



# Sustainability-Linked Bond Framework, May 2023



# Summary of the Danfoss Sustainability-Linked Bond Framework

## Rationale for issuing sustainability-linked bonds

Danfoss strives to be a leading technology partner for our customers who want to decarbonize through energy efficiency, machine productivity, low emissions, and electrification. We believe that the alignment of our financing strategy with key sustainability objectives and related targets will work as a powerful tool to further drive our ambitions and communicate our goals in a transparent and credible way to the capital market, as well as within the organization and to our stakeholders.

## Selection of Key Performance Indicator (KPI)

**KPI:** Absolute scope 1 and 2 greenhouse gas (GHG) emissions

## Calibration of Sustainability Performance Target (SPT)

	2028	2030
<b>SPTs</b>	Reduce absolute scope 1 and 2 GHG emissions by 75% by 2028 from a 2019 base year.	Achieve carbon neutral operations (scope 1 & 2) by 2030, equivalent to a minimum of 90% absolute Scope 1 and 2 GHG emissions reduction from a 2019 base year.
<b>Target observation date</b>	December 31 <sup>st</sup> , 2028	December 31 <sup>st</sup> , 2030

## Bond characteristics

The financial characteristics of any bond issued under this Framework will be specified in its related bond documentation. For any bond issued in line with this Framework, the characteristics may change and lead to a financial impact in the form of either a coupon step-up or a premium payment if a trigger event occurs.

## Reporting

Danfoss will annually publish a sustainability-linked progress report to ensure that investors and other stakeholders have updated and adequate information about Danfoss' performance of the KPI against the SPTs.

## Verification

Danfoss will annually seek external and independent verification of the level of performance of the KPI against the SPT by one or more qualified external reviewer(s) with relevant expertise.

## Second party opinion

Danfoss has engaged S&P Global Ratings as an external reviewer to provide a pre-issuance external review, on Danfoss' Sustainability-Linked Bond Framework, confirming the alignment of the Framework with the Sustainability-Linked Bond Principles. The Second Party Opinion will be made publicly available on Danfoss' website together with this Framework.



# Danfoss at a glance

Danfoss' history started in 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.

## Our Purpose

It is in our Danfoss DNA to make a difference in the businesses and communities where Danfoss is active. Driven by our dual purpose to drive long term value creation for all our stakeholders and to decarbonize with our customers, Danfoss is dedicated to delivering engineering solutions for tomorrow to build a better future in an increasingly sustainable society.



## Decarbonizing with our customers

Danfoss is uniquely positioned to drive profitable growth and be the preferred partner in helping our customers to decarbonize.

Our unique products and solutions provide real value to our customers through sustainable innovation and leading application know-how, supporting them in their journey towards decarbonization in an intelligent and cost-effective way.

Global megatrends are transforming our world, making Danfoss more relevant than ever before. Our world is changing rapidly. Unforeseen events like the pandemic, supply chain disruptions, and soaring energy prices, have accelerated the need for technologies that enable the green transition, calling for more agility and flexibility from our businesses. We adapt to the world around us through our proven and reliable solutions

that meet many of the climate, digitalization, urbanization, and food and water supply scarcity, while capturing opportunities in digitalization and electrification.

In 2022, we successfully launched our Core & Clear Strategy Destination 2025 – continuing to transform Danfoss. It details our green growth strategy to become our customers' preferred decarbonization partner.

## Our customer promise

Being the preferred partner for our customers requires us to continuously strengthen our competitive advantage.

We are building on three core elements to deliver on our customer promise: Leading Application Know-how, Sustainable Innovation, and Leading Positions.

### Leading application know-how

Understanding customer applications is key to differentiating and creating customer value. We invest in initiatives that enable our sales and R&D teams to turn their expertise and application understanding into performance-enhancing advantages for our customers.

### Sustainable innovation

We are the technology leaders in our core businesses. We invest in technologies and new products that help our customers to differentiate even further. Danfoss is accelerating low-carbon products and circularity initiatives across all segments, coupled with actions to build sustainable value chains together with our suppliers.

### Leading positions

All Danfoss core businesses are pursuing a global number one or number two position. We aim to be the partner of choice close to our customers with a leading position in safety, quality, delivery, and cost. Our long-term investments and value creation has a strong focus on strengthening our competitive position organically as well as inorganically.

