

ENGINEERING
TOMORROW



Sustainability Report 2016



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The Sustainability Report 2016 serves as the Danfoss Group's Report on Corporate Social Responsibility, cf. Section 99a of the Danish Financial Statements Act (FSA). It forms part of the Management's Review provided in the Annual Report 2016, covering the accounting period of January 1 to December 31, 2016. Together with the Annual Report 2016, the Sustainability Report 2016 fulfills the requirements under section 99a and 99b of FSA.

Danfoss in brief

Danfoss engineers technologies that enable the world of tomorrow to do more with less. We meet the growing need for infrastructure, food supply, energy efficiency, and climate-friendly solutions. Our products and services are used in areas such as refrigeration, air conditioning, heating, motor control, and mobile machinery. We also operate in the field of renewable energy, as well as district energy infrastructure for cities and urban communities.

The Group is divided into four business segments: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating. Danfoss Power Solutions is a leading player in hydraulic systems and components for powering off-highway mobile machinery. Danfoss Cooling is a market leader in the air-conditioning and refrigeration industries. Danfoss Drives' key expertise lies in low-voltage AC drives, power modules, and stacks for a number of industries. Danfoss Heating enjoys leading positions within residential heating, commercial heating, and district energy.

Danfoss is a privately-owned company which has grown and improved its skills and expertise in energy-efficient solutions over more than 80 years. Danfoss was founded by Mads Clausen, and today the company is controlled by the Bitten and Mads Clausen Foundation.

Danfoss became a signatory to the UN Global Compact in 2002. We continue to support the Global Compact and its principles, which govern our sustainability efforts.



This is our **Communication on Progress** in implementing the principles of the United Nations Global Compact. We welcome feedback on its contents.



Reference to other pages in this sustainability report



Reference to other reports, which can be downloaded from danfoss.com



Reference to danfoss.com

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CEO comment

The launch of the UN Sustainable Development Goals in 2015 marked an opportunity of a lifetime – not only for the world, but for citizens, cities, and companies alike. If we are to succeed, it requires action from all of us.

We have the opportunity to work together across sectors, businesses, civil society, and at all levels of government to create livable, sustainable, and competitive solutions that will benefit us all.

Danfoss is an active player when it comes to living up to the Sustainable Development Goals. We lead by example by combining digitalization, innovation, and energy efficiency to create sustainable solutions. This not only improves our environmental footprint, but also frees money to be spent elsewhere.

An example is the Sustainable Development Goal no. 7 – “Ensure access to affordable, reliable, sustainable, and modern energy for all”. This is at the core of what we do – saving energy. Energy efficiency and sustainability are not about limiting our options or comfort. On the contrary, they are about innovation and creating new opportunities.

As a global leader for energy-efficient solutions, Danfoss participated in the COP22 climate conference in Marrakesh, Morocco. We stand more ready than ever to transform the ambitious global climate agreement into action by accelerating the uptake of the best available technology that can be implemented today.

Our sustainability program continues to be the foundation for our in-house focus on sustainability by providing guidance within our defined focus areas: Energy & Climate; Product Compliance & Transparency; Environment, Health & Safety; Ethical Conduct & Human Rights. In 2016, we have made solid progress within all four areas.



Niels B. Christiansen
President & CEO



“We stand more ready than ever to transform the ambitious global climate agreement into action by accelerating the uptake of the best available technology that can be implemented today.”

Financial results 2016

Read more in the Annual Report 2016 at www.danfoss.com > About > Financial information

Key figures DKKbn

Sales	Local currency growth	EBIT margin	Free cash flow before M&A	Leverage ratio	NIBD to EBITDA ratio	Employees worldwide
39.2	6%	10.9%	3.4	55.2%	1.6	25,292

Results in line with expectations

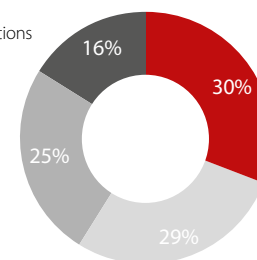
In 2016, the Danfoss Group continued its positive performance and delivered satisfactory financial results in line with expectations.

The year was characterized by continuing low global growth conditions with a mixed business environment across markets and sectors. Sales grew 3% to DKK 39.2 billion, corresponding to 6% growth in local currency. EBIT improved 4% to DKK 4.3 billion, leading to an EBIT margin of 10.9% and net profit of DKK 2.9 billion, up 13% on last year. Results were driven by a strong performance in Danfoss Cooling and good growth traction in Danfoss Power Solutions.

The strong free cash flow before M&A was kept high at DKK 3.4 billion, and the free cash flow ended at DKK 1.5 billion, due to the acquisitions completed in the third quarter of 2016.

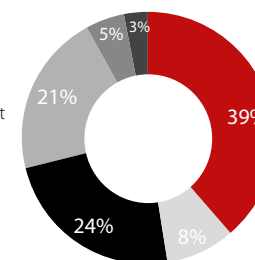
Sales split on segments

- Danfoss Power Solutions
- Danfoss Cooling
- Danfoss Drives
- Danfoss Heating

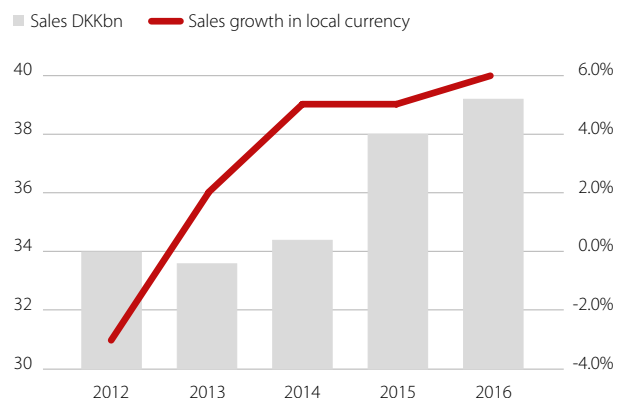


Sales split on regions

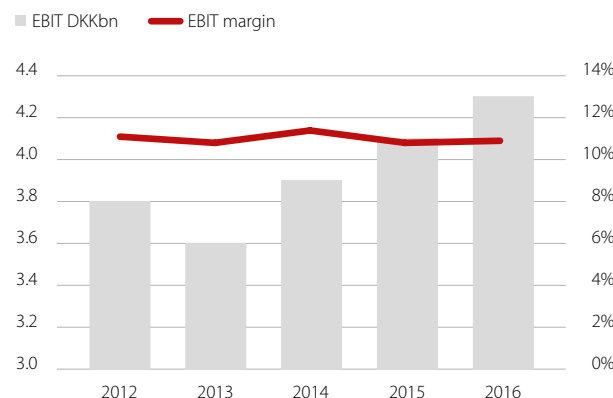
- Western Europe
- Eastern Europe
- North America
- Asia-Pacific
- Latin America
- Africa-Middle East



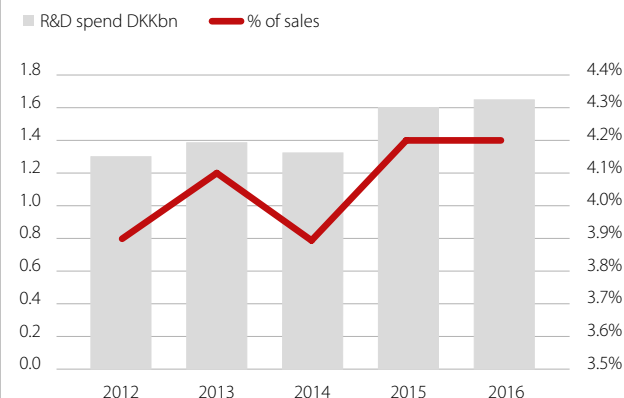
Sales and growth



Earnings



Innovation spend



The prioritized Sustainable Development Goals (SDGs)

[Read more about our specific activities related to the prioritized SDGs on page 22-24](#)



6: Clean water and sanitation

Ensure availability and sustainable management of water and sanitation for all

Danfoss provides solutions for water and wastewater handling to optimize and reduce energy consumption. This leads to increased energy efficiency and lower operating cost in, for example, a waste water treatment plant.



7: Affordable and clean energy

Ensure access to affordable, reliable, sustainable, and modern energy for all

Danfoss is a world leader in energy-efficient technologies, which enable customers and societies to get more out of less. Energy saved doesn't pollute and doesn't cost. By picking the low-hanging fruits offered by energy-efficient technologies, we can meet growing energy demand, boost the economy, and afford renewable energy sources.



11: Sustainable cities and communities

Make cities and human settlements inclusive, safe, resilient, and sustainable

By 2030, an additional 1.5 billion people will live in our cities. The demand for infrastructure to support this is massive. We help build roads, buildings, and energy systems for the world's growing cities and support progress for people, communities, and businesses across the world. Our solutions are making a difference in ensuring the sustainable cities of tomorrow.



12: Responsible consumption and production

Ensure sustainable consumption and production patterns

Danfoss helps meet the growing need for better quality food supplies by improving agricultural productivity. We also help to ensure high food safety, reduce food loss, and keep food fresh all the way up to the consumer as efficiently as possible. Our products can be found everywhere - in cold rooms, on slaughterhouse conveyor belts, and even behind the refrigeration counters in supermarkets.



