our Structure and Operations

Danfoss was founded in 1933 by Mads Clausen. Today, the company is still family-owned via the Bitten and Mads Clausen's Foundation and it holds market-leading positions, employs nearly 28,000 people, and serves customers in more than 100 countries.

Danfoss engineers the advanced technologies that help to ensure the supply of fresh food and optimal comfort in homes and offices, while meeting the need for energy-efficient infrastructure, connected systems and integrated renewable energy. The company's solutions are used in areas

such as refrigeration, air conditioning, heating, motor control and mobile machinery. Danfoss Globally is part of the metal-machining industry and the electronics industry; many of the products are electrical or electromechanical products.

Danfoss Global Footprint, employees and sales distribution (effective end 2019):



Organisation overview:

Within Pacific, the above listed Danfoss companies are members of the Danfoss Group of companies, whose parent entity is Danfoss A/S of Denmark, which is owned by the family owned Bitten and Mads Clausen’s Foundation in Denmark.

The listed Pacific entities’ Management report to the General Manager – Pacific (Mike Smits), who in turn reports to the APR Regional President in Singapore.

The Board of Directors for each entity comprise common Overseas Danish Directors:

- Anders Stahlschmidt – Legal General Counsel for Danfoss Global, and
- Torben Christensen – Global Services VP

Australian Directors:

- Danfoss (Australia) Proprietary Limited – Robert Sherry, Australian Director & Company Secretary
- Danfoss Power Solutions Pty Ltd – Lance Thomas, Australian Director, with Robert Sherry as Company Secretary
- Danfoss (New Zealand) Limited – Robert Sherry as Resident Australian Director
- Sondex Australia Pty Ltd – Mark Jones, Australian Resident Director

The Australian Directors are members of the Local Management Team (LMT) for Pacific

Danfoss (New Zealand) Limited staff report to members of the Pacific LMT in Australia

Pacific Statistics:

- Danfoss Pacific entities account for 1.1% of Danfoss Group Sales and 0.34% of employees.
- Danfoss Pacific entities 2020 turnover:
 - Danfoss (Australia) Proprietary Limited – 65.5% (Cooling, Heating & Drives segments)
 - Danfoss Power Solutions Pty Ltd – 22.0% (Power Solutions components and systems)
 - Danfoss (New Zealand) Limited – 9.5% (Power Solutions & Drives segments)
 - Sondex Australia Pty Ltd – 3.0% (Plate & Brazed Heat Exchanger systems)
- Of Pacific employees, 96% are permanent full-time employees, with 4% being contract full-time employees.

Pacific History

- Danfoss Group purchased the previous Danfoss Agent, Russel Armstrong Pty Ltd in 1986, which became Danfoss (Australia) Proprietary Limited.
- Danfoss (Australia) Proprietary Limited set up Danfoss (New Zealand) Limited in 1987 as a wholly owned subsidiary.
- In 2000, the previous Danfoss (Australia) Proprietary Limited Hydraulics Division, was sold to the new formed Sauer Danfoss Daikin Pty Ltd, as part of a Global demerger and joint venture.
- In September 2013, Danfoss purchased the majority of shares of Sauer-Danfoss Global Joint Venture, after which Sauer Danfoss Daikin Pty Ltd become Danfoss Power Solutions Pty Ltd, with many of the staff being previously employed by Danfoss (Australia) Proprietary Limited.
- In 2016, Danfoss Group purchased the Global company Sondex A/S of Denmark with all of its worldwide subsidiaries, including Sondex Australia Pty Ltd.

The Pacific entities act as Sales Companies and distribute Danfoss and Sondex branded products into the Pacific region.

Danfoss and Sondex do not manufacture products within Australia and New Zealand, however we do undertake some assembly and end use modification to products, as well as servicing of the products which we sell.

In Pacific, these products are principally sold to Distributors, Original Equipment Manufacturers (OEM), Contractors/Installers and End User markets, within the four segments and their application areas.

Of the Danfoss and Sondex products which we sell in Pacific, more than 98% are from Danfoss Global factories.

