

MAKING MODERN LIVING POSSIBLE



# Corporate Citizenship Report The Danfoss Group



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## Danfoss A/S

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United Nations  
Global Compact Office

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### Statement of continued support for the United Nation's Global Compact

The Danfoss Group joined the UN Global Compact in 2002. Since then we have made an effort to ensure that the ten principles are an integral part of our business strategy. The principles constitute the structure for our policies on environmental and social responsibility.

Danfoss published its first report on social responsibility in 2003, and we have continuously worked on developing the way we monitor and report on good corporate citizenship.

Danfoss' Corporate Citizenship Report, which is an integrated part of the Danfoss Annual Report 2009, forms our Communication on Progress (CoP). The report describes the initiatives Danfoss has taken during the last year and the results of our work with Global Compact and Climate.

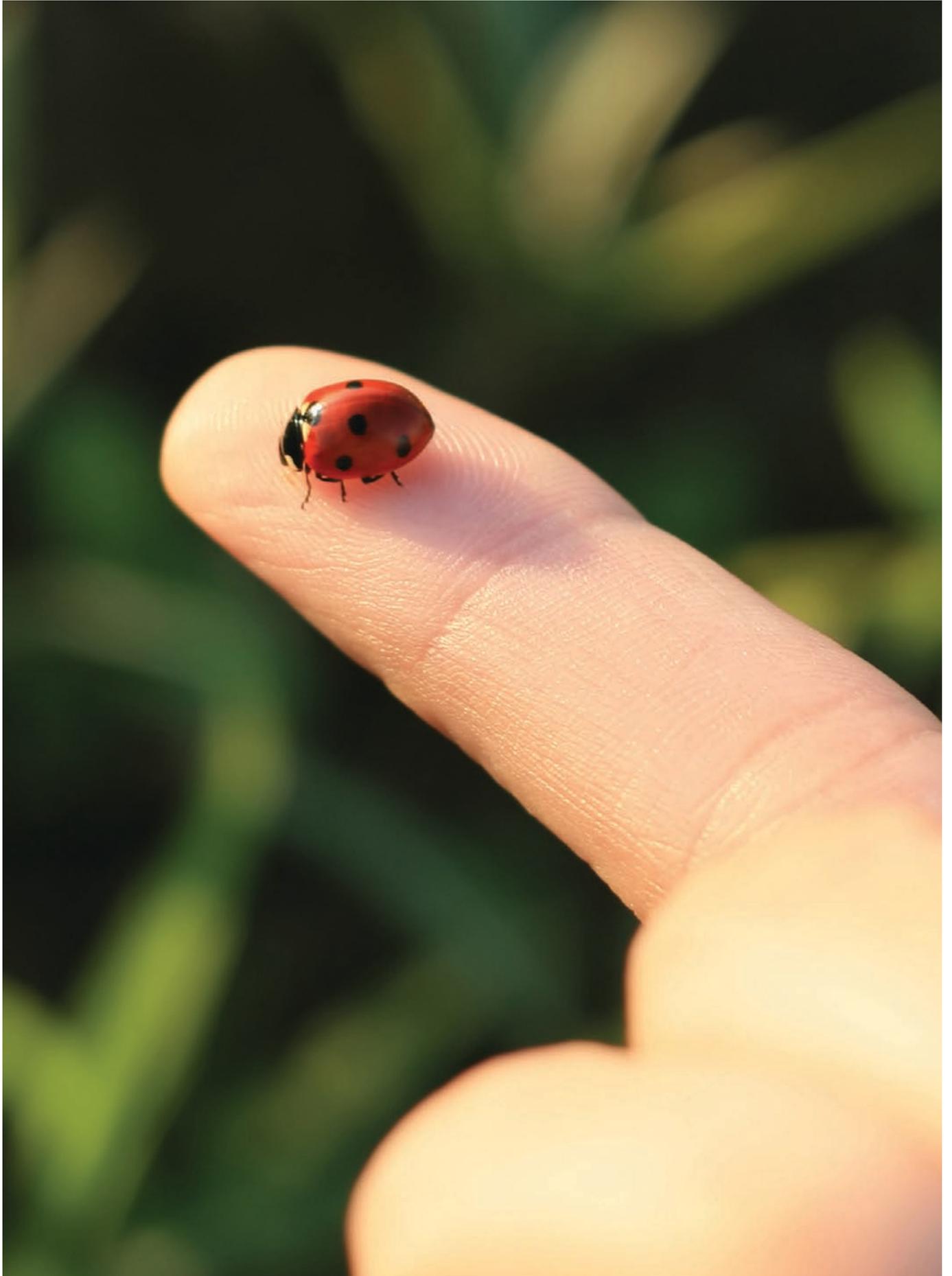
The Danfoss Group continues to support the UN Global Compact Initiative and the ten principles.

Best regards

Niels B. Christiansen  
President and CEO

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## Danfoss

### Corporate Citizenship

Danfoss is a global company, present in more than 100 countries and with close to 20,000 employees in the business units covered by this report.

The company can be compared to a global citizen – a visible entity and one which people monitor. Note is taken, both of successes and of possible failures.

Danfoss has a long tradition of accountability, both with regard to employees and with local communities. Danfoss' name should at all times be connected with respect for human rights, good working conditions, social commitment and continuous efforts to improve performance while keeping the environment in mind.

Our reputation is critical to our business: success depends on us practicing what we preach and living according to our values: Our products are innovative and of high-quality, they are produced under proper conditions and we are a responsible company in the local communities in which we operate. Danfoss' reputation also determines how people perceive Danfoss as a workplace, both for current employees and the ones we would like to attract.

The Danfoss Ethics Handbook, which was published in 2008, contains ethical guide-

lines outlining our expectations to employees. Along with UN's Global Compact, the main themes of the Ethics Handbook form the structural foundation of this year's Corporate Citizenship Report. Furthermore, Danfoss has chosen to report on a range of indicators according to GRI (Global Reporting Initiative), in the table at the back of the report.

#### Data for the report

The Corporate Citizenship report is divided into five main sections: Social responsibility, Customers and suppliers, Local communities, People, and Climate and Environment. Cases collected at Danfoss sites worldwide, knowledge about central issues and themes as well as extensive data material form the basis for these sections.

Data presented in the section on social responsibility originates from the CSR survey which Danfoss conducts every year in every Danfoss subsidiary, a new questionnaire to all people managers (People Manager Survey) and visits paid at Danfoss companies in the course of the year.

The data in the section about customers and suppliers originates from Danfoss Global Procurements survey on procurement as well as conducted audits at suppliers. Data on local community originates from donations made by the foundations

referred to, as well as knowledge about other significant events during the year.

In the section about people, the majority of data are collected through the CSR survey and HR-SAP, which is the group's database of HR related data. Finally, data in the climate and environment section is obtained at Danfoss' factories via Hyperion Financial Management and factory visits.

Going forward, Danfoss wants the entire Corporate Citizenship Report to be verified by an external partner. So far, only the environmental section has undergone verification of a third party. The environmental section of this year's Corporate Citizenship Report was verified by Det Norske Veritas (DNV), who will complete a full verification of the entire Corporate Citizenship Report, with effect from 2010.