13: Climate action

Take urgent action to combat climate change and its impacts

Danfoss' products and solutions contribute to significant reductions of carbon emissions from industry, residential, and commercial buildings. We provide high-value, high-performance components for a broad range of mobile equipment applications, reducing fuel consumption, and emissions. Our products contribute to the optimization of heating, ventilation, and air-conditioning systems to suit the individual needs and lifestyles.



17: Partnerships for the goals

Strengthen the means of implementation and revitalize the global partnership for sustainable development

Danfoss engages with multiple stakeholders through partnerships, participation in task forces and work groups, events, conferences, and through direct engagement with policy-makers and thought leaders. We will proactively shape the future of energy systems, efficient buildings, and food chains, thinking energy efficiency first.

Key sustainability events in 2016

Danfoss sponsors female soccer to protect women's rights

Danfoss sponsors the female soccer tournament "Global Goals World Cup" held in Copenhagen, Denmark, to highlight the importance of cooperation between governments, decision makers, and companies to protect women's rights.

Focus on six SDGs after Global Compact Summit

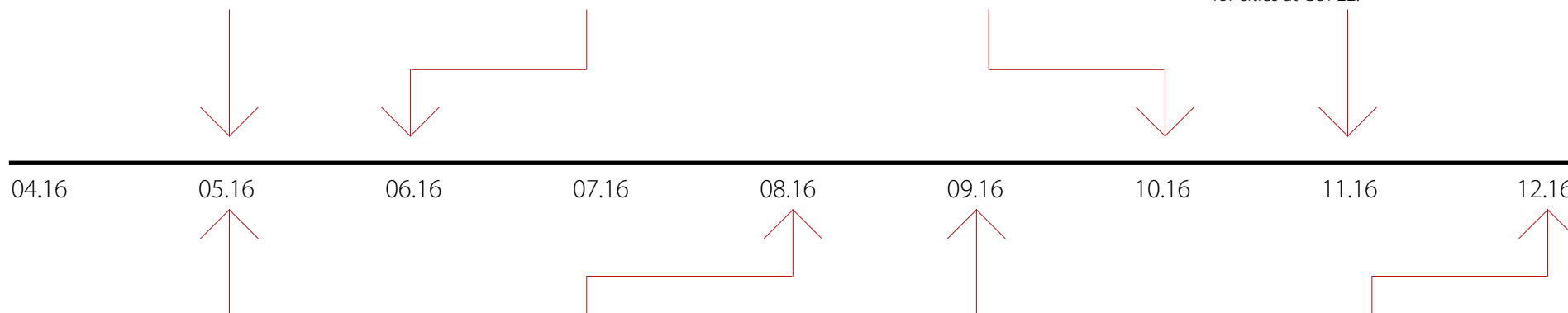
As a result of the Global Compact Leaders Summit, Danfoss decides to focus on the six Sustainable Development Goals (SDGs), which are the most relevant for business, as we have a direct impact.

Danfoss integrates EHS in management systems

Danfoss launches the global Environment, Health, and Safety (EHS) governance together with a new global EHS policy. The aim is to guide the Danfoss business segments in their work to integrate environment, health, and safety in their management systems.

Moving from talk to action at COP22 in Marrakesh

As part of business efforts to encourage timely action on climate change, Danfoss organizes solution panels with public and private partners. Together with the United Nations Environment Programme, Danfoss showcases the opportunity of district energy for cities at COP22.



Joining photo exhibition "Women Empower Business"

To place the focus on women's rights in developing countries, Danfoss joins the photo exhibition "Women Empower Business" in Denmark. The exhibition is hosted by The Confederation of Danish Industry, and Danfoss' contribution shows the doctor's clinic and daycare center at our factory in Chennai, India.

Future energy solutions in focus at Climate Week

In order to create livable, sustainable, and competitive energy solutions for the future, Danfoss joins the Climate Week in New York. The event offers a unique opportunity to cooperate across sectors, businesses, civil society, and at all levels of government.

Danfoss joins EP100 and commits to double own energy productivity

Danfoss joins the EP100 initiative to highlight the company's leadership on energy productivity. We commit to doubling our own energy productivity by 2030, in accordance with the goal of the Global Alliance for Energy Productivity.

Danfoss highlights benefits from investments in energy efficiency

To visualize the environmental and financial benefits by investing in energy efficiency, Danfoss participates in a de-risking tool project initiated by EFIG (Energy Efficiency Financial Institutions Group). Danfoss provides 37 cases, which highlight the business opportunities in energy efficiency.

Sustainability highlights

	2012	2013	2014	2015	2016	
<div> ● Good ● Acceptable ● Poor </div>						
Resource consumption and climate						
Energy consumption (MWh)	363,300	604,611	583,635	586,799	568,930	●
Of which electricity (share)	58%	63%	67%	67%	71%	●
Of which heating (share)	42%	37%	33%	33%	29%	●
Energy intensity (MWh/DKKm)	16.2	18.0	17.0	15.4	14.5	●
Energy productivity (DKKm/GWh)	61.7	55.6	58.9	64.8	68.9	●
CO ₂ emissions (tons)	126,873	219,299	229,245	234,440	233,716	●
Of which from electricity (share)	78%	80%	83%	84%	87%	●
Of which from heating (share)	22%	20%	17%	16%	13%	●
CO ₂ intensity (kg CO ₂ /MWh)	349	363	393	400	410	●
CO ₂ intensity (ton CO ₂ /DKKm)	5.7	6.5	6.7	6.2	5.9	●
Water consumption (m ³)	637,082	841,433	806,784	840,926	888,570	●
Health & safety						
Lost Time Injuries	136	172	165	127	121	●
Lost Time Injury Frequency (per 1 million hours)	5.8	4.7	4.4	3.4	3.3	●
Lost Days due to Lost Time Injuries	2,883	3,039	2,458	2,205	2,309	●
Lost Day Rate (per 1 million hours)	121	82	66	59	63	●
Medical Treatment Incidents				120	110	●
Medical Treatment Incident Rate (per 1 million hours)				3.2	3.0	●
Minor Incidents				751	651	●
Minor Incident Rate (per 1 million hours)				20.2	17.7	●
Near-miss Incidents				2,925	3,561	●
Near-miss Incident Rate (per 1 million hours)				78.7	96.9	●
Fatalities	0	0	0	0	0	●
Ethical behavior						
Dismissals due to unethical behavior	47	31	30	31	43	●
Number of inquiries in AskUs		69	75	85	90	●
Number of cases in Ethics Hotline		112	123	93	112	●
People						
Number of employees	23,092	22,463	24,117	23,420	25,292	●
Percentage of female managers		18	18	18	18	●
Female members of the Danfoss Board	0	0	1	1	2	●
Female members of Danfoss Group Management	1	2	2	2	2	●

Danfoss sustainability program

Our sustainability program is based on global megatrends, our expectations to the growth areas food, infrastructure, climate, and energy, and input from managers and other key employees in Danfoss.

The program has four focus areas: Energy & Climate, Product Compliance & Transparency, Environment, Health & Safety, and Ethical Conduct & Human Rights. The program will be implemented in 2014-2017. The efforts and achievements related to each of the four focus areas are described in the following sections of this report.

The program supports the Core & Clear business strategy with regards to profitable growth and will ensure achievements in prioritized areas through a clear structure, goals, and follow-up.

☞ For more information about our Core & Clear strategy, business model, and financial performance, see the Annual Report 2016 at www.danfoss.com > About > Financial information.

Policies, governance and risks

We have established policies and guidelines to supplement legislation.

☞ These policies and guidelines as well as the sustainability governance structure are described on page 25.

Risk and compliance

Like our industry peers, we are exposed to a number of general and basic risks, relating to customers and markets, factories and suppliers in the supply chain, law and regulatory regimes, and internal processes and systems, among others. Our exposure to such risks is similar to the general risk exposure of our peers.

☞ For more details about the risks related to sustainability and climate, reference is made to page 27.

Prioritized focus areas



Energy & Climate

- Ambitious climate strategy
- Energy savings in buildings
- Energy savings in processes
- CO₂ reduction in transport
- EU energy audits
- Procurement of energy



Product Compliance & Transparency

- Compliance with product legislation
- Product & material declaration
- Product regulatory governance
- Conflict minerals
- ECO-design
- Circular Economy



Environment, Health & Safety

- Safety on the shop floor
- Global Incident Management System
- "One EHS" governance, policies, and targets
- Reduce Lost Time Injury Frequency (LTIF)





Ethical Conduct & Human Rights

- Ethics Handbook
- Human rights due diligence
- Compliance programs
- Mergers & acquisitions

Targets and achievements in 2016



- Achieved
- Achieved with minor gaps
- Not achieved

Prioritized focus areas 2016





Targets 2016	Achievements 2016
 Energy & Climate	
Develop program for process energy savings.	● Danfoss Business System developed M4L (More for Less) including focus on energy savings in the factories through employee engagement.
Maintain strong focus on building renovation and refurbishment.	● Danfoss' global energy-saving project continues and was extended to the 27 largest factories. Energy savings of 30% expected in buildings alone.
Strengthen support to local initiatives driving green transformation.	● Danfoss continues to support development of local green initiatives for energy production and distribution.
Implement CO ₂ calculation model for transport.	● An emissions calculation tool has been implemented and is assessed for suitability.
Develop processes for validation of products' climate performance claims.	● Processes developed and tested as part of a Derisking Energy Efficiency Platform under "Energy Efficiency Financial Institutions Group" (EEFIG).
 Product Compliance & Transparency	
Develop and implement Group Regulatory Governance.	● Group Product Compliance governance structure established with representatives from all segments and key group functions. Priorities and work groups defined.
Strengthen processes for product compliance.	<ul style="list-style-type: none"> ● Processes under development in line with Danfoss' model for business process development. ● Implemented solution with external service provider to strengthen compliance within conflict minerals.

