



Communication On Progress 2007

SHORT PRESENTATION OF DANFOSS A/S

Danfoss A/S is an international Group and a leader in research, development and production of mechanical and electronic components and solutions.

Our products help to heat and cool homes and offices, refrigerate food and control production lines. In short, Danfoss contributes to the conveniences of modern life as well as to a safer and cleaner environment.

Our success as a producer stems from our ability to combine traditional mechanics based technologies with electronic solutions. Through innovative mechanical design and electronics, often including embedded software, we provide robust products of high quality, reliability and versatility.

Danfoss strives to meet its goals with minimal consumption of raw materials and energy, the least possible impact on its surroundings, and the most efficient use of resources.

Danfoss is one of Denmark's largest industrial Groups and is based in Nordborg, in southern Denmark.

Danfoss' Vision and strategy

Danfoss' strategy is based on the Danfoss Vision which was formulated in 2001.

"Danfoss will be a global leader within our core businesses, as a highly respected company, which improves quality of life by mastering advanced technologies in customer applications while creating value for all stakeholders."

Danfoss strives to reach its goals with a minimum consumption of raw materials and energy, the least possible impact on the environment and an efficient use of resources. Danfoss has a long-standing tradition for social responsibility towards employees and the external environment. Our Mission statement concludes: "Making Modern Living Possible".

The Danfoss Vision reflects the possibilities we see to link the different obligations and interests, which we as a company should fulfil and honour.

Danfoss' Values

Danfoss lives according to its five Core Values:

- Our business is trust
- A very safe and reliable choice
- Passionate about technology
- Global culture, local representation
- Environmentally and socially responsible

With our Vision and Core Values as foundation, Danfoss lives up to the expectations being a responsible world citizen. This is deeply rooted in our history and culture and it shall be reflected in the way we carry out our daily business.

Danfoss' relationship with all stakeholders shall be characterised by trust. We are, of course, aware that trust must be earned through our actions and corporate reputation.

STATEMENT OF CONTINUED SUPPORT

As a global company, the Danfoss Group is committed to be a responsible world citizen. Joining the UN Global Compact in October 2002 was a natural step since the ten principles in the Global Compact to a wide extent correspond to the values of our company.

As part of our commitment to the Global Compact and to our values, Danfoss makes every effort to make the ten principles an integrated part of our business.

The Danfoss Group continues to support the Global Compact principles as it is important for us to take environmental and social responsibility, especially because we operate globally and there-fore face a lot of dilemmas and challenges.

The UN Global Compact's principles on corporate citizenship represent for us an operational approach to the term 'Sustainable Development'.

This year Communication on Progress has been inspired by the new guidelines from Global Compact and is structured in accordance with the ten principles and the Global Reporting Initiative.

Best regards



Jørgen M. Clausen
President and CEO

Principle 1:

BUSINESS SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS

Our commitment

We will respect human rights, both in our companies and in our spheres of interest, such as our suppliers. To live up to this, we will:

- Build human rights competencies
- Assess the human right standard in the countries where we have or plan to set up production
- Engage in a dialogue of human rights-related issues with our stakeholders

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Ethics handbook
- CSR policy
- Anti-corruption policy

Control system

Once a year, Danfoss conduct a CSR survey regarding social responsibility in its own companies. The CSR survey covers all factories and sales companies and includes amongst others questions on human rights, labour rights and corruption/bribery.

The survey is distributed to top managers and heads of HR, representing 137 companies in the Group.

Selected companies are visited to explore their handling of social responsibility and to establish and maintain a constructive dialogue with the local management about Danfoss' CSR activities.

The Danfoss Toolbox

- CSR intranet portal
- Dilemma game
- Training in human rights aspects
- Country risk analysis
- Due diligence

Stakeholder engagement

- Amnesty Business Forum
- Global Compact Nordic Network

- Confederation of Danish Industries network

Actions and results

Social responsibility at Danfoss is about treating our employees decently, mutual development and giving support to those needing it. But it is also about being socially responsible in a global context.

Therefore Danfoss joined the UN Global Compact in 2002.

Human rights are also labour rights

In addition to the central four labour rights which will be discussed later, human rights – from a business point of view – cover elements such as a good and safe working environment and a respect for the individual, including the right to privacy and equal treatment.

The most important tools used to ensure that Danfoss does not violate human rights are human rights training for relevant employees.

The right to privacy

Danfoss' CSR survey focused in 2007 on the risk of discrimination and the right to privacy. Video surveillance can be perceived as an invasion of privacy, but it can be a necessary protection against theft. Therefore, 19% of the companies have installed video surveillance systems to monitor production or warehouse facilities.

As part of the employment process, 43% of the companies ask about an applicant's family situation, including matters relating to children. This primarily takes place out of consideration for the insurance terms, since insurance is an employee benefit in a range of countries. Furthermore, some companies apply the information in connection with social arrangements, such as family days, Christmas presents etc.

30% of the companies enquire about the health of new employees. The reason is that

Principle 1:

BUSINESS SHOULD SUPPORT AND RESPECT THE PROTECTION OF INTERNATIONALLY PROCLAIMED HUMAN RIGHTS

special health requirements apply to some kinds of job.

Due Diligence

Between 1996 and 2007, Danfoss acquired more than 50 companies. Acquisitions of companies involve a number of elements which are examined in a so-called due diligence process, in order to record the risks.

