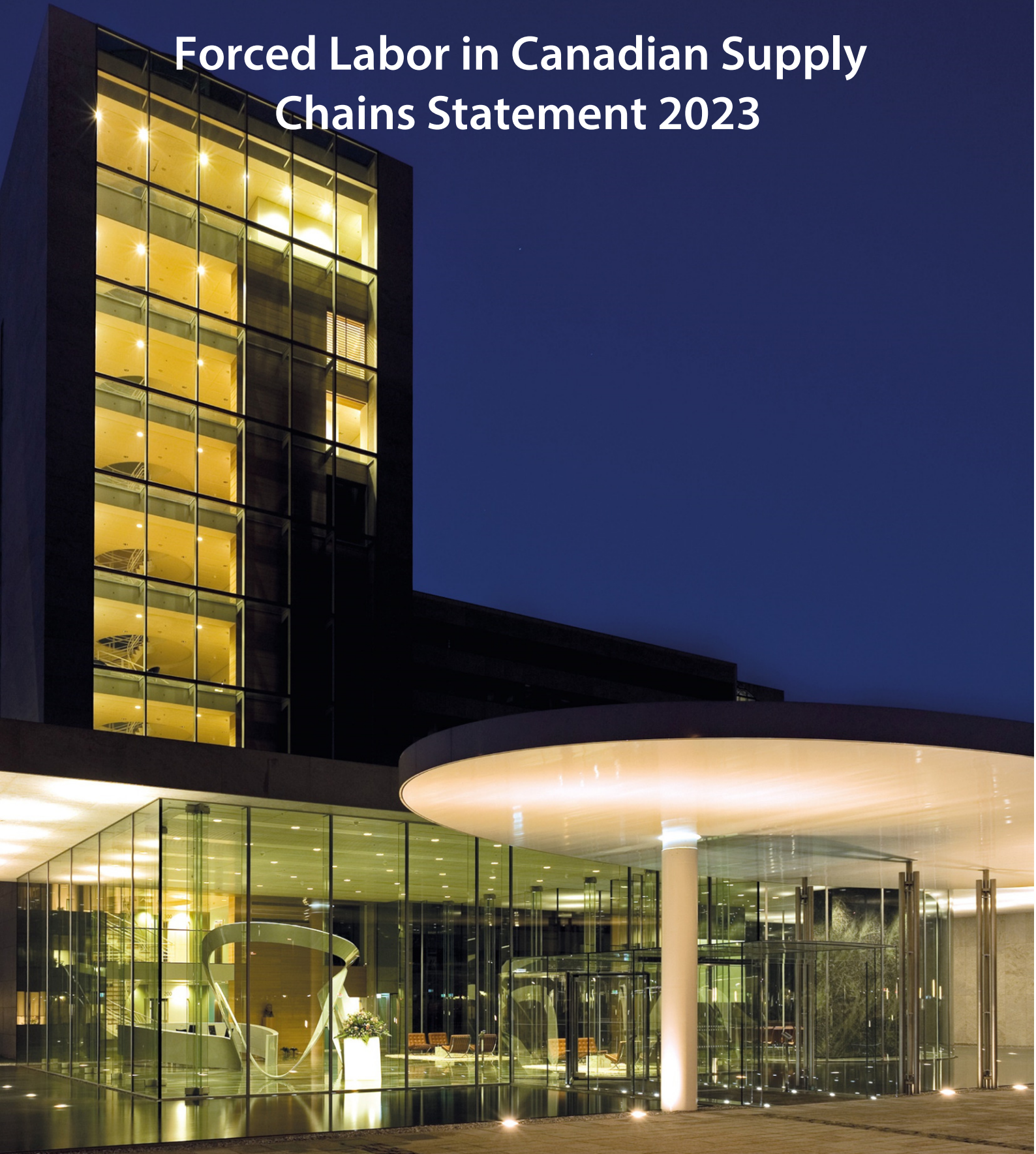


Forced Labor in Canadian Supply Chains Statement 2023



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Letter from the CEO

The International Labor Organization (ILO) estimates that almost 50 million people are in situations of modern slavery, 28 million of whom are in forced labor. More than 3.3 million of these are children. Migrant workers are more than three times more likely to be in forced labor than non-migrant adult workers.

The UN has set out a goal to end forced child labor by 2025 and abolish all slavery by 2030, but a lot of work still needs to be done to achieve these aims and the private sector plays a key role. It is imperative that businesses all over the world take responsibility for conducting business and generate results in an ethical and trustworthy manner.

Being an active member of the UN Global Compact and the Nordic Business Network for Human Rights, we act with due diligence and address human rights risks and challenges. Modern slavery, forced labor and child labor are part of our human rights due diligence process through which we identify, assess, prioritize and mitigate potential human rights impacts.