- Achieved
- Achieved with minor gaps
- Not achieved

Prioritized focus areas 2016

Targets 2016	Achievements 2016
 Environment, Health & Safety	
Develop and launch "One EHS" approach to environment, health, and safety.	● Development of "One EHS" approach framework initiated. Governance structure and new policy in place.
Establish a Global Incident Management System for work-related injuries and incidents.	● Software solution specified and selection of third-party provider is in process. Implementation will be completed in 2017.
Reduce the Lost Time Injury Frequency by 10% compared to 2015.	● LTIF reduced 3% from 3.4 in 2015 to 3.3 in 2016.
 Ethical Conduct & Human Rights	
Develop and run pilot for Human Rights due diligence process.	<ul style="list-style-type: none"> ● Due diligence processes developed. ● Pilot project on human rights due diligence and integration conducted in Danfoss' Eastern Europe Region.
Develop revised process for screening of business partners regarding anti-corruption and export control.	● Improved screening and due diligence processes regarding anti-corruption and export controls developed and implemented.
Re-training of employees in the compliance programs Anti-corruption@work and Fair-competition@work.	● Approx. 9,300 employees and managers trained in anti-corruption, and all relevant managers and directors were trained in ethics.
Develop and implement new Data Privacy compliance manual.	● Important milestones in the data privacy compliance program were reached, including the approval of Danfoss binding corporate rules.

Targets in 2017

Prioritized focus areas 2017	
Targets 2017	Targets 2017
 Energy & Climate	 Product Compliance & Transparency
Implement program for process energy savings, including employee engagement program.	Group processes and tools for monitoring, communicating, and implementing new regulations defined and implemented.
Reduce energy intensity in buildings through global energy-saving project in the 27 largest factories.	All suppliers with a Danfoss framework agreement have subscribed to the Danfoss Negative List restricting certain chemicals, substances and minerals.
Develop processes for validation of products' climate performance claims.	Conflict minerals due diligence with 1,300 suppliers and with response rates of 75% for Danfoss Cooling, Danfoss Drives, and Danfoss Heating, and 55% for Danfoss Power Solutions.
Implement scheme for putting an internal price on carbon.	
 Environment, Health & Safety	 Ethical Conduct & Human Rights
Develop, implement, and validate processes and procedures to comply with ISO 14001:2015.	Conduct human rights due diligence and integration projects in India and China.
Implement Global Incident Management System for work-related injuries and incidents, including training and statistics.	Compliance training of all relevant employees, managers, and directors, in the subjects of ethics, anti-corruption and fair competition.
Reduce LTIF (Lost Time Injury Frequency) by 10% compared to 2016.	Further develop and improve compliance programs regarding export controls and data privacy.

Energy & Climate

Climate strategy

In 2015, we launched our ambitious “Climate Strategy 2030”, which requires us to reduce our own energy intensity and CO₂ intensity by 50% before 2030. To achieve these goals, we have set in motion a number of measures to further reduce our energy consumption and drive greener technology investments in buildings and processes.

We have chosen not to buy our way to carbon neutrality, but rather to put our money where our mouth is with our own solutions. We take a very practical approach, showing that we can reach ambitious energy and climate targets with existing technology. This fits with our growth themes: Infrastructure, Food, Climate, and Energy, and provides the backbone and license to engage in the public debate and offer quality solutions to our customers, which are reliable in the long run.

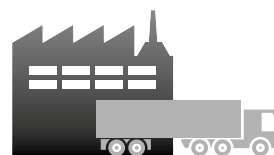
Danfoss reports climate-related risks, opportunities, and CO₂ emissions to CDP – Carbon Disclosure Project. Our reports and other information can be found at www.CDP.net.

Putting a price on carbon

Danfoss is committed to set an internal price on carbon in

Our climate targets

50%
reduction in energy use by 2030
+
50%
less CO₂ emissions from actual energy used



30%
energy cut in the 27 largest factories worldwide

accordance with the United Nations’ “Business Leadership Criteria on Carbon Pricing”. A framework is currently being developed, and we strive to implement it in selected areas of the organization during 2017.

Energy-saving projects in buildings

In 2016, we continued the implementation of energy-saving projects at the 27 largest factories worldwide, accounting for 84% of Danfoss’ total energy consumption. Half of the energy consumed is used for buildings, and the rest is used in production processes. The annual energy consumption in these buildings amounts to more than 245 MWh, of which 30% can be saved. Half of the expected energy savings was achieved in 2016, and the remaining savings will be effective in 2018.

Gas consumption was reduced by 20% at Danfoss’ largest factory, located in Nordborg, Denmark, with a further energy-savings potential of up to 40%. The savings are primarily obtained through optimization of the ventilation, heating, and cooling control systems, using our own products.

Based on these experiences, we are intensifying our efforts to energy-optimize our buildings all over the world. In addition,

Energy and emissions

	2015	2016
Total energy consumption [GWh]	587	569
Electricity consumption [GWh]	395	405
Energy for heating [GWh]	192	164
Energy intensity [MWh/DKKm]	15.4	14.5
Energy productivity [DKKm/GWh]	65	69
Total CO ₂ emission [ton]	234,400	233,716
CO ₂ emission from electricity [ton]	198,654	202,803
CO ₂ emission from heating [ton]	35,786	30,913
CO ₂ intensity [kg CO ₂ /MWh]	400	410
CO ₂ intensity [kg CO ₂ /DKKm]	6.2	5.9

production line processes will be systematically examined for further energy cuts.

Energy consumption and CO₂ emissions

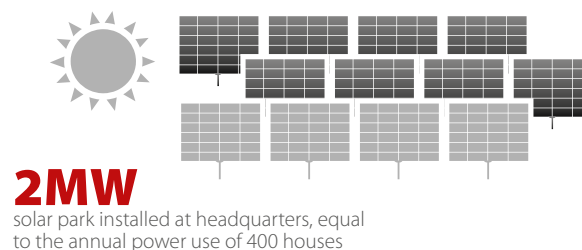
Since 2007, Danfoss’ energy intensity was reduced by 40% through energy-saving projects in the largest factories. Energy productivity has in the same period improved by 67%.

In 2016, Danfoss emitted 233,716 tons of CO₂ as a result of its electricity and heat consumption compared to 234,400 tons in 2015. The sources were both scope 1 emissions (its own plants for the generation of power and heat) and scope 2 emissions (purchase of power and heat from external sources).

The CO₂ intensity of the energy used in 2016 increased slightly to 410 kg CO₂/MWh. The main cause for the increase is increased electricity consumption in countries with high carbon intensity in the electricity supply. The energy intensity fell 6% to 14.5 MWh/mDKK in 2016 versus 15.4 in 2015. This is caused by a 3% decrease in the total energy consumption combined with a 3% increase in net sales.

Danfoss’ electricity consumption was the source of 87% of the

Solar park installed



Group's total CO₂ emissions in 2016, corresponding to 202,803 tons. Heating contributed to 30,913 tons of CO₂ emissions.

In 2016, electricity accounted for 71% of total energy consumption of Danfoss. 28% of the electricity came from renewable sources, such as solar, water, wind and biomass. Electricity from nuclear power plants accounted for 18% of the Group's consumption, and the rest derived from fossil sources, such as coal, oil and gas.

Compared to the previous year, energy consumption for heating fell by 14% in 2016, primarily due to the reduction in our consumption of natural gas. 96% of the energy used for heating in 2016 came from fossil sources.

Supply chain emissions

As a global company, we have a global and diverse supply chain. Approximately 4,000 suppliers of direct materials supply their products to Danfoss, driving energy consumption and greenhouse gas emissions.

The global emissions amount to 782,000 tons CO₂, which is 3.5 times the emission from Danfoss' own processes and

buildings. The largest sources of emissions are turned or cast metal parts (60%), electronics and electromechanical parts (18%), and plastics (13%). An in-depth analysis will be made in 2017 to prioritize improvements and supplier collaboration.

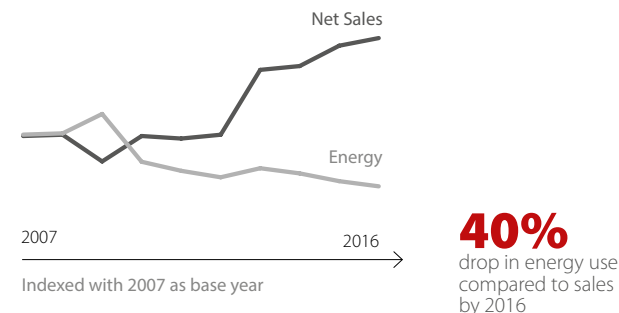
Environment

For many years, we have worked systematically to reduce the environmental impact of our operating activities, including production and transportation. One of the Group's targets is for all production companies to maintain environmental management systems and become certified according to the ISO 14001 standard in order to manage performance and identify potential environmental improvements.

