

**FLSmidth**

# **Due Diligence Sub-Policy**

## 1 Introduction

This Sub-Policy sets out the minimum required due diligence procedures for doing business with certain types of third parties, including intermediaries, such as sales agents and distributors, customers, contractors, subcontractors, joint venture partners, service providers, advisers, consultants, donation recipients and others. Suppliers are checked and audited in accordance with a separate procedure owned by Operations / Supply Chain.

The Policy applies to FLSmith & Co. A/S and all of its subsidiaries, offices and sites worldwide (henceforth 'FLSmith') 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 FLSmith, including all employees. Compliance with this policy is a condition of employment in FLSmith and non-compliance may result in sanctions.

The purpose of this policy and procedure is to provide guidance to FLSmith's internal stakeholders with respect to the engagement and monitoring of third parties and to ensure that third parties are evaluated systematically to confirm their ability to operate in an ethical manner consistent with FLSmith's expectations.

Due diligence serves the purpose of an additional control in the detection and prevention of compliance risks and to inform FLSmith's decision on whether to discontinue or revise the transactions, projects or relationships with third parties.

## 2 Due diligence guidelines

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 as defined in section 2.1.

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 Due Diligence Insite page, where assistance and other support is also available. Ongoing reviews of existing third parties are performed periodically through the use of an integrated assessment platform.

FLSmith employees initiating or requesting a new or renewed business relationship with a third party must comply with the requirements set out in this policy before entering into the cooperation. The specific due diligence requirements vary depending on the risks associated with the third party.

### 2.1 Types of third parties

#### Sales agent

An individual or organisation authorised to act for or on behalf of, or to otherwise represent, FLSmith in furtherance of its business objectives in certain countries or markets. Sales agents can also provide sales assistance to FLSmith in the context of a single project or customer purchase. A sales agent is also sometimes known as a '(sales) representative'.

#### Distributor

An individual or organisation that supplies goods to other businesses on behalf of FLSmith. Distributors may hold inventory and stock FLSmith products for resale in the future, purchasing equipment prior to receiving a purchase order from an end-customer. A distributor is also sometimes known as a 're-seller'.

### **Customer**

The recipient of a product, service or proprietary knowledge from FLSmidth. Customers are generally categorised into two types: a) An intermediate customer is a dealer that purchases goods for resale, and b) An ultimate customer is one who does not in turn resell the goods purchased but is the end user.

### **Contractor and subcontractor**

A contractor is a non-controlled individual or organisation that provides goods or services to FLSmidth under a contract. A subcontractor is an individual or organisation that is hired by a contractor to perform a specific task as part of the overall project.

### **Joint venture partner**

An individual or organisation which has entered into a business agreement with FLSmidth (and possibly other parties) to establish a new business entity and to manage its assets.

### **Service provider**

An individual or organisation providing FLSmidth with functional support such as communications, logistics, canteen and cleaning services, storage, processing services, etc.

### **Adviser, consultant and other intermediary**

An individual or organisation providing service and advice by representing FLSmidth towards another person, business or government official, for example legal, tax, financial adviser or consultant, lobbyist, etc.

## **2.2 Scope of due diligence reports**

As a point of departure, due diligence reports are produced in-house by Compliance 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, regulatory, terrorist, wanted and other relevant watchlists
- Legal and corporate structure
- 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, such as:

- 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)

## **2.3 Methodology**

As part of our standard due diligence assessment, various reputable sources are consulted with a view to collect reliable and up-to-date information as well as for the purposes of validating data provided by third parties and eliminating guesswork as much as possible. These sources include government records, financial statements, regulatory filings, and publicly available information.

However, it is important to note that not all details can always be definitively confirmed, or information corroborated. Occasionally, sensitive or proprietary information may not be publicly available, and individuals or organisations may not disclose certain data. Where this is the case, relevant disclaimers are included in the due diligence report.

