

ENGINEERING
TOMORROW



Sustainability Report 2017



About this report

The Sustainability Report 2017 reports on Danfoss' activities in a sustainability perspective and presents Danfoss' contribution as a committed signatory to the UN Global Compact. As a UN Global Compact member, Danfoss is required to report on an annual basis on its progress in relation to the UN Global Compact's universally accepted 10 principles for responsible business conduct.

The Sustainability Report is framed in the context of our sustainability program. In essence, this report is about how we do business responsibly and profitably, with a view to maximizing sustainable value creation for society.

This report complements Danfoss' Annual Report 2017, which presents our business and financial results over the year and sets out the company's strategy and priorities.

Danfoss' annual reporting is prepared in accordance with the Danish Financial Statements Act (FSA). Together with the Annual Report 2017, the Sustainability Report 2017 fulfills the requirements of FSA, Sections 99a and 99b, by accounting for Danfoss' activities relating to social responsibility and reporting on activities in the areas of human rights, labor rights, diversity, environment, anti-corruption, and climate change. For the benefit of stakeholders with particular interests in these topics, the Sustainability Report provides a detailed presentation of our targets, activities and achievements within these topics.

This Sustainability Report 2017 has been prepared and published in English. The report is released as an electronic publication only and made available at www.danfoss.com.



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

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.

Read more at unglobalcompact.org.

Follow us here:

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Selected partnerships

EP100 – Energy Productivity 100

Danfoss joined EP100 (Energy Productivity 100) 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. Thereby we have committed to double our economic output from every unit of energy consumed. At the same time, we will achieve reductions in energy costs and greenhouse gas emissions.

SEforALL – Sustainable Energy for All

Sustainable Energy for All (SEforALL) is a global initiative launched by UN 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.

PACI – Partnering Against Corruption Initiative

Danfoss is committing to the PACI Principles for Countering Corruption. Thereby we support a global, cross-industry, multi-stakeholder anti-corruption initiative established by World Economic Forum. The purpose is to raise business standards and build a competitive, transparent, accountable and ethical business environment. We commit to implement and develop an effective anti-corruption program and to play an active role in advancing the global anti-corruption agenda.



Thinking energy – smart

“We operate in a world challenged by a growing population, booming urbanization and clear issues related to climate change, and our energy-efficient solutions – doing more with less – are a ready-to-use answer.”

In Danfoss, we believe that smart energy technology is fundamental to long-term value creation – both when it comes to protecting the environment, securing a healthy climate, and ensuring a healthy economy. By combining digitalization, innovation and energy efficiency to create smart, sustainable solutions, we not only improve our environmental footprint, but also free up money to be spent elsewhere.

We operate in a world challenged by a growing population, booming urbanization and clear issues related to climate change, and our energy-efficient solutions – doing more with less – are a ready-to-use answer. This is why we manage our business in accordance with our Core & Clear strategy and consider the financial, environmental and social impacts of our business decisions. By doing so, we consider Danfoss to be a sustainable business.

As we move forward, participating in the Global Compact as well as working with the Sustainable Development Goals gives us a platform to develop our sustainability efforts further, for example through even more partnerships and learning activities, which directly address sustainability. You can read more about our activities in this report.

Sustainable Development Goal no. 7 – Ensure access to affordable, reliable, sustainable and modern energy for all – is at the core of what we do. Smart energy technology is already available, but our next priority should be connected, flexible and future-proof smart energy systems. For example, by connecting electricity, heating and cooling. Connecting supply side and demand side. Using big data to anticipate and alleviate system peaks, and allowing consumers to become prosumers. These are examples of true connectivity and collaboration in a smart energy system that will create the synergies needed to increase efficiency beyond the targets set out in the Paris Agreement.



Kim Fausing
President & CEO

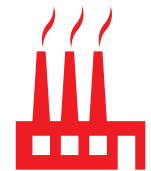
When we turn down energy consumption, we turn up growth

Energy efficiency can accelerate the economy. According to the European Alliance to Save Energy, we can achieve impressive growth, if we set more ambitious targets for energy efficiency.

Today's available technology can support:

Reduced CO₂ emissions

Europe can reduce CO₂ emissions by
1.5 billion tonnes
every year until 2030 – a 30% reduction



Postponing energy investments

Higher energy efficiency postpones the need to expand energy production, which could lead to
€30 billion
investment savings per year



More jobs

A more ambitious policy on energy efficiency can create
1.5 million
full-time jobs



Lower energy use

By reducing energy consumption, Europeans could achieve a net saving of
€200 billion



Lower energy prices

The less energy we use, the less we demand. We can potentially reduce accumulated energy expenses by
€50 billion
by 2030



Contents



Why what we do matters

We want to make a difference in the world. Today. That's what Engineering Tomorrow is all about. That is why we put many efforts into improving knowledge of sustainability in society as well as involving partners and local communities in learning activities.

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Our commitment to sustainability

We believe that smart energy technology is key to a more sustainable climate and fundamental to growth and prosperity. While delivering growth and strong financial results, we care for our people and aim at leaving the world to the next generation in a better state than we inherited it.

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Energy and climate

We help our customers and the world to use less energy, and we have not forgotten our own footprint. Our climate ambition is that by 2030, we will spend half as much energy running our business as we spent in 2007. And the energy we do spend must emit half as much CO₂.

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People, health and safety

Danfoss has a long tradition of social responsibility to create sustainable results. From pursuing a diverse workforce in terms of professional skills, nationality, age, and gender to support employees in need and create a great place to work.

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Product compliance

Danfoss is committed to living up to increasing legislative and customer demands for safe and sustainable products and solutions. Danfoss continues the strong focus on processes and data needed to report and meet our compliance obligations.

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Ethics and compliance

Danfoss' compliance programs ensure constant focus on keeping our house in order and maintaining our integrity and credibility. Compliance and risk management are the foundation of our sustainability work.

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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 off-highway machinery. We also operate in the field of renewable energy, as well as district energy infrastructure for cities and urban communities.

Visit our website – www.danfoss.com – to learn more about how we are helping to realize the vast potential for better infrastructure, improved living standards, higher energy efficiency and food supply for our growing world.

The Danfoss heritage

Danfoss has grown from a one-man business into a global leader by having a clear focus on innovative engineering right from the beginning. Today, Danfoss is still a privately-held company controlled by the Bitten and Mads Clausen Foundation.

Key facts

26,645

employees dedicated to engineering solutions that make a difference to people and businesses worldwide



1,399

patent families



72

factories in 20 countries, and Danfoss sells its products in more than 100 countries

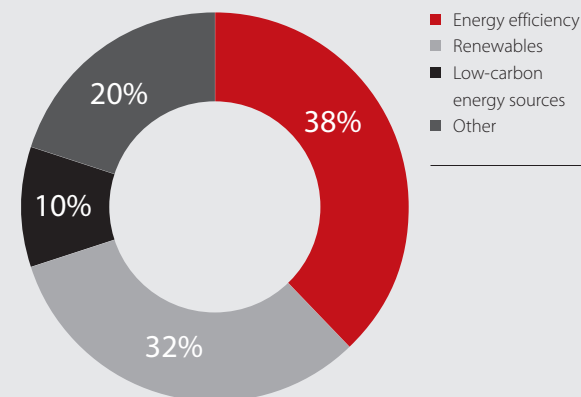


A more sustainable outdoor climate starts indoors

The Paris Agreement set out a global action plan to keep global warming below 2°C by 2050. If we are to achieve this low-carbon future, we must leverage energy efficiency. Energy efficiency is a relevant contributor to a more sustainable climate – and the technologies are already available today.