Consumption of materials, chemicals, energy, and the generation of waste and waste water is monitored in order to minimize the environmental impacts of our operations.

We strive to support wildlife that wants to settle at our sites. Many Danfoss facilities around the world are surrounded by ponds and green areas, providing shelter for wildlife and pleasant views for employees and guests.

Energy use compared to sales



Environmental due diligence

We follow a strict due diligence procedure when dealing with potential environmental risks from acquisition of land and existing industries. Thorough reviews of potential land acquisitions are conducted, examining the site and the environmental history of the surroundings. Regional hydrogeological and geotechnical conditions are evaluated as field surveys to discover ground pollution or historical deposits.

Water

In 2016, consumption of water for processes and sanitary purposes increased to 888,570 m³ from 841,000 m³ in the previous year. The difference is mainly due to increased water use in the facilities in China (28,000 m³); Nordborg (11,000 m³) and Mexico (10,000 m³).

Product Compliance & Transparency

In 2016, we increased the focus on product compliance as an enabler for risk mitigation and world-class product quality. An ambitious product compliance program was launched to enable Danfoss to take leadership within product compliance – proactively meeting customer expectations and regulatory requirements. To ensure a strong focus and alignment across the organization, a Product Compliance Team has been established with representatives from all business segments and key Group functions. The team will align competencies, processes, tools, and best practices across the Group.

Key priorities have been defined and work groups have been formed to ensure the timely and effective monitoring and implementation of existing and upcoming regulatory requirements. In 2017, robust processes and tools for all prioritized areas will be built and implemented.

Conflict minerals

As a supplier to US-listed customers, Danfoss must abide by section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act as mandated by the US Securities and Exchange Commission, known as the Conflicts Minerals

Rule. This rule requires that Danfoss reviews whether tin, tantalum, tungsten, or gold (3TG) are necessary to the production of its products, and determine whether the minerals originate from conflict regions in and around the Democratic Republic of Congo (DRC). These minerals are used in electronic and electromechanical components, but also in some alloys that are sourced from Danfoss' suppliers.

We are committed to supporting our customers and strive to only accept "DRC Conflict-Free" materials in our supply chain, i.e. materials that are sourced from smelters and refiners verified as DRC conflict-free through the Conflict-Free Smelter Program (CFSP) or similar frameworks.

Since 2013, Danfoss has reported on conflict minerals. In October 2016, we engaged with an external service provider to collect smelter reports from more than 1,300 suppliers that have been identified to potentially deliver materials or components with 3TG metals. The suppliers are requested to submit their report to the service provider, which follows up on timely and correct responses. Danfoss supervises progress and facilitates customer requests for specific reports.

In 2016, the response rate was 75% for three of our segments and 50% for one segment, which we deem unsatisfactory. The engagement with the external service provider will strengthen our conflict minerals due diligence process significantly and increase the response rate.

Danfoss Negative List

The Danfoss Negative List is the back-bone of our continuous efforts to avoid the use of harmful chemicals and substances in products and production processes. The Danfoss Negative List is implemented in all our business segments and is regularly updated to include new legislation or changed requirements. All suppliers must subscribe to the Negative List to be updated on any changes or new requirements affecting their deliveries.

In 2016, the Danfoss Negative List was issued in Excel format with extensive search functionalities.

Circular Economy

The Circular Economy is the future business model that promotes the sharing, leasing, reusing, repairing, refurbishing, and recycling of existing materials and waste in an almost closed loop.

The potential for implementing circular economy thinking on application level is huge. For instance, effective utilization in district energy systems of excess heat from production processes or recovered surplus heat from the cooling system in supermarkets is essential to achieving SDG goal no. 13: "Take urgent action to combat climate change and its impacts".

Leadership on Circular Economy

The circular economy concept is high on the political agenda in most countries where we do business. As competition for scarce resources continues to heighten, and as pressure on resources is causing greater environmental degradation, it makes both economic and environmental sense to use those resources efficiently.

Danfoss supports initiatives by the EU and others to strengthen the global focus on the Circular Economy, including the efforts to reduce the waste from products at end of life.

For several years, we have included circular thinking in our design of products, focusing on reduction of in-process waste and on the reduction of material use products. We closely follow developments within the circular economy and participate in the development of standards and processes for circular economy through various organizations and stakeholder groups, of which Danfoss is a member.

In 2017, we will develop and implement an internal governance structure to further drive the development of circular economy at Danfoss. The work will be included in the well-established Group Regulatory governance structure.

Our people

We aim to empower Danfoss employees to make an impact. This also includes how we interact with our colleagues and customers, the decisions we make and the behaviors we exhibit.

Our Behaviors describe the company's intention with regard to doing business at company level. These are overall behavior statements which help us fulfill our Aspiration and Promise to the market. [📄 See Our behaviors on page 17.](#)

Recruiting the right people

Attracting the right employees for the right positions is vital to the future success of the company. Potential employees not only include professionals, but also students looking for an internship and graduates looking for an entry position or our Postgraduate Program.

With increasing global competition to get the right talents for the open positions, it is important for us to continuously strengthen Danfoss' position as a leading employer within our industries.

The recruitment landscape has significantly changed over the past couple of years. Due to our digital transformation, we have intensified our search for, e.g., specialists with an IT or mathematical background as well as talents with market and customer insight and knowledge of the necessary digital tools to support our strategic direction.

Maintaining Danfoss as a great place to work

One of our strategic targets is that we want to constantly develop Danfoss to be a great place to work. Danfoss aspires to be world-class in Human Resource Management, and we strive to foster a collaborative, agile, and flexible organization, where employees make a difference and leaders inspire people to deliver the best results through real impact, strong teamwork, global career opportunities and a continuous focus on development to drive a high-performance culture.

Employee and talent development

We make an ongoing effort to build and develop employee qualifications through on-the-job learning, courses, workshops, feedback, coaching and other activities.

We believe in lifelong learning and continuous development, both personally and professionally. Danfoss employees are both competent and motivated to take responsibility for their own learning and careers ongoing, and it is vital for us that our employees retain their value on the job market and at Danfoss. We recognize employees' expectations and potential through ongoing dialogues and review the objectives as well as development needs. In 2016, a survey among the employees proved a high level of engagement in achieving organizational, team, and personal objectives, and a high rate of success in achieving them. We have a systematic approach to developing employee competencies and succession

management. This ensures that we have skilled employees, solid leadership, and a strong talent pipeline.

Opportunities for students and graduates

Unitech International

Unitech International is an association of top universities in Europe, engaging students in a business program and establishing partnerships with industrial companies around Europe. A pool of talents are applying to gain access. Danfoss signs up for six-month internships with the best of the talent pool. They are highly skilled, committed, and when given opportunities, they grab them.

Postgraduate Program (PGP)

Danfoss' Postgraduate Program is a two-year program, offering graduate students the opportunity to be a part of a strong learning community within Danfoss. The program consists of four different projects, each of six months' duration. At least one of these projects will be completed outside the home country.

Internships and student jobs

Every year, we collaborate with many students – they either join Danfoss as an intern for a period of four to six months, a number of hours per week, or write their master thesis in collaboration with a Danfoss department. It is a good way for the student to gain knowledge about a professional and

international workplace, and a good way for Danfoss to engage with potential future employees.

We embrace diversity

During the reporting year, employees of more than 90 different nationalities worked at Danfoss. See more information related to people in the supporting figures on page 29.

We believe that the diversity of our employee base builds a competitive advantage towards customers through creativity, innovation, and local customer understanding.

Danfoss emphasizes diversity in its recruitment policy. When recruiting a new employee, the objective is to identify at least three qualified candidates, who represent diversity in terms of culture, nationality, gender, and age. If two or more candidates are equally qualified, Danfoss will aim towards diversity in the workplace in the final selection process.

Danfoss is focusing at hiring and developing more female leaders. In order to ensure that the diversity of the Group's managers increasingly reflect that of the entire workforce, we set an ambitious overall goal to increase the percentage of female managers to 20% by 2017 from 18% in 2014. In 2016, the percentage of female managers remained at 18%. To reach the goal of 20%, Danfoss continuously focuses on developing the female leaders currently in the talent pipeline as well as attracting female leaders to join at all levels.

Report on gender composition in management

Danfoss aims at a diversity in the top governing body which reflects that of the rest of the Group. In 2016, the Board of Directors had two female members, one elected by the employees and one elected at the General Meeting. Accordingly, Danfoss meets the target of raising the number of women serving on the Board to at least one of seven members elected at the General Meeting. Section 99b of the Danish Financial Statements Act (FSA) requires that corporate subsidiaries of a certain size and type report on diversity. Danfoss meets the diversity requirements for its Board of Directors of the Group, but not for the Board of Directors of the subsidiaries Danfoss Power Solutions ApS and Danfoss

Power Electronics A/S (Danfoss Drives); However, the latter has a female board member elected by the employees. For that reason, diversity targets will be implemented in the relevant subsidiaries.

Safety First!

It is a priority within Danfoss to protect the environment and improve the health, working environment and safety of the employees.