## **3 Intermediaries**

International anti-corruption legislation specifies that FLSmidth will be held liable if an intermediary bribes or commits other serious economic crimes while doing business on behalf of FLSmidth. Such acts are entirely against FLSmidth's values and policies. 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 to include anti-corruption clauses in our contracts with intermediaries, ask them to confirm in writing their understanding of and compliance with our rules, ensure that they are made aware of our rules and policies, monitor their conduct on an ongoing basis, and provide training to select intermediaries.

### **3.1 Due diligence screening requirement**

Any sales agent, regardless of 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 report which includes a list of checks performed, findings, risk assessment and mitigating actions.

No payments shall be made or otherwise facilitated without a sales agent being assessed and approved by Compliance. Additionally, the engagement of sales agents in any type of work or activity carried out on behalf of FLSmidth is only permissible under the condition that they are covered by a valid contract.

Sales agents representing FLSmidth are required to operate in full compliance with FLSmidth's Code of Conduct and must adhere to all applicable national and international laws related to bribery, anti-corruption, and ethical business practices.

Engaging a current or prospective sales agent in any other capacity with the intent of circumventing the due diligence policy is strictly prohibited. This includes situations where attempts are made to establish a business relationship with a sales agent under a different guise, such as a supplier, customer, or contractor, to avoid the standard due diligence procedures. Employees who become aware of any attempts to engage a sales agent in a manner inconsistent with the requirements contained in this policy shall promptly report such incidents to Compliance.

Distributors are also subject to mandatory due diligence and approval process, similar to sales agents. Similar levels of scrutiny are advised in respect of process agents, but it is not a formal requirement.

### 3.2 Process

Any new sales agent and distributor (hereinafter both referred to as 'third party') 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 Compliance* to create a new third party in the system, following the guide on Insite.
2. *Business Case Questionnaire*: the FLSmidth business requestor will be asked to complete a questionnaire in Exiger Insight with more detailed questions about the business case, fee rate, contact person etc.
3. *Third Party Questionnaire*: in parallel, the third party will receive a questionnaire with detailed questions about the company, including owners, key employees, compliance standards etc.
4. *Manager approval*: the relevant manager in the sales functions of the relevant region will be asked to approve the third party, in particular the business case.
5. *Due Diligence*: Compliance conducts a due diligence screening of the third party. This is based on an automated report generated by the system called DDIQ, but will be summarised in a separate, manually compiled report by Compliance.
6. *Final Approvals*: following completion of the due diligence screening, approval from Compliance Manager and the relevant Region President must be obtained before a contract can be signed. Region Presidents are required to consult with the Head of Capital Sales and inform the relevant Business Line President about the sales agent's fee rate before making a final decision.
7. *Contract*: a signed contract must be uploaded into Exiger Insight once the approval workflow has been successfully completed. Contract templates are drafted by Legal and stored in Exiger Insight.

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 re-assessment process, as described below.

A full re-assessment of a third party will be triggered upon:

- Contract renewal
- Significant amendment to contract, such as the nature of transaction, scope of services or amount of remuneration
- Change of controlled ownership as communicated by the third party
- Every three years for low-risk third parties, every two years for medium-risk third parties and every year for high-risk third parties

## 4 Customer and contractor due diligence

FLSmith is committed to upholding the principles outlined in the United Nations Guiding Principles on Business and Human Rights (UNGP). As a global business, we are aware of the potential impact we may have on people and communities, both positively and negatively, through our business practices and relationships.

In the context of our business relationships, we recognise the importance of conducting due diligence to ensure actual and/or potential risks arising from the actions of customers, contractors or other business partners are properly understood and mitigated.

Overall, the legal risk to FLSmith in case of a contractor or, in particular, a customer involved in criminal actions or violations of human rights is not as direct as is the case with intermediaries. However, there is a real risk that FLSmith 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 anticipated sales / orders from FLSmith above 20 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 anticipated 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 countries by risk rating is maintained on the dedicated Due Diligence Insite 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.

Compliance also compiles an overview of relevant customers and contractors not in scope of a due diligence assessment for ad hoc screening. This is carried out in cooperation with sales and project management.