Main contributors to achieve the 2050 target of the Paris Agreement



Source: International Energy Agency: Energy Technology Perspective 2016

Group highlights

Net sales, DKKbn

43.3



Growth in local currency

12%



EBIT margin

11.1%



Energy reduction since 2007

43%



CO₂ reduction since 2007

27%



Sustainability highlights 2017

Engaging in learning activities

The Iowa State University's Corporation and Foundation, USA, awarded Danfoss for its year-long support to students and donations of equipment and instrumentation. The award reflected 45 years of close collaboration to help educate and inspire young people to achieve in the classroom, in the laboratory, in their working lives, and in their impact on our world.

Safety first in all Danfoss factories

Danfoss Mexico hosted a Safety Day with the purpose of showing colleagues just how difficult even a simple everyday task can become if they get injured. Through practical exercises, it was made easier to understand, why Danfoss' "Safety First" focus is so important.

Promoting a low-carbon future

Danfoss joined the European Union's Sustainable Energy Week Conference to underline the importance of sustainable cooling. Cooling is important on the international agenda as it is thought to produce around 10% of the world's CO₂ emissions. We support the new Cooling EU forum, bringing together stakeholders and promoting a more efficient and cleaner cooling supply.

Pursuing the best sustainable solutions

Danfoss joined the UN climate conference, COP23, in Bonn, Germany. Danfoss sent a clear message to business and government leaders to continue to be ambitious, when creating climate plans and taking energy measures.

Energy neutrality via connected energy systems

In cooperation with the Royal Danish Embassy, Danfoss Poland organized a seminar that focused on how to become energy neutral. Danfoss shared experiences from a Danish wastewater treatment plant, which not only ensures clean water, but also produces more electricity and heating than it consumes itself. The generated excess energy is benefitting the local community.

Saving energy is saving money

At the UN event on Sustainable Energy in Belgrade, Serbia, Danfoss spoke about the enormous potential for energy savings. Energy savings can be achieved through optimized controls, which can reduce energy bills and increase comfort with low investments and short payback times.

Reducing environmental impact from production

Danfoss India was honored with the prestigious Golden Peacock Award, which is considered a benchmark of corporate excellence worldwide. The award was received for the excellent environment management initiatives, within and outside the site, especially the green manufacturing facility based out of Chennai.

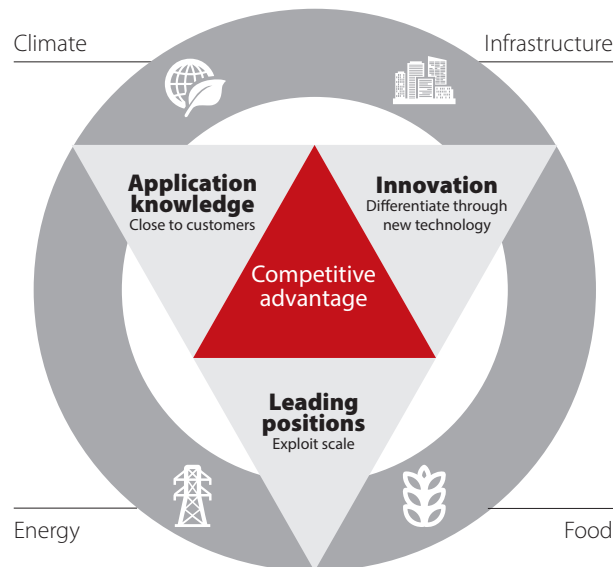
Promoting sustainable cities and communities

Danfoss invited Chinese government officials and industry leaders to a seminar on district heating in Beijing. District heating can play a key role on China's path toward a greener future, and the seminar marked the first time that key opinion leaders in the Chinese district energy sector had met to discuss and plan.

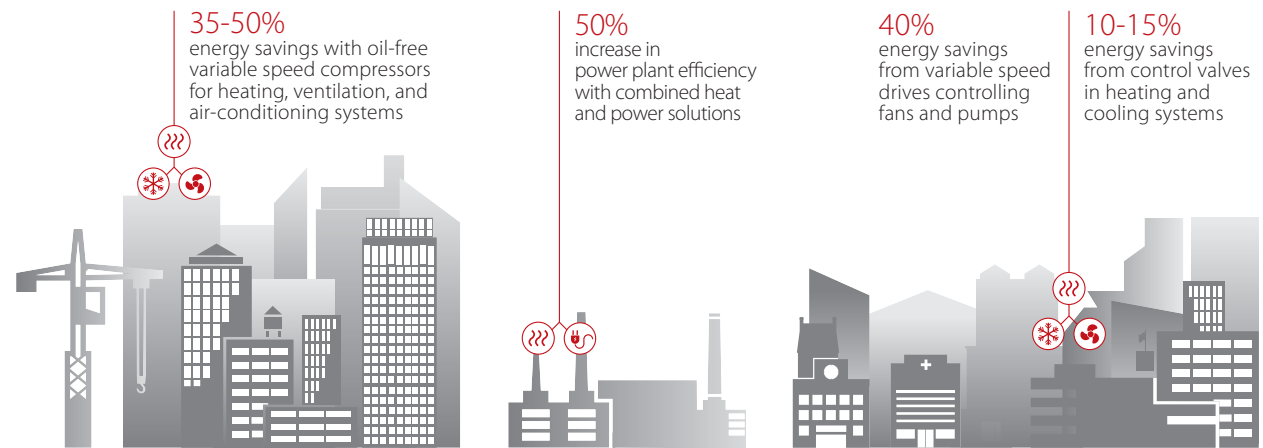
Why what we do **matters**

We drive competitive advantage through our core competencies, which enable smarter energy thinking. Our business model links to global megatrends, which represent future growth opportunities and areas, where we contribute to a sustainable global development.