### Quality, reliability, and innovation

Driven by the potential of an electrified society, and powered by the opportunities of going digital, Danfoss is engineering technology that helps the world to get much more out of less.

With the promise of quality, reliability and innovation deeply rooted in our DNA, we deliver an extensive range of products and solutions across our business segments of Danfoss Power Solutions, Danfoss Climate Solutions and Danfoss Power Electronics and Drives.

**Danfoss Power Solutions** provides unmatched systems capability within mobile and industrial hydraulics, fluid conveyance, electrification, and software - a global leader in mobile and industrial hydraulics. We are enabling industries and applications to build, move and transform our world in a more energy-efficient and sustainable way.

**Danfoss Climate Solutions** is a market leader within cooling and heating, and delivers sustainable heating and cooling solutions for buildings, cold chains, industry, and infrastructure. Building on advanced components, systems and software using proven technologies to engineer tomorrow's cooling and heating solutions.

**Danfoss Power Electronics and Drives** is a global leader in AC/DC and DC/DC power conversion, variable speed control for electric motors, semiconductor devices, power modules, stacks, and systems. With the world's largest portfolio of power converters, VLT® drives, and VACON® drives – and backing from a partner whose legacy has been built on decades of passion and experience – the journey to a better future is only just beginning.



41,928

employees



97

factory sites



100+

countries with sales

# Sustainability in Danfoss

We are putting sustainability at the heart of what we do and setting ambitious targets towards 2030. We take responsibility for the planet and for our people. Our DNA and culture have been instrumental in building our leading position across multiple industries.

In order to maintain and develop Danfoss' good reputation in the global market, it is important that we generate our results in an ethical manner. The Danfoss name must always be associated with respect for human rights, proper working conditions and social and environmental considerations.

Sustainability is at the center of our Core & Clear strategy. It is our ambition to become our customers' preferred partner in decarbonization and create long-term value for all our stakeholders: customers, employees, shareholders, and partners.

By combining sustainable innovation and leading application know-how, we play a significant role in the green transition by supporting our customers in their decarbonization journey. At the same time, we continue our own journey. We focus on the longer view and follow in the footsteps of our founder, investing in developing markets and technologies.

This is our purpose and why Danfoss has never been more relevant: **We engineer tomorrow to build a better future.**

## Our approach to materiality

Our materiality assessment is based on the robust analysis of the economic, environmental, and social impacts of our business.

We have used best practice sustainability reporting standards to identify the most material issues. We have applied the principle of double materiality to identify the environmental, social, and economic topics

with the highest impact on the business and topics which affect the resilience of the organization and the ability to deliver long-term value to our customers and society.

Stakeholder interviews combined with additional analysis of global sustainability trends, peer reviews and external reports formed the foundation for the identification and prioritization of the ESG issues most critical to the organization.

## Our 2030 ESG Ambition

In 2021, we kicked-off an ESG Strategy project to establish a new and ambitious outset for our sustainability work. Through an extensive materiality assessment, our ambitious 2030 ESG Ambition was born. It shapes a bold direction for Danfoss that enables us to become our customers' preferred decarbonization partner. In 2022, Danfoss launched the bold ESG ambition for 250 of our top leaders leading us into execution mode. Our ESG ambition is what will bring our purpose to life.

We have developed detailed roadmaps and execution plans to deliver on the three step-change initiatives that are the core elements of our 2030 ESG Ambition:

**Decarbonization:** We will pioneer solutions for customers to enable decarbonization in an intelligent, cost-optimal manner and ensure carbon neutrality in our own operations.

**Circularity:** We will innovate best-in-class circular products as the default when developing, producing, sourcing, and selling to deliver new value propositions.

**Diversity, Equity & Inclusion:** We offer a leading employee experience that values and respects diversity and inclusion to attract and retain the top talent who will lead the green transition.

The ESG ambition support our commitment to address climate change and create action. It serves as enabler for our ambition to drive sustainable transformation and deliver solutions that meets our customers' need for energy efficiency and improved performance.

## Strong policies supporting our ambition

In 2002, Danfoss joined the UN Global Compact Initiative as one of the first Danish companies. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labor, environment, and anti-corruption. Danfoss expects all business partners, including suppliers, to comply with the UN Global Compact principles and the laws of the countries where our businesses are located.