#### Sauer-Danfoss not included in the report

Even though Danfoss is the majority shareholder in Sauer-Danfoss, Danfoss' policies of environment, social responsibility and HR have not yet been implemented in Sauer-Danfoss. This means that information and data about Sauer-Danfoss are not included in the Corporate Citizenship Report for 2009.

## Social responsibility

### Systematic social responsibility

In 2002, Danfoss joined the UN's Global Compact, which covers ten principles for how companies should act responsibly in a global society. Danfoss has a long-standing tradition for social responsibility and by joining of Global Compact, we began to systematise our social responsibility.

With Danfoss' global reach, it operates in many different countries and must therefore be familiar with the circumstances in the markets where we operate. Danfoss has had country-risk analyses prepared for the countries where the company has production sites. The country-risk analysis gives an overview of human rights and labour rights in the countries and the analyses are used as background information for planning visits at suppliers and as starting points for in-depth discussions about local issues in connection with the evaluation of Danfoss' own companies.

Danfoss' first social responsibility report was published in 2003 and since then, we have put a lot of effort into monitoring and reporting Corporate Citizenship. Danfoss reports on social issues based on the CSR Survey, a questionnaire distributed electronically to management in all Danfoss subsidiaries once a year and a survey distributed to all managers with direct reports (People Manager survey).

In addition, facts established from visits at the group's factories and sales companies are also included in the report. In 2009, visits were carried out at factories and sales companies in Slovenia, China, Romania and South Asia.

### The temperature of ethics

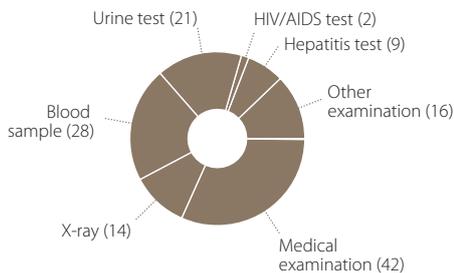
Danfoss considers it important to constantly keep an eye on how different environmental and social issues evolve and on the ethical standard in the companies. Danfoss' CSR Survey and People Manager Survey are tools used for taking the temperature of the rules included in the group's Ethics Handbook. The CSR Survey also covers the issues considered relevant to UN's Global Compact and GRI, Global Reporting Initiative, a multi-stakeholder initiative establishing requirements for good sustainability reporting.

The CSR Survey covers employee-related issues, the local community, human rights, labour rights, product issues, etc. The CSR Survey has been distributed to a total of 103 general managers and legal responsible managers representing all of the group's companies. The response rate of the 2009 CSR Survey was 92, which covers 98% of the group's employees.

In order to increase completeness of some of the data, Danfoss launched a new survey in 2009: a supplementary People Manager survey, distributed to 2,196 managers with employees reporting to them. The response rate of the People Manager survey is 86%, which is considered satisfactory. The questions in the People Manager survey concern the implementation of the rules described in the group's Ethics Handbook, dismissals caused by unethical conduct, a duty to report gifts, and competition law training. Completing the survey, the managers also declare whether he or she has implemented the rules of managers in the group, as set out in the Ethics Handbook. The Danfoss People Manager survey reveals that 261 managers, corresponding to 16% of new leaders and

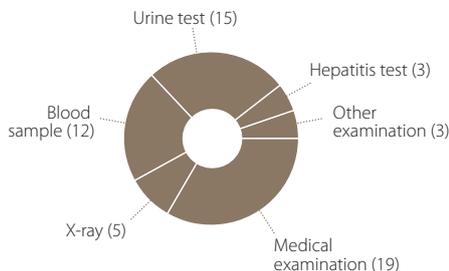
### Health test of employees

Brackets show number of respondents



### Health test of applicants

Brackets show number of respondents



12% of "old" leaders have not implemented the rules in the Ethics Handbook. This is clearly not satisfactory.

As a result, the process of ensuring that the leaders sign that they will comply to and communicate the Ethics Handbook content to their employees will be strengthened during 2010.

Danfoss strives continuously to increase transparency in its reporting procedures. During 2009 the group asked Det Norske Veritas, to provide an assessment of the group's Corporate Citizenship report 2008, (except the environmental section) in order to prepare for external verification of the full 2010 report in Corporate Citizenship. During the assessment a range of future target areas have been identified.

Danfoss has systematised its contact with significant stakeholders. Once a year, Danfoss invites NGOs and other interested stakeholders in the social and the environmental fields to discussions. Regarding the social field, the Corporate Citizenship Report forms the basis for discussions on how the Danfoss Group has dealt with the challenges relating to human rights and labour rights; within environmental field, climate and CO<sub>2</sub> emissions are the focal point of annual discussions.

### **Human rights and labour rights at Danfoss**

Human rights include a long range of fundamental rights such as the right to food, housing, health, work and fair working conditions etc. They also include the four labour rights, covered by UN's Global Compact (the right to avoid forced labour, child labour and discrimination and the right to free trade union elections).

Human rights are formulated for use in individual countries, but because companies operate globally and human rights are not always complied with, we believe that companies must consider how they can contribute to the compliance of human rights.

This Corporate Citizenship Report focuses on the human rights and labour rights particularly relevant to companies.

### **The right to privacy**

Danfoss aims to respect the privacy of employees – because this is a fundamental human right and to avoid the risk of discrimination. For example, the company encourages the subsidiaries to be cautious in carrying out health tests, unless they have to carry out tests in accordance with local laws. Health tests are not allowed for discrimination purposes, which is monitored and validated at corporate level.

The CSR Survey shows that companies use various kinds of health tests, both in connection with new and current employees. Often, the health tests are defined in accordance with statutory regulations. 21 respondents, correspondent to 27 companies, state that they ask employees to submit to urine tests to prevent the employees from being under the influence of drugs. This is an important measure for obtaining a good and safe working environment. USA and Mexico make use of such tests.

14 respondents correspondent to 17 companies, perform X-rays on the employees working in areas with risk of tuberculosis of the lungs. Danfoss' chief physician assesses the health risk of X-ray to be less than the risk of contracting tuberculosis of the lungs. The result of the examination does not have any impact on employment.

Two companies in Korea and Denmark subject their employees to HIV/AIDS and hepatitis tests, and Danfoss in Korea states that they intend to cancel both types of test, since they are not required by law there. A Danish company states that HIV/AIDS and hepatitis testing is performed on employees travelling or working in Russia. This is part of the process to apply for a one-year visa to the country. There were no reports of employees set to go to Russia who were tested positive, but should this happen, the circumstances would be considered along the same lines as when employees get seriously ill and cannot perform the intended work.

Seven more companies state that the employees are subjected to hepatitis tests: at companies in Thailand, Taiwan, Estonia,

Germany and at three Chinese companies. Often this is an offer to the employees and the management of the three companies in China are not informed about the outcome of tests. Three companies combine the hepatitis test with a vaccination offer. The outcome of the test does not have any impact on employment.

Some companies also perform health tests on applicants. Special attention should be paid to the risk of discrimination, considering that the test is carried out in connection with hiring.

Five Danfoss companies in China and Poland state that they X-ray applicants for jobs in areas with a tuberculosis hazard. In China, this testing is requested by the employees, who wish to avoid getting infected. If the test reveals that the applicant is infected, he or she can be employed once the treatment is finished. X-ray examination is neither used in China, nor in Poland to discriminate the applicant.