During the integration of a new company, a range of issues must be adjusted and adapted to Danfoss' standards; not just IT and finance systems, but also in relation to environmental and social responsibility. This can present a major challenge for both Danfoss and the newly acquired companies, even though Danfoss is available for help by paying visits to the company or offering training and education of the employees.

A safe and sound working life

A good working environment is also about the employees' health and welfare. Danfoss ensures focus on working environment, health and safety through environmental management systems in the companies.

A number of Danfoss companies also supports a range of sports activities in the workplace, such as fitness training, gymnastics, badminton and cycling. Employees are also offered massages and advice from ergotherapists. Several employees are offered stop smoking courses and dietary guidance.

Danfoss acquired the Chinese company Qinbao in 2006. After the takeover, a working environment and safety audit was carried out which revealed a range of discrepancies compared to Danfoss' standards. There was no personal protective equipment, among other things. The equipment was subsequently purchased, but employees are still unused to wearing the equipment. Measures will be taken to enforce the use of protective equipment, in particular gloves and glasses which can be challenging to wear in the heat of the summer. The next step will be to introduce a bonus system which will integrate

issues relating to the working environment, including the use of protective equipment.

Work accidents

In 2007 the frequency was 15.4 which is a reduction by almost 50% since 1999 where the frequency was over 28. The accident frequency is calculated as number of accidents per one million working hours.

In 2007, the company recorded 312 accidents resulting in at least one day's absence. In total, the injured employees were absent for 5,438 days, which equals an average absence rate of 17 days per accident. This is an increase compared to 2006 and is caused by a small number of accidents where the employees were absent for up to one year before they were able to resume work.

The number of accidents increased by 6% compared to 2006, whereas the accident frequency dropped by 5%. The reason is that the number of working hours increased considerably through the company acquisitions performed in 2007.

In 2007, 63% of the accidents were less serious involving absences of less than ten days, which is at the same level as that of 2006. The remaining accidents are of a more serious nature, resulting in absence periods of more than ten days. Around two thirds of the serious accidents had the effect that the employee in questions were absent for more than 20 working days.

Hands and fingers are the most vulnerable parts of the body and represent 167 accidents, which equals a slightly more than half of the accidents. Injuries to the head represent 8% of the accidents, while injuries to the legs/feet represent 22% and 16% of the accidents, respectively. These percentages remain unchanged from previous years.

Reference to GRI

HR2-7

LA4

LA7

Principle 2:

BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES

Our commitment

We will respect human rights, both in our companies and in our spheres of interest, such as our suppliers. To live up to this, we will:

- Build human rights competencies
- Assess the human right standard in the countries where we have or plan to set up production
- Engage in a dialogue of human rights-related issues with our stakeholders

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Ethics handbook
- CSR policy
- Anti-corruption policy
- Ethics guidelines for contact to suppliers

Control system

New suppliers are asked to sign Danfoss' Code of Conduct which includes rules for social and environmental responsibility, and current suppliers are asked to sign the Code of Conduct on renewal of the contract.

Any potential suppliers are also asked to fill in a self-evaluation form which concerns Danfoss' Code of Conduct.

In some countries, the environmental and social standard is markedly lower than elsewhere. The suppliers are grouped in a risk-effect matrix, defined as the risk that the supplier does not comply with the Code of Conduct, and the effect on the supplier, i.e. the size of the purchase. Danfoss has about 3,000 suppliers who deliver materials and components for the company's products.

The Danfoss toolbox

- Purchasing portal on Danfoss' intranet
- Supplier audits
- Training in human rights
- Supplier self-assessment tool
- Supplier self-assessment scorecard

Stakeholder engagement

- Amnesty Business Forum
- Global Compact Nordic Network
- Confederation of Danish Industries network

Actions and results

Over the past ten years, Danfoss has carried out an increasingly large part of its procurement in low-cost countries. Of course, this places heavy demands on both Danfoss and its suppliers to ensure an environmental and social standard.

Supplier requirements

Danfoss has about 3,000 suppliers who deliver materials and components for the company's products. The majority of the suppliers (68%) are located in low-risk countries, whereas 18% are located in medium-risk countries and 13% in countries where there is a high risk that Danfoss' Code of Conduct is not fulfilled. In these countries, audits are also implemented in accordance with the Code of Conduct. The biggest suppliers were audited first.

In 2007, 352 suppliers have signed Danfoss' Code of Conduct, and 122 have been audited.

Suppliers in China

China has been designated as Danfoss' second home market and this is where 180 of the group's suppliers are located.

In China, 152 suppliers have signed the Danfoss Code of Conduct, which equals 97% of purchased goods, recorded in millions of Euros. Audits have also been carried out at some of the suppliers who have signed the Code of Conduct.

Principle 2:**BUSINESS SHOULD ENSURE THAT THEY ARE NOT COMPLICIT IN HUMAN RIGHTS ABUSES**

A total of 71 Code of Conduct audits were carried out in China in 2007, resulting in findings that were unsatisfactory.

When discrepancies to Danfoss' Code of Conduct are established, an action plan is prepared in order to remedy the situation. Two thirds of the audits conducted resulted in correction of all issues, and one third were left "open" at year-end, which means that the suppliers must correct the issues, if they want to remain a Danfoss supplier.