3.2 Our Supply Chains

Danfoss Globally have more than 3,400 suppliers of direct materials (materials used in products) and 10,000 suppliers of services and indirect materials (e.g. cleaning and catering). Danfoss Globally has a number of processes which support responsible sourcing, especially for suppliers of direct materials ('direct suppliers').

In general, all new suppliers must sign Danfoss' Code of Conduct (CoC) and furthermore, direct suppliers are subject to different processes, depending on country risk and spend. To prioritize, the highest priority is given to suppliers in geographical areas which pose the greatest risk of non-compliance. All new direct suppliers in high-risk countries are subject to internal audits and self-assessment questionnaires prior to having external audits. This is a precondition for being approved as a new supplier by Danfoss Sourcing Committee.

Our Pacific Supply Chains consists of two key categories a) The Danfoss and Sondex products sourced from our Danfoss Global factories, which form the vast majority of the products we distribute in Pacific and b) other component parts (principally for Sondex products assembled in Australia), services and supplies provided to our Pacific entities from companies within Australia to support the local sales, marketing operations and other activities.

Very few products are purchased from third party manufacturer's (2%), with the majority of those having formal International supply agreements with Danfoss Global Procurement.

Sondex Australia purchase some assembly components, plus services locally within Australia from engineering vendors (<.

For the Pacific operations, the supply chain includes the following key activities:

- Logistics services (some outsourced warehousing, international forwarding and Customs Agents, plus domestic transport of products to customers);
- Sales and marketing (advertising, promotions, merchandising, public relations etc);
- External Service vendors (for Danfoss authorised service centres within Pacific);
- Appointed HVAC & R contractors for Food Retail (Supermarket) installations;
- Professional Legal, Financial Audit, Quality Assurance Audit, Insurance services; and
- Information Technology and Communications infrastructure and acquisition of IT hardware and software.

For Finance, Marketing and Information Technology, some back-end support services are provided by Danfoss Group companies or by global affiliates.

4. Meaningful Activities

Companies are required to establish meaningful activities that will contribute to eliminating all forms of modern slavery and which will lead to improvements in this area.

In 2020, Danfoss Group efforts to combat modern slavery practices focused on:

- Further risk assessment of modern slavery; prevalence, sectors
- Strengthening the process for avoiding forced labour by indirect suppliers in high-risk sectors
- Preparing forced-labour self-assessment questionnaires
- Understanding the Modern Slavery Act regulations in various countries
- Full details of these activities are included in the attached Danfoss Modern Slavery Act Statement 2020, which currently does not fully cover the Australian requirements.

5. Risk Assessment

5.1 Danfoss Group

Risk management is a continuous process of risk identification, risk assessment, risk treatment and risk monitoring. Supply chain issues are covered by our risk management process, but mainly for the supply of materials for products.

When assessing the risk of modern slavery and forced labour, the risk picture is somewhat different from general country risks and is more complex. For example, a country like the UK is generally considered to be a low-risk country in terms of general human rights violations, but when it comes to forced-labour issues, the risk is higher than the overall country risk, because UK is a destination country for forced labour.

Research on modern slavery shows that some of the categories in indirect supply are more exposed to forced labour than suppliers of direct materials, because these are sectors with many low- or unskilled workers and relatively low wages. Sectors, which have these challenges, are cleaning, catering, construction, clothing, transport and recruitment. In the following, these branches are called 'high-risk sectors.

Suppliers of indirect materials and services must sign Danfoss' Code of Conduct (CoC), but they are not regularly presented with new updates of our Code of Conduct and they are not subject to third-party audits either.

Globally Danfoss chose to strengthen the process for the high-risk sectors in 2020, and these indirect suppliers with a spend of more than 150,000 EUR have been asked to accept our newest Code of Conduct, which specifically addresses modern slavery and forced-labour issues.

5.2 Danfoss Pacific entities

For Danfoss Pacific entities, we have identified that the major risks regarding modern slavery within our supply chains, would occur from our overseas vendors raw materials and components for products to our Danfoss Global factories (Direct Suppliers). As such we have relied upon the Global Danfoss Group response as detailed above and within the attached document.