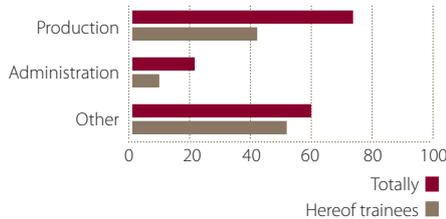
Three companies located in China test job applicants for hepatitis. The test result is only forwarded to a physician, who is the only person to assess whether the applicant can perform the job. The management in the Chinese companies do not see the outcome of the test, and therefore considered not to be a risk of discrimination.

Danfoss in Mexico has previously conducted hepatitis and HIV/AIDS tests on job applicants, in accordance with local practice. There have never been any reports of infected applicants, so discrimination has not taken place, but in order to prevent any form of discrimination, this procedure stopped in 2008.

If companies in the Danfoss Group use recruitment agencies, they must be informed about the group's restrictive attitude to the use of health tests, indiscrete questions etc. 43 companies, which cooperate with recruitment agencies, state that they have never informed the agencies about the restrictions placed upon them by corporate guidelines. Most of the companies say that this is due to restrictive statutory regulations applying in the countries in question. Three companies reveal that

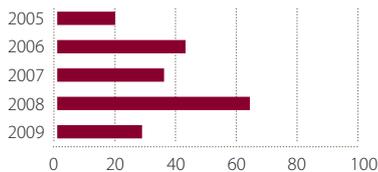
### Juveniles at work

Number



### Dismissals due to unethical behaviour

Number



they intend to inform the recruitment agency about the corporate guidelines in the future.

### Child labour

Danfoss does not support child labour, but young people between the ages of 15 and 18 are allowed to work, in accordance with certain conditions defined in ILO's conventions on child labour. The young people between 15 and 18 years old must be above the compulsory school age, they must not be involved in hazardous work or work during the night, and they must have more breaks than their adult colleagues.

A total of 78 young people between 15 and 18 years old are working in Danfoss. As can be seen from the chart, they are often apprentices. Two Danish companies have stated that the young people are not given more breaks than their adult colleagues. At one of the companies, the youngsters work a couple of hours each week after school and at the other company they are apprentices, who in future will be given more breaks than adult colleagues. Three companies, including the Danish company previously mentioned, have stated that they have youngsters employed who do not exceed the compulsory school age. However, they work a few times each week or during the summer holiday, which is why the employment does not conflict with the right and duty of children and young people to attend school.

### Anti-discrimination

According to the Danfoss Ethics Handbook, discrimination of employees or applicants on grounds of gender, age, sexual or religious affiliation, disabilities, nationality etc. is prohibited. Some of these areas are difficult to measure, because it is not allowed to register data on them. In 2009, Danfoss took stock for the first time of employees with disabilities: 25 respondents, correspondent to 44 companies, have created a policy or have set goals for the employment of people with a disability. There are a total of 185 employees with disabilities in the group, of which almost 50% are employed in companies in Germany and France. 62 of these employees work in Danfoss in Slovenia. In both Germany, France and Slovenia legislative requirements exist for employing people with disabilities, for example, through quotas, and therefore the number of disabled employees are recorded. This is not the case in Denmark. Danfoss in Denmark record employees who are employed in flexible jobs. These jobs are created for people with permanently reduced working capacity. Danfoss in Denmark employs approximately 65 employees in flexible jobs.

Another measurement area is the distribution between female and male leaders. On a global scale, 81% of Danfoss leaders are male, while 19% of the leaders are female. In Danfoss in Denmark, the distribution is 84% male leaders and 16% female leaders.

During 2009, two discrimination cases were brought against Danfoss: one, in Denmark, pertained to ethnicity and was resolved through meetings held between the employee in question and the immediate manager. The other case, in France, was about alleged discrimination on the right to unionise. An active member of the union accused the management of denying him permission to join a course because of his union membership. The employee has completed the course, so the case was settled.

In South Asia caste discrimination constitutes one of the biggest problems within Human Rights. It is estimated that more than 240 million people belonging to the 'untouchables', the Dalits, are suffering from discrimination within a wide range of areas like access to land, work, minimum wage, housing etc. It was natural topic for discussion when visiting the Danfoss company in South Asia. In several cases there has been issued legislation with affirmative actions giving Dalits access to universities and work places in the public sector in the country in question. In a specific case the local management didn't consider discrimination of Dalits a problem any longer. The company assures that it does not exercise any form of discrimination in employment and has been asked to consider whether it could be beneficial by proactively responding to the issue of diversity.

## **Forced labour**

The use of imprisoned labour can constitute forced labour and, consequently, Global Compact signatories must be aware of potential issues. The pivotal factor is that the work must be carried out on a voluntary basis and that the working conditions must live up to the rules regarding imprisoned labour. Two of Danfoss' factories, in Denmark and the USA, make use of imprisoned labour at a supplier. Danfoss visited both prisons and the conditions are described in detail on page 127-128 in the Danfoss Annual Report 2008. Both meet with UN rules governing imprisoned labour and, so, Danfoss is operating in accordance with the Global Compact principles.

Another aspect of forced labour in a commercial context can be excess use of labour, e.g. in the form of overtime or the lack of days off. This means that Danfoss is making sure that the subsidiaries comply with ILO's conventions on working hours; maximum weekly working hours are fixed at 48 plus a maximum of 12 hours' overtime distributed over three consecutive weeks. Employees at four companies work overtime periodically, exceeding the 48+12 hours. These are companies in China, Poland and the USA, but they all comply with local laws and state that overtime work only takes place during peak seasons.

## **The right to organise**

Danfoss recognises employees' right to be members of a union of their free choice and their right to collective bargaining. In countries where employees do not have a free choice of union Danfoss ensures that the employees can meet with the management to discuss work-related issues in other ways. A total of nine companies have reported that there is not a free choice of union, which is why they have set up other forums for the management and employees to meet.

## **Unethical behaviour**

Danfoss has prepared a set of ethical rules which define what Danfoss requires from employees on many different issues. The rules define proper behaviour for both leaders and employees in a company-related context, the relationship with customers and suppliers and how to act in local communities.

If the ethical rules are blatantly disregarded by Danfoss employees, employment can be terminated and the case can be reported to the relevant authorities.

Since 2004, Danfoss has recorded the number of employees who have been dismissed or who have voluntarily chosen to resign due to unethical behaviour and/or violation of the Danfoss Group policies. In 2008, the number of dismissals was extraordinarily high (64 dismissals caused by unethical behaviour). In 2009, this number was reduced to 29, which is at the same level as 2007. The causes of unethical behaviour resulting in dismissals or the employees voluntarily resigning were: theft and unethical use of company funds (six cases); tampering with time registration and/or lack of performance (seven cases); abuse of confidential information (two cases); conflicts of interests, caused by an employee's relationship with other companies (four cases); other cases which are difficult to categorise (four cases) and attempts of bribery (six cases). It is often difficult to satisfy the burden of proof in cases of

alleged suspicion of bribery or attempted bribery. Despite the difficult aspects of such cases, it is vital for the Danfoss Group to get to the bottom of them, since they are criminal acts (considered as such in the majority of jurisdictions) and because they are violations of the Danfoss Group's clear guidelines. When the suspect is confronted with the suspicion of bribery, he or she usually chooses to resign. The bribery attempts were recorded in Europe, Latin America and Asia.