We have implemented comprehensive compliance programs within business ethics, anti-corruption, fair competition, data privacy, IT security and conflicts of interest with mandatory training to minimize the risk of non-compliance. Furthermore, we have implemented control mechanisms to minimize the risk of rule violations.

We are committed to be a reliable and trustworthy business partner by acting responsible while balancing financial, environmental, and social issues.

We comply with the UN Global Compact and support the Sustainable Development Goals; we engage with our stakeholders to promote sustainable development and do our utmost to implement decisions and actions with dignity and fairness.

We ensure that sustainability is a fundamental element of our business conduct focusing on resource efficiency, risk mitigation, reputation, and engagement and we ensure that all employees comply with local and international legislation.

## Our sustainability & ESG governance

Our sustainability & ESG Governance is rooted in the Group Executive Team supported by an ESG Leadership Team, which reports progress on a quarterly basis to the Group Executive Team. The ESG Leadership Team is chaired by Group Sustainability & ESG and has 12 members from corporate functions (Finance, Strategy, Procurement, HR, Facility Management, Business Systems, Sustainability) as well as senior leadership members from the three business segments. The team decides on initiatives and milestones for ESG strategy execution, oversees the implementation of the 2030 ESG ambition and aligns cross-functional targets, processes, and communication.

Working groups and supporting workstreams were established for each of the initiatives. They determine metrics and targets and subsequently monitor and report on the overall process of each step-change initiative.

The supporting workstreams include Sustainable Procurement, ESG Reporting, Life Cycle Assessment, Innovation, and other ESG relevant topics.

## Our commitment to decarbonization

Decarbonization is one of the three pillars of our ESG ambition and an area where Danfoss has committed to ambitious targets covering our operations, suppliers, and customers. For several years, Danfoss has systematically worked to reduce and recycle energy in our factories and offices around the world. We have been successful in optimizing processes, heating, and ventilation systems, and have reused excess heat to minimize the energy needed for heating of our buildings.

In 2020, Danfoss joined, as the first global technology company, all three business initiatives by The Climate Group to send a strong signal to our business partners that we deliver on our climate ambition. We have committed to the three sustainability pledges on sourcing 100% renewable energy (RE100), improving energy productivity (EP100) and shifting our fleets to electric vehicles by 2030 (EV100).

## Science-Based Targets

Our Science-Based Targets were validated by SBTi in May 2022. This important milestone cements our commitment to the “Business Ambition for 1.5C” and sets us on a transformative journey with carbon-neutrality by 2030.

Danfoss’ decarbonization targets have been deemed by the Science Based Targets initiative to be in conformance with the SBTi Criteria and Recommendations (version 4.2). The SBTi’s Target Validation Team has classified our scope 1 and 2 target ambition and has determined that it is in line with a 1.5°C trajectory.

Our Science-Based Targets compel us to deliver a combined 46.2% reduction of our Scope 1 and Scope 2 greenhouse gas (GHG) emissions. As an energy efficiency solution provider, walking the talk by decarbonizing our operations, energy sources and manufacturing processes is a priority for us. We have therefore extended our commitment to make our global operations carbon neutral by 2030 and will use the Greenhouse Gas Protocol as methodology for our calculations.

We commit to reducing our Scope 3 emissions by at least 15% by 2030. This objective will be achieved by rethinking our entire value chain, from the materials we acquire, how we transport our goods and most importantly the emissions of our products and services which account for 98% of our total emissions.

Danfoss has taken steps towards integration of our Science-Based Targets across the organization, the identification of decarbonization levers as well as the initiation of pilot projects focusing on the reduction of use-phase emissions.

### Achieving carbon neutral operations

We continue our journey towards becoming carbon neutral in our global operations by 2030. Decarbonizing our sites is not only a commitment for us but also an innovation opportunity.

In 2022, we reached carbon neutrality in scope 1 and 2 at our largest production facility, the Nordborg campus in Denmark. The 250,000 m<sup>2</sup> campus achieved neutrality through reduction of energy consumption, reuse of excess heat from processes and data centers, and sourcing of green electricity. Unavoidable emissions from leakage of refrigerants and company cars have been offset. Since 2007, the energy consumption for heating has been reduced by 78%, and the demand for electricity has been reduced by 50%.