Until recently, we did not believe that Danfoss Australian entities actually met the AUD100 Mio threshold for statutory reporting under Modern Slavery Act.

As we are preparing for the global merger of Danfoss and the Eaton Hydraulics segment of Eaton Corporation later in 2021, at which time we knew we would exceed the threshold, we reached out to our local Legal advisors to commence preparations. It was then that we were advised that we needed to include Danfoss (New Zealand) Limited into our turnover, as they are a wholly owned subsidiary of Danfoss (Australia) Proprietary Limited.

It is for this reason that we are preparing this 2020 Modern Slavery Statement for the combined Danfoss Pacific entities.

As stated previously, the main business of the Danfoss Pacific entities is the sales and distribution of Danfoss and Sondex products. All employees of Danfoss within Pacific have undertaken training in order they are aware of and comply with corporate policies, guidelines and procedures in order to ensure that all business activities are conducted in an ethical, compliant and respectful manner.

In the immediate future, this training will be extended to include Danfoss' Code of Conduct requirements related to Modern Slavery Act, plus the correct procedures for the selection of new vendors. The risk of modern slavery within the Danfoss Pacific vendors is considered to be unlikely.

In the future, for the services that are sourced locally within Pacific by Danfoss entities, we will re-assess the companies providing those services using a risk assessment criterion based upon the

tiered approach of Danfoss Globally (as detailed in the attached Global statement), to ascertain the risks of modern slavery within Pacific supply chains.

We will continue to develop the risk assessment criteria for Pacific and work with our vendors to ensure that they are complying with all elements of the modern slavery legislation for Australia. This will include, for example, inserting specific contractual terms in agreements with vendors and developing vendor questionnaires which address modern slavery.

6. Our Policies and Procedures to prevent Slavery Risks

6.1 Danfoss Pacific Policies and Grievances

Danfoss Pacific entities are committed to ensure that we comply with all laws, rules and regulations within Australia and to follow the standards established by Danfoss for all Group wide operations.

Essential to this commitment is the Global Danfoss' Ethics Handbook, which stipulates internal rules and requirements regarding ethics, human rights (including labor rights and freedom from forced labor), anti-corruption, etc. The Ethics Handbook is distributed to all employees and is supported by compliance manuals and online training programs, e.g. within ethics, anti-corruption, and data privacy. The Ethics Handbook addresses among other things modern slavery issues and salient human rights.

In addition to the Danfoss Ethics handbook where the following are also stipulated, Danfoss Pacific entities have also established Pacific compliant policies with respect to working conditions, rates of pay, anti-discrimination, equal opportunity, work place safety and employee welfare that reinforce the respect for human rights. These policies are continually being developed and updated, to ensure statutory compliance.

Danfoss Group already has an "Ethics Hotline", which can be used by Pacific staff; Danfoss in Pacific are currently reviewing Pacific whistle-blower legislation and developing a local policy to make sure that all personnel including executives, managers, employees and contractors, as well as customers and vendors, who deal with us in Pacific, can feel confident to raise concerns to us in a safe and supportive manner which ensures confidentiality, anonymity and protection against adverse actions.

6.2 Danfoss Group Policies and Mechanisms

Danfoss Group is committed to respecting the internationally recognized human rights and core labour standards; and since 2002, we have been a member of the UN Global Compact.

Danfoss has an overall policy on business conduct as well as company guidelines on specific areas.

As previously stated, Danfoss has established Group wide policies and procedures which promote a high standard of compliance with respect to "Ethics" including labour, health, safety environment, ethics, anti-bribery, anti-cartel/competition, whistle-blowing (Ethics Hot Line), adherence to Global Standards, regulations and guidelines, plus supply chain corporate responsibility guidelines.

“The supplier or any entity supplying labour to the supplier must not charge fees for recruiting personnel or withhold any part of any salary, benefit, property or document in order to force personnel to continue working for the company. All personnel must have the right to leave the workplace after completing the standard workday and be free to terminate their employment with reasonable notice.”