"Safety First!" is Danfoss' systematic approach to a safe workplace. Focus is on clear, aligned procedures and standards to ensure a safe working environment and avoiding accidents across all Danfoss sites. The global "Safety on the Shop Floor" initiative enhances the focus on safety in all factories around the world. Safety shoes and safety glasses are mandatory for anyone entering the shop floor in any Danfoss factory worldwide. Hearing protection is also mandatory for employees working at machines with a high noise-level, and safe walkways have been identified and marked for pedestrians in all factories.

In 2016, Danfoss continued to develop and align activities and efforts within environment, health, and safety across the global organization. The aim is to ensure that the "One Company – One Way" approach, established through the Core & Clear strategy, also applies to environment, health and safety.

The "One EHS" project builds on the strong foundation created by "Safety on the Shop Floor". In 2016, a global EHS (Environment, Health, and Safety) intranet section was developed and launched. Furthermore, a new global EHS policy was prepared to guide the business segments in their work to integrate environmental, health and safety management systems into the QMS (Quality Management System), which is run by the segments to live up to the requirements in the quality standard TS 16949.

Another achievement is the establishment of a global governance structure for EHS accompanied by a Global Incident Management System (GIMS), which will be the future platform for collecting, analyzing and communicating work-related accidents,

Health and safety	2015	2016
Lost time injuries (LTI)	127	121
Lost time injury frequency (LTIF)	3.4	3.3
Days of absence	2,205	2,309
Lost day rate (LDR)	59	63
Medical treatment incident rate (MTIR)	3.2	3.0
Minor incident rate (MIR)	20.2	17.7
Near-miss incident rate (NMIR)	78.7	96.9

incidents and near-misses. The new platform will be rolled-out in the entire Danfoss organization from 2017.

Work-related incidents

In 2016, Danfoss continued the dedicated management focus on safety with highly dedicated management, safety staff and employees at all Danfoss' factories around the world.

The total LTIF – Lost Time Injury Frequency – was reduced to 3.3 in 2016 from 3.4 the previous year – a reduction of 3%. LTIF is the number of incidents that result in absence from work of one or more days per one million hours worked. In 2017, the focus will be on reducing the LTIF by the targeted 10%.

The lost day rate (LDR) in 2016 was 63 (the number of days of absence, due to LTIs per one million hours worked). This is a slight increase from 59 in 2015.

The injured employees were absent for a total of 2,309 days, corresponding to an average absence of 19 days per Lost Time Injury. This level has remained the same for several years.

Our way of **working**

Our promise:

We earn customer loyalty
through excellence in
Quality, Reliability, and
Innovation

Our aspiration:

We are engineering tomorrow.
We passionately push
boundaries on results and
reputation.

Earn Customer Loyalty

Establish trust & respect
Think customer in everything we do

We earn customer loyalty when we act to serve the customer in everything we do – no matter what our role is. We can be counted on to work with the customer always at the forefront of our minds, and we strive to earn respect and trust from all our customers.

Embrace Diversity

Value differences
Be inclusive

We embrace diversity when we value and encourage the viewpoint, experience and knowledge of those who are different from ourselves, and when we work with purpose to learn and grow as one Danfoss.

Lead by Example

Show & encourage engagement
Role model the way

We lead by example when we act as role models every day and encourage others to do the same to build engagement. We lead by example when we foster a positive atmosphere at work.

Honor Commitments

Be entrusted to take ownership
Deliver as promised

We honor commitments when we live up to our promises and keep our word. We honor commitments in the way we service customers, the way we keep our promises to each other as colleagues and in how we deliver our results.

Go Beyond the Ordinary

Push boundaries to innovate and continuously improve
Learn from successes as well as mistakes

We go beyond the ordinary with a mindset where we strive to learn, grow and improve on a continued basis. We remain curious to explore how to improve and find ways to push ourselves to successfully fulfill our Danfoss goals and our own potential.

Think Danfoss

Take initiatives to leverage synergies
Support others in succeeding

We think Danfoss when we think beyond our own team and seek the advantages of working cross-functionally. Thinking Danfoss is an expression of our passion to succeed as one.

Ethical Conduct & Human Rights

In order to maintain and develop Danfoss' position and good reputation on the global market, it is important that we create 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.

In 2016, Danfoss continued the efforts to ensure high ethical standards and good business conduct by updating the Ethics Handbook and training people managers. One of the updates covered slavery and human trafficking in order to accommodate recent regulations.

All new managers as well as all white-collar employees in India and Asia-Pacific receive training via Danfoss' global e-learning Ethics@work as part of their on-boarding. All other managers are trained in Ethics@work on a bi-annual basis. During 2016, 1,576 new managers and white-collar employees have been trained in Ethics@work.

In order to keep track on how ethics is handled in Danfoss, we monitor the number of dismissals due to unethical behavior. In 2016, a total of 43 employees left Danfoss due to unethical behavior, against 31 in 2015 and 30 in 2014. The figures include both dismissals and voluntary resignations connected with ethical issues.

Human rights

We monitor our human rights impact and mitigate where relevant. As a member of the UN Global Compact, we are committed to live up to the UN Guiding Principles for Human

Pilot project process on human rights due diligence and integration



Rights. During 2016, a new process for human rights due diligence and integration has been developed.

The handling of human rights is rather complex. For that reason, we have decided to implement internal actions before introducing it in the supply chain. Accordingly, in 2016, a pilot project on human rights due diligence and integration was carried out in Poland, Slovakia and Romania. The pilot project showed that the implemented processes are working, and

during 2017-2019, the project will be rolled out across all regions with few adjustments.

The above illustration shows the process.

Compliance programs

We support the growing international focus on regulation and legislation in areas such as anti-corruption, competition law, export control and good business ethics.

Danfoss' compliance programs ensure constant focus on keeping our house in order and maintaining our integrity.

Internal compliance programs and control mechanisms have been established to minimize the risk of rule violations. These programs contain clear ownership, policy setting, operational procedures, as well as recurring training and awareness activities.

In 2016, Danfoss worked with Data Privacy and had its internal rules approved by the EU data protection authorities to be ready for the EU data privacy regulation becoming effective in 2018. The export control compliance program was further strengthened, introducing improved processes for product and sanctioned party screening.

An upgraded process for integrity screening of certain business partners was finalized, lowering the risk of corruption, and more than 9,300 employees were trained in anti-corruptive behavior.

Compliance hotlines

In addition to the compliance programs, Danfoss operates two hotlines available for our business partners and employees.

The Group's employees can find answers to any questions and doubts regarding ethics and compliance through the dilemma driven "AskUs". The purpose is to minimize uncertainty among the Group's employees and prevent unintended non-compliance. This hotline has been in place since 2012, and

provided answers in 2016 to 90 dilemmas posed by employees and managers.

Danfoss also has a whistle-blower function, the Ethics Hotline, which employees can use to anonymously report suspected breaches of internal guidelines and legislation. In 2016, a total of 112 reports were managed by the Ethics Hotline. Corrective actions, including disciplinary action, were taken for all substantiated allegations, and none of the reports have had a material impact on Danfoss.

Responsible supplier management

We work systematically with risk assessment and supplier management. Our Code of Conduct for Suppliers defines the Group's environmental and social requirements. All suppliers are required to sign the Code, and we perform regular supplier audits to verify compliance and to ensure that any non-compliance is addressed.

Further, a supplier risk assessment model has been implemented. It forms the basis for measures taken at the individual supplier. The risk assessment model includes the location of the supplier, which ensures that the highest priority is given to suppliers in the areas which pose the greatest risk of non-compliance.

Danfoss' Code of Conduct Competence Center conducts the training of all employees who are in contact with suppliers on an ongoing basis. This is to ensure that they are familiar with Danfoss' Code of Conduct and the roles and responsibilities within the area. The training consists of multiple modules, primarily as online training.

In 2016, 248 additional suppliers signed our Code of Conduct, and 115 audits were conducted to verify supplier compliance with the rules. 101 of the audits were first-time audits, while 14 were follow-up audits. Follow-up audits are conducted to follow up on matters, such as inadequate safety measures, missing or blocked emergency exits, missing or malfunctioning fire extinguishers, lack of personal protective equipment, incorrect handling or storage of hazardous chemicals and discharge of waste water.

Previously, Code of Conduct compliance has been measured as a percentage of spend in compliance for the Top80 suppliers. In 2016, all suppliers (100% spend) were included and the compliance percentage was improved from 68% to 84%, indicating the share of suppliers who are in compliance with the Code of Conduct.

Community and stakeholder engagement

Danfoss is an active partner in the local community through sponsorships, involvement in trade organizations and groups, and through participation in social work. This is organized by local Danfoss projects around the globe and through our foundations.

Engagement with stakeholders such as NGOs, authorities and customers helps Danfoss to be aware of the framework conditions for business operations in countries where Danfoss operates.

Danfoss foundations support local communities **The Fabrikant Mads Clausen Foundation**

The foundation was established in 1960 by the founder of Danfoss. The purpose of the foundation is to provide support to the general interest-raising projects at home and abroad. The support is first and foremost provided in the local communities around the company's business units in Southern Jutland, Denmark, but also includes some of the other Danfoss locations in Denmark and abroad. The foundation provides, among other things, support for education, health, sports and culture.