Reference to GRI**HR2**

HR3

Principle 3:

BUSINESS SHOULD UPHOLD THE FREEDOM OF ASSOCIATION AND THE EFFECTIVE RECOGNITION OF THE RIGHT TO COLLECTIVE BARGAINING

Our commitment

We will ensure the freedom to organise by:

- Supporting the right to organise freely and the right to collective bargaining.
- Danfoss will make sure that the employees can meet with the management to discuss work-related issues in countries where, due to the local law, employees do not have a free choice of union or where an established union system is not feasible

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Ethics handbook
- CSR policy
- Anti-corruption policy

Control system

Once a year, Danfoss conduct a CSR survey regarding social responsibility in its own companies. The CSR survey covers all factories and sales companies and includes amongst others questions on human rights, labour rights and corruption/bribery.

The survey is distributed to top managers and heads of HR, representing 137 companies in the Group.

Selected companies are visited to explore their handling of social responsibility and to establish and maintain a constructive dialogue with the local management about Danfoss' CSR activities.

The Danfoss toolbox

- CSR intranet portal

Stakeholder engagement

- Amnesty Business Forum
- Global Compact Nordic Network
- Confederation of Danish Industries network

Actions and results

The Danfoss CSR survey shows that 93% of the companies allow employees to be members of a union of their own choice.

In companies where employees do not have a free choice of union, statutory regulations apply (e.g. there is only one union in the country or region), or unions do not exist, alternatives have been implemented for the employees to be able to meet with the management and discuss work-related issues.

Reference to GRI

HR2

HR5

LA4

LA5

LA6

Principle 4:

BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR

Our commitment

Danfoss does not tolerate forced labour and will work against forced labour by:

- Making sure that all employees have employment contracts or are subject to agreements which determine employment conditions and terms of termination so it is explicit that employment is voluntary.

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Ethics handbook
- CSR policy
- Anti-corruption policy

Control system

Once a year, Danfoss conduct a CSR survey regarding social responsibility in its own companies. The CSR survey covers all factories and sales companies and includes amongst others questions on human rights, labour rights and corruption/bribery.

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The Danfoss toolbox

- Due diligence
- CSR Intranet Portal

Stakeholder engagement

- Amnesty Business Forum
- Global Compact Nordic Network
- Confederation of Danish Industries network

Actions and results

Danfoss does not tolerate forced labour and will work against forced labour by making sure that all employees have employment contracts or are subject to agreements which determine employment conditions and terms of termination so it is explicit that employment is voluntary.

Striped employees

In 2007, Danfoss acquired the American company Chatleff Controls. A part of the company employs prisoners and, therefore, the due diligence process also uncovered whether hiring prisoners would be contrary to Global Compact.

It is concluded that this is not contrary to Global Compact rules regarding forced labour, because they work on a voluntary basis and because the rules regarding imprisoned workers are met.

The inmates in the local Texan prison work under a special program, PIE (Prisoner Industry Enhancement Certification Programme), which is supervised by the American Department of Justice.

In 2006, there were a total of 263 inmates who were employed at Chatleff Controls. The inmates are paid a salary which is not allowed to be below the salary level of the local industry. Approximately 20% of their wage is paid to an account to be used immediately, whereas part of this amount remains deposited until they are released. Almost 80% of the salary is withheld and paid to the inmate's relatives; paid in compensation; and as payment for the term of imprisonment.

All of the participants in the PIE programme sign that they agree to work under the stated conditions.

Former inmates were subsequently employed at normal conditions in Chatleff Controls.

Principle 4:

BUSINESS SHOULD SUPPORT THE ELIMINATION OF ALL FORMS OF FORCED AND COMPULSORY LABOUR

Working hours

One of the aspects regarding forced labour included in Danfoss' CSR survey is the compliance with ILO's conventions on maximum working hours and rest.

The conventions apply to employees in production and determine the weekly maximum working time at 48 hours, with the possibility of 12 hours' overtime work per week over a period of three weeks.

11% of the companies have once in a while difficulties complying with the rules, particularly the companies in USA, Poland and China.

The main reason is that the market of the products in question is seasonal, and that makes it difficult to plan the production differently when, at the same time, stocks have been substantially reduced. All of the companies, however, point out that the overtime work is not permanent.

Danfoss in China is one of the sites where the employees sometimes work more than 48 hours per week, however, this only takes place in peak load periods.

The legislative demands of a maximum number of monthly overtime hours and number of working hours per year are met.

Danfoss does not consider the mentioned violations of ILO's conventions regarding maximum working hours to be a substantial problem.

Suppliers

Danfoss wants to commit its suppliers in accordance with the ILO conventions.

Requirements are therefore included in the Code of Conduct to specify the maximum allowable working time per week, the maximum overtime and rest.

Reference to GRI

HR2

HR7

Principle 5:

BUSINESS SHOULD SUPPORT THE EFFECTIVE ABOLITION OF CHILD LABOUR

Our commitment

Danfoss aims to actively fight child labour by:

- Only hiring children between the ages of 15 and 18, under the conditions of the ILO conventions about child labour.
- Companies supplying to Danfoss must follow the same rules

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Ethics handbook
- CSR policy
- Anti-corruption policy

Control system

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Selected companies are visited to explore their handling of social responsibility and to establish and maintain a constructive dialogue with the local management about Danfoss' CSR activities.

The Danfoss toolbox

- CSR intranet portal

Stakeholder engagement

- Amnesty Business Forum
- Global Compact Nordic Network
- Confederation of Danish Industries network

Actions and results

Danfoss fight actively child labour by ensuring that only children between the ages of 15 and 18, under the conditions of the ILO conventions about child labour are hired.

All Danfoss' purchasers are trained in how to assess these conditions at suppliers to ensure that Danfoss has sufficient knowledge of the suppliers handling of child labour.