In addition, Danfoss has embarked on a highly ambitious journey towards the reduction of our global Scope 2 emissions. In 2022, 22.5% of the consumed energy came from renewable sources and we engage further with developers of solar and wind farms to increase the share of green electricity through Power Purchase Agreements.



# The greenest energy is the energy we don't use

To reach the goals of the Paris Agreement and to accelerate the green transition, faster action is needed. Current challenges, like energy security, energy prices, and the cost of living require immediate action to curb energy demand. Without action, energy demand will grow significantly, getting us off track when it comes to meeting global climate goals. Instead, according to the International Energy Association (IEA), a collective push for energy efficiency can deliver one-third of the total emissions reductions needed to reach net zero.

## We have the solutions

Danfoss solutions are ready today to help reduce, reuse, and re-source energy – that is, technologies for energy efficiency, sector integration, and electrification. They can provide most of the global reductions in carbon emissions needed to reach net zero – while curbing the growing demand for energy. Danfoss has the solutions to help our customers decarbonize.



### Reduce

Energy efficiency could reduce CO<sub>2</sub> emissions by an additional 5 gigatons per year by 2030. Reduce involves saving energy by installing energy-efficient solutions. Energy efficiency means using less energy to perform the same task – eliminating wasted energy.



### Reuse

Sector coupling is key for the future. Only one-third of all energy is used. Two-thirds is wasted. Reuse is about recycling the energy we already have, e.g., using excess heat from buildings, processes, and data centers. This involves connecting sectors in a smart way to convert and store energy, maximizing synergies.



### Re-source

Turning the energy green – electrification is an important lever, driving green transition. Re-source means fully or partially switching from technologies that use fossil fuels to those that use electricity, enabling procurement of renewable energy.



# ESG in our value chain

## Upstream

### Supplier engagement

In line with our ambitious targets, we will rethink our supplier relationship management by analyzing embodied carbon in our products and identifying decarbonization levers with our suppliers.

## Operations

### Safety first

We have a strong safety track record and are committed to ensuring safe operations for our employees and business partners.

## Downstream

### Product decarbonization

With over 98% of our emissions taking place in the use-phase, we have set ambitious emissions reduction targets validated by the Science Based Target initiative.



### Circularity

Using our Rethink-Reduce-Recirculate framework, we will work towards having 80% of our newly developed products covered with our circularity approach.

### Diversity

We are committed to recruiting a diverse workforce, creating an environment of belonging, retaining our talents, and increasing representation.

### Carbon-neutral operations

Installing our own energy-efficient solutions to reduce energy consumption, reuse excess heat from processes and data centers, and source green electricity.

### Avoided emissions

As an essential solution provider to the global energy transition, our products and services support our customers' decarbonization journey and generate lifetime greenhouse gas emissions savings.

# Sustainability-Linked Bond Framework



## Rationale for issuing sustainability-linked bonds

Danfoss strives to be a leading technology partner for our customers who want to decarbonize through energy efficiency, machine productivity, low emissions, and electrification. We believe that the alignment of our financing strategy with key sustainability objectives and related targets will work as a powerful tool to further drive our ambitions and communicate our goals in a transparent and credible way to the capital market, as well as within the organization and to our stakeholders.

By setting up this document (the “Sustainability-Linked Bond Framework” or “Framework”), Danfoss intends to link our funding with key objectives that are material for our long-term sustainability performance and further emphasize Danfoss’ commitment to drive the green transition.

The Framework is developed in alignment with the Sustainability-Linked Bond Principles (SLBP) published in June 2020 by the International Capital Market Association (ICMA).

### The five core components are:

- 1 Selection of Key Performance Indicators (KPI)
- 2 Calibration of Sustainability Performance Targets (SPTs)
- 3 Bond characteristics
- 4 Reporting
- 5 Verification

The terms and conditions of the underlying documentation for each sustainability-linked bond issued by Danfoss shall provide a reference to this Framework. The purpose of the Framework is to define the KPI, SPTs, bond characteristics, disclosure and verification related to our sustainability-linked financing.

# Selection of Key Performance Indicators

## KPI: Absolute scope 1 and 2 greenhouse gas (GHG) emissions

The KPI refers to the United Nations Sustainable Development Goal 13 “Climate Action” and 7 “Affordable and clean energy”, as well as the EU environmental objective “Climate Change Mitigation”.