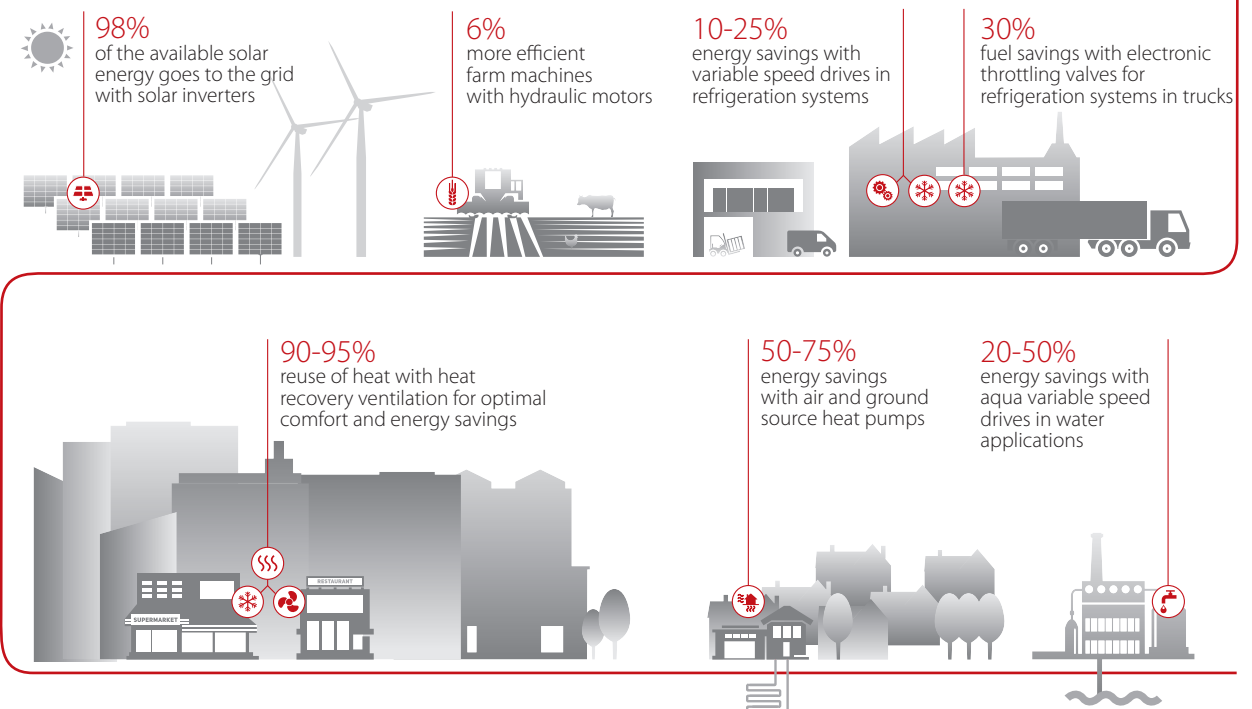
Business model



[Read more in the Annual Report 2017](#)



Examples of how Danfoss' technology and solutions are creating value for our customers and society as a whole.



Community engagement

Danfoss wants to contribute to improving knowledge of sustainability in society and engage in the development of the local communities, in which we operate.

Danfoss is an active partner through sponsorships, involvement in trade organizations, and through participation in social work. For example, colleagues take action and make a difference in their local communities by packaging relief boxes, helping out in a local soup kitchen, or supporting a nearby school to give children the best start in life. This is organized by local Danfoss projects around the globe and through our foundations.

Furthermore, Danfoss engages with multiple stakeholders, such as customers, authorities, NGOs and global organizations, like Global Compact. We do this to pursue the best sustainable solutions worldwide.

For example, Danfoss cooperates with Sønderborg Municipality, which – through its initiative “Project Zero” – has the vision of becoming Europe’s first CO₂ neutral municipality. This vision also mirrors that of the international scout camp, which took place in Denmark in 2017. Because of common interests in caring about nature and sustainability, Danfoss was involved in learning activities at the scout camp and helped sending a signal to the greater community regarding energy efficiency and CO₂ neutrality.



Denmark:

International scout camp 2017

Danfoss helped thousands of scouts test their science skills at the international scout camp 2017. The activities included how to make a thermometer using a bellow from a Danfoss expansion valve, how to build a water rocket, design a structure allowing them to lift a car, and much more. In 2017, the camp was held in Sønderborg close to the Danfoss headquarters, and attracted more than 37,000 scouts from 33 countries. And, as one of the main sponsors of the event, the Bitten and Mads Clausen Foundation donated about EUR 900,000 to improve public access areas and infrastructure at the campgrounds.

Chile:

Animal first aid

After a series of fires in the South of Chile, a group of Danfoss employees got together to buy first aid supplies, medicine, water, food and other necessities for burn-afflicted animals in emergency centers. Danfoss also worked with a few other companies and the Chilean Refrigeration Chamber to donate and install a refrigerated container in Santa Olga, one of the most affected cities.

Germany:

Smile – if just for a day

When you have fled war and devastation, it can be very hard to find reasons to smile and laugh. To try and remedy that, however briefly, the Danfoss factory in Neumünster, Germany, has helped organize day trips for young people from two nearby refugee camps – most recently to Hamburg’s Miniatur Wunderland, which is the largest model railway in the world. The factory also sponsors German language teaching in the camps and donates clothes and writing materials.





Poland:

5,537 kilometers for children in need

From Warsaw to Delhi. That is the total distance covered by Polish Danfoss employees in a charity run organized since 2009. Every year, Danfoss employees and their families spend a Saturday in September running as far as they can to benefit community children in need. Danfoss donates EUR 16 per kilometer – totaling EUR 89,000 since 2009 – and the donations go to health, education and sports.

Nepal:

A helping hand from co-workers

When devastating earthquakes killed more than 7,000 people in Nepal, a Danfoss employee and Kathmandu native was deeply distressed for his compatriots and quickly started collecting donations for medicine, food and water-filtering containers among his colleagues. A few weeks later, he was able to hand over donations totaling EUR 3,500 to a local relief organization and join the relief workers as they handed out aid packages in the affected areas.



Malaysia:

Cooking for the homeless

It was not just another day at the office, when Danfoss employees in Malaysia spent their Friday cutting vegetables, peeling onions, scrubbing floors, and cooking at a local soup kitchen that provides free meals for homeless and poor people. For Malaysian Danfoss employees it was only natural to do their part to help.

Bitten and Mads Clausen Foundation

The Bitten and Mads Clausen Foundation was founded in 1971 by Bitten Clausen. The Foundation's primary objective is to strengthen Danfoss A/S in all areas through the Foundation's ownership of shares in Danfoss A/S and appointment of the most qualified board members to the Board of Directors in Danfoss A/S.

The Foundation may choose to support Danfoss A/S indirectly through initiatives within three focus areas:

- Research and education.
- Local community support.
- Sustainability.

Within these focus areas, activities that have a positive impact on Danfoss A/S can gain support, including all employees of Danfoss A/S and the local communities, where Danfoss A/S has its activities.

Other foundations associated with Danfoss

Fabrikant Mads Clausen Foundation was established in 1960 by the founder of Danfoss. The purpose of the foundation is to provide support to projects within education, health, sports and culture. The support is provided in the local communities of the Group's business units.

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

Danfoss Foundation for Education provides financial support for the education of persons who have relationships with companies within the Danfoss Group.

Our way of prioritizing the SDGs

In September 2015, the 193 UN member states unanimously adopted 17 new Sustainable Development Goals (SDG).

The SDGs take a broad perspective and are relevant for all countries. For the Paris Agreement and the SDGs to become a reality, all countries, businesses, and organizations must contribute to achieving the goals.

For Danfoss, the journey started in 2015 by assessing, on which SDGs our business had the most direct impact, and which SDGs represented the most significant market opportunities for us. Danfoss supports and contributes to all SDGs, but we focus our efforts towards the four SDGs, which touch our core business: SDG no. 6, 7, 11, and 12.



6: Clean water and sanitation

Ensure availability and sustainable management of water and sanitation for all

We provide 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, ensuring sustainable management of water for all.

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. 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.

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. Improved energy efficiency will help us meet the growing demand for energy and ensure access to reliable and modern energy, which all can afford.

12: Responsible consumption and production

Ensure sustainable consumption and production patterns

Our sustainable technologies and service concepts ensure the perfect conditions for food in temperature-controlled environments and help achieve near-zero downtime on store applications to improve food safety and reduce food loss and waste.

The Urban Rigger project

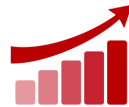
The Urban Rigger project is an example of how Danfoss has an impact on achieving SDG no. 7 and 11, but several other SDGs are impacted as well.