Youngsters at work

None of Danfoss' companies have employees under the age of 15 years. There are 126 youngsters between the ages of 15 and 18 who work at Danfoss. The majority (102) are employed in production of which 85 are employed in connection with their education.

117 of the 126 youngsters are employed in companies in Denmark. Some of them have jobs where they work a few hours after school or during holidays. All of the youngsters have received instruction in safety and working environment issues and all rules determined by ILO's conventions regarding child labour are met.

This means that the youngsters do not deal with hazardous work, they do not work at night and they have the right to more breaks than their adult colleagues.

In 2006, a total of 144 young people employed in Danfoss. At the time, four were under the age of 15, which violated Danfoss' CSR policy. In 2007, none were under the age of 15.

Reference to GRI:

HR6

Principle 6:

BUSINESS SHOULD SUPPORT THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION

Our commitment

Danfoss will avoid discrimination in the workplace by:

- Making sure that non-objective discriminatory treatment does not take place in connection with appointments, career changes, supplementary training, dismissals, etc.

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Ethics handbook
- CSR policy
- Anti-corruption policy

Control system

Once a year, Danfoss conduct a CSR survey regarding social responsibility in its own companies. The CSR survey covers all factories and sales companies and includes amongst others questions on human rights, labour rights and corruption/bribery. The survey is distributed to top managers and heads of HR, representing 137 companies in the Group.

Selected companies are visited to explore their handling of social responsibility and to establish and maintain a constructive dialogue with the local management about Danfoss' CSR activities.

The Danfoss toolbox

- CSR intranet portal

Stakeholder engagement

- Amnesty Business Forum
- Global Compact Nordic Network
- Confederation of Danish Industries network

Actions and results

Danfoss will avoid discrimination in the workplace by making sure that non-objective discriminatory treatment does not take place

in connection with appointments, career changes, supplementary training and dismissals.

Health test

The use of health tests when employing people is widespread in a range of countries and 26% of Danfoss' companies apply health tests. This is prescribed either by law, requirements determined by the insurance company or requirements of the employees (an example of the latter is from China where the employees are tested annually for a particular contagious pulmonary disease).

The use of health tests involves a risk of discrimination, if particular attention is not paid. Therefore, talks have been initiated with the companies about the risk of discrimination in order to reduce the risk.

30% of the companies enquire about the health of new employees. The reason is that special health requirements apply to some kinds of job.

Recruitment agencies

67% of the companies use agencies for the employment process. 39% of these companies have set up guidelines determining the nature of the agencies' questions to the applicants, which health tests they are allowed to give applicants and what feedback is expected. Consequently, the remaining companies have been recommended to prepare guidelines to the agencies.

As part of the employment process, 43% of the companies ask about an applicant's family situation, including matters relating to children. This primarily takes place out of consideration for the insurance terms, since insurance is an employee benefit in a range of countries. Furthermore, some companies apply the information in connection with social arrangements, such as family days, Christmas presents

Principle 6:

BUSINESS SHOULD SUPPORT THE ELIMINATION OF DISCRIMINATION IN RESPECT OF EMPLOYMENT AND OCCUPATION

Drug tests

Eight companies – all of which are production companies – perform drug tests in connection with employment: six American, one Slovene and one Mexican company. The reason is primarily based on the desire for a safe working environment.

Cases of discrimination

In 2007, three Danfoss companies experienced seven cases which relate to discrimination. The cases involved bullying, sexual harassment and inequalities of salaries to different groups of employees. Except for one, all of the cases were resolved through the intervention of the management. One case was passed on to the court where it is being heard.

Staff turnover

A low level of national unemployment, especially in Denmark, resulted in an increasing number of employees and managers deciding to leave Danfoss.

In 2007, 9.5% of the employees chose leave the group of their own accord, compared with 9.1% in 2006 and 6.5% in 2005. However, there are significant differences between the regions: 17.6% in North America (including Mexico), 16.4% in Asia-Pacific, 10.9% in Denmark – and only 8.8% in China, 6.5% in EMA (Europe, the Middle East and Africa), and 6.3% in Latin America. The same trend applies to managers: 6.1% chose to leave Danfoss in 2007, compared with 4.6% in 2006 and 2.5% in 2005.

In 2007, a total of 17.9% employees left the Danfoss Group. The figure includes the employees who retired, gave their notice or were dismissed, but excludes the divested companies. In comparison, the level was at 17.1% in 2006 and 16% in 2005.

At Group level, one of the highest staff turnovers was in Denmark (23.9%), and one of the lowest in China (15.3%).

According to the national statistics from the Confederation of Danish Industries (DI), Danfoss in Denmark is at the high end of the range for the industry sector, 16-22% nationally, depending on the trade. DI also supports the general tendency of an increasing staff turnover in Denmark. In China, similar statistics show that Danfoss in Beijing and Shanghai are better than market benchmark, whereas Danfoss in Tianjin is at par – thanks to Danfoss China's major efforts to retain employees.

Danfoss China rewards the employee for helping the company with a bonus for each referral who passes the 3-month probation, and the program has been well-received in the company. In 2007, 49 new employees were recruited through the employee referral program.

Reference to GRI

HR2

HR4

LA1

LA2

Principle 7:

BUSINESS SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

Our commitment

We aim to show caution in relation to environmental challenges by:

- Being more restrictive than required by the legislation regarding the use of substances and processes which could pose a risk to humans and the environment.
- Aiming to be one of the most environmentally conscious companies in the industries in which we operate.