At the same time as the publication of the Ethics Handbook in 2008, Danfoss set up a central Ethics Hotline for reporting cases of unethical behaviour, among other things. The Ethics Hotline supplements the handling of cases in Danfoss. In 2009, one of the in total 29 dismissal cases was reported via the Ethics Hotline. In 2008, six out of 64 cases were recorded via the Ethics Hotline.

## **Anti-trust case**

Danfoss in Nordborg, Flensburg and Turin received an unannounced visit from the competition authorities on 17 February 2009. At the same time two of Danfoss' companies in the USA were visited by the US Department of Justice. Directly following the unannounced visits the EU Commission, the US Department of Justice and the Brazilian competition authorities announced that there would be an investigation of the market, in particular for household compressors, because of suspected illegal price agreements and the exchange of sensitive information between competitors. The Brazilian competition authorities have stated that they have launched an official enquiry into the alleged contravention of the law. Competition authorities in Mexico and New Zealand have also approached Danfoss A/S and requested information on the market, in particular for household compressors. It cannot be ruled out that competition authorities in other countries will also launch similar investigations.

Danfoss is cooperating with the authorities to clarify the alleged situation. The top management of the group is not aware that any such illegal agreements as alleged have taken place. Danfoss' policy and ethical guidelines are intended to ensure that Danfoss does not violate current competition laws – including participation in any form of illegal or anti-competitive agreements. The management is following the case closely but is not at present aware of conclusions being reached by the competition authorities. Please refer to the management report in the Danfoss Annual Report for further information.

## Customers and suppliers



Danfoss aims to have clear lines to all cooperative partners, irrespective of whether they are customers, suppliers or authorities. As a consequence, the group has defined what is expected from employees, including the communication of Danfoss' policy to our business partners.

In some countries in which the group operates, corruption and bribery are widespread. Grey areas surrounding bribery, for instance, can be a challenge. It is therefore of utmost importance that employees who need to deal in such grey areas know how they should act.

There are two areas of particular risk: procurement and sales. To promote awareness of ethical dilemmas in grey areas, Danfoss has developed a dilemma game for sales and procurement which is used when visiting the companies.

Special procedures have been set out for procurement organisation employees and the regulations on acceptance of gifts are more stringent for purchasers than for the rest of the group's employees. This is because by nature procurement involves offers of gifts and that it is in Danfoss' interest to ensure that too close personal relations are not built with suppliers.

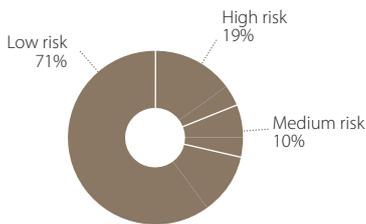
From time to time, visits are paid to factories and sales companies in the group. Workshops concerning anti-corruption are always a part of these visits, the target group being the management, especially within procurement and sales. During 2009, workshops concerning anti-corruption have been carried out in South Asia, Romania and in the US, where the 55 top managers attended a workshop. In total, about 90 managers have been trained in anti-corruption during 2009.

In Romania the visit disclosed that the sales departments were very conscious of avoiding corruption and bribery. Inappropriate expectations are avoided by putting a strong focus on being a trustworthy partner. Further, weight is put on the quality and product certification, which is not common in Romania. And last, but not least, it is also mentioned in the sales process, that Danfoss is the only provider of district heating substations that has its own factory in Romania.

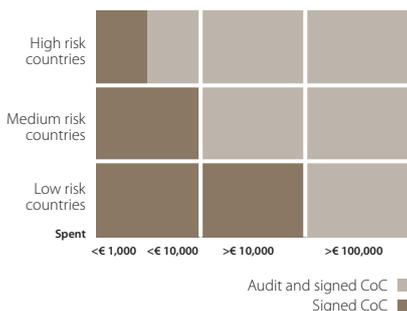
In South Asia the risk of corruption is high and the visit in 2009 showed that the local management has been asked for bribes, which was been refused. For instance, the local management were asked to pay a lump sum, thereby avoiding paying penalties and taxes. The alternative would be a lawsuit, claiming a substantial amount of money in taxes. The local management refused the offer and the tax official levied a huge tax and penalty and Danfoss filed a case in the local court. After having dealt with the case for four years, the court decided the lawsuit in Danfoss' favour and Danfoss' stand of not paying the bribe was vindicated.

In order to demonstrate that Danfoss wants to pursue clean business, an international certified accountant is always hired to present Danfoss' figures to the Tax authority in South Asia, prior to assessment of the accounts. It is a more expensive solution than sending the company's own employees, but is a matter of having a high comfort factor, as well as a matter of not putting any of Danfoss' employees in a situation where improper expectations might arise.

### Distribution of direct suppliers



### Risk matrix



Danfoss has set clear guidelines for communicating our anti-corruption policy to our business partners, so we carry out measurements to establish whether this is actually complied with. The CSR Survey shows that six companies do not communicate the policy: three Danish companies, two German and one Italian; they have all given assurances that they will make sure they live up to the requirements in the future.

### Responsibility in supply chain

In a company context, human rights cover – in addition to the four central labour rights – a good and safe working environment. Companies are, however, not only responsible for their own actions. We believe that we should extend the responsibility to include the parts of our supply chain where we have entered into contracts and, consequently, have a direct influence.

Danfoss has approximately 8,000 suppliers, of which 3,500 supply goods which are included in production. The suppliers are located throughout the world and are operating in areas where respect for human rights and employee rights cannot be assumed. Danfoss has therefore worked systematically over the past six years to heighten the standard of the supplier chain.

All new suppliers are required to sign Danfoss' Code of Conduct, which includes rules for social and environmental responsibility, and current suppliers must sign the Code of Conduct upon renewal of contracts. In 2009, Danfoss' Code of Conduct was reviewed and updated with the right to privacy, among others, and more requirements of environmental responsibility.

Some countries have a lower environmental and social standard, compared with elsewhere. As a result, the suppliers are recorded in a risk-effect matrix, rating all of the countries according to risk levels. "Risk" is the risk that the supplier does not comply with the Code of Conduct and the effect reflects the size of the purchasing.

In 2009, 19% of the suppliers of goods for production purposes were categorised as being located in high-risk countries, 10%

were from medium-risk countries, while 71% were from low-risk countries.

The Danfoss Group's corporate database of Code of Conduct audits reveals that a total of 193 suppliers from high-risk countries, 98 from medium-risk countries and 1,157 from low-risk countries have signed Danfoss' Code of Conduct. Audits were performed at 14% of suppliers in high-risk countries, 7% of suppliers in medium-risk countries and 5% of suppliers in low-risk countries. The percentage share of suppliers audited in high-risk countries has dropped, compared to 2008, primarily due to a major increase in the number of suppliers in these countries.

In 2009, Danfoss Procurement focused on recording the number of signed Code of Conduct and action plans prepared by suppliers. Furthermore, quarterly follow-ups were made on the targets for supplier audits, which were set at the beginning of the year. The corporate database, which contains supplier information, was upgraded to become a new, global database which is more-easy-to-use and is set to enhance the cooperation between Danfoss' business units.

Typical problems established during audits at suppliers are: poor safety precautions, including the lack of emergency exits and fire extinguishing equipment, a lack of personal protection equipment and incorrect treatment and storage of hazardous materials such as chemicals and waste water discharge. The audits always result in the preparation of an action plan which commits the supplier to rectify the matters. Subsequently, Danfoss follows up to make sure that the improvements have been implemented. If the supplier has not made the improvements before a specific deadline, the company in question will cease to be a Danfoss supplier.