The application and compliance obligations of the policy areas in the Ethics Handbook are summarized below:

- a) Respect for Human Rights – complementing the Ethics Handbook and is relevant to Danfoss’ efforts to effectively educate management and to manage human rights as well as the associated elements listed above.
- b) Working conditions – includes management responsibilities on providing contracts, living wages and avoiding systematic use of excessive work
- c) Recruitment – includes the protection for fundamental human rights and the compliance with laws and regulations of the respective countries in which Danfoss operates globally, as well as prohibiting child labour and forced labour of any kind.
- d) Training – Ethics training is conducted globally for all new permanent and contract staff. The training is a reflection of the content of the Ethics Handbook and includes human rights issues as well as business ethics issues.
- e) Whistle-blowing – Danfoss protects whistle-blowers by providing anonymous whistle blower hotline (Ethics Hotline) for employees, who are regularly reminded of this and consistently encouraged to report suspected unethical and /or potentially illegal behaviors or practices. The Ethics Hotline is also available for external reports.
- f) Suppliers/Vendors – Danfoss has established Code of Conduct Guidelines which apply to all suppliers, to eliminate slavery and human trafficking by including standard terms in supply agreements.

Danfoss has a Global Code of Conduct for suppliers (CoC), which reflects modern slavery regulations in the following way:

“Danfoss does not permit forced or involuntary labour, which includes slavery, human trafficking or any other forms of involuntary work. Danfoss’ suppliers must not use or benefit from forced labour at the supplier. This includes forced prison work, work on a forced contract, slavery and other forms of work, which are done against one’s will or choice.

Danfoss expects all suppliers/vendors to adhere to these guidelines. Danfoss continues to work with suppliers/vendors to ensure that they are aware of Danfoss’ expectations and to follow the standards set in the Danfoss procurement policies related to suppliers/vendors.

7. Valuation of Effectiveness of Actions

Danfoss entities within Pacific will during 2021, conduct assessment of local vendors on an annual basis, based upon the risk assessment profile in accordance with local policies and procedures. These will include referencing the specific terms in future contracts and developing a supplier

questionnaire on an ongoing basis in accordance with the relevant Australian legislation requirements to combat modern slavery.

We will work with the Danfoss Global team to ensure the Australian modern slavery act statement will be supported by the Danfoss Global Modern Slavery Statement for future years.

As mentioned previously and included within the Danfoss Group statement attached, Danfoss globally will continue to conduct assessments of its supplier/vendors which are used for the purposes of manufacturing Danfoss and Sondex products. This will be under the Danfoss Group headquarters Compliance and Risk Management staff.

Danfoss Pacific entities will continue to review external trends and communicate with relevant stakeholders within the Danfoss Group and externally to the Group.

We will work with the Pacific staff to obtain a high level of awareness through training and by ensuring that they will be fully aware of the relevant policies, with regards to the impact of modern slavery on our pacific operations.

Where any non-compliance becomes evident, Danfoss Pacific entities and/or Danfoss Group members will take the necessary actions to rectify any noncompliance with suppliers/vendors, by working collaboratively in accordance with the relevant policies and standards.

8. Continuous Compliance and Improvements

Danfoss Pacific local Management will continue to monitor and provide input into the Danfoss global policy by ensuring that at each and every level the requirements of Modern Slavery are considered and met.

Danfoss Pacific entities and Group members will continue to assess and monitor our supply chains, as we are very aware that there are serious risks involved with respect to human rights and labour.

Given the complexity of the Danfoss supply chains on a global basis, completely eradicating modern slavery at all suppliers/vendors will take considerable time and effort. Danfoss globally is committed to working on sustained initiatives to mitigate the risks of modern slavery contraventions by incorporating the feedback it receives into our business activities and product development.

This will include, but will not be limited to, revising supplier questionnaires and data collection methodology.

This Statement summarises the actions to be taken by Danfoss Pacific, as the reporting entities, which has been reviewed and approved by the Board of Directors of each included Pacific entity, in accordance with the requirements of the Australian Modern Slavery Act 2018 (Cth).



Robert Sherry

Director

Danfoss (Australia) Proprietary Limited & Danfoss (New Zealand) Limited

Dated: 15th March 2021