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Environmental policy
- Danfoss Negative List
- Standards and guidelines for environmental reporting

Control system

The Danfoss Group's factories must work actively with environmental management. The corporate management requires all factories to create and maintain an environmental management system in accordance with the requirements of the international standard of environmental management, ISO 14001, and for the system to be certified.

The certification is set to ensure that Danfoss is able to document for customers and authorities that the activities relating to environmental improvements are not random, but are the result of well-considered processes and decisions.

Danfoss carries out environmental evaluations of all potential company acquisitions before deciding whether a company should join the Danfoss Group. The environmental due diligence ensures that Danfoss gets immediate and in-depth information about new companies' environmental issues and possible business risks.

The Danfoss toolbox

- Corporate environment intranet portal

Stakeholder engagement

- Danish Confederations of Industries environmental managers forum
- The Danish Council for Sustainable Business Development
- Global Compact Nordic Network
- The Danish government's Panel of Climate Related Business Interests

Actions and results

As a global company, Danfoss wants to contribute to reaching the goals of the Copenhagen climate summit.

In 2007, the EU launched an action plan detailing how European countries can reduce their energy consumption and become less dependent on supplies of oil and natural gas. Danfoss has examined the plan carefully, because it sets out the practical framework for how the group should develop over the next years.

It is Danfoss' goal to contribute to the global reduction of the CO₂ emission via the group's energy-saving products and via the reduction of the CO₂ emission which derives from its own activities. Therefore, the group has taken the initiative to set ambitious targets within energy consumption and emission of greenhouse gases.

Joining global initiatives

Danfoss has joined a number of national or international initiatives which promote sustainable development, social responsibility or climate improvements, such as:

UN's Global Compact

In 2002, Danfoss joined UN's Global Compact's ten principles of good company ethics within human rights, labour rights, the environment and anti-corruption. Each year, Danfoss prepares a report on the progress of these areas.

Principle 7:

BUSINESS SHOULD SUPPORT A PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

Caring for Climate

"Caring for Climate" is a voluntary initiative for the members of Global Compact who wish to mark their leading roles in the climate debate.

The Danish Council for Sustainable Business development

Danfoss takes part in The Danish council for sustainable business development. In 2007, initiatives were taken to draw up a charter which – on the basis of principles – places the members under an obligation to take concrete actions in a number of areas, such as the management of suppliers, diversity in the workplace and climate changes.

The Danish government's Panel of Climate Related Business Interests

Danfoss has been appointed to take part in the Danish government's Panel of Climate Related Business Interests whose job it is to advise the Danish government in advance of the COP 15 climate summit in Copenhagen in December 2009.

Copenhagen Climate Solutions

Danfoss sponsors Copenhagen Climate Solutions. Through its participation, Danfoss wishes to influence the Danish business community to apply more CO₂ neutral solutions and reduce the emission of greenhouse gases.

Energy-savings in the factories

Danfoss' many factories continually optimise processes and the energy consumption of premises, and also in 2007, energy-saving projects were completed.

Danfoss Drives in Graasten, Denmark, is constructing a new 12,000 m² warehouse and logistic centre, where consideration for the environment was incorporated at an early stage in the planning. The air-conditioning system will distribute more than 73,000 m³ of air through the building every hour, and it has therefore been decided to install a highly

efficient heat recovery system capable of re-using 90% of the energy of the extracted air.

At Danfoss Randall in England, the renovation of the office premises included installing an air-conditioning system with a heat pump, whereby the air is re-circulated and utilised far more effectively than the previous traditional solution which included radiators and air-conditioning units.

Danfoss Silicon Power in Schleswig, Germany, has completed a refurbishment of the air cleaning and cooling system for the air in the company's 1,500 m² clean room facilities. An isolated tank stores excess heat and, the new system save 250,000 kWh annually. Danfoss Silicon Power also reduced the emission of CO₂ by 400 tonnes annually by installing a mini-power station.

In the USA, Danfoss' factory in Rockford saved 146 tonnes of CO₂ annually after having renovated the factory's lightning. The reduced CO₂ emission has the same positive effect on the environment as saving 90,000 litres of petrol or plant 195,000 m² forests.

Danfoss' compressor factories in Germany and Slovakia have initiated energy-saving projects by implementing Danfoss Solutions' EnSave program and expect to reduce the CO₂ emissions by 7,000 tonnes annually. This equals approximately 5% of the Danfoss Group's total CO₂ emissions

Reference to GRI

EN17

EN26

Principle 8:

BUSINESS SHOULD UNDERTAKE INITIATIVES TO PROMOTE GREATER ENVIRONMENTAL RESPONSIBILITY

Our commitment

We will take initiatives to promote improved environmental responsibility by:

- Increasing the employees' environmental awareness and commitment.
- Aiming to maintain the environmental standard when production is outsourced.
- Placing environmental demands on the suppliers
- Communicating openly and constructively with the community about the environmental activities.
- Supporting research which is beneficial to the environment.

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Environmental policy
- Danfoss Negative List
- Standards and guidelines for environmental reporting

Control system

Danfoss carries out internal audits on a regular basis, ensuring that our working methods are compatible with how we aspire to work.

The parts of the company which are certified according to environmental and work environment management standards are audited by external auditors.

The ongoing reporting of resources, waste and other impacts on the environment and working environment ensure that Danfoss has an overall view of the handling of environment issues in the global organisation.