In 2009, Danfoss set up the Code of Conduct Steering Committee, an advisory and decision-making function that intervenes when suppliers do not comply with the Danfoss Code of Conduct. The committee aims to make sure that violations of the Code of Conduct are treated consistently. It consists of the group's Chief Operations Officer (COO), the Chief Reputation Officer (CRO), Global Procurement

and the Corporate Citizenship & Compliance function. The Committee met twice during 2009.

Danfoss partnered with an external auditing agency during 2009 that implemented several audits at suppliers in high-risk countries. This revealed child labour at one of the suppliers: a child aged 15, working full-time at a non-hazardous machine. Danfoss' Code of Conduct allows young people between the ages of 15 and 18 to perform work under certain conditions, provided that the local labour minimum age is respected. In this specific case, however, local law prohibited young people under the age of 16 to work, which meant that the child should be sent home. Danfoss examined the details of the case to make sure, among other things, that the child had a family to return to. It showed that the child worked at the factory because he did not want to go to school anymore and because his father had a job at the same factory. Therefore, Danfoss chose to cooperate with the supplier on how to help the child, who wanted to be employed at the factory as soon as he turned 16. A proposal to join a reading/math course was rejected because he wished to be home with his mother until he could go back to work. Danfoss agreed with the supplier that the child was guaranteed work from the day he turned 16. Later, the child decided not to return to work at the supplier, because he found job elsewhere.

In 2009, Danfoss evaluated the group's supplier management, interviewing the purchasers about their conduct: 18% of the purchasers responded that they had rejected a new supplier because the supplier refused to or could not live up to Danfoss Code of Conduct. 10% of the purchasers terminated cooperation with an existing supplier because the supplier refused to or could not live up to Danfoss Code of Conduct.

## Local communities

It is Danfoss' goal to make a positive contribution to the local communities where we operate. Danfoss is a significant workplace for many people in many local communities and, in this way we play an important role for the local employment situation. This has a positive impact during prosperous times; in turn, the effect is negative when financial trends deteriorate.

The global financial crisis has affected Danfoss to a large extent. As a consequence of the crisis and the lack of sales, Danfoss has had to lay off 2,743 employees during 2009. At the end of the year, the total number of employees was 19,623.

During the course of 2009, 840 jobs have been cut in Danfoss Denmark, 570 of these were in Nordborg. A part of this reduction was made possible due to natural withdrawal (early retirement etc.), but a total of 650 employees had to be laid off due to rationalizations, out of which 385 were from Head Quarters in Nordborg. Danfoss is a large employer in the local area, and therefore it has had a clear effect locally. Employees, who were laid off, were given the opportunity to meet individually or in groups with HR consultants. Through courses, the consultants have helped them identify their own competencies and hopes for a future career. The courses have been held by Danfoss and via local government initiatives (AMU, and courses financed by "Varslingspuljen" - a fund established for support in case of mass lay-offs).

During their severance period, laid off employees were also offered counselling with Danfoss HR consultants. These interviews have primarily been focused on helping with the emotional acceptance of the layoffs, as well as counselling on available training, practical help in writing applications, formulating CVs etc.

Danfoss' household compressor facility in Flensburg, Germany, is operating on a very competitive market and the factory has generated a loss for a number of years. Despite the extensive efforts to avoid dismissals, it was necessary to lay off 450 employees. This is a very difficult situation for individuals living in a region where the unemployment rate is high already. Danfoss has set up a transfer company to help the affected employees upgrade their skills and improve their opportunities for finding a new job. In addition, the affected employees are offered the chance to join workshops where personal future plans are developed, and some are offered financial support to compensate for the employee's loss of social status. Some of the measures comply with the German labour market legislation, while others exceed the standard requirements of the law, which reflects the fact that Danfoss is aware of its responsibility towards the local community.

The compressor factory in Crnomelj, Slovenia, is another example of one of Danfoss' major factories located in a small local community. At the end of the year, the factory employed 1,020 people and has had to make 110 employees redundant over the course of 2009. The compressor factory is the biggest employer in the area and recognises its position as a local role model. For this reason, the factory has financially support various causes which support the local development. An example is 'Comenius Eurolink', an international school project organised by the EU, with the participation of schools in Slovenia, Belgium, the Czech Republic and Sweden. Between 20 and 30 Slovene pupils take part in the project, which targets the promotion of international cooperation and cultural understanding.

The factory – along with other local companies in Crnomelj – supports the project 'Clean teeth', which has run over the past few years. Under the project, children in daycares and elementary schools are taught the importance of good health and dental hygiene. Several hundred children participated in the project. In total, the factory has supported various projects in the local area with 42.000 Euro 2009.

In Arkadelphia, Danfoss' Commercial Compressor's factory has been through several lay-offs during the last couple of years. By the end of 2009, there were only half as many employees as in 2006, when the factory employed about 800 permanent and temporary employees. The factory used to be the biggest manufacturing employer in the county, but is now among the 2-3 biggest employers.

In such a situation, employee motivation is critical. To improve focus and improve the atmosphere at the factory, a process has been cascaded down in the organisation where employees themselves have identified the critical tasks for the organisation; a battle plan for survival. The two most important observations cited were needs for better training and communications. Consequently, a plant wide operation's training process to improve how people on the floor are trained is currently being developed.

Clarks County, where the factory is located, has provided Danfoss with USD 20,000 to assist in training education. This has been important stimulus money in a situation where the factory itself did not have the possibility to spend so much money on education and training.

### **Relationship with authorities**

Danfoss attaches great importance to the fact that every company in the group has all of the required authorisations and that no unresolved issues are pending with local authorities.

In Romania, Danfoss has built a new factory which was officially opened in June

2009, and although all relevant paper work has been done in due time, the company has not received all relevant permits yet. The system is based on a principle where the factory must be in operation and everything must be checked and be found in order before issuing the final permits. In January 2010, the Romanian Trade Register has issued the documents attesting the registration of the new name and new headquarters for Danfoss District Heating and now the factory can obtain environmental permits and the like.

Danfoss has for some time been involved with the Russian local authorities concerning an issue on discharge of waste water. The case is reviewed in the environmental section in the Corporate Citizenship Report.

### **Product issues**

To Danfoss, it is vital that stakeholders have trust in the company and our products. Therefore, this necessitates transparency in product issues. In 2009 a Danish sales company recalled a product, because it did not comply with French law. A sub-supplier, which produces a product on behalf of Danfoss, also recalled a product. In addition, a few product instructions have had to be revised and re-launched to avoid any misunderstandings as to how to use the products in question.

### **Corporate Public Affairs**

In 2009, Danfoss registered with the lobby registers in both the EU and USA, continuing to build-up contacts to political decision-makers in the EU institutions and the American Congress, to promote energy and environmental policies.

Danfoss opened its lobby office in Brussels in August 2009 and has, among other things, contributed with information to be used for the phrasing of EU's Energy Performance Building Directive. One of Danfoss' proposals for the requirements was incorporated into the final directive: increase the number of inspections of heating and air-conditioning systems, in order to remove the most energy-consuming products from the market, while

minimising the administrative strain put on member countries and occupants of buildings.

