

FLSmidth Group

Due Diligence Sub-Policy

1 Introduction and scope

This Sub-Policy outlines detailed rules and procedures concerning due diligence of third parties, including intermediaries, such as sales agents and distributors, customers, contractors, joint venture partners, service providers, consultants and others.

The Policy applies to FLSmidth & Co. A/S and all of its subsidiaries, offices and sites worldwide (henceforth 'FLSmidth') and includes all members of the Board of Directors, executives, officers and employees, irrespective of location. It also applies to any company acting on behalf of or in the name of FLSmidth, including all employees. Compliance with this policy is a condition of employment in FLSmidth and non-compliance may result in sanctions.

2 Introduction

The Sub-Policy outlines the different rules and procedures involved in the due diligence and approval of different types of third parties. The Sub-Policy is structured according to the type of third party.

Most types of third parties that require due diligence are managed and undergo screening and approval procedures in a dedicated third party management tool – Exiger Insight. The system is described in much greater detail on the dedicated Insite page, where help assistance and other support is also available.

2.1 Scope of due diligence reports

As a point of departure, due diligence reports are produced in-house in FLSmidth although occasionally we may need to procure more in-depth or covert reports from external providers. The reports cover, as a minimum:

- Basic company information, including a verification of company registration and addresses
- Beneficial ownership information
- Screening against sanctions, terrorist, wanted and other relevant lists
- Review of questionnaire completed by the third party, if required
- Litigation search
- Politically exposed person search / conflict of interest search
- Adverse media search
- Analysis of key individuals associated with the entity
- Social media search
- Mapping and examination of locations and offices
- Description and analysis of role vis-à-vis FLSmidth's projects and remuneration, if any

Due diligence for certain types of third parties, such as customers and contractors, typically also includes a number of other aspects, which may include:

- Human and labour rights standards analysis, including in some instances health and safety records, minimum or living wage compliance, and overtime policies and practices
- Analysis of environmental issues
- Review of Environmental and Social Impact Assessment (EIA and ESIA)

3 Intermediaries

International anti-corruption legislation such as the UK Bribery Act and the US Foreign Corrupt Practices Act specifies that FLSmith will be held liable if an intermediary bribes or commits other serious economic crimes while doing business on behalf of FLSmith. Such acts are entirely against FLSmith's values. A number of international corruption cases have resulted in very large settlements for companies whose sales agents or consultants had engaged in illegal activities.

The best way to mitigate this risk is to conduct due diligence screenings of intermediaries. In addition, it is important that we include anti-corruption clauses in our contracts with intermediaries, ensure that they are made aware of our rules and policies, monitor their exposure and behaviour on an ongoing basis, and provide training to select intermediaries.

As a general rule, FLSmith works with four types of intermediaries:

- *Sales agents (representatives)* – i.e. a company or individual representing FLSmith or providing sales assistance to FLSmith in certain countries or markets, or with certain customers
- *Sales agents (ad hoc)* – i.e. a company or individual representing FLSmith or providing sales assistance to FLSmith in the context of a single project or customer purchase
- *Distributors* – i.e. a company or individual reselling FLSmith equipment
- *Process Agents* – i.e. a company or individual assisting FLSmith with administrative procedures such as visa applications, tax advice, product registrations or customs clearance

3.1 Due diligence screening requirement

Any sales agent, regardless whether they are representative or ad hoc, and regardless of the size of business conducted, must undergo a due diligence screening and approval process. The due diligence screening is documented in a simple report which includes a list of checks performed, findings, risk assessment and mitigating actions.

Group Finance and Region CFOs are instructed not to allow or facilitate any payment to a sales agent unless it has been fully approved and undergone appropriate due diligence.

FLSmith employees are strongly encouraged to subject distributors and process agents to the same level of due diligence and approval as sales agents, but so far it is not a formal requirement.