The Urban Rigger project shows how “smart thinking” depends on collaboration across stakeholders and can lead to creative ways of solving housing challenges – Like placing buildings on water, rather than land. Developed by Kim Loudrup of Udvikling Danmark, in close collaboration with Bjarke Ingels and architects from BIG, these floating dorms are an ambitious attempt to meet Copenhagen’s student housing challenge.

Made out of upcycled shipping containers, construction of the prototype was finished in the summer of 2016. The Rigger is now located in Copenhagen’s harbor and along with its modern style, the green benefits can also make people feel proud about living there.



Global housing challenges



Around the world, urban areas need to accommodate 180,000 new residents every day

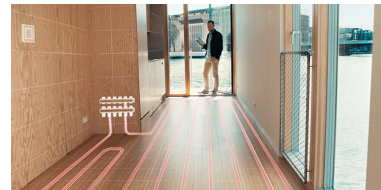


In Europe's major cities alone, there's a projected shortfall of more than four million student beds by 2025



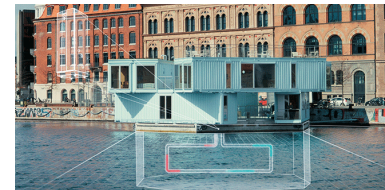
Today, buildings account for 40% of the world's energy consumption and one third of CO₂ emissions

Danfoss solutions inside the Urban Rigger



Hydronic floor heating

Danfoss has played an important role in implementing the Rigger's heating and ventilation infrastructure. For example, by implementing our best-in-class floor heating technology, which ensures a comfortable indoor-climate.



Heat pump

The Urban Rigger uses so-called “Hydro Source Heating”. This is an efficient, economical and sustainable solution that uses the surrounding water as a free and clean heating source. Together with solar panels, it ensures the Danfoss 13kW heat pump functions with very little electricity.



Heat recovery ventilation

We have implemented an innovative recovery ventilation unit which removes stale air and supplies constant fresh air, while keeping associated heat loss to a minimum with up to 95% heat recovery.

Our results



15% energy consumption saved with light floor heating



75% of the energy for heating and hot water extracted from the sea



Up to 95% of heat recovered through the ventilation system

Our commitment to sustainability

We are on a journey, where we want to grow and care about how we do it. We operate our business in a sustainable and responsible way to safeguard and develop Danfoss' reputation and profitability. While delivering growth and strong financial results, we care for our people and aim at leaving the world to the next generation in a better state than we inherited it. Our business and organizational culture is built on these basic principles, which we know today as individual and corporate responsibility.

Responsibility for sustainability at Danfoss resides with the Board of Directors, the CEO and the Group Executive Team. The distribution of roles and responsibilities in our sustainability program is consistent with the general governance and risk management principles, and the corporate sustainability function is mandated with responsibility to support and challenge the organization's actions in pursuit of its strategy to be a sustainable business.

🔗 Read more about Danfoss' management structures and governance mechanisms in the Statutory Report on Corporate Governance 2017 on www.danfoss.com.

Sustainability program 2014-2017

Energy and climate

Main initiatives

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

Environment, health and safety

Main initiatives

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

Product compliance and transparency

Main initiatives

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

Ethics, human rights and compliance

Main initiatives

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

Expected outcome

Efficient utilization of resources

Assessment and mitigation of risks

Business opportunities and reputation

Employee engagement and commitment

The aim of the sustainability program is to ensure a sustainable and responsible business conduct

During 2017, we have initiated an update of our sustainability program. Overall, the focus areas will remain the same, but we aim at simplification to reduce complexity and highlight the importance of working with the Sustainable Development Goals and contributing to improve knowledge of sustainability in society.

🔗 For more information about our business model, strategy, and financial performance, see the Annual Report 2017 on www.danfoss.com.

The new sustainability focus areas from 2018 are "Business and Products" and "People and Community".

The efforts and achievements as well as new targets are described on the following pages.

Targets and achievements in 2017

- Achieved
- Achieved with minor gaps
- Not achieved

Prioritized focus areas 2017

Targets 2017	Achievements 2017
Energy and climate	
Implement program for energy savings, including employee engagement program.	● Program launched and progressing according to plan. Focus is on creating behavioral changes leading to energy savings.
Reduce energy intensity in buildings through global energy-saving project in the 27 largest factories.	● Danfoss' global energy-saving project progressing according to plan. Major savings achieved.
Develop processes for validation of products' climate-performance claims.	● Validation methodology developed and implemented.
Environment, health and safety	
Develop, implement, and validate processes and procedures to comply with ISO 14001:2015.	● Processes and procedures are being developed according to plan.
Implement Global Incident Management System for work-related injuries and incidents, including training and statistics.	● The incident management system has been specified and vendor's solution adapted accordingly. We are driving the implementation according to plan.
Reduce LTIF (Lost Time Injury Frequency) by 10% compared to 2016.	● LTIF for 2017 was 3.4 compared with 3.3 in 2016. In 2018, the focus will be on reducing the LTIF by at least 10% from the 2017 level using a new system and optimized root cause analysis.

Our business is built on values and behaviors, which relate to responsibility, credibility, integrity and sustainable growth.

- Achieved
- Achieved with minor gaps
- Not achieved

Prioritized focus areas 2017

Targets 2017	Achievements 2017
Product compliance	
Group processes and tools for monitoring, communicating, and implementing new regulations defined and implemented.	● Processes and tools defined. Implementation commencing.
All suppliers with a Danfoss framework agreement have subscribed to the Danfoss Negative List, restricting certain chemicals, substances and minerals.	● Suppliers, covering 72% of the spend, have signed the Danfoss framework agreement, and 86% of these have subscribed to the Negative List.
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.	● Conflict minerals due diligence with 1,400 suppliers and with response rates of 75% for Danfoss Cooling, 70% for Danfoss Drives, 67% for Danfoss Heating, and 76% for Danfoss Power Solutions.
Ethical conduct and human rights	
Conduct human rights due diligence and integration projects in India and China.	● Human Rights due diligence process rolled out in China and India.
Compliance training of all relevant employees, managers, and directors, within ethics, anti-corruption and fair competition.	● Relevant employees, and managers are enrolled in compliance trainings. Face-to-face trainings have been conducted in specific countries, including the roll-out of an ethics initiative in China and India.
Further develop and improve compliance programs regarding export controls and data privacy.	● The export control compliance program was strengthened by including processes for product and sanctioned party screening. A data privacy handbook, training and other elements required by the new data privacy legislation were developed and are ready for implementation in 2018.

Targets in 2018

The targets for 2018 follow the simplified structure of our sustainability program with two focus areas: "Business and products", and "People and community".

Prioritized focus areas 2018

Targets 2018

Business and products

Strengthen Danfoss' engagement in the Sustainable Development Goals.

Further reduce energy intensity and CO₂ intensity through global energy-saving project in the largest factories.

Further strengthen processes for validation of products' climate-performance claims.

Implement strengthened processes and tools for monitoring, communicating, and implementing new product-related regulations.

Build concept for Group Product Chemical Compliance program.

Targets 2018

People and community

Drive Global Incident Management System for work-related injuries and incidents, including root cause analysis, training and statistics.

Reduce LTIF (Lost Time Injury Frequency) to 10% below realized 2017 level.

Deploy the initiative "Taking ethics to the next level" and human rights due diligence processes in Latin America and Russia.