In 2016, the Fabrikant Mads Clausen Foundation distributed DKK 7.1m to 281 recipients. Among them were a wide range of clubs, associations and institutions in Danfoss' local community, including schools and universities, hospitals, sports clubs, scout groups, pensioners' associations, institutions for the disabled, museums, choirs and orchestras.

In 2016, several large donations of DKK 100,000 or more were made. The money went to education projects, equipment for sports clubs and various cultural projects.

For example, Sønderjyllands Kunstscole (the Art School of Southern Jutland) received a large donation for the acquisition of equipment in connection with an upcoming relocation to a new multicultural center which is being built in Sønderborg. The center is a part of Frank Gehry's master plan for the harbor front and will, in addition to the Art School, also house the city's library.

Another large donation was given to the Danish Agency for Culture and Palaces to the restoration of the former vegetable garden at the Royal Palace in Gråsten, Denmark. The new vegetable garden is, together with a new visitor center and café, expected to increase the number of visitors.

Danfoss supports community activities, projects, and charitable events through our foundations and local management initiatives.

The Danfoss Employee Foundation

The Danfoss Employee Foundation is a social foundation, which works to provide consultation and financial support to employees in Danfoss A/S, the Bitten and Mads Clausen Foundation, associated companies in Denmark and in their Danish subsidiaries.

In 2016, the foundation considered about 300 applications. Also in 2016, many employees applied for help in connection with their children's church confirmation, boarding school stays and dental expenses. The foundation also provided financial support for vacations and Christmas to the benefit of many families with children. The foundation granted total financial support of approximately DKK 3m in 2016.

The Employee Foundation's legal aid system, which ensures that legal assistance is available to all employees, handled approximately 100 requests.



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Our specific activities supporting the prioritized SDGs



6: Clean water and sanitation

Danfoss helps to save energy in water and wastewater treatment. In 2016, we were actively engaged in promoting the IEA World Energy Outlook findings on water cycle efficiency. Water and wastewater facilities are large energy consumers and account for 25-40% of municipal electricity consumption. The high consumption is related to the energy intensive processes and the continuous operation cycle, 24/7 and 365 days annually.

In the Danish city of Aarhus, they operate the world's most energy-efficient water utility. This wastewater treatment facility produces 90% more energy than is needed to fuel the entire operation. As a result, wastewater in Aarhus is not just energy-efficient, but a net energy producer as a power producing wastewater plant. Furthermore, excess heat is fed into the city's district heating system, thereby reducing the carbon footprint.

Done optimally, this also optimizes the generation of biogas used for both electricity and heat production.

With the launch of the World Energy Outlook 2016 by the International Energy Agency, Danfoss started a series of policy briefings, to explain the business models and existing showcases to turn the water sector energy neutral. We kick-started the briefings with a forum taking place at the European Parliament, addressing how electric motors and water systems help to achieve EU policy goals.

In 2017, we will conduct two more briefings, in Washington and Beijing, to discuss how water and energy are not only connected, but together can be a very powerful solution, helping to mitigate climate change. The state-of-the-art wastewater plant in Aarhus is a prime example of this, demonstrating how energy neutrality goes beyond optimizing wastewater facilities; energy reduction is possible at every step of the water processing cycle. It is a great business case for companies, cities, and the climate.

© Read more about water and wastewater at www.danfoss.com/energy-and-water



7: Ensuring access to affordable, reliable, sustainable, and modern energy for all

Access to affordable, reliable, and sustainable energy is crucial to achieving many of the Sustainable Development Goals. Sustainable Development Goal no. 7 is about saving energy, and it is about giving access to sustainable energy to the 1.1 billion people who are looking forward to being able to cook without having to spend hours collecting firewood, study at night, or keep life-saving medicine cool.

A natural starting point for action is using our resources better and making more out of less, and ensuring that these new consumers of energy use it as efficiently as possible. And using our energy more efficiently is doable today – if we use our energy resources more efficiently, we can generate 49% of the necessary reductions in emissions to mitigate climate change, as has been shown by research from the International Energy Agency.

However, currently, the global annual rate of energy efficiency improvements is 1.7%. This is still way behind the annual 2.6%

needed between 2010 and 2030 to meet the Sustainable Energy for All (SEforAll) objective of doubling the rate of improvement in energy efficiency.

If we are to seize the potential of energy efficiency, collaboration is absolutely essential. This is what we are committed to do. One example is SEforAll, where Danfoss as partner in the new UNEP District Energy in Cities Initiative will set up a team of deployable district energy experts to support cities in developing, retrofitting, or scaling up district energy systems. The team will assist more than 30 cities, which have been chosen as part of an extensive consultation process to identify municipalities with high district heating or cooling potential.

Our specific activities supporting the prioritized SDGs



11: Sustainable cities and communities

Imagine a city. In the center, a brand-new supermarket has been equipped with digital solutions that constantly monitor the cooling systems' performance to make more out of the energy used. Maybe a new skyscraper is popping up next door to the supermarket. Here, excavators carve their way through tons of dirt, while central operators get real-time data from the machines to optimize performance. On the ground floor, installers are fitting an apartment with electronic thermostats that allow you to control your heating system directly on your smartphone.

Digital innovations that make smarter use of our energy are right in front of us – and at the same time cut emissions. In many ways, making the world more connected and exploiting the potential of IoT (the Internet of Things) are exactly what we need to meet some of the challenges which we face right now.

With our population growing at its current rate and with increased standards of living, we will see global energy demand expand up to 37% by 2040. Along with a growing

demand for energy, the demand for public, private, and commercial buildings will follow. Estimates predict that 60% of the area, which will be urban by 2030, have yet to be built.

Currently, according to the International Energy Agency, buildings account for 40% of global emissions. But that does not have to be the case in the future. We can create smart and connected buildings which produce energy rather than consume energy by taking advantage of cross-sector collaboration and existing technology.

To accelerate building efficiency, Danfoss works with Sustainable Energy for All and its building energy efficiency accelerator. The World Resources Institute is leading together with UNEP, an action-oriented partnership. This partnership supports governments and cities to unlock the potential of buildings – enabling public and private partners to work together to help cities and communities become more energy-efficient and sustainable.

© Read more about urban efficiency at www.danfoss.com



12: Responsible consumption and production

With more and more mouths to feed every day, there is a constant need for more and better food. Furthermore, rapid urban development is creating a huge demand for new and better infrastructure and efficient food distribution.

However, today, according to the United Nations Food and Agriculture Organization (FAO), one third of the food produced for human consumption is lost or wasted globally, which amounts to about 1.3 billion tons per year.

Along the way from farm to fork, food safety, freshness and hygiene must be secured with reliable as well as cost- and energy-efficient cold chain systems. From dairy and fishery products to farm produce, such as vegetables and fruits, or processed foods, such as bakery items, cold chains and cold storage are essential for efficient food distribution and minimized food loss.

Global sourcing, quality-minded consumers, and ever more complex supply chains call

for seamless control and transparency across the entire cold chain.

As a market leader with more than 50,000 food retail installations worldwide, Danfoss leads the development of integrated food retail refrigeration control solutions. Our solutions have been developed based on more than 30 years of close cooperation with the global community of food retailers, and more than 80 years in the HVAC industry.

Together with forward-thinking retailers around the world, we have taken sustainable food retail solutions to the next level through the constant development of sustainable technologies and service concepts. Danfoss solutions not only ensure the perfect conditions for food in temperature-controlled environments, they also help achieve near-zero downtime on store applications in order to improve food safety and reduce food loss.

© Read more about responsible consumption at www.danfoss.com

Our specific activities supporting the prioritized SDGs



13: Climate action

Danfoss contributes significantly to the mitigation of the global climate challenges through our products and solutions and through our own activities to reduce the CO₂ footprint of our activities.

We are ambitious in our approach to combating climate change and see carbon pricing as a potential tool to increase the global focus on de-carbonization. A focus on reducing carbon emissions will encourage businesses to strengthen their management of energy-efficiency and climate investments. It is the aim of Danfoss to implement carbon pricing as an internal tool within 2017.

Addressing climate change will be a mixture of costs and investments, savings through energy-efficiency, and new business opportunities. It is, therefore, in our interest as a provider of energy-efficient solutions to support the global community to focus on carbon emission reductions.

We will also focus on awareness-raising about district energy as a state-of-the-art and future-proof system that provides the most

cost-efficient and low-carbon solution for heating and cooling of buildings in urban areas.

Together with leading industry players in support of the Montreal Protocol, Danfoss is working on sustainable solutions for refrigeration and a phasing down of HFC gases. HFCs are potent greenhouse gases, used in refrigerators, air conditioners, and industrial applications. We work together with GRMI – The Global Refrigerant Management Initiative. The aim is to educate the global supply chain to improve the management of refrigerants to reduce leak and service emissions. And to promote recycling, recovery and reclaiming of refrigerants and foam blowing agents.

Danfoss also participates in the GFCCC – Global Food Cold Chain Council – where we facilitate the establishment of sustainable cold chains with low-GWP refrigerants. As an industry leader, we see it as the company's responsibility to build the capacity and awareness about sustainable cold chains and to push for progress within the use of natural refrigerants.



Partnerships for the goals

Danfoss engages closely with multiple stakeholders, such as NGOs, global organizations, authorities and customers to pursue the best sustainable solutions within energy, climate, food, and infrastructure.