### Scope and methodology

The KPI is measured using carbon dioxide equivalents (CO<sub>2</sub>e) and includes all scope 1 and 2 emission in Danfoss’ GHG inventory, calculated according to the Greenhouse Gas Protocol. Scope 1 is carbon emissions produced as a direct result of our activities at our sites, and Scope 2 is indirect carbon emissions from the use of purchased electricity and heating and cooling. The indirect emissions are calculated using market-based factors documenting the exact CO<sub>2</sub> emission from the energy procured for each location.

## Historic performance and baseline

Danfoss has historically grown both organically and in-organically. In the second half of 2021 Danfoss completed the acquisition of Eaton’s hydraulic business, which doubled the size of Danfoss Power Solutions and grew Danfoss by a third. At the same time Danfoss sold the business unit White Drives Motors and steering, which was a pre-requisite to get the regulatory approvals needed to close the acquisition of Eaton’s hydraulic business. In 2022 Danfoss announced a controlled exit out of Russia and Belarus, which resulted in a de-consolidation of all Russian activities as end of August 2022. To reflect the significant changes from M&A according to above and improve data accuracy, Danfoss recalculated the baseline numbers and the historical performance. In the table below, Danfoss Scope 1 and 2 emissions are presented for the period 2019-2022, adjusted as part of the restated 2019 baseline update. The updated baseline has been verified with a limited assurance performed by PwC.

Metric tons CO <sub>2</sub> e	2019 (baseline)	2020	2021	2022
Scope 1	114,539	103,381	112,373	110,687
Scope 2	304,577	274,695	291,932	284,917
Total	419,116	378,076	404,305	395,604

Due to further acquisition activity during 2022 and 2023 (Semikron and Bock Compressors), the baseline will be recalculated to reflect any significant changes that would otherwise compromise the target’s relevance, to allow comparison on a like-for-like basis.

The base year for the SPTs is set to 2019 as that was the most recent full year of data when the target setting process commenced and to align the SPTs with the targets that was initially submitted to the SBTi.

### Rationale and materiality of the KPI

Over many years, we have had a sustainability program that focused our efforts where we can make significant impact. The program reflected a two-fold contribution toward