Energy and climate

UN Global Compact principles

Businesses should:

7. Support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility;
9. Encourage the development and diffusion of environmentally friendly technologies.

Danfoss policies:

1. Danfoss Climate Strategy 2030.
2. Danfoss Sustainability Program.

➔ [Read more about our policies on www.danfoss.com](http://www.danfoss.com)

Most of the world's energy consumption comes from industry, buildings and transportation, and the potential for reduction is huge. With the Danfoss Climate Strategy 2030, we have set ambitious targets for our own business processes, production and buildings. The aim is two-fold: to halve the amount of energy, which Danfoss uses, and to halve the CO₂ emissions from the energy actually used, both measured against the base year 2007.

To achieve these goals, we have implemented many measures to further reduce our energy consumption and drive greener technology investments in buildings and processes. We measure our achievements by monitoring our own reduction of energy intensity and CO₂ intensity, which should be reduced by 50% before 2030. Furthermore, we monitor Danfoss' energy productivity, which should be doubled.

Strategy

Danfoss takes leadership within Climate Mitigation

– focusing on energy efficiency in our products and our own business

Objectives

50%

Reduction of the company's energy intensity compared to 2007

100%

Increase of the company's energy productivity compared to 2007

50%

Reduction of the company's CO₂ intensity compared to 2007

2030 targets

12 MWh

per DKKm net sale
(2007: 24 MWh/DKKm)

80 DKKm

net sale per GWh
(2007: 40 DKKm/GWh)

4 ton

CO₂ per DKKm net sale
(2007: 8 ton CO₂/DKKm)

Definitions

Energy intensity
MWh consumed energy
per DKKm net sale

Energy productivity
DKKm net sale per
GWh consumed energy

CO₂ intensity
Ton CO₂ emitted per
DKKm net sale

Energy reductions on track

In 2017, Danfoss' energy consumption was 593,795 MWh compared to 568,930 MWh in 2016. Since 2007, Danfoss' energy intensity fell to 13.7 MWh/DKKm in 2017 against 14.5 MWh/DKKm in 2016. A reduction by 43% achieved through energy-saving projects in the largest factories.

In the same period, energy productivity has improved by 77% from 41.2 DKKm/GWh to 72.9 DKKm/GWh in 2017.

Energy-saving projects in buildings

In 2017, 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 prior to 2016, and the remaining savings will be obtained in 2018.

CO₂ emissions

In 2017, Danfoss emitted 244,515 ton CO₂ against 233,716 ton in 2016. The sources were our own plants generating power and heat as well as the purchase of power and heat from external sources.

The CO₂ intensity of the energy used fell to 5.6 ton CO₂/DKKm from 6.0 ton CO₂/DKKm in 2016. The CO₂ intensity is impacted by increasing electricity consumption in countries with high carbon intensity in the electricity supply.

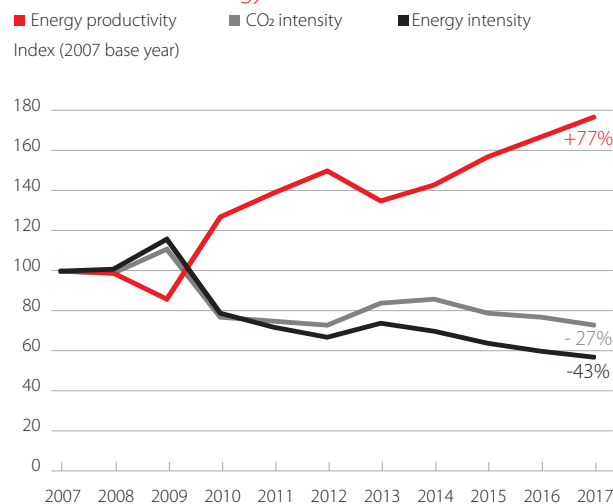
Danfoss' electricity consumption was the source of 87% of the Group's total CO₂ emissions, corresponding to 214,057 ton. Other energy (e.g. used for heating) led to 30,458 ton of CO₂ emissions.

Electricity accounted for 73% of total energy consumption. 34% of the electricity came from renewable sources, such as solar, water, wind and biomass. Electricity from nuclear power plants accounted for 16% 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 1.6%, primarily due to the reduction in our consumption of natural gas and district energy. 3.6% of the energy used for heating 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.

Danfoss' climate strategy results



The global emissions is estimated to 864.000 ton CO₂, which is 3.5 times the emissions 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%).

Environment

For many years, Danfoss has worked systematically to reduce the environmental impact of the company's 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 to manage performance and identify potential environmental improvements.

In 2017, focus has been on strengthening the "One EHS" approach to manage environment, health and safety issues in the Danfoss Group. A project coordinator has been hired to drive further initiatives, supporting our goal of being an environmentally conscious company.

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

Environmental due diligence

We follow a strict due diligence procedure when dealing with potential environmental risks from the acquisition of land and companies. 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 2017, consumption of water for processes and sanitary purposes increased to 933,000 m³ from 888,570 m³ in the previous year. The difference is mainly due to increased water use in the facilities in China. Initiatives will be taken to reduce the consumption of water over the coming years.

Realizing our own potential

At Danfoss, we want our customers and the world to use less energy, but we haven't forgotten our own footprint. Our climate ambition is that by 2030, we will spend half as much energy running our business as we spent in 2007. And the energy we do spend must emit half as much CO₂ as it does today.

Since 2007 we have achieved:

43%

drop in energy use compared to sales

27%

CO₂ reduction compared to sales

2MW

solar park installed at headquarters – equal to the annual power use of 400 homes. A similar solar park was installed at the Chennai factory in India.



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

Our people

UN Global Compact principles

Businesses should uphold:

3. The freedom of association and the effective recognition of the right to collective bargaining;
4. The elimination of all forms of forced and compulsory labour;
5. The effective abolition of child labour;
6. The elimination of discrimination in respect of employment and occupation.

Danfoss policies:

1. Environment, health & safety in Danfoss.
2. Safety at the Shop Floor.
3. Global Recruitment.
4. Performance management.

[Read more about our policies on www.danfoss.com](#)

We continue to develop Danfoss as a great place to work. We strive to foster a collaborative, agile and flexible organization, where employees can make a difference and leaders inspire people to deliver the best results through strong teamwork, global career opportunities and a continuous focus on driving a high-performance culture.

Very high employee engagement

In 2017, the bi-annual engagement survey, Voice, was carried out in the Danfoss Group. The overall picture of Danfoss as a workplace is indeed positive and has improved in all dimensions over the past two years.

Voice '17 showed a very high engagement score of 79 on a 100-point scale, up from 76 in 2015. Voice '17 gives a very accurate picture of Danfoss as a workplace, since nearly all managers and employees (91%) gave their feedback about

New ways of working at Danfoss

In an ever-changing world, it is important to stay open to trends that inspire new ways of working. We are experimenting with new methods and new types of workspaces, for example hackathons.

"Develop a new IT solution for a Danfoss product in 48 hours." Such hackathon challenges are posed in different Danfoss departments around the world to shorten the product and business development cycle.

The agile approach – where relevant colleagues make quick decisions to achieve faster execution – is highly appreciated by our hackathon participants.