3.2 Process

Any new sales agent, whether functioning as a representative or ad hoc agent and regardless of the size of business, must undergo a full due diligence process through the dedicated system Exiger Insight. The mandatory steps involved in the process include:

1. *Sending an email to Group Compliance* to create a new sales agent in the system, following the guide on Insite. Any FLSmith employee with access to Exiger Insight can do this. Creation of the sales agent in Exiger Insight is done by Group Compliance
2. *Business Case Questionnaire*: you will be sent a questionnaire from Exiger Insight with more detailed questions about the business case, fee rate, contact person etc. Please remember to answer this quickly to ensure a timely response.
3. *Third Party Questionnaire*: meanwhile, the sales agent will receive a questionnaire with detailed questions about the company, including owners, key employees, compliance standards etc.

4. *Manager approval*: the relevant N-3 level manager in the sales functions of the relevant region will be asked to approve the sales agent, in particular the business case. An exception has been made for the North America and Subcontinental India regions where N-2 level managers will be asked to approve.
5. *Due Diligence*: Group Compliance conducts a due diligence screening of the sales agent. This is based on an automated report generated by the system called DDIQ, but will be summarised in a separate, manually-compiled report compiled by Group Compliance
6. *Final Approvals*: once a due diligence screening has been completed, the sales agent needs should then prepare the contract with the sales agent and obtain final approval from the relevant Regional President and Group Compliance before the contract can be signed
7. *Contract*: once final approval has been achieved, you must sign and upload the contract with the sales agent

Note that the full process can take quite some time from creation to final approval and contract. Sales responsible persons should make sure to submit requests as early as possible as per the procedure to avoid or minimise possible delays.

Sales agents and other intermediaries already screened and approved will be subject to ongoing monitoring in the third-party management tool, as well as a full renewal process approximately every second year.

3.3 Due diligence report

Due diligence reports for intermediaries are based on the risk profile of the entity. Low-risk intermediaries are subject to an automated artificial intelligence-based report (known as 'DDIQ' in Exiger Insight), whereas medium and high risk entities will be subject to a human due diligence report based on the corresponding DDIQ report. The due diligence screenings must be conducted by Group Compliance.

4 Customer and contractor due diligence

FLSmidth is impacted by the actions of our customers and the contractors we work with, and we are increasingly held accountable to their legal and ethical standards.

Overall, the legal risk to FLSmidth in case of a contractor or, in particular, a customer involved in criminal actions or violations of human rights conventions is not as direct as is the case with intermediaries. However, there is a real risk that FLSmidth could face severe reputational and operational risks in case we are associated with a customer or contractor involved in serious wrongdoings.

4.1 Due diligence screening requirement

Any new customer or contractor with sales / orders from FLSmidth above 25 M DKK (in a single or accumulated sales / order with the customer or contractor over a 12-month period), regardless of industry or location of the project, is required to undergo a due diligence screening. In addition, any new customer or contractor with sales / orders above 5 M DKK (in a single or accumulated sales / orders over a 12-month period), for a project or headquarter located in a high-risk country is required to undergo a due diligence screening. A list of high risk countries is maintained on the FLSmidth intranet (on the Group Compliance sub-page).

For new customers and contractors, the due diligence screening should take place as early in the process as possible, and in any case no later than 25 working days prior to estimated publication of request for proposal. The requirement for a due diligence screening is part of the Bid Sign Off process.

For existing customers and contractors, it is the responsibility of Group Compliance to accumulate an overview of companies and select relevant companies for ad hoc screening. This will be done in cooperation with sales and project management.

In addition, Group Compliance will be conducting due diligence screenings of existing customers and contractors on an ongoing basis. The selection of existing customers and contractors for due diligence screenings is done at the discretion of Group Compliance based on input from the business as well as a simple calculation:

$$\frac{\text{Total sales/orders [Most recent year available, in KKDK]} * \text{Risk of corruption [TRACE matrix]}}{100,000}$$

4.2 Process

The mandatory steps involved in the process of customer and contractor due diligence include:

1. Request for due diligence [Responsible: sales function]

The relevant sales function is obliged to request a due diligence screening and approval by Group Compliance of any new customer or contractor with anticipated sales / orders above 5 M DKK (in a single or accumulated sales / order over a 12-month period) regardless of industry or location of the project. The request for due diligence screening and approval must be sent no later than 25 working days prior to anticipated publication of request for proposal and no later than seven days after the opportunity has been created in the relevant CRM systems. The request may be sent by email or as part of the Bid Sign Off procedure.