We respect the internationally recognized human rights and core labor standards through our commitment to comply with the UN Guiding Principles for Human Rights.

This document is Danfoss' Forced Labor in Canadian Supply Chains Statement and covers the calendar year 2023. We issue this statement to provide an overview of Danfoss' policies, guidelines and processes related to eliminating the practices of forced labor and child labor, in addition to our Modern Slavery Act Statement, which covers requirements in section 54 of the UK Modern Slavery Act, the California Transparency in Supply Chains Act as well as the Norway Transparency Act.

In accordance with the requirements of the Act, and in particular section 11 thereof, I attest that I have reviewed the information contained in the report for the entity or entities listed above. Based on my knowledge, and having exercised reasonable diligence, I attest that the information in the report is true, accurate and complete in all material respects for the purposes of the Act, for the reporting year listed above.

Nordborg, May 31st, 2024

Kim Fausing

President & CEO

I have the authority to bind Danfoss A/S



About Danfoss

Danfoss' history started on September 1, 1933, when Mads Clausen founded Danfoss in his parents' farmhouse in Nordborg, Denmark. Since then, the business has grown from a solo enterprise into one of the largest industrial companies in Denmark and one of the world's leading suppliers of innovative and energy-efficient solutions. Today, the company is still foundation- and family-owned via the Bitten and Mads Clausen's Foundation and the Clausen Family and it holds market-leading positions, employs approximately 42,000 people, and serves customers in more than 100 countries. Danfoss's Canadian entity, Danfoss Inc., employs 39.

Danfoss is a leading technology partner for our customers who want to decarbonize through energy efficiency, machine productivity, low emissions, and electrification.

We engineer the advanced technologies that help 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 is part of the metal-machining industry and the electronics industry; many of the products are electrical or electromechanical products.

The Danfoss Group consists of three business segments: Danfoss Power Solutions, Danfoss Climate Solutions, and Danfoss Power Electronics & Drives. Our customers are mainly original equipment manufacturers (OEMs), distributors and contractors, but also installers and end-users for a few products.

A full list of all the entities in the Danfoss Group can be found in the [Annual Report](#).

Corporate governance

Legislation provides the overall framework for the Group's governance, but corporate governance determines how the business is managed within this framework. The Group structure supports management values and determines a clear distribution of management responsibilities. These well-defined principles drive the interaction between the Group's management, the owners, and other stakeholders. The Group's Articles of Association and a comprehensive set of internal management and control procedures also form part of corporate governance within Danfoss.

Danfoss has a two-tier management system consisting of the Board of Directors and the Group Executive Team, including the CEO and CFO. The Board of Directors approves Danfoss' overall strategies and targets, appoints, and supervises the CEO and CFO, and defines the guidelines for the CEO and CFO on Danfoss' day-to-day operation.

As its code of corporate governance, Danfoss follows the recommendations on good corporate governance, as set out by the Committee on Corporate Governance in Denmark, which are available on: www.corporategovernance.dk. Danfoss complies with all of the recommendations except for a few. Further details about the company's governance structure, risk management and organizational structure are available in the Annual Report, and on the [company's website](#).

Our commitment and policies

Danfoss is committed to respecting the internationally recognized human rights and core labor 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. Danfoss' [Ethics Handbook](#) stipulates internal rules and requirements regarding ethics, human rights (including labor rights, forced labor and child labor), anti-corruption, etc.

Danfoss' Code of Conduct for suppliers (CoC) reflects forced labor and child labor regulations in the following way:

*"Danfoss does not permit forced **or** involuntary labor, which includes slavery, human trafficking, or any other forms of involuntary work. Danfoss' suppliers must not use or benefit from forced labor 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."*

"The supplier or any entity supplying labor 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."

"Danfoss supports the fundamental human right to have sound working conditions. The Supplier must ensure a good and safe working environment which complies with all applicable rules and laws."

"Danfoss does not accept the use of child labor as part of the Supplier's workforce. This includes employing children under the age of 15, children younger than the legal minimum age, or children younger than the age of completing compulsory school. Juveniles (children between the age of 15 and 18) are only allowed to be employed by the Supplier, provided that the work complies with local laws and the ILO Minimum Age Convention."

Due diligence

Danfoss is committed to complying with the UN Guiding Principles for Human Rights, which entails that we must carry out a human rights due diligence process where potential human rights impacts are identified, assessed, prioritized, and mitigated. We consider forced labor and child labor to be part of the human rights due diligence process.

Danfoss' human rights due diligence process has been based on a regional, risk-based approach with the aim of building local capacity to handle human rights issues in the regions, in which we operate. Regions at most risk of negative impacts on human rights have been prioritized first. In addition to the regional approach, in 2023 we piloted a business division approach, looking at the risks in the value chain of one of our divisions. We will continue with this approach in 2024.