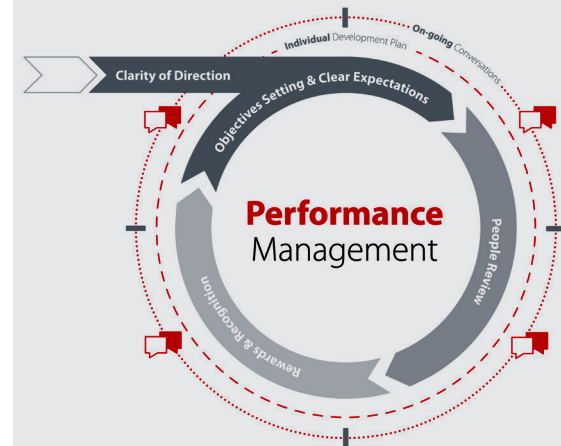


what we do well and what needs to be improved in areas such as job motivation, performance enablement, strategy, behaviors and leadership.

The survey results showed a high level of commitment and loyalty – reaffirming that we have people willing to go the extra mile for Danfoss. Furthermore, the perception of working environment, team work and development opportunities was high, and an increasing number of our employees would actively recommend Danfoss as a workplace.

As part of the follow-up process, strengths and weaknesses revealed in Voice '17 will be discussed in a dialogue in the teams and departments. The departments also decide, which issues have to be addressed, and how these changes are to be implemented, thereby enabling further improvements.

How we do Performance Management



We have a simple approach, focusing on clarity, quality and high effect.

- The year begins with setting objectives and creating a strong link between the individual contribution and the Danfoss strategy.
- From here, managers and employees have on-going conversations to review progress and discuss the individual development. Conversations are documented in a digital system, which also allows employees and managers to ask for feedback from dotted-line managers, peers and others.
- When the financial results are approved, managers assess the performance and objectives, forming the basis for incentive payout.

Ensuring the right organizational skills

It is important for Danfoss to get the right talents for the open positions. Potential employees not only include professionals, but also students looking for an internship and graduates looking for an entry position.

Recruiting has significantly changed over the past couple of years. Due to our digital transformation, we have intensified our search for, e.g., specialists within engineering, IoT and electrification, but also talents with market and customer insight in addition to knowledge of the necessary digital tools to support our strategic direction.

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

Sustainable building at Penn State

Partnering with the Pennsylvania State

A University in Philadelphia is to advance sustainable building and low-carbon communities. A Danfoss grant will support an internship program and the “Engineering Tomorrow’s Cities” research project.

“Danfoss is an invaluable partner with deep expertise in district energy and building technologies that are central to our research. Students from many first-class institutions around the world will benefit from their financial and intellectual support, and carry that benefit back to their countries,” states Dr. James Freihaut, professor at the Department of Architectural Engineering.

30 graduate and undergraduate interns from leading universities around the world are part of the research project. The project findings will be the subject of workshops at Penn State, a symposium at the Philadelphia Navy Yard, and a final report issued by the participating students.

Challenging status quo on the job

Work is changing rapidly. Everything we thought we knew about organizational structures, management and career planning is being questioned. Future employees do not just want a permanent job – they want something that fulfills them as individuals.

Rodica Neagu did not have to think twice when her manager pulled her aside to ask if she would consider moving to Flensburg, Germany, to help build Danfoss’ One ERP template. That was in April 2016, and Rodica has found no reason to regret her decision.

“I like being part of projects like this, because you get to challenge the status quo and make improvements. Being part of something as big as One ERP is very exciting – and a huge opportunity that will most certainly help me throughout my career. Working with more than 200 people on a single task has really furthered my development – both professionally and personally,” says Rodica Neagu.

The One ERP program will run for the next three years – and based on her experiences so far, Rodica Neagu will be part of the program for all of them.

What is One ERP?

The One ERP (Enterprise Resource Planning) Program will create a detailed template for the alignment of data treatment and processes across segments and departments in Danfoss. The finished template will be used by 150 legal entities around the world.



Opportunities for students and graduates

Unitech International

The best engineering and management talents from 8 top universities in Europe can apply for six-month internships with Danfoss as a corporate partner of the association Unitech International.

Postgraduate Program (PGP)

Highly-skilled postgraduates can apply for Danfoss’ two-year Postgraduate Program, which offers professional development and international career opportunities.

Internships and student jobs

Students can seek 4-6 months internships, flexible student jobs for 8-12 hours per week, or write their master thesis in collaboration with a Danfoss department.

Since 1974, the Danfoss Postgraduate Program has accepted 519 postgraduates from France, Russia, Poland, Slovenia, China, India, Denmark, the United States, Indonesia, Mexico, Brazil, Germany, and Greece. More than 200 of the postgraduates are still employed by Danfoss.

Danfoss European Works Council

In a global company like Danfoss, decisions made in one country often have a direct impact on the work situation of employees in other countries increasing the demand for information, consultation and dialogue across borders with the employees.

The Danfoss European Works Council origins back to 1997 and deals with matters of importance to Danfoss employees in more than one country or the Danfoss Group as a whole. Consequently, matters only affecting individual employees or a group of employees in a single country are not within the scope of the Danfoss EWC and should be dealt with within the employee’s own organization and in accordance with the national agreements.

Employees



Diversity and inclusion

We aim to employ a diverse workforce that reflects society in terms of culture, nationality, gender, and age. In 2017, employees of more than 90 different nationalities worked in the Danfoss Group. We are focused on maintaining an inclusive work environment with room for diverse backgrounds, skills and perspectives.

With 19% of women in management positions, we are still 1 percentage point behind our target of reaching 20% in 2017. We are still aiming for the 20% ratio, but have to accept that it will take more time to reach the target than anticipated in 2014. In 2018, the target will be reviewed as part of the work with the updated sustainability program. To help get a more diverse group of managers, Danfoss emphasizes diversity in the 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.

Gender composition in management

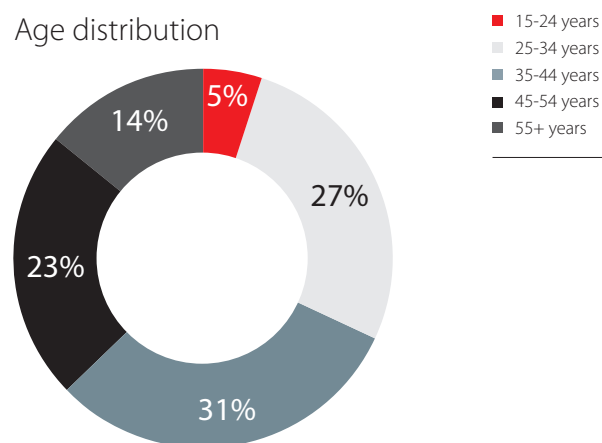
Section 99b of the Danish Financial Statements Act (FSA) requires that corporate entities of a certain size and type report on the gender composition in management.

Danfoss aims at a gender composition in the Group's Board of Directors, which reflects that of the rest of the Group, and has a target of having at least one female member of the Board of Directors, who is elected at the Annual General Meeting (AGM). Danfoss meets this target.

In 2017, the Board of Directors had two female members, one AGM elected and one employee elected. Furthermore, the Board of Directors consists of persons with very diverse backgrounds in terms of professional skills, nationality and age.

Gender composition targets similar to that of the Board of Directors will be implemented in the relevant subsidiaries of a certain size and type. Danfoss does not meet the gender composition target for the Board of Directors of the subsidiaries Danfoss Power Solutions ApS, Danfoss Power Electronics A/S (Danfoss Drives), and Sondex A/S; However, Danfoss Drives has a female board member elected by the employees. In these relevant subsidiaries, the gender composition target for the Board of Directors is expected to be met after their Annual General Meetings in 2018.