All information forms the basis of the preparing of the Annual Report's environmental section which is audited by Danish Standards Association every year to ensure a true and fair view of the impact that Danfoss exerts on the environment and the working environment.

The Danfoss toolbox

- Corporate environment intranet portal
- Corporate standards and guidelines for environmental reporting

Stakeholder engagement

- Danish Confederations of Industries environmental managers forum
- The Danish Council for Sustainable Business Development
- Global Compact Nordic Network
- The Danish government's Panel of Climate Related Business Interests

Actions and results

Danfoss has set a number of general targets for the period between 2006 and 2008 concerning the group's total consumption of resources and certain chemicals, the amount of waste and number of work accidents resulting in absence.

It is expected that the group's total relative environmental impact in the different areas will be reduced during the period until 2008 in relation to the level of 2004 (basic year).

At the end of 2007, the outcome of the focus areas was:

	2004	2005	2006	2007
Energy	100	111	107	97
Water	100	116	127	135
CRAN substances	100	84	79	64
Solvents	100	103	113	91
HFC gases	100	172	194	227
Waste	100	96	99	97
Accidents	100	91	83	79

Increases in the activities at the few factories which consume the most of the group's total water and HFC gas led to an increase of the environmental impact in 2007.

This explains the increase of the group's EII regarding these environmental impacts.

Reference to GRI

EN7

EN8

Principle 9:

BUSINESS SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

Our commitment

We aim to support the development and distribution of environmentally-friendly technologies through:

- Development of environmentally-friendly products and processes and the assessment of the environmental impact in the choice of materials and the consumption of resources.
- Increasing reuse or the environmentally friendly disposal of materials.
- An environmentally sound production. o Cooperation with authorities about the layout and operation of plants.
- Products which do not pose a risk to humans and the environment when applied correctly.
- Environmentally responsible transport of products, machines, chemicals and waste.

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Environmental policy
- Danfoss Negative List
- Standards and guidelines for environmental reporting

Control system

All factories report their environmental performance to the Group's annual environmental accounts. Reports are made according to 103 parameters, including data relating to input in the form of raw materials, energy, water and potentially harmful substances, and data relating to output in the form of wastewater, heavy metals and waste.

Other output, in the form of flue gases, is calculated centrally.

In addition to the above-mentioned environmental data, the factories must provide information about the number and kind of accidents and state whether they have exceeded terms included in their environ-

mental approval or other agreements with the environmental authorities.

The Danfoss toolbox

- Corporate environment intranet portal
- Corporate standards and guidelines for environmental reporting

Stakeholder engagement

- Danish Confederations of Industries environmental managers forum
- The Danish Council for Sustainable Business Development
- Global Compact Nordic Network
- The Danish government's Panel of Climate Related Business Interests

Actions and results

Many of the products which Danfoss manufactures reduce the energy used for heating, cooling or speed-control of processes.

The world's biggest retailer – Wal-Mart – has agreed to develop, together with Danfoss, the first in a series of stores in the chain which uses the refrigerant CO₂.

The Sam's Club store is successful because it lives up to Wal-Mart's expectations of achieving results and reliability. The next Sam's Club store is under way and it will fully apply Danfoss' energy control system for Wal-Mart's CO₂ systems.

Since 1992, Danfoss Nopro in Austria has worked to minimise the Austrians' dependence on fossil fuels. Danfoss Nopro develops and produces district heating stations and surveillance systems for bio-mass systems and has taken part in 250 bio-mass heating projects in Austria. Wood heating is not only an option for large power stations. Nopro has supplied projects which provide district heating to networks with only ten end-users. The systems have extremely high efficiency rates – as much as 99%.

Principle 9:

BUSINESS SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

Energy-optimising solutions

A range of companies are setting long-term energy-saving targets, but it is often possible to get started right away. The keyword is checking and adjusting the existing systems. Often, there can be up to one quarter savings on the heating bill.

In addition, a number of energy saving technologies and solutions exist which are profitable and which can reduce the energy consumption by up to 40% and more.

According to an agreement with the Danish Energy Agency, Danish district heating plants are set to save 1% annually – over the next years – on user consumption. This has made several plants consider Danfoss' energy-saving program EnergyTrim™ which was launched in the spring of 2007.

Danfoss Solutions has specialised within energy saving solutions for large industrial consumers, primarily in the food, beverage and the manufacturing sectors.

By implementing a Danfoss Solutions energy control solution, companies typically save 10-15% on the total energy bill, thereby reducing the emission of CO₂.

Danfoss Solutions combines state-of-the-art technology from a long range of suppliers of energy control solutions with Danfoss' broad experience and knowledge about process optimisation within refrigeration, heating, ventilation and speed control.

Danfoss Solutions has completed a number of projects for companies such as Carlsberg, Tulip and Coca-Cola. All of them led to savings amounting to millions of Danish Kroner and annual CO₂ reductions of more than 10,000 tonnes.

Global heat pump center

In 2007, Danfoss opened a research and development centre for heat pump technology in Sweden at a total price of about 60 million DKK. Danfoss' heat pump main facility is already located in Arvika, Sweden, together with a factory with around 250 employees. Over the past two years, Danfoss has invested

billions of Danish Kroner in becoming Europe's leading producer of heat pumps which provide cheap and environmentally-friendly heat to conventional radiators and floor heating systems in houses.