The relevant sales or other function is obliged to sent the request to Group Compliance at the earliest possible stage. However, if circumstances necessitate it, the request may include a request for a speedy due diligence process.

In rare cases, sales opportunities may require a very speedy signing of contract and / or delivery of goods, occasionally even above the 5 M DKK threshold. This is the case with, for example, certain aftermarket breakdown orders. In these specific cases, Group Compliance should be notified immediately and asked to conduct an emergency due diligence screening within two working days. The emergency due diligence screening will check for any immediate sanctions hits. The relevant sales function must proceed in accordance with the six steps of the normal approval process immediately after the emergency due diligence report has been made.

2. Due diligence [Responsible: Group Compliance]

Group Compliance is obliged to finalise the report no later than one calendar month after receiving the request for due diligence. The relevant responsible manager in sales (if new customer) or project management (if contractor or existing customer) is responsible for providing information, documentation and background knowledge to Group Compliance as requested. Group Compliance can conclude the report in three ways:

- Approve the new customer or contractor, provided that mitigating actions listed in the report, if any, are put in place
- Caution against cooperation with the new customer or contractor
- Reject the new customer or contractor in case the due diligence screening uncovers circumstances that makes it potentially illegal for FLSmidth to do business with the

company (e.g. sanctioned entities or individuals). In this case, the process stops at this stage

Group Compliance will forward the due diligence report to the relevant function and, whenever relevant, provide a brief verbal presentation of findings.

3. Dialogue regarding mitigating actions [Responsible: sales function]

The relevant sales or project management functions enters into dialogue based on the draft mitigating actions outlined in the report. The aim of this is to ensure the suggested actions are realistic and feasible.

4. Action plan / escalation of decision [Responsible: sales function and Group Compliance]

Group Compliance and relevant sales or project management functions agrees on a final action plan including a list of mitigating actions, deadlines and responsible person(s).

This decision is escalated to the relevant Region President and the Group General Counsel if Group Compliance and the relevant sales or project management function are unable to agree on an action plan, or if Group Compliance cautions against cooperation with the customer or contractor in the due diligence report.

The decision may be further escalated to the Group CEO for final decision in case the Region President and Group General Counsel are unable to reach agreement.

5. Dialogue with customer or contractor [Responsible: sales or project management function]

The relevant sales or project management function is responsible for initiating a dialogue with the customer or contractor regarding the mitigating actions outlined in the action plan. It is vital this dialogue is initiated well in advance of signing of a contract.

6. Monitoring of implementation [Responsible: sales function]

The relevant sales or project management function is responsible for keeping Group Compliance informed about the status of implementation of mitigating actions on a regular and ongoing basis. As a point of departure, it is suggested that the relevant analyst in Group Compliance and the relevant contact person in sales or project management conducts quarterly status meetings until mitigating actions have been satisfactorily implemented.

Customers and contractors already screened and approved will be subject to ongoing monitoring in the third-party management tool, as well as a full renewal process approximately every second year.

4.3 Due diligence report

Due diligence reports for customers and contractors includes an automated (artificial intelligence) report which usually forms the basis of a more detailed human due diligence report. The decision on the level of detail and methodology of the due diligence report is made by Group Compliance based on the total value of the sale / order and other relevant risk factors. The due diligence screenings must be conducted by Group Compliance. Group Compliance is obliged to finalise the report no later than one calendar month after having received the request for due diligence.

5 Implementation

This Sub-Policy is supported by several measures and activities implemented throughout the FLSmidth Group. This includes a dedicated risk assessment workflow for relevant third parties, including intermediaries, customers and contractors, as well as a designated database of intermediaries and a number of tools used to conduct due diligence research. In addition, more broadly, implementation includes regular risk assessments; top level support and reporting to the Board of Directors and top management team; communication activities; ongoing monitoring; and internal controls. The measures and activities are described in greater detail and on an ongoing basis in the publicly available sustainability reports.

6 Governance

This Sub-Policy is approved by the Group CEO. The Sub-Policy is maintained, implemented and updated by Group Compliance.