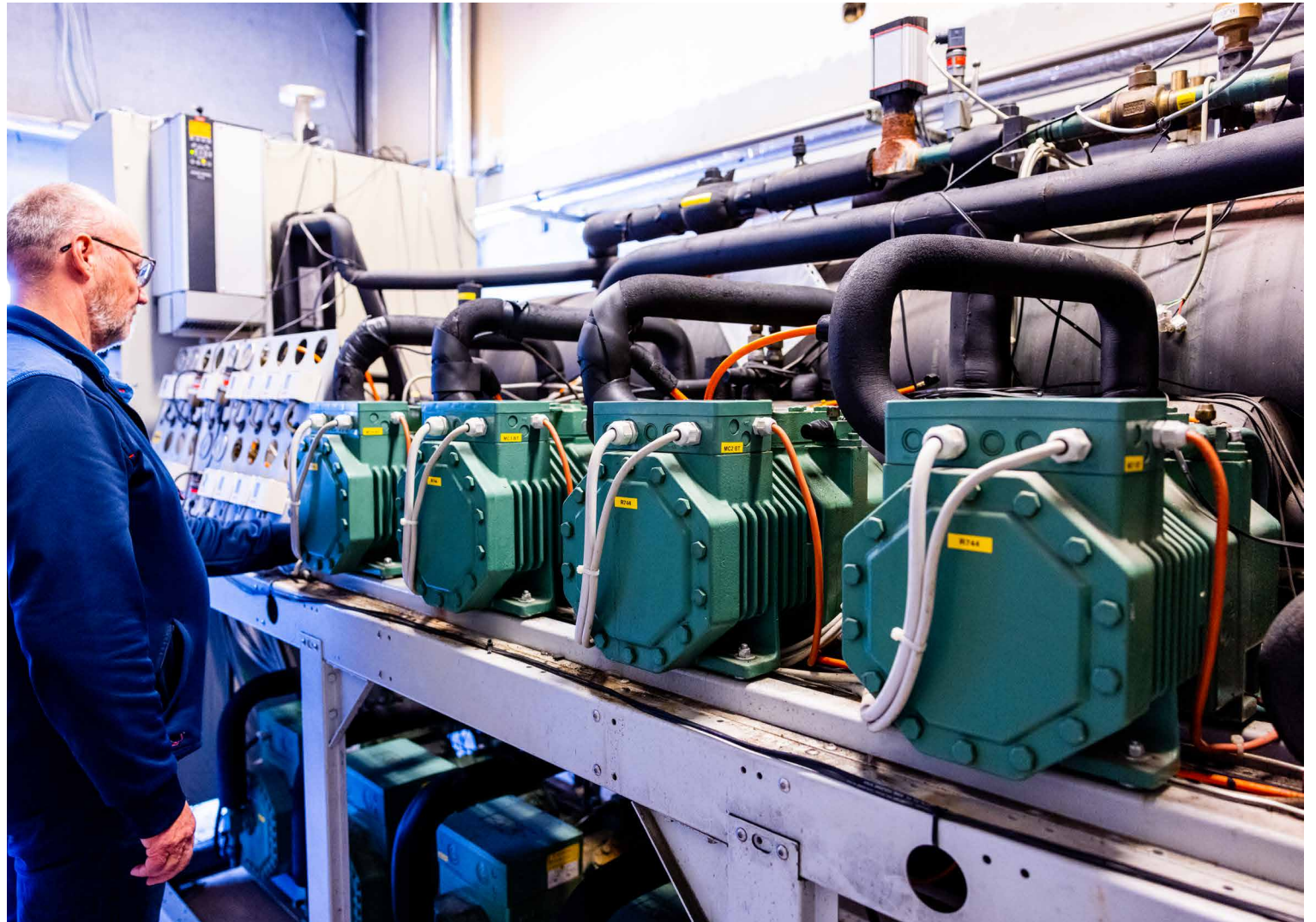
mitigating climate change: through our solutions that help reduce our customers’ carbon footprint while at the same time setting out clear goals for the work in our organization in the areas of energy savings, occupational health & safety, ethics, and product lifecycles.

In 2021, the sustainability program was replaced by the new ambitious 2030 ESG Ambition that reflect our intention to take even greater responsibility for the planet and our people. This work was guided by a detailed assessment of sustainability topics material to Danfoss.

In line with our 2030 ESG Ambition, we strengthened the focus on reducing energy consumption in our buildings and processes by setting ambitious science-based targets and launching several projects under the new ESG step-change initiative “Decarbonization.” Our focus in 2022 has been to ensure that new or refurbished buildings were brought as close to carbon neutrality as possible, for example, by eliminating the use of fossil energy sources for heating.

Energy consumption is today the largest driver of greenhouse gas emissions in our own operations and is a critical sustainability disclosure topic in our industry. The selected KPI intends to mirror the efforts we are taking in this area and support our ambition to be carbon neutral in all our global operations by 2030.

Danfoss recognizes the importance of our Scope 3 emissions which make up approximately 98% of our total footprint as of year-end 2019 and has a public commitment to reduce these. It is a continued desire to improve the accuracy of Scope 3 emission data, and we are currently engaged in a detailed assessment of our Scope 3 footprint, including a recalculation of the data set and baseline, and it is hence decided not to include it as a sustainability performance target for the purpose of this Framework. Further, avoided Emissions, or “Scope 4” emissions, are becoming a next frontier in sustainability decision-making. We firmly believe that the emissions avoided using our products in customers’ applications sums to multiple times more than the emissions caused by the use of the products as accounted for under Scope 3. To future-proof our strategy and to ensure that we deliver on our sustainability targets while becoming the preferred partner in decarbonization, we are building a process and solution infrastructure to commercialize avoided emissions to our customers, integrating them into our core value proposition.