Danish fuel cell project

Micro-power plants based on fuel cells both generate electricity and heat and can be installed in private households replacing natural gas or oil furnaces. In 2005, Danfoss took the initiative to launch the project "Dansk Mikro kraftvarme" which on the basis of subsidies began in 2006 as cooperation between Danfoss, Dantherm, Topsoe Fuel Cell, DONG Energy, COWI, Dansk Gasteknisk Center and IRD Fuel Cells.

Production and the environment

Danfoss has production facilities in around 60 locations worldwide and, therefore, impacts the surrounding environment in the form of noise, waste, the emission of flue gases and waste water.

It is Danfoss' clear objective that nowhere in the world must the production result in an unacceptable impact on the environment. Furthermore, the environmental impact is required to decrease over time and lead to a reduction of the group's overall impact on the surrounding environment.

Consumption of energy

Over the next years, Danfoss will target the efforts to make the energy consumption less dependant on production increases through energy-saving initiatives and through more widespread use of renewable energy sources.

With electricity representing almost 60% of Danfoss' total energy consumption, it is the main energy source and the consumption increased by 10% in 2007, compared to the year before.

In 2007, most factories reported their electricity consumption according to the individual sources, such as wind energy or bio-mass.

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20% of total electricity consumption is recorded to be generated by renewable sources, such as solar energy, water, wind and bio-mass.

Electricity from nuclear power represents 19% of the group's consumption, while the remaining part is not generated by renewable sources, such as coal, oil and gas. With 37% of the total electricity consumption, coal represents the largest source of electricity generation.

32% of Danfoss' total energy consumption is for heat, of which natural gas makes up $\frac{3}{4}$ of the consumption, while district heating is the second largest source of heating. These figures have practically remained the same over the past years.

Emission of greenhouse gasses

In 2007, Danfoss emitted around 171,000 tonnes of CO₂ generated by the group's consumption of electricity and heating. The sources of the emission are both direct (own plants for the production of electricity and heat) and indirect, when electricity and heat is purchased from external producers. In comparison with 2006, this is an increase of 8%.

Electricity consumption makes up 75% of the group's total emissions of CO₂ which in 2007 equalled 127,000 tonnes, while 44,000 tonnes of CO₂ came from the energy sources used for heating.

Over the next years, ambitious targets will be set to minimise the Danfoss Group's total emission of CO₂ into the atmosphere.

In 2007, the consumption of HCFC in Danfoss factories doubled to amount to 10 tonnes. This was caused by increased production at the factory in China and the acquisition of Scroll Technologies which consumes 4 tonnes annually.

The amount of HFC gases also increased, but only by 25% compared to previous years. This was due to production increases in the factories which perform tests on products which use HFC.

CFC is completely phased out in China and Mexico, and in Slovenia and Denmark 36 kilos are used annually for laboratory purposes.

Water consumption

The group's consumption of water increased 15% in 2007. This is mainly due to the acquisition of Scroll Technologies which represented 17% of the group's total water consumption in 2007. The other factories in the group implemented water-saving projects in 2007 which totalled a water consumption reduction of 5%.

Consumption of raw materials

Danfoss attempts to reduce the consumption of raw materials and other resources by changing the size of the products, but also by organising the production so that materials are not wasted and the chance of reuse is improved.

Since 2006, the group's total raw materials consumption has increased by 7%. In particular, stainless steel and electronics have been consumed in large volumes.

Consumption of auxiliary materials

In 2007, 806 tonnes of cutting oil was used for cooling and lubrication during the processing of metals, which is 36% above the 2006-level.

Oiled parts often need to be cleaned before being applied in the production process and detergents are used. In 2007, consumption was up 48%, compared to the year before, which was primarily due to increases in production in China and the USA.

Potentially harmful substances

Potentially harmful substances are substances and materials which can pose a risk to humans and the environment. The substances are used in the manufacturing of products and if they cannot directly be dispensed with or replaced, they must be utilised as efficiently as possible and measures

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BUSINESS SHOULD ENCOURAGE THE DEVELOPMENT AND DIFFUSION OF ENVIRONMENTALLY FRIENDLY TECHNOLOGIES

must be taken to protect the employees and the environment.

Danfoss' Negative List forms the cornerstone of the efforts and most of the factories target the reduction of harmful substances. Danfoss has set up a working group which will make sure that EU's comprehensive chemicals reform, REACH, is assessed and implemented to the necessary degree. Danfoss does import, distribute and use some chemicals which are covered by the rules in the REACH directive.

CRAN substances

CRAN is the overall name for substances which are unwanted because they are carcinogenic (C), harmful to the ability to reproduce healthy children (R), cause allergies (A) or harm the central nerve system (N). Since 2006, the Danfoss Group's total consumption of CRAN substances has dropped by 5%, in spite of an increasing number of activities and the acquisition of new factories.

Solvents

Currently, pure solvents are still being used, such as alcohol and petroleum; however, in the paints, detergents and glues applied, the amounts of solvents are most often small. At a corporate level, the consumption of solvents fell by 11%.

Toxic substances

Toxic substances are chemicals which have an acute lethal effect when handled incorrectly. These are primarily nitrite and cyanides which are used in surface treatment systems in Mexico and Nordborg.

The total consumption of toxic substances in the group was 36 tonnes in 2007, which equals a decrease of 3% compared to the year before.

Waste and recycling

The volume of waste increased by 5% in 2007 compared to the year before. The recommended disposal method is recycling and

this applies to 81% of the total amount of waste, of which 90% is metal waste from processing machines, among other things.