In addition, Compliance will be conducting ongoing sanctions screenings and adverse media monitoring of existing customers and contractors as well as periodic renewal or update of the risk assessment and due diligence process. The selection of existing customers and contractors for continuous due diligence screenings and/or re-assessments is done at the discretion of Compliance based on input from the business and guided by the results of previous risk assessments. Furthermore, certain events usually trigger a re-assessment, including:

- Significant increase in sales / orders with the customer or contractor
- Change in scope (commercial, geographical, etc.) to existing projects or entering into new projects with the same customer or contractor
- Change of ownership control as communicated by the customer or contractor or identified through ongoing monitoring
- Significant red flags identified in the initial assessment that may warrant monitoring of developments
- Upon request from the business

## 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 Compliance of any new customer or contractor with anticipated sales / orders above 20 M DKK (in a single or accumulated sales / order over a 12-month period) regardless of industry or location of the project. In high-risk countries, the threshold for any new customer or contractor is 5 M DKK (in a single or accumulated sales / orders over a 12-month period). 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 relevant sales or other function is obliged to send the request to Compliance at the earliest possible stage. However, an expedited due diligence assessment may be requested in exceptional situations.

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, 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 risks. 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: Compliance]*

Compliance is obliged to finalise the report no later than one calendar month after receiving the request for due diligence. The relevant sales manager / opportunity owner (if new customer) or project manager (if contractor or existing customer) is responsible for providing information, documentation and background knowledge to Compliance as requested.

Following data collection, verification and validation of data and evaluation of results, Compliance will prepare and disseminate the due diligence report to the relevant function. In addition, stakeholders will be engaged in discussions of findings and cases may be escalated to the relevant management body for decision making.

As may be required, the report will outline mitigation measures commensurate with the level of risk. Discussion of the feasibility of the proposed mitigation measures and their practical implementation will take place with the relevant function. For the avoidance of any doubt, responsibility for the implementation of any mitigation measures sits with the relevant business area and not Compliance.

### 3. *Action plan / escalation of decision [Responsible: Business Line Presidents, sales function and Compliance]*

Compliance will elevate the decision to the relevant management body or risk owner, as described below in cases where the due diligence assessment indicates a heightened level of risk. This decision will be documented, supported by the rationale for the decision alongside any risks exposed during the due diligence process.

Compliance bases its approval for high-risk customers and contractors on the following principles:

- *Contract value below 20 M DKK:*  
The due diligence report will be shared with the relevant Business Line President for review and decision-making. They are responsible for approving or rejecting the relationship,

taking into account the inherent risk of the transaction, any mitigating factors as well as the residual risk following completion of the due diligence review.

- *Contract value above 20 M DKK, or in cases where the customer, contractor or project involves unusual risks or other special circumstances:*  
Decision-making will be escalated to the Risk Management Board (RMB). Group CEO reserves the right to make a unilateral decision in respect of any customer or contractor relationship if consensus cannot be reached at RMB level.

Compliance acts as an advisory body to the relevant decision-making bodies but does not own the risk (whether legal, reputational, operational or otherwise) regarding any given customer or contractor. Frontline responsibility for the management of any business relationship, including oversight of mitigation measures, rests with the relevant business area and management unit.

Following approval of a customer or contractor relationship, the responsible sales or project management functions must agree on a final action plan together with the relevant decision-making body. This plan should include a list of mitigating actions, deadlines and responsible persons.

#### *4. 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 that this dialogue is initiated well in advance of signing of a contract.

#### *5. Monitoring of implementation [Responsible: sales function]*

The relevant sales or project management function is responsible for keeping 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 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 re-assessment as prescribed in section 4.1 and other relevant operating procedures maintained by Compliance.

### **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 Compliance based on the total value of the sale / order and other relevant risk factors. Due diligence screenings must be conducted by Compliance.

## **5 Implementation**

This Sub-Policy is supported by several measures and activities implemented throughout FLSmidth. 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 the senior 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 Compliance.