# Calibration of Sustainability Performance Targets

SPT: Reduce scope 1 and 2 GHG emissions

	2028	2030
<b>SPTs</b>	Reduce absolute scope 1 and 2 GHG emissions by 75% by 2028 from a 2019 base year.	Achieve carbon neutral operations (scope 1 & 2) by 2030, equivalent to a minimum of 90% absolute Scope 1 and 2 GHG emissions reduction from a 2019 base year.
<b>Target observation date</b>	December 31 <sup>st</sup> , 2028	December 31 <sup>st</sup> , 2030

## Target specification and benchmark

Danfoss commits to make our global operations carbon neutral by 2030. The table above specifies the SPTs available for bonds issued under this Framework. The SPT's set out, constitutes a more ambitious pathway compared to the target already validated to be in line with a 1.5°C scenario by the science-

based target initiative. This reinforce that Danfoss' climate ambitions are in line with science and the goals of the Paris Agreement. We will continue to explore opportunities to reduce and recycle energy in our factories and offices around the world. Yet, carbon neutral in own operations (Scope 1 and 2) entails that up to 10% of the 2019 baseline emissions may be offset to address residual emissions in 2030, as a last resort.

Danfoss conducted a benchmarking exercise of the SPTs against peers in conjunction with the target setting approach. The result showed that Danfoss' Scope 1 and 2 GHG emissions reduction target is in line with, or in many cases surpass, similar targets adopted by peers. The target trajectory also represents a material improvement compared to Danfoss' past years of historical performance and goes beyond the minimum requirements set by the Science-based targets initiative for the 1.5°C scenario.

## Strategy to achieve the SPTs

In pursuit of decarbonizing our global operations, we apply a three-step approach:

- 1 **Reduce** involves saving energy by installing energy-efficient solutions, such as heat pumps where possible.
- 2 **Reuse** is about recycling the energy we already have, e.g., using excess heat from buildings, processes, and data centers. This is achieved through sector coupling.
- 3 **Re-source** involves turning the remaining energy green by phasing out fossil fuels and procuring renewable energy.

Danfoss will systematically continue to reduce and re-use energy in our factories. This includes optimizing processes, heating and ventilation systems and re-using heat to minimize the energy needed in our buildings.

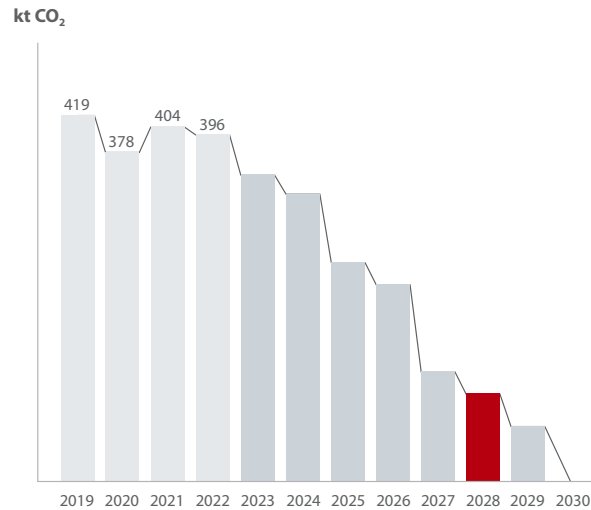
Next to energy efficiency, Danfoss will continue towards our long-term commitment to purchase 100% renewable electricity by 2030. We prioritize Power Purchase Agreements (PPAs) that contribute to the transition to more sustainable electricity grids and reinforce our long-term commitment to renewable energy. By purchasing green electricity where available, we can make a fast and significant contribution to climate action.

In February 2021, we entered into the first PPA delivering green electricity to all our Danish and German facilities and accounting for approximately 14% of Danfoss' electricity consumption. We will continue to focus on decarbonizing electricity consumption within the EU and US, by which we have taken the first step towards signing a PPA for our US factories. As we advance, we will gradually expand the scope of countries, by which we expect to see particularly large improvements around 2025 and 2027, respectively.

Compensation will be considered as the last resort for the irremovable residual emissions.

Electrification of transportation is another key focus area for Danfoss. As a provider of solutions for electric vehicles, we joined the Climate Group's EV100 initiative in 2019 and committed to transitioning our entire company car fleet to electric vehicles by 2030 at the latest.

Following chart is showing the targeted development in scope 1 & 2 GHG emissions until 2030.



### Key factors that could affect the ability to meet the SPT

Key factors beyond Danfoss' direct control that may affect the achievement of the SPT(s) include extreme events such as pandemics and natural disasters, market constraints in availability and pricing of renewable energy, and regulatory uncertainties related to power purchase agreements (PPAs), as well as M&A activity and organic growth that significantly changes our emissions profile.