Since 2006, the group has doubled the volume of waste sent to landfill, which was mainly caused by the acquisition of the compressor factory in the USA. The factory in Mexico has managed to reduce the landfill waste volume by 20%.

Only 2% of the entire waste volume is incinerated, whereas 14% is oil and chemical waste. The amount of chemical waste has increased by 350 tonnes since 2006, which was mainly caused by the fact that some large machines were emptied of oil emulsion in connection with the relocation of the compressor production from Flensburg in Germany to Zlate Moravce in Slovakia.

Discharge of waste water and heavy metals

The total amount of industrial waste water has increased by 51% in the period from 2006 due to increases at the factories in Nordborg and the new compressor factory in the US.

The heavy metals discharged in waste water in 2007, amount to 192 kilos, which equals an additional 85% compared to the year before. The increase is caused by the recently acquired compressor factory in the USA.

Pollution of the ground

The known cases of pollution were a result of the lack of knowledge in the past of the correct environmental handling of chemicals and waste and leakages in plants and systems.

The latter applies to trichlorethylene which forms the main part of the pollution in Nordborg. In some places, the substance has penetrated 20 metres below surface level and, so, has to be pumped up in order to avoid pollution of the ground water. The quality of the ground water for tap water is monitored on an ongoing basis.

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Violations of environmental permissions or regulations

Infractions of environmental regulations occurred 25 times, of which ten happened in the factory in Nordborg.

In Nordborg, the concentration requirement of nickel was exceeded and the requirement of the acidity of waste water was exceeded for a period of 24 hours. Approval has been given for an evaporation system, which will considerably reduce the number of violations.

At the surface treatment factory in Nordborg, the limit value of the discharge of nickel into the air was exceeded in 2007. The problem has been solved by fitting the vessel in question with a chemical "lid" which prevents the drops of nickel escaping the vessel.

In Nordborg, there are a few cases of infringement of regulations relating to external noise at property lines. The origins of the noise have been established and a noise reduction plan has been implemented. The plan is expected to be completed in 2009.

At the radiator thermostat factory in Viby, Denmark, there were six violations of the oil limit value and one violation of the nickel limit value in waste water. The environmental authorities have ordered the factory to store dangerous waste under a roof. The requirement has been met.

The compressor factory in Slovakia had a 15-litre petrol leak from a customer's truck. The leak was contained within the company's loading platform for trucks and the surface water system. Consequently, the spill did not leak into the surrounding environment. Subsequently, emergency equipment was acquired to stop any further leakages.

Reference to GRI

EN1

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EN4

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EN28

Principle 10:

BUSINESS SHOULD WORK AGAINST CORRUPTION IN ALL ITS FORMS, INCLUDING EXTORTION AND BRIBERY

Our commitment

Danfoss does not tolerate corruption or bribery and will work against this:

- Employees must not take part in any form of corruption or bribery. If so, this will have consequences to employment.
- Employees must report to their immediate manager when they receive or hand over gifts of a value of more than 100 USD. In some countries, the limit is below 100 USD.

Guiding principles

- Danfoss Values
- Global Compact

Policies

- Ethics handbook
- CSR policy
- Anti-corruption policy

Control system

Once a year, Danfoss conduct a CSR survey regarding social responsibility in its own companies. The CSR survey covers all factories and sales companies and includes amongst others questions on human rights, labour rights and corruption/bribery.

The survey is distributed to top managers and heads of HR, representing 137 companies in the Group.

Selected companies are visited to explore their handling of social responsibility and to establish and maintain a constructive dialogue with the local management about Danfoss' CSR activities.

The Danfoss toolbox

- CSR Intranet portal
- Purchasing intranet portal
- Standard contract for agents
- Dilemma game

Stakeholder engagement

- Amnesty Business Forum
- Global Compact Nordic Network

- Confederation of Danish Industries network

Actions and results

Danfoss does not tolerate corruption or bribery and will work against this.

Anti corruption training

When visits are paid to companies, training in anti-corruption is a fixed part of the visit, usually in the form of a dilemma game which Danfoss has had developed following recommendations from regional sales managers. Recently, executives and sales staff in Poland received the training.

6 factory visits were carried out in 2007 involving training in anti corruption. An online version of the dilemma game has been made available on Danfoss' Intranet to assist the local management in continuing the training after the visits.

Ethics handbook

In 2007, Danfoss prepared an Ethics Handbook which will be distributed to all of the group's employees in 2008.

The Ethics Handbook determines the ethical guidelines for all employees and is divided into three main sections: employee conditions, the relationship with customers/suppliers and the relationship with society.

In addition to covering the ten Global Compact principles, the Ethics Handbook also includes issues which, up until now, were "unwritten rules" implicit in Danfoss' values.

The Ethics Handbook contains separate information on specific areas, such as the grey zones that employees should take into consideration in connection with sales and purchasing activities and when they use agents.

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Unethical behaviour at Danfoss

It is important for Danfoss that the company's values are not only words written on paper. The values must be lived and that means that it is vital that Danfoss employees act in an ethically sound way. Therefore, the Danfoss CSR survey focuses on how many employees were dismissed due to unethical behaviour or violation of company policies.

In 2007, a total of 36 employees – in 12 companies in Europe (incl. Denmark), the USA, Russia and China – were dismissed due to unethical behaviour. The reasons of the dismissals covered swindling of time registration or educational diplomas, unacceptable absenteeism, the consumption of alcohol during working hours, failure to take drug tests, fights and theft or attempted theft.

Reference to GRI

(HR3)

SO2

SO3

SO4

