



# **Charter of the Audit Committee of the Board of Directors of DANFOSS A/S**

***JUNE 2022***



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## **1. Status**

Recommendations for good corporate governance (section 3.4.3 – 2020 version) recommends that the board of directors establishes an audit committee and appoints a chair of the audit committee. The audit committee is established to comply with these recommendations.

## **2. Purpose**

The purpose of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the ESG reporting, the system of internal control, the audit process, risk management and the company's process for monitoring compliance with laws and regulations and the Ethics Handbook.

The Audit Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility.

It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the organization.
- Resolve any significant disagreements between management and the auditor regarding financial reporting.
- Pre-approve auditing and non-audit services above agreed threshold (500,000 EUR).
- Complementary, the Chair seeks any information it requires from employees -all of whom are directed to cooperate with the committee's requests- or external parties, and meets with company officers, external auditors, or outside counsel, as necessary.

## **3. Membership**

The Audit Committee shall consist of at least three members. Members of the Committee are elected for a one-year term by and among the members of the company's Board and may not be a member of the Group Executive Team.

Election usually takes place at the board meeting following the Annual General Meeting. However, any member of the Audit Committee can be removed by the Board at any time. The majority of the members of the Committee shall qualify as independent.

One of the members of the Audit Committee shall be designated by the Board as Chair of the Audit Committee. The Chair of the Board cannot be the Chair of the Audit Committee.

At least one member of the Audit Committee shall qualify as an Audit Committee financial expert with qualifications in accounting or auditing and be designated by the Board as the Audit Committee's financial expert. Overall, the members of the Audit Committee must have competencies which are relevant to Danfoss' business.

#### **4. Responsibilities**

The primary function of the Audit Committee is to assist the Board of Directors by reviewing information within the areas of oversight, and based on that, present recommendations to the Board of Directors. All decisions will be made by the Board of Directors except as expressly stated in this Charter.

The Audit Committee currently shall have the following responsibilities in respect to:

The External Audit (An External Auditor is an auditor engaged to perform audits, review, and attest services for Danfoss A/S as defined in applicable Danish and International law.)

- In compliance with applicable laws and regulations, oversee the process for identifying an External Auditor to be elected by the Annual General Meeting, including arranging any required tenders and in connection with a tender providing at least two proposals to the Board of Directors.
- Recommend to the Board of Directors the statutory External Auditors to be nominated by the Board of Directors and elected by the Annual General Meeting.

- Prepare the Board of Directors' recommendation to the Annual General Meeting regarding the election of the External Auditors and, if relevant, recommend to the Board of Directors that the Board of Directors propose to the Annual General Meeting that an External Auditor is discharged.
- Review the annual audit plan and the work of the External Auditors.
- Review and discuss the External Auditors' reports to the Board of Directors, including long-form reports and report the result of the statutory audit, including the financial reporting process, to the Board of Directors.
- Review the compensation of the External Auditors and recommend the compensation to the Board of Directors for approval.
- The provision of permitted non-audit services shall comply with the restrictions in applicable Danish and International law. Currently the company has decided on a guideline for non-audit services of 70% of the audit fee.
- Review the engagement letter with the External Auditors and recommend the terms to the Board of Directors for approval.
- Pre-approve audit services and permitted non-audit services, above agreed threshold (500,000 EUR), to be provided by any External Auditor. The Audit Committee may delegate its authority to pre-approve services to one or more members of the Audit Committee provided that such designees present any such approvals to the full Audit Committee at the next Audit Committee meeting.
- At least annually, assess the competencies, performance and independence of the External Auditors and obtain and review a report from the External Auditors describing internal quality-control procedures, issues raised in internal quality reviews or by authorities, actions taken and substantiating that the External Auditors are independent.

- Resolve any significant disagreements between Executive Management and any External Auditor regarding financial reporting.

### The Internal Audit function

- Approve the Internal Audit charter.
- Approve decisions regarding the appointment and removal of the Head of Internal Audit. Ensure there are no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the chief audit executive.
- Approve the annual audit plan and all major changes to the plan. Review the Internal Audit activity's performance relative to its plan.
- At least once per year, review the performance and compensation of the Head of Internal Audit.
- Review the effectiveness of the Internal Audit function, including conformance with The Institute of Internal Auditors' definition of Internal Auditing, Code of Ethics and the International Standards for Professional Practice of Internal Auditing.
- On a regular basis, meet separately with the Head of Internal Audit to discuss any matters that the Audit Committee or Internal Audit believes should be discussed privately.

### Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the annual financial statements, and consider whether they are complete, consistent with information



known to committee members, and reflect appropriate accounting principles.

- Review other sections of the annual report and related regulatory filings before release and consider the accuracy and completeness of the information.
- Review with management and the external auditors all matters required to be communicated to the Audit Committee under generally accepted auditing Standards.
- Review the half-yearly financial reporting (including ESG), and consider whether they are complete, consistent with information known to the Audit Committee members, and reflect appropriate accounting principles.

#### Business ethics compliance and handling through the compliance hotline

- Obtain an annual report from the compliance manager including data protection
- Maintain procedures for the receipt, retention and treatment of complaints received by Danfoss's Compliance Hotline as well as monitor complaints received. Furthermore, ensure a confidential and anonymous procedure for submission made by Danfoss employees of any concerns.
- Review and report to the Board of Directors on the effectiveness of the business-ethics compliance programs.

#### Enterprise Risk Management

- Monitor risk management process and the progress of defined mitigation activities, as well as assess overall effectiveness of the Danfoss Risk Management.
- Obtain an annual risk report from the Group Risk Manager

#### Treasury

- Monitor financial risk and recommend financing policy to the Danfoss board.



### Review of the sustainability/ESG reporting

- Monitor the Company's ESG reporting, including strategic focus areas. Further, the Audit Committee is to monitor any reporting work performed in relation hereto conducted by external or internal auditors.

### Information security

- Obtain an annual report of the CIO on the information security of the Group.
- Review Danfoss's Information Security Strategy and annually assess compliance with the current strategy.

### Other tasks

- Carry out such other tasks on an ad-hoc basis as specifically decided by the Board.

## **5. Operation of the Audit Committee**

The Audit Committee may engage independent counsel and other advisors as it determines necessary to carry out its duties. To enable the Audit Committee to perform its duties, the Audit Committee may if required request separate meetings with any employee and the External Auditors upon their discretion.

The Audit Committee shall have available appropriate funding as determined necessary by the Audit Committee for the fulfilment of its tasks and duties.

The Audit Committee shall, once a year:

- conduct an organizational review of the finance and assurance organization
- review applicable independence, financial expertise and other legal requirements of each member of the Audit Committee to determine whether the Audit Committee meets the applicable legal standards. Further, the Audit Committee shall present such review to the Board of Directors for approval as well as propose any required or recommended disclosure





- evaluate the adequacy of this Charter and recommend any proposed changes to the Board of Directors.

## **6. Meetings**

The Audit Committee shall meet as often as it determines appropriate, but at least four times each year. Further, the Audit Committee shall meet upon request of a member of the Audit Committee, the Chief Executive Officer, the Chief Financial Officer or an External Auditor. All committee members are expected to attend each meeting, in person or via telephone- or video-conference.

Meetings shall be convened at not less than three calendar days' written notice to all members of the Audit Committee, and such notice shall include an agenda for the meeting in question. Any written material relating to the individual agenda items shall, to the extent possible, be forwarded to the members together with the notice convening the meeting.

Minutes of Audit Committee meetings are kept and forwarded to the members of the Audit Committee.

Under special circumstances, a committee resolution may be passed over the phone or in writing. In such cases, the proposed resolution shall be forwarded to the members and the chair shall subsequently seek to obtain a written, oral or electronically transferred statement from all members of the Audit Committee and arrange for the recording of the resolution in the minute book.

## **7. Quorum**

The Audit Committee forms a quorum when two or more of its members are present. Resolutions are passed by simple majority.



## **8. Audit Committee member fee**

The Chair and the members of the Audit Committee shall receive an annual fee to be proposed by the Board of Directors and approved by the Annual General Meeting.

## **9. Reporting to the Board of Directors**

The Chair of the Audit Committee will regularly inform the Board of Directors of discussions, uncertainties and risks related to the current year, and present recommendations to the Board of Directors. Further, the Board of Directors will receive the minutes of meetings of the Audit Committee, while all material presented to or prepared by the Audit Committee will be available to all members of the Board of Directors upon request.

## **10. Audit Committee reporting**

The Audit Committee shall prepare the Audit Committee report that is required by applicable law or deemed appropriate to be included in Danfoss' financial reporting.

This Charter has been approved by the Board at its meeting held on June 15<sup>th</sup>, 2022.