# Bond Characteristics



The financial characteristics of any bond issued under this Framework will be specified in its related bond documentation. For any bond issued under this Framework, the characteristics of the bond may change and lead to a financial impact in the form of either a premium payment or coupon step-up in case that a trigger event occurs. Unless otherwise specified in the relevant bond documentation, any applicable premium payment would be paid at maturity, and any applicable coupon step-up would apply to the relevant bond from the first day of the next interest period immediately following the reporting end date and until maturity. Unless otherwise specified in the related bond documentation, the target observation date(s) are expected to fall on the last day of the fiscal year.

## **A trigger event occurs if:**

- The KPI has not achieved the SPT(s) as at the relevant target observation date(s) or
- The reporting has not been completed in line with the requirements set out in the relevant bond documentation, or
- The verification has not been provided and made publicly available as set out in the relevant bond documentation.

The financial characteristic selected for each sustainability-linked bond including specification of financial impact, target observation date(s) and reporting end date will be stated in the related bond documentation.

Fallback mechanisms applicable to any bond issued under this Framework include a potential recalculation of the GHG emission baseline figures, and or the relevant SPT, if there is a significant change of at least five percent to the baseline due to changes in the calculation methodology, data quality or Danfoss' organizational structure such as acquisitions, mergers and divestments. Any recalculation of the baseline or SPT is expected to be reported in the sustainability-linked progress report, and verified by a qualified external reviewer. Any adjustments to the SPT(s) will be reported and accompanied by an external review (such as an updated Second Party Opinion) confirming that it is consistent with the company's sustainability strategy and materially in line with the initial level of ambition of the SPT.

For the avoidance of doubt, any new or updated framework, in relation with any subsequent securities issuance, shall not have any implications on the securities issued under this Framework.

# Reporting

Danfoss will annually publish a sustainability-linked progress report to ensure that investors and other stakeholders have updated and adequate information about Danfoss' performance of the KPI against the SPTs.

The reporting may be in the form of either a stand-alone report or incorporated into the integrated Annual Report. The performance level of the KPI against the SPT shall be verified by a qualified external reviewer with relevant expertise.

## **The sustainability-linked progress report will include:**

- The performance of the KPI against the SPT, as per the relevant reporting period
- Information about recalculations of the level of carbon emissions in the base year, if any
- Information on any relevant updates to Danfoss' sustainability strategy and/or governance with a potential impact on the KPI and SPT

## **Where feasible and relevant the reporting will also include:**

- Qualitative and/or quantitative explanations of the contribution of the main factors, including M&A activities, behind the development of the performance on the KPI on an annual basis
- Illustration of the positive sustainability impacts of the performance improvement
- Updates on new or proposed regulations from regulatory bodies relevant to the KPI and the SPT(s)





# Verification



Danfoss will annually seek external and independent verification of the level of performance of the KPI against the SPT(s) by one or more qualified external reviewer(s) with relevant expertise. The external reviewer(s) will be chosen by Danfoss in accordance with the Voluntary Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds and may at the discretion of Danfoss be changed subject to fulfilling the requirements set out in this Framework. The verification will be publicly available together with Danfoss' sustainability-linked progress report as set out in section "Bond Characteristics" and specified in related bond documentation.

## Second party opinion

Danfoss has engaged S&P Global Ratings to provide a Second Party Opinion to this Framework, assessing the relevance, robustness, reliability and ambition level of the selected KPI and SPT(s) and confirming its alignment with the Sustainability-Linked Bond Principles. The Framework and the second party opinion will be publicly available on Danfoss' website.

# Disclaimer

Information and opinions presented in this Sustainable-Linked Bond Framework ("Framework") published herein by Danfoss A/S ("Danfoss") are provided as at the date of this Framework and are subject to change without notice. This Framework represents current Danfoss policy and intent, is subject to change and is not intended to, nor can it be relied on, to create legal relations, rights or obligations. None of Danfoss nor any of its subsidiaries assume any responsibility or obligation to update or revise such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise.

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This Framework may contain statements about future events and expectations that are forward looking statements. None of the future projections, expectations, estimates or prospects in this Framework should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future

projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in this Framework.

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In addition, it should be noted that the sustainability performance targets as described in this Framework may not be achieved. Factors including (but not limited to) market, political and economic conditions, changes

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