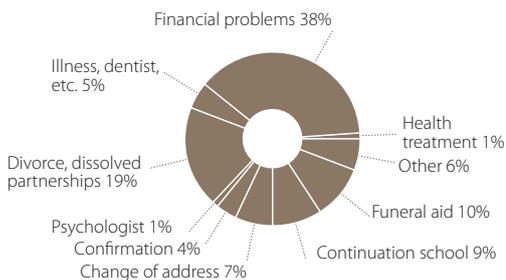
Danfoss has also been pleased to witness that heat pumps and district heating have become central technologies in EU's ambition to obtain 20% renewable energy by 2020.

In the USA, the contact with other interest organisations and political institutions has contributed to obtaining consensus on the phasing out of HFC refrigerants. This has resulted in a draft bill and a US proposal to include the phasing out of HFC in the Montreal Protocol.

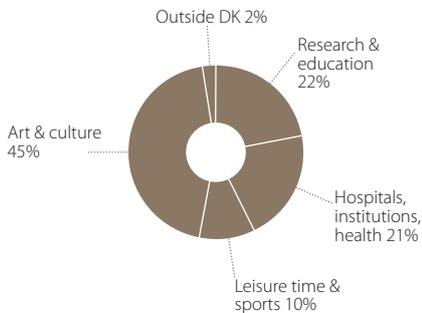
Moreover, a series of symposia arranged by Danfoss help foster discussions about energy and environmental politics by hosting forums where our customers, leaders in the business community and representatives of public-sector authorities can exchange ideas on politics, technologies and solutions that can pave the way for and shape an energy-efficient industrial sector.

## Danfoss and the foundations

### Danfoss Employee Foundation, allocation of grants



### Donations from the Fabrikant Mads Clausen Foundation



### The Danfoss Employee Foundation

The Danfoss Employee Foundation works to provide consulting and financial support to employees in Danfoss A/S, the Bitten and Mads Clausen Foundation, associated companies in Denmark or their Danish subsidiaries. This means that Sauer-Danfoss ApS and Danfoss Universe A/S are included.

In 2009, the Employee Foundation offered financial support amounting to approx. 3m DKK and it dealt with approx. 300 cases. Many of the issues were related to poor financial situations caused by a lay off, divorce or stricter borrowing terms in banks.

The lawyers of the Employee Foundation, who ensure that subsidised legal assistance is available for employees, dealt with around 350 requests.

### The Fabrikant Mads Clausen Foundation

The Fabrikant Mads Clausen Foundation was established in 1960 and grants charitable donations. Over the years, the Foundation has granted considerable support for many different purposes, in particular for activities in the local community surrounding the headquarters in Nordborg. As Danfoss expands and becomes more global, support has been extended to also cover Danfoss' remaining sites in and outside Denmark. The Foundation provides financial support for training and research, Danish cultural enterprise in and outside Denmark, charitable associations and institutions and many other charitable purposes.

In 2009, the Fabrikant Mads Clausen Foundation granted 11.6m DKK to almost 350 recipients, including associations and institutions in Danfoss' local communities such as sports clubs, scout troops, pensioner associations and institutions for people with disabilities, museums, choirs and orchestras. A number of national relief organisations and patient associations also received support.

The Foundation supported various humanitarian and social projects outside Denmark over the course of 2009.

The biggest grant of the year was 1m DKK for Refugees United, which is an independent, non-political and non-religious NGO that develops and maintains a homepage so refugees can make anonymous searches for disappeared relatives and friends.

The financial crisis has only had a minimum impact on the Foundation, because the allocation of funds was adapted to the changed investment climate. Therefore, the grants for applicants in Danfoss' local communities remained unchanged, and the Foundation was also able to support a range of extensive national and international projects.



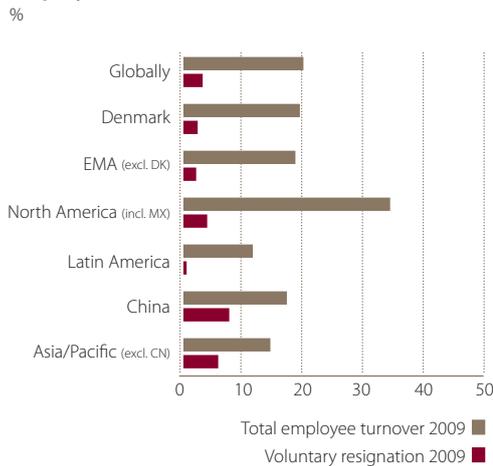
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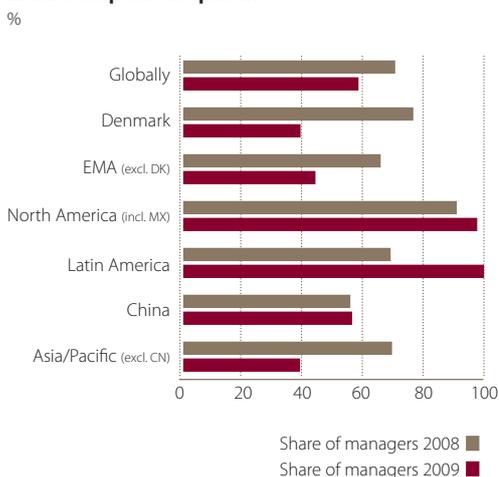
Arkansas  
Arkadelphia

## People

### Employee turnover



### Leadership development



Information and data in this part of the Corporate Citizenship report does not include Sauer-Danfoss

### People at Danfoss

At Danfoss, people policies and processes have one main aim: to add value to the businesses, geographies and functions by supporting the business strategy. The following areas are in particular focus:

- facilitate the development and implementation of company initiatives and leadership
- align people practises and processes globally
- provide the company with integrated, effective and meaningful tools and processes related to people and organisation
- facilitate organisational change effectiveness
- ensure a global single people data management system as the fundament for our people processes

### Cost-saving initiatives

In order to balance the cost level in the organisation with the declining market, a number of major corporate initiatives were put in place in 2009. In addition to helping reduce the cost level to match the expected turnover and retaining critical competencies for the future, these initiatives were put in place to avoid as many redundancies as possible, and retain as many of the group's loyal employees as possible. Locally, other initiatives were also put into place.

At the end of 2008, a global hiring freeze for salaried employees was put into place, which continued throughout 2009. All vacancies in the group were required to be filled through internal redeployment, adjusted working routines or redistributed assignments. In special cases, where none of these options were possible, exceptions for new appointments could be made, but only with the approval of a divisional president or a member of the Danfoss Executive Committee.

Another step taken to in response to the situation in 2009 was a halt in general salary increases for 2009. Local legal requirements and labour market agreements were naturally upheld.

In June, the Executive Committee asked that as many Danfoss employees as possible, on a voluntary basis, agree to buy five extra days off. The initiative was generally well-supported by employees. For example, 97% of salaried employees in the Latin America region supported the initiative, and many other regions also had participation of over 70%.

Throughout the year, employees in many production sites throughout the group have contributed to cost savings through work time reductions and job sharing. For example, in Slovenia, employees in the production and machining departments in Danfoss Trata took flexibility to the next level in efforts to keep cost levels at an absolute minimum while also reducing the need for layoffs. Every week in the first half of the year, production planners and managers, supply chain managers and HR met together to review orders, and determine how many people were needed for the coming week, and plan who would do what. When there was not enough work for employees, they were asked to go home and 'bank' the hours which the company could then use in the high season. Alternatively, they were asked to use their vacation time. Employees rotated jobs in assembly and machining, and so were also able to increase their skills during this period.