Danfoss' due diligence process follows the cycle outlined above. This is based on the due diligence measures outlined by OECD. Learnings from each of the regional rollouts are implemented in the policies and processes.

Danfoss is an active member of the Nordic Business Network for Human Rights, a professional network for global companies, who work with human rights impacts in their organizations or supply chains, through which companies get insights into the ongoing development of the human rights agenda. Here, companies share their experiences and are challenged on policies, processes, and methods for embedding human rights considerations in business in order to build capacity and avoid and address negative human rights impacts. The network is chaired by the Danish Institute of Human Rights.

Companies are expected to report the human rights that are most salient to them; meaning those human rights which could be most severely impacted by the operations of the company. An overview of the most salient human rights relevant to Danfoss can be found [here](#).

Forced labor is one of Danfoss' salient human rights, meaning it is one of the areas where we must pay special attention to avoid negative impacts.

Responsible supplier management (direct suppliers)

Danfoss has more than 6,700 suppliers of direct materials used in products and approximately 16,600 suppliers of indirect materials and services. Danfoss has a number of processes that support responsible sourcing, especially for suppliers of direct materials ('direct suppliers').

All suppliers must adhere to Danfoss' Code of Conduct for suppliers and meet our environmental and social requirements. During the supplier qualification process, direct suppliers in high-risk countries are subject to Danfoss audits and self-assessment questionnaires prior to third-party audits. This is a precondition for being approved as a new supplier for Danfoss and has been an important lever in responsible sourcing since Danfoss became a member of the UN Global Compact.

The main scope of our responsible supplier management are Tier 1 suppliers, but if there is a suspicion of malpractice by Tier 2 suppliers, these are included in the third-party audits.

All audits are announced with an audit window of 1-2 weeks to ensure that management representatives are present and available during the audit.

Dedicated procurement specialists handle supplier assessment. Continuous training, awareness-raising activities, and an internal ambassador network have supported the understanding of the severity of the topic. These efforts contribute to maturing the procurement organization to ensure that requirements are explained to our suppliers up front, contributing to a better initial screening process.

70% of suppliers in high-risk countries have gone through a third-party, on-site audit. In 2023, 61 audits in high-risk countries identified three suppliers with severe issues. The issues were related to availability of safety exits in warehouses and factories, young workers, working hours, and chemicals handling. All suppliers have agreed to ensure remediation of the issues according to action plans jointly defined with Danfoss. Follow-up audits were conducted to verify proper action and closure of issues. Overall, more than 325 suppliers were engaged in corrective actions or capacity building after assessments in 2023.

Internal accountability

Danfoss has internal processes in place to ensure that in cases where a supplier fails to meet the requirements of our CoC, remediation will take place. Danfoss is committed to help existing suppliers meet the requirements.

Risk assessment of forced labor - beyond suppliers of materials for products

At Danfoss, 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.

Research on modern slavery shows that some of the categories in indirect supply are more exposed to forced labor 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 for example cleaning, catering, construction, clothing, transport, and recruitment. In the following, these branches are called 'high-risk sectors'. The sector with the highest risk of forced labor is recruitment, as various forms of fees and costs to workers can lead to debt bondage and other forms of forced labor and therefore, Danfoss has focused on addressing this in contracts with recruitment agencies first.

In general, blue-collar temporary workers and migrants are most vulnerable to forced labor practices, no matter the sector.

Avoiding forced labor in transportation

Due to the surge of online shopping during the pandemic creating a large demand for labor in the transportation sector, the risk of forced labor and unethical practices have increased. We have therefore decided to conduct SMETA audits amongst some of our largest transportation providers in China and the US.

The SMETA audits, conducted in Q4 2023, have revealed no signs of forced labor or any unethical practices and the small non-conformities related to administrative issues and health & safety regulations were corrected in a timely manner.

Building capacity to avoid forced labor and in Indirect Procurement

To strengthen the awareness culture on human rights issues including modern slavery and to enforce the deployment of standards and processes in the organization, we have established a CoC Ambassador Network for the high-risk sectors of indirect procurement. During 2023, training on forced labor has been carried out in Indirect Procurement with category managers in order to build capacity in the different regions.

The next step will be to increase the capacity building and continue the well-recognized social audits focusing on forced labor issues in 2024.

Trade legislation aimed at avoiding forced labor

It is of utmost importance to us that we comply with trade legislation aiming at avoiding forced labor. In 2023, we have therefore conducted a project to check whether any of our suppliers might be connected to regions known for their connection to forced labor. We will continue to monitor this to ensure that our products are slavery-free.

Pilot project to prepare for the EU Corporate Sustainability Due Diligence Directive

To prepare for the upcoming regulation on sustainability due diligence, we initiated a human rights risk assessment pilot to revise and strengthen our human rights risk identification processes across the organization. In the pilot, we assessed human rights risks along the value chain of our Refrigeration & Airconditioning Controls Division within Danfoss Climate Solutions. In 2024, we plan to leverage the pilot to initiate scaling and consolidation across our businesses to continuously inform and guide our approach to human rights risks.