Lead generation and high-level networking with business leaders, decision makers, and local as well as regional governments enable us to influence decisions and regulation. By doing so, we drive the green transformation towards a low-carbon society with limited dependability on fossil energy sources and with greenhouse gas emissions which are low enough to ensure that the global warming is limited to 1.5 degrees above pre-industrial levels.

Our aim is to build partnerships and proactively shape the future of the energy systems, efficient buildings and food chains, thinking energy efficiency. Teaming up with organizations and institutions within energy efficiency in addition to "Women Empower Business", "Global Goals World Cup", UNDP – United Nation's Development Program – and Sustania Living, illustrates the broad commitment by Danfos

🔗 [For more information about partnerships, see page 28.](#)

Explanations and elaborations

Organization and management

Danfoss has a two-tier management system consisting of the Board of Directors and the Executive Committee. The Board of Directors lays the general course for the company by approving strategies and targets. The Executive Management develops the strategy and handles the day-to-day management of the company and execution of the strategy.

The distribution of roles and responsibilities in our sustainability program is consistent with the general governance and risk management principles.

- The Board of Directors and Executive Committee have overall responsibility and define the framework for the Company's sustainability efforts.
- The Risk & Compliance Committee has overall responsibility for ensuring an effective enterprise risk management program and effective compliance programs.
- The Sustainability & Public Affairs function is responsible for defining and implementing Danfoss' global program, Group targets and activities for sustainability.
- All people managers are responsible for ensuring that their areas are aware of and comply with Danfoss rules and guidelines. In addition, all factory managers are

responsible for environmental, health and safety activities at individual sites, which also include appointing people with responsibility for day-to-day environmental, health and safety tasks, and to participate in knowledge and experience sharing across the Group.

- All employees are responsible for ensuring that they are aware of and comply with Danfoss' rules and guidelines. Furthermore, all employees have a duty to report any breaches of Danfoss' rules and guidelines that they may become aware of or have reason to suspect.
- It is the responsibility of Danfoss' Group Compliance function to follow up on compliance with guidelines and relevant programs. The function is also responsible for the internal AskUs function and the Danfoss Ethics Hotline.
- Danfoss has set up an Ethics Committee to deal with violations of Danfoss' ethical guidelines and, if necessary, to submit them to the Danfoss Board of Directors.
- Danfoss' Internal Audit function performs unannounced inspections to ensure compliance with the ethical guidelines and legislation in special areas, such as anti-corruption.

© More information about Danfoss' management structures and governance mechanisms can be found in the Statutory Report on Corporate Governance 2016 on www.danfoss.com > About > Financial information.

Policies and strategies

Danfoss has implemented and maintains a number of internal policies and company standards that govern business processes and behavior. The below list includes the relevant documents within sustainability.

- **Danfoss' Business Conduct**
This policy sets the overall direction and expectations for Danfoss' business conduct and applies to all companies and business units in the Danfoss Group.
- **Danfoss Sustainability Program**
The Sustainability program supports Danfoss' growth strategy via a strong group framework for sustainability, ambitious goals and a clear direction on the focus areas.

Ethical conduct

- **Danfoss Ethics Handbook**
The Ethics Handbook outlines Danfoss' ethical guidelines and is aimed at all employees and companies in the Danfoss Group, including subsidiaries and joint ventures where Danfoss has a controlling interest.
- **Danfoss Anti-Corruption Manual**
Defines and outlines correct ethical behavior within anti-corruption. The manual describes a number of concepts and guidelines, which outline how to avoid contributing to corruption.

- **Danfoss Competition Compliance Manual**
Defines and outlines correct ethical behavior within fair competition and compliance. The manual describes a number of concepts and guidelines which outline how to avoid unfair trade.
- **Danfoss Export Control Compliance Manual**
Defines and outlines correct ethical behavior within export control. The manual describes a number of concepts and guidelines, which outline how to avoid breaking export control legislation.
- **Danfoss corporate standard – Reporting unethical behavior**
Defines guidelines of how to report unethical behavior, i.e. behavior which is in conflict with the Ethics Handbook, legislation, or other applicable rules.
- **Danfoss corporate standard – Roles and responsibilities with respect to ethical cases**
Defines roles and responsibility in ethical cases.

Product compliance and transparency

- **Environmental Design Guide**
Guidelines for life cycle considerations during the development of products to ensure that all phases in the life of the product from the extraction of raw materials to final disposal of the product are considered and assessed.
- **Danfoss' Negative List of chemicals and substances**
Bans or restricts the use of substances and materials

in Danfoss' products and production processes and by Danfoss' suppliers, contractors and tenants.

- **Danfoss' conflict minerals policy**
Defines Danfoss' approach to the handling of conflict minerals inquiries from customers and how to collect and validate the information that Danfoss' requires from its suppliers to support the reporting of conflict minerals.

Energy and resource efficiency

- **Danfoss Climate Strategy 2030**
The focus of Danfoss Climate Strategy 2030 is Danfoss' own business processes, production and buildings, and the aim is two-fold: to halve the energy intensity and to halve the CO₂ emissions from the energy used.

Environment, health and safety

- **Danfoss corporate standard**
– **Environment, health & safety in Danfoss**
Defines how Danfoss will plan and perform all activities with regard to environmental, health & safety issues, and how the company will continuously improve its performance.
- **Danfoss corporate standard – Safety at the Shop Floor**
Establishes the minimum requirements for safety on the shop floor, including requirements for Personal Protective Equipment (PPE), Pedestrian Safety, Visitor Safety, Health & Safety KPI's and handling of deviations and exemptions.

Other prioritized areas

- **Danfoss Code of Conduct for suppliers**
The Code describes Danfoss' corporate social responsibility requirements for suppliers covering child labor, discrimination, forced labor, working environment, working hours and salary, the right to organize and collective bargaining, the right to privacy, environment and corruption.
- **Danfoss Supplier Quality Manual**
The Supplier Quality Manual sets the rules, standards, and requirements for Danfoss' suppliers regarding product quality. The same rules, standards and requirements apply when Danfoss evaluates a potential supplier's fitness for becoming a Danfoss Supplier.
- **Danfoss corporate standard – Risk Management**
The standard defines the roles and responsibilities regarding Risk Management, and gives directions on how Risk Management should be approached.
- **Danfoss corporate standard – Global Recruitment**
Defines Danfoss Global Recruitment, stipulating the fundamental principles for the global recruitment as well as the principles that surround the Global Recruitment Process ensuring "the right candidate to the right job and the right job to the right candidate at the right time". The standard also considers ethical conduct during the recruitment process and diversity.

Sustainability-related risks

Maintaining efficient risk management is a cornerstone at Danfoss as well as a prerequisite for running a business and responding rapidly and flexibly, when conditions change.

Climate change is one of the global megatrends recognized in Danfoss' strategy. Aspects influencing the strategy are the increasing demand for energy, more efficient use of energy, increase in energy use from renewable sources and urbanization. Consequently, the need for intelligent energy and heating infrastructure in addition to the need for food are increasing, leading to increased focus on the cold chain and increasing energy prices.

We see opportunities everywhere – from feeding a growing population, to letting everyone enjoy a more comfortable, better quality of life. We aim to rise to ever more complex challenges and, through knowledge and hard work, engineer solutions that achieve more with less.

Risks and mitigation activities

The Executive Committee has defined specific risk areas of the risk management process which, due to their special nature, are currently of particular importance to Danfoss.

📖 Read more about the areas and our approach to risk management in the Annual Report 2016 at www.danfoss.com > About > Financial information.

Like its peers, Danfoss is exposed to a number of risks. While there is no single sustainability-related risk threatening the Group's survival, Danfoss is exposed to the following general risks.

Risk Description

Ethical Conduct

The ethical behavior of companies and their employees is a focus of attention, with stricter laws and possible sanctions introduced worldwide in areas such as anti-corruption, data privacy and fair competition. Unethical conduct by Danfoss employees could cause considerable damage to Danfoss' reputation and result in substantial financial sanctions.

Severe weather or natural disasters

Changes in weather conditions following global warming or natural disasters might disrupt Danfoss' manufacturing facilities or supply chain.

Product Compliance

This risk deals with the potential failure to comply with the increasing number of safety- and environmentally-related product regulations. Non-compliance could have severe consequences for Danfoss. Compliance with product-related legislation is important to uphold Danfoss' "license to sell".

Risk Mitigation Measures

Danfoss has implemented ethical guidelines and compliance programs on anti-corruption, competition compliance, export control, and data privacy. Danfoss has an inquiry function (named AskUs), from which employees can seek advice and guidance on ethical conduct. Danfoss operates an Ethics Hotline, which employees can use to anonymously report suspected breaches of legislation or internal guidelines.

A comprehensive insurance program covers for re-establishment of property and for loss of business. Business Continuity Planning is implemented to reduce impact of capacity shortage. Proactive risk mitigation as well as best-in-class building safety standards and a Global Fire Risk Program are established to reduce the risks.

In 2016, Danfoss established a Product Compliance Team and defined key priorities, methodology and governance. The target is to ensure a similar approach regarding the handling of product legislation throughout the Group. Danfoss Group Regulatory monitors legislation and coordinates the Group's efforts to align and implement the legislation.