### Adjusting the organisation

In addition to the cost-saving initiatives mentioned above, the company found it necessary to reduce the workforce in response to lower global market demand. Wherever possible, these reductions were made through natural attrition and allowing vacant positions to remain open, but in the current market situation, this was not enough. During 2009, 2,743 employees were made redundant globally.

When redundancies are unavoidable, Danfoss takes action to help affected employees. For example, in Denmark, Danfoss HR staff developed individual plans based on interviews with all laid off employees, and provided information on courses and training available. In China, HR staff acted as a liaison between business units to give affected employees the best opportunity to continue with Danfoss. Managers were encouraged to look at internal candidates and talents. By publishing frequent job vacancies and actively encouraging employees to apply, 124 production employees and 89 salaried staff made an internal transfer.

### Leading through turbulent times

Danfoss top management knows that in order to achieve the ambitious business goals, and to lead employees successfully during turbulent times, managers' leadership competencies need to continuously be developed.

To help our leaders and businesses address the issues resulting from the current business climate, a number of simple workshop tools were developed and implemented. These tools were designed to help prevent the organisation from getting stuck in a costly "downsizing syndrome" and help prevent the loss of motivation among employees. By assisting leaders in motivating and re-energizing their people the tools also helped boost performance orientation.

At Danfoss Drives, the organisation needed to refocus – leaders had been under pressure for a long time. The HR team, together with Danfoss Drives top management, decided to run workshops for managers both in Graasten, Denmark and Loves Park, USA, to help leaders deal with their own reactions, and focus on moving forward and creating trust and motivation in their departments. The three-hour workshop, which included direction setting from top management, focused on:

- understanding the dynamics of change
- understanding how turbulent times effect individuals, teams and organisations
- looking at important leadership tools to create positive progress in the organisation.

Feedback from the workshops was positive.

### Engaging and motivating Employees

Danfoss is strongly convinced that employee satisfaction and motivation has a

direct influence on the level of absence rates, voluntary employee turnover as well as employee engagement. The company also believes that good leadership and focus on employee development are main factors for raising the level of satisfaction and motivation.

Danfoss' history spans more than 75 years – and the group is taking the Danfoss story to employees around the world to help build understanding for employees located far away from headquarters. In 2009, about 900 employees heard the Danfoss story, in Poland, Germany, Brazil, the United States and Mexico.

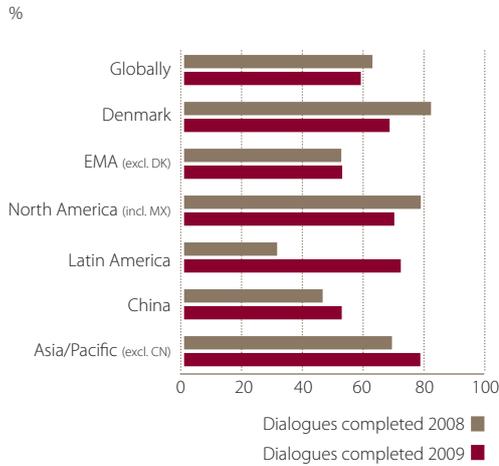
Local employees are appointed story tellers and story keepers, and it their role, both to tell the Danfoss story to employees and visitors, but also to make sure that the Danfoss history in the local site is captured and collected.

### Employee Perception Survey

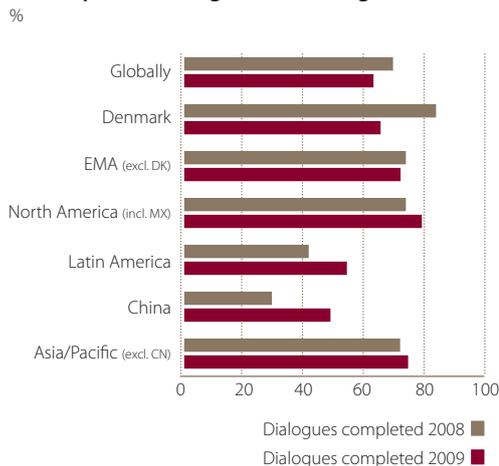
In the autumn of 2009, Danfoss carried out an Employee Perception Survey, to measure employee engagement in the group. The group results show that despite the current tough economic and financial situation, employees at Danfoss show remarkable support for the company. The overall Engagement among the employees is at a high level of 73 out of 100. This is also confirmed by the very high share of employees who participated in the survey (87%). The survey shows that



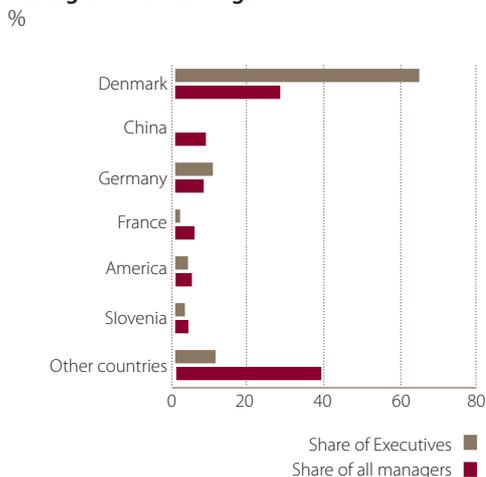
### Employee Development Dialogues



### Development dialogues for managers



### Managers national origin



the levels are basically unchanged in comparison to EPS 2007. This is positive due to the different macroeconomic conditions in 2007 and 2009. Particularly notable are the very high levels of *commitment and loyalty*, which are significantly higher than the average that our survey vendor has measured in 21 countries worldwide.

There are a number of focus areas that the survey points out. The employees' evaluation of the overall leadership practiced by the Management at Danfoss has fallen. The high levels from 2007 have now dropped to a more average level. Employees also feel that they have fewer opportunities for professional and personal development, and that there is less attention given to their development and their competencies development. Group management, as well as management at all levels of the organisation, is committed to working with the results of the survey to help improve employee engagement in the group, and Danfoss as a workplace.

### Supporting the development of a high-performing organisation

The global HR organisation focuses on developing a culture which drives performance improvements. Strategic HR at Danfoss focuses on improvements to Key Performance Indicators, including Leadership, Absence Rate, Voluntary Turnover, Employee Satisfaction and Motivation and Employee Development.

### Performance reward to motivate employees to outstanding results

Another key aspect of supporting the development of a high performing organisation is ensuring that performance is linked with employee compensation and reward to help motivate, attract and retain employees.

In 2009, the group continued the three-year implementation process for a revised performance reward system.

As part of the implementation process, a one-day manager workshop outlining the principles of the system was rolled out throughout the organisation. 920 managers in 28 countries were trained in the performance reward concept in 2009 and training continues in 2010.

The Employee Perception Study in 2009 again revealed that employees do not see a link between their efforts and the rewards they receive. The performance reward system, and training of managers, is seen as a step to ensure alignment in this area.

### Developing employees

One of Danfoss' most important tasks is to make sure that strategy and objectives are translated into concrete, relevant work assignments for employees. Danfoss has therefore established a systematic process for dialogue between the leader and the employee.