Overview of 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 2023, our efforts to combat modern slavery practices focused on:

- Carrying out well-recognized social audits focusing on forced labor issues.
- Making sure that we comply with trade legislation aiming at avoiding forced labor.
- The development and roll-out of processes to prepare for compliance with EU's Corporate Sustainability Due Diligence Directive.

In 2024, we will focus on:

- Carrying out well-recognized social audits focusing on forced labor issues as well as own audits focusing on the subject.
- Capacity building on forced labor among our employees with touchpoints to suppliers and supplier selection as well as our suppliers themselves.
- The further development and roll-out of processes to prepare for compliance with EU's Corporate Sustainability Due Diligence Directive
- Review of our existing living wage practices around the world with special focus on disciplinary measures

Conflict minerals handling

Danfoss supports the efforts of governments and organizations to end violence and atrocities in conflict-affected areas. Danfoss is therefore committed to sourcing its materials and components from companies that also share our values regarding human rights, ethics, and environmental responsibility.

We have established internal processes to determine whether our products are conflict-free to ensure that our procurement of materials and components does not contribute to human rights violations in conflict areas.

We want to make informed sourcing decisions, which is why we support the Responsible Minerals Initiative (RMI) and review whether tin, tantalum, tungsten, and gold (3TG) in our products originate from conflict-affected and high-risk regions. To stay informed about regulatory compliance, we engage with our suppliers, acting beyond our company's boundaries. In 2023, we collected data from 1,450 tier one suppliers and provided conflict minerals reporting templates to customers.

We identify potential sourcing risks affecting our products and proactively require all minerals in our supply chain to be conflict-free. We exercise due diligence regarding the origin and chain-of-custody of the 3TGs (tin, tungsten, tantalum, and gold) contained in products in our supply chain that we manufacture or contract for manufacture.

We encourage our suppliers to responsibly source 3TGs through smelters and refiners that have been verified as DRC conflict-free through the Responsible Minerals Assurance Process (RMAP), formerly the Conflict-Free Smelter Program (CFSP), or a similar framework.

Finally, we support and adhere to national and international standards, and guidelines, for responsible supply chains of 3TG minerals, such as the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

In 2023, we ran a pilot on extended minerals reporting, collecting information from 450 suppliers on the origin of cobalt and mica in our products.

Verification

We have engaged supply chain data experts Assent to perform due diligence and verify compliance on conflict minerals.

Certification

At present, Danfoss has not implemented a process for certification of compliance with the California Transparency in Supply Chains Act, but Danfoss regularly provides a 'Slavery & Trafficking Risk Template' (STRT) to our US customers, which requires comprehensive information on how we avoid forced labor. The learnings from the STRT have been used in trainings on forced labor as well as the self-assessment questionnaires that we have distributed among some of our suppliers.

Effectiveness review

So far, Danfoss has not carried out an effectiveness review of the company's approaches to minimizing or eliminating modern slavery practices or child labor throughout our business activities, but we have

given attention to effectiveness when carrying out 'meaningful activities' as well as when setting targets for our activities.

Training

Danfoss training

Training on CoC issues, including forced labor, is a comprehensive part of our on-boarding process for new employees in Procurement, as well as for new suppliers.

In 2023, members of the Code of Conduct Ambassador Network received a training on avoiding forced labor to build capacity in the regions and ensure that they can provide sparring to their local counterparts.

Access to remedy

It is an integral part of a human rights due diligence process that rightsholders have access to remedy; examples of rightsholders are employees, communities and our supply chain. Given the nature of our company, our production processes, and the scope of our due diligence process, the primary rightsholders, who are impacted, are our employees – including employees in outsourced functions and temporary blue-collar workers. Suppliers in our supply chain can also be impacted.

Danfoss uses its Ethics Hotline as a grievance mechanism. The Ethics Hotline is available for our employees, business partners and affected stakeholders and enables them to anonymously report any concern they may have regarding internal standards, legislation, ethical behavior, and human rights. In the Ethics Hotline setup, reports are investigated, and for substantiated allegations, remedy actions are taken.

In 2023, our due diligence process has not identified any forced labor or child labor in our own operations nor in our supply chain. Neither have we identified any loss of income to vulnerable families. We have therefore not taken any measures to remedy, but in situations where Danfoss has caused or contributed to an adverse impact, Danfoss is committed to providing reparation for harm suffered to redress any violations. The reparation will be assessed on a case-by-case basis to ensure that it is proportional to the gravity of the violations and the specific circumstances of each case. To provide more clarity on how we handle human rights related issues, we have made a [process for handling human rights complaints](#).