Selected initiatives and organizations supported by Danfoss



Sustainia Living

In 2016, Danfoss joined Sustainia Living, a platform developed to demonstrate, co-create, and communicate the benefits and possibilities of sustainability as the way ahead to “a healthier you in a healthier world”. Danish producers of sustainable lifestyles are to be architects of the new emerging markets by presenting their best cases and stories – being within city development, housing, food, fashion fitness, etc. – all situations where our daily choices and behavior form the sustainable world of tomorrow.

Global Alliance for Energy Productivity

The mission of the Global Alliance is to drive continued global improvements in energy productivity. The Global Alliance for Energy Productivity builds on the Accelerate Energy Productivity 2030 goal of doubling energy productivity by 2030 by taking it global, securing commitments from government and business decision-makers around the world to be leaders in energy productivity.

Sustainable Energy for All (SEforALL)



In September 2011, the UN Secretary-General Ban Ki-moon launched Sustainable Energy for All (SEforALL) as a global initiative in support of making sustainable energy for all a reality by 2030. SEforALL mobilizes action from all sectors of society, including governments, business and civil society to deliver on three objectives by 2030: the universal access to modern energy services doubling the global rate of improvement in energy efficiency, and doubling the share of renewable energy in the global energy mix.

UN Caring for Climate Initiative

“Caring for Climate” (C4C) is an initiative aimed at advancing the role of business in addressing climate change. The initiative was launched in 2007 by the UN Global Compact, the UN Environment Program, and the secretariat of the UN Framework Convention on Climate Change. Caring for Climate is endorsed by nearly 430 companies from 65 countries. Danfoss became a signatory to C4C in 2007.

EuroACE

EuroACE – The European Alliance of Companies for Energy Efficiency in Buildings – works together with the European institutions to help Europe move towards an efficient use of energy in buildings. Danfoss held the presidency on EuroACE in 2016.



IEA-International Energy Agency

The IEA is an autonomous organization, which works to ensure reliable, affordable and clean energy for its 29 member countries and beyond. Danfoss' CEO Niels B. Christiansen is a member of IEA's Energy Efficiency Industry Advisory Board. Danfoss supports various IEA activities and publications to strengthen the global focus on energy efficiency.

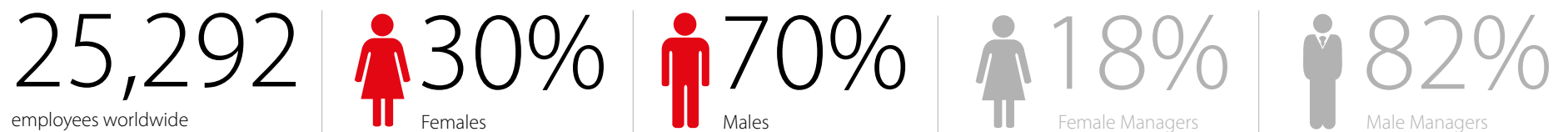
EP100



Danfoss joined EP100 (Energy Productivity 100), for which The Climate Group serves as Secretariat, to share best practices and highlight our leadership on energy productivity. Danfoss supports the goal of the Global Alliance for Energy Productivity to double energy productivity by 2030, and the objective of Sustainable Energy for All to double the rate of energy efficiency improvements.

Supporting figures

Employees



People

Age distribution

15-24 years	4%
25-34 years	28%
35-44 years	30%
45-54 years	24%
55+ years	14%

Location of employees – per region

Asia-Pacific	2%
Central Europe	8%
China	17%
Eastern Europe	13%
India	3%
Latin America	6%
North America	12%
North Europe	28%
Russia	5%
South Europe	5%
Turkey, Middle East and Africa	1%

Job category

After-Sales Service	1%
Corporate & Administration	3%
Finance & Accounting	3%
General Management	0%
Human Resources	2%
Information Technology	3%
Internal Services	1%
Production	50%
Purchasing & Logistics	6%
Research & Development	10%
Sales & Marketing	21%

Seniority

<1 year	9%
1<3 years	12%
3<5 years	11%
5<10 years	27%
10<20 years	26%
20+ years	15%

Hourly- and salaried paid

Hourly	40%
Salaried	60%

People managers

People manager	13%
Not people manager	87%

Gender

	Female	Male
Managers	18%	82%
All employees	30%	70%
Salaried employees	28%	72%
Hourly-paid employees	32%	68%

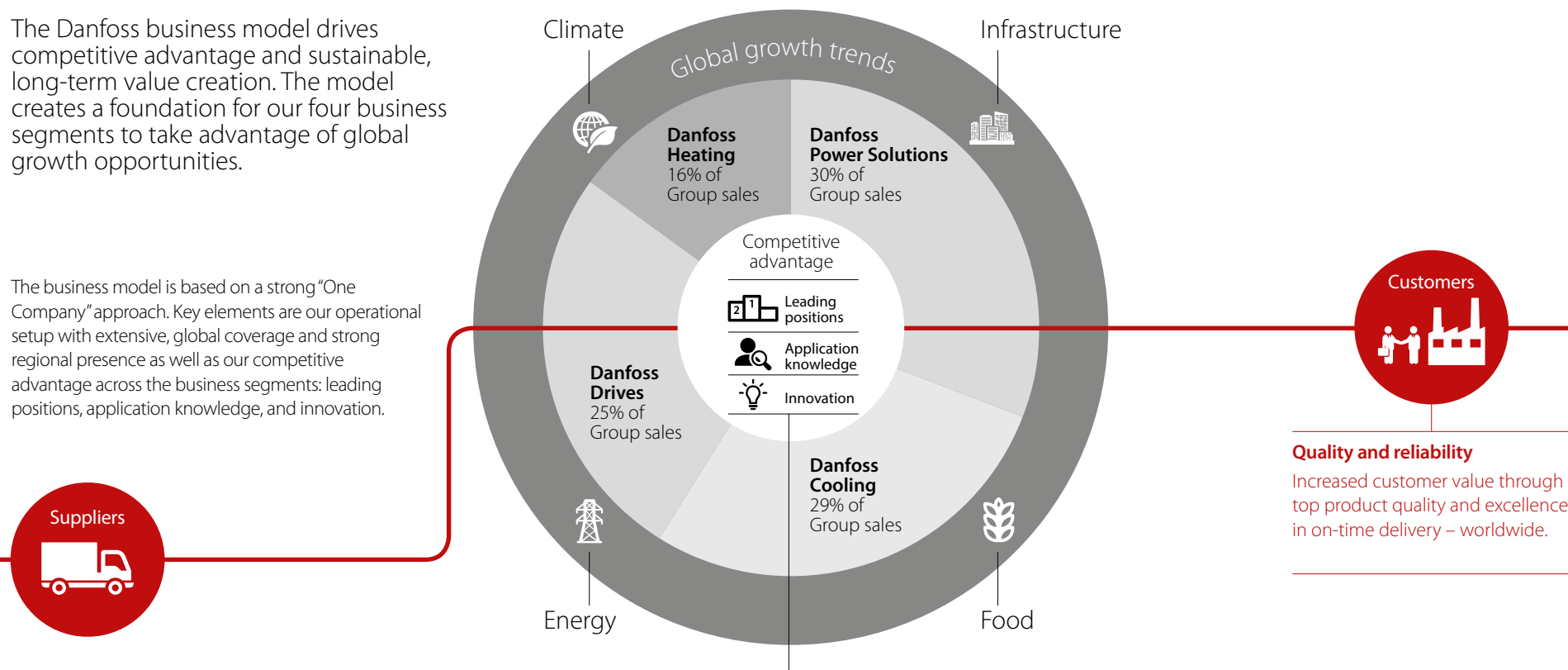
Gender – per region

	Female	Male
Asia-Pacific	27%	73%
Central Europe	20%	80%
China	32%	68%
Eastern Europe	38%	62%
India	12%	88%
Latin America	36%	64%
North America	24%	76%
North Europe	31%	69%
Russia	33%	67%
South Europe	23%	77%
Turkey, Middle East & Africa	21%	79%

Business model

The Danfoss business model drives competitive advantage and sustainable, long-term value creation. The model creates a foundation for our four business segments to take advantage of global growth opportunities.

The business model is based on a strong “One Company” approach. Key elements are our operational setup with extensive, global coverage and strong regional presence as well as our competitive advantage across the business segments: leading positions, application knowledge, and innovation.



Leading positions

In the global manufacturing industry, global reach, size, and scale matter. Therefore, it is a key element in our business model that the business segments hold leading positions as either a number one or two in their industries. To drive scale advantages, increased customer value, and a world-class supply chain, we have a unique business system with a strong focus on safety, quality, delivery, and cost.

Application knowledge

Across the Group, customer application knowledge and deep technical expertise are driving differentiation as well as customer value. The operational setup is designed to ensure local empowerment and close cooperation with customers. We invest in initiatives that enable our R&D engineers to turn their know-how and application understanding into performance-enhancing advantages for the customers.

Innovation

Innovation is in our DNA. We focus our innovation in the core; meaning that we are focused on constantly developing our technologies, products, and processes in the core businesses. It is our unique application knowledge and our ability to understand customer needs combined with access to new and advanced technologies that drive innovation at Danfoss. We invest above industry average to take full advantage of innovation and take the lead within IoT and connectivity.

ENGINEERING
TOMORROW



Further information available
on Danfoss' website: **www.danfoss.com**

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