Age distribution



Helping people with special challenges

Work, which requires you to focus on the same thing for hours – some find it boring and lose concentration. Danfoss Drives in Gråsten, Denmark, has hired employees who love it.

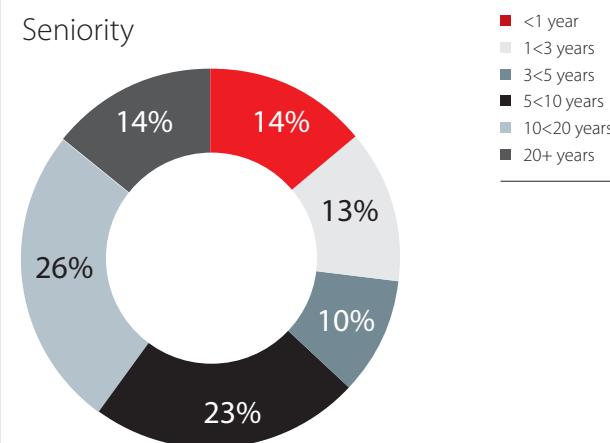
A very specific task requiring self-discipline and high concentration. That's the skills needed to operate the machine, which handles quality checks of print cards at Danfoss Drives in Gråsten, Denmark. And that's why exactly this task was reserved for an employee with autism, whom the factory hired in 2017.

People with autism can be exceptionally good at work requiring intense attention to detail. Often, they also spot irregularities very fast – in technical manuals, IT systems, or the way a machine operates.

Leaders and co-workers have been trained in how to create a work environment, so people with autism can thrive and enjoy working with Danfoss. The Gråsten factory cooperates with a Danish external consultancy, which has a goal of helping 1,000 people with autism into jobs in Denmark by 2025.

As a socially responsible company, Danfoss wants to help people who face special challenges to gain a foothold on the job market. Due to our common interests, the cooperation is a win-win for all.

Seniority



Health and safety

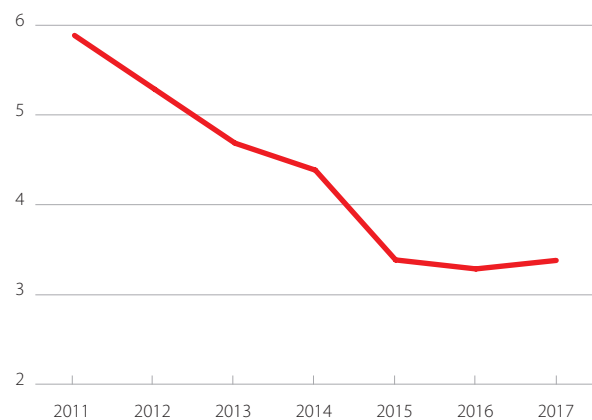
Safety First!

We want to take care of our people and therefore it is a top priority to improve the health and safety of our employees.

“Safety First!” was established in 2015 as 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 at Danfoss” 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, or performing gardening or outdoor maintenance work. Hearing protection is also mandatory for employees working at machines with high noise levels, and safe walkways have been identified and marked in all factories.

LTIF – Lost time injury frequency (Injuries per one million hours worked)



A cross-segment project team, the “One EHS” (Environment, Health and Safety) Steering Committee has been established to develop and align the company’s activities and efforts within environment, health and safety. The aim is to ensure that the systematic approach to process management established through the Core & Clear strategy also applies to health and safety at Danfoss.

In 2017, Danfoss continued to align policies, internal standards as well as the EHS organization to build a resilient and ambitious EHS model; driving significant improvement in all areas, while at the same time reducing costs. Shared processes within the management of quality, environment, health and safety has been developed to ensure consistency, and a revised Group Policy for Business Conduct has been prepared.

A Global Incident Management System (GIMS) is being implemented at all factories worldwide as the future platform for collecting, analyzing and communicating work-related accidents, incidents and near-misses. The implementation is expected to be completed in the first half of 2018.

Work-related incidents

In 2017, Danfoss continued the dedicated management focus on safety with highly dedicated management, safety staff and employees at all of Danfoss’ factories around the world.

The total LTIF – Lost Time Injury Frequency – ended at 3.4 in 2017 from 3.3 the previous year. LTIF is the number of incidents that result in absence from work of one or more days per one million hours worked. In 2018, the focus will be on reducing the LTIF by at least 10% from the 2017 level using the new GIMS system and optimized root cause analysis.

The Lost Day Rate (LDR) in 2017 was 36 (the number of days of absence, due to LTIs per one million hours worked). This is a decrease from 63 in 2016 and indicate that the severity of the LTIs has been reduced from previous year. The injured employees were absent for a total of 1,406 days, corresponding to an average absence of 10 days per Lost Time Injury. This is a significant improvement from previous years.

Health and safety	2016	2017
Lost time injuries (LTI)	121	135
Lost time injury frequency (LTIF)	3.3	3.4
Days of absence	2,309	1,406
Lost day rate (LDR)	63	36
Medical treatment incident rate (MTIR)	3.0	2.9
Minor incident rate (MIR)	17.7	18.8
Near-miss incident rate (NMIR)	96.9	86.9

Product compliance

UN Global Compact principles

Businesses should:

7. Support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility;
9. Encourage the development and diffusion of environmentally friendly technologies

Danfoss policies:

1. Danfoss Supplier Quality Manual.
2. Danfoss' Negative List of chemicals and substances.
3. Danfoss' conflict minerals policy.
4. REACH product compliance at Danfoss.
5. Compliance with European RoHS directive.

🔗 [Read more about our policies on www.danfoss.com](http://www.danfoss.com)

In 2017, mandatory reporting requirements and a global increased focus on environmental compliance, transparency and responsible sourcing have strengthened Danfoss' focus on product compliance as an enabler for growth, world-class product quality and risk mitigation.

The Danfoss product compliance program is integrated in our management systems. It enables Danfoss to make safe and sustainable products, proactively meeting compliance obligations to customers and regulators. The Danfoss Product Compliance Team and specialist sub-work groups with representatives from all business segments and key Group functions ensure a strong focus and alignment of processes and tools across the organization. In 2017, the team has aligned competencies, processes, tools, and best practices within defined priority areas across the Group. This work will continue in 2018.

Monitoring regulations

Due to increasing regulatory landscapes, Danfoss must keep track and comply with product and supply chain regulations and standards at national, regional and international levels. Danfoss monitors and communicates new requirements to all business segments and functions through the Danfoss Product Compliance Team. In 2018, Danfoss will strengthen the monitoring processes to further drive internal sharing of relevant information about existing or upcoming regulatory requirements to ensure on-going compliance.

Danfoss Negative List

The Danfoss Negative List is the backbone of our continuous efforts to avoid the use of harmful chemicals and substances in products and production processes through the ban or restriction of defined chemicals and substances. The Negative List must also be complied with by all our suppliers, including tenants, and contractors working on Danfoss' premises. It is based on European chemical legislation, but the bans and restrictions are applicable worldwide and can only be replaced by stricter local legislation.

All suppliers with regular deliveries to Danfoss must subscribe to the Danfoss Negative List to stay updated on any changes or new requirements affecting their deliveries.

Compliance with REACH

Danfoss is committed to improving the protection of human health and the environment through compliance with the European REACH regulation on Registration, Evaluation, Authorization and Restriction of Chemicals and similar regulations in our markets. These regulations address the production, import and use of chemical substances. To strengthen Danfoss' compliance with REACH, we have implemented Group processes and tools in 2017 to ensure that we live up to customer and regulatory requirements. For example, we have developed on-line training materials and we have trained [xxx] of our employees within procurement, development, manufacturing and sales.

Conflict minerals

As a supplier to US-listed customers, Danfoss must comply with 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 determines whether the minerals originate from conflict regions in or 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.

During 2017, we have collected smelter reports from 1,400 suppliers that have been identified to potentially deliver materials or components with 3TG materials. The suppliers are requested to submit their report to our external service provider, which follows up on timely and correct responses. Danfoss supervises progress and facilitates customer requests for specific reports.

In 2017, the average response rate for all our business segments was 70%, which is satisfactory. In 2018, we will strive to further increase our response rate via our engagement with the external service provider.

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 at application level is huge. For example, in district energy systems, effective utilization 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".

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 product design, focusing on reduction of in-process waste and on the reduction of material use in products. For example, Danfoss Drives was used as a case in a project about circular business models. Danfoss Drives was also Danfoss' pilot project in the development of an eco-design guideline and an Environmental Product Declaration. We closely follow developments within the Circular Economy and participate in the development of standards and processes for the Circular Economy through various organizations and stakeholder groups, of which Danfoss is a member.

Ethics and compliance

UN Global Compact principles

Businesses should:

1. Support and respect the protection of internationally proclaimed human rights;
2. Make sure that they are not complicit in human rights abuses.
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. Uphold the elimination of all forms of forced and compulsory labour;
5. Uphold the effective abolition of child labour;
6. Uphold the elimination of discrimination in respect of employment and occupation.
10. Work against corruption in all its forms, including extortion and bribery.

Danfoss policies:

1. Business Conduct.
2. Ethics Handbook.
3. Anti-Corruption Manual.
4. Competition Compliance Manual.
5. Export Control Compliance Manual.
6. Reporting unethical behavior.
7. Roles and responsibilities with respect to ethical cases.
8. Binding corporate rules - data protection.

🔗 [Read more about our policies on www.danfoss.com](http://www.danfoss.com)

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.

Since 2008, Danfoss has had its own ethical guidelines, "The Ethics Handbook", followed up by mandatory e-learning for all managers on ethics.

In 2017, Danfoss launched the initiative "Taking Ethics to the next level". The initiative is a result of discussions in the Danfoss Ethics Advisory Board, where leaders have requested even more in-depth training in a regional context.

A pilot project was carried out in Danfoss China, including how to identify unethical behavior, how to counteract it, and how to prevent it from happening. With input from Danfoss' Ethics Hotline and our advice function AskUs, a tailor-made ethics course was developed and more than 140 leaders in China trained. Going forward, the training will be carried out in Chinese language by Danfoss' company lawyer in China. A similar project has been carried out in Danfoss India.

Transparency about ethical issues is important for maintaining an ethics culture in the company. To track ethical behavior, Danfoss monitors the number of dismissals due to unethical behavior. In 2017, 51 employees left Danfoss due to unethical behavior, compared to 32 in 2016 and 30 in 2015. The figure includes both dismissals and voluntary resignations connected with ethical issues. The main reasons for the dismissals are fraudulent behavior, disloyal behavior or violation of company policies.

Human Rights

For many years, Danfoss has monitored its human rights impact and mitigated where relevant. Danfoss is committed to living up to the UN Guiding Principles for Human Rights and has, during 2017, deployed the company's process for human rights due diligence and integration in Danfoss China, APAC

and India. The due diligence process is focused on integrating human rights considerations in the organization and ensuring regional ownership.

Human rights issues are considered on country level and compared to actual practice, which forms the baseline for identifying, assessing, prioritizing and mitigating potential human rights issues in regional workshops. The process is maintained through annual meetings and includes how to work with stakeholders. As human rights issues can be quite complex, Danfoss has decided to implement the process internally before introducing it in the supply chain.

Compliance programs

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

The new and stricter Data Privacy regulation becomes effective in 2018. During 2017, the roll-out of activities supporting a higher level of awareness in the organization was prepared. Data privacy concerns exist wherever personal data is collected and stored – digitally or otherwise. They could arise from inappropriate handling of sensitive and ordinary personal data about employees, customers, suppliers, etc. A data privacy handbook and e-learning activities were developed and will be rolled out in the first quarter of 2018. Thus, a framework for compliance with the General Data Protection Regulation is in place so that the focus for 2018 is on the improvement of operational processes.

Responsible supplier management

In 2017, Danfoss continued the systematic work with supplier management and risk assessment. 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.

Danfoss supplier risk assessment model forms the basis how to risk evaluate and mitigate risks at the suppliers. The risk assessment model includes the location of the supplier, which ensures that the highest priority is given to suppliers in areas, which pose the greatest risk of non-compliance.

All new as well as existing suppliers must accept our Code of Conduct. Danfoss' Code of Conduct Competence Center conducts training of all employees, who are in contact with suppliers on an ongoing basis to ensure that they are familiar with Danfoss' Code of Conduct and the roles and responsibilities within the area.

Danfoss has joined the "Conference Board's Responsible Sourcing Council", which is a global, independent business and research association working in the public interest, where best practice on responsible sourcing is shared. In 2017, 137 additional suppliers signed our Code of Conduct, and 39 new third-party audits were conducted to verify suppliers' compliance with the rules. 33 of the audits were first-time audits, while 5 were follow-up audits. Follow-up audits are carried out to follow up on the raised issues, 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 wastewater.

In 2017, the compliance percentage was improved from 84% to 91%, indicating the share of suppliers, who comply with the Code of Conduct. Danfoss will continue to target 100% compliance as well as starting to revisit suppliers, who previously had serious high-risk compliance issues.

Compliance hotlines

The Group's employees can find answers to any questions and doubts regarding ethics and compliance through AskUs. The purpose is to minimize uncertainty among the Group's employees and prevent unintended non-compliance. This inquiry function has been in place since 2012, and provided answers in 2017 to 47 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 2017, a total of 71 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.

Risks in a sustainability perspective

Danfoss policies:

1. Risk Management.
2. Risk management handbook.

🔗 [Read more about our policies on www.danfoss.com](http://www.danfoss.com)

As a responsible company, Danfoss regularly confronts a variety of risks that could challenge sustainable business operations.

Danfoss therefore works internally and externally with a wide range of stakeholders to monitor, assess and, when necessary, mitigate these risks.

📖 Read more about our approach to risk management in the Annual Report 2017 at www.danfoss.com

Sustainability risk

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".

Mitigation

Danfoss has implemented ethical guidelines and compliance programs on anti-corruption, competition compliance, export control, and data privacy. Danfoss has an inquiry function, AskUs, where 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 the 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.

Danfoss' Product Compliance Program is an integrated part of our management systems and enables the company to make safe and sustainable products proactively meeting compliance obligations to customers and regulators. Danfoss Product Compliance Team and specialist workgroups with representatives from all business segments and key Group functions ensure a strong focus and alignment of processes and tools across the organization.

Danfoss Group Regulatory monitors legislation and coordinates the Group's efforts to align and implement the legislation.

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

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ENGINEERING
TOMORROW

Danfoss