59% of employees completed an employee development dialogue in 2009. The result can be partially attributed to the turbulence in the organisation, major and far-reaching organisational changes, and the high employee turnover rate. At the same time, the company is committed to making sure that employees and managers take the time to have an honest discussion about strengths and improvement areas, and in 2010 a process will be implemented to address the issue.

63% of managers held development dialogues with their own immediate managers in 2009, and will also be addressed in the same process.

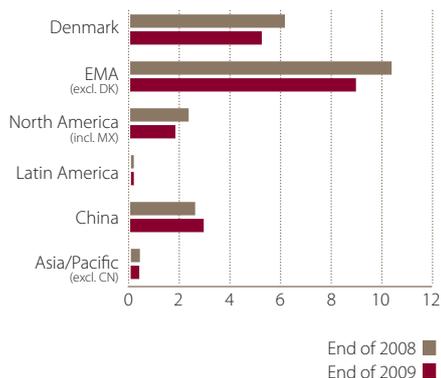
### Identifying and retaining our best people

Motivating and nurturing talent as well as identifying and developing the talent form a critical cornerstone necessary to meet Danfoss' business goals.

Talent identification and development is the responsibility of the individual leader, but HR provides guidance and tools in the form of Danfoss Talent Management.

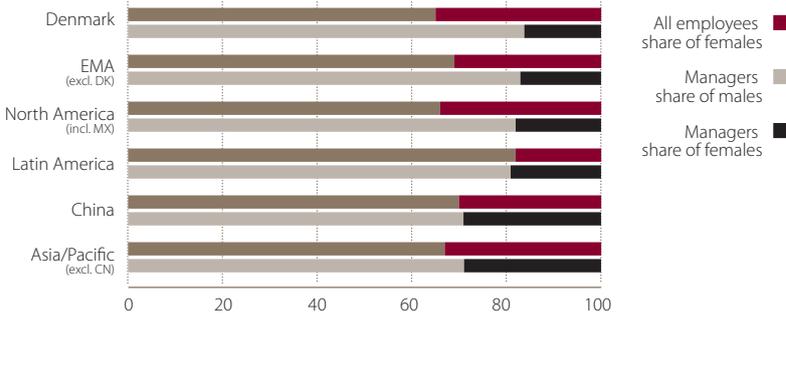
## Headcount

Number × 1,000



## Gender

%



Bright Green Talent Development Process 30 Danfoss technology talents – 20 global talents and 10 Danish apprentices - joined a learning process to investigate the barriers to using proven energy-efficiency solutions to the global climate challenge to their full potential. The process was kicked off with an Energy Efficiency Race in connection with the Bright Green Expo that took place during UN's global climate conference in December. During the Race the 30 participants identified non-technological barriers and explored how to break them. In 2010, the learning process will continue. Over a six-month period, participants will share their experience in the organisation, engage with relevant people to take it further, and consolidate insights to relevant ideas for their part of the business. The process is part of Danfoss' quest to keep learning to maintain our position as leading competence centre within energy efficiency.

### Senior Talent Process in China

China is Danfoss' 'second home market' and to put senior talents in China into focus, a dialogue process was initiated with senior talents. This process was the basis for a discussion at the Danfoss China Board meeting in June about senior talents in China. The conclusions of the discussion included focusing on finding opportunities for individual senior talents outside of China, so they could gain necessary international experience, and to focus more on developing and identifying

potentials within the Danfoss China organisation.

### Focusing on the long term: Building competencies throughout the organisation

Building employees competences through on-the-job training and other courses and education is crucial in the sharpened global competition. Danfoss views it as a life-long process and is committed to supplementary training for employees. Training also improves employees' adaptability and employability. In 2009, Danfoss invested 51m DKK in external supplementary training, which is a decrease compared with the year before, caused by the challenging market situation. At the same time, managers and employees were encouraged to look to a wide range of internal training and supplementary training activities.

In 2009, the Global Education and Training function registered 1,827 participation days compared to 3,196 participant days in 2008.

The Danfoss Business System organisation also focuses heavily on training employees and managers throughout the group in order to develop a strong culture of continuous improvement. In 2009, training focused on leadership training, program training, train-the-trainer and tools training. In addition, the DBS Academy also provided competency profiles and personality profiles for work within the training. In

total, 5,863 training days were completed in 2009, compared with 3,900 in 2008, an increase of 51%.

### Data foundation for future processes

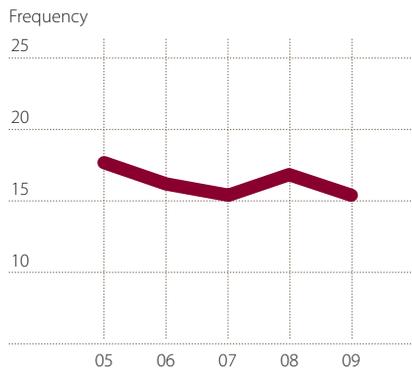
Danfoss is in the middle of implementing a global data system for HR data, Master Solution. The goal of Master Solution is to create a valid data foundation for future global Human Resources processes. By adjusting the global HR system to country specific needs, data administration will be reduced by streamlining data and data accuracy. In addition, a Compensation Management module is all being rolled out.

### Employee figures

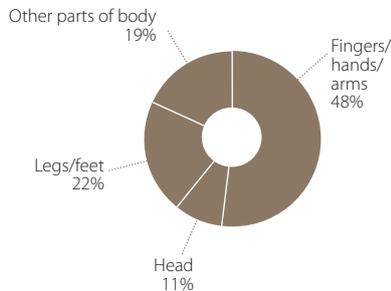
At the end of 2009, Danfoss Group (not including Sauer-Danfoss) employed 19,623 people, which is a decrease compared to 22,133 at the end of 2008. Total employee turnover was 20.2%, a slight increase compared with 19.5% in 2008, but in 2009 the majority were Group-initiated as a result of the global economic situation. Voluntary turnover was only 3.8%, compared with 6.8% in 2008 and 7.8% in 2007.

## Working environment and safety

### Accidents with absence



### Distribution of accidents



In order to run a sound and efficient company, you need a healthy and safe working environment. Making sure that all employees are thriving and are not exposed to work-related danger is deeply rooted in Danfoss' culture.

Every company prioritises working environment and safety. Danfoss' working environment policy defines the issues and target areas that the business units must address. The policy establishes that our business activities must be planned and executed in consideration of the employee, the working environment and the external world.

Around a third of Danfoss' factories worldwide have been certified according to the working environment standard OHSAS 18001, while the remaining are set to incorporate working environment and safety in their environmental activities as in accordance with the ISO 14001 standard. In Denmark, 80% of the factories are certified according to OHSAS 18001.

### Work accidents

The number of work accidents has dropped over the past 10 years. In 1999, the rate exceeded 28 – over the past few years, it has remained at around 16-17. In 2009, the accident rate dropped to 15.5 from 16.8 in 2008.

In 2009, Danfoss had 254 accidents in production and warehouse facilities, where the resulting absences amounted to at least one day, in addition to the day when the accident took place. This equals a drop of 23%, compared to 2008, when the number was 330.

The injured employees were absent for a total of 5,048 days, corresponding to an average of 19 days per accident. In 2008, the average was 20 days per accident.

In the course of 2009, there were 19 accidents among office employees at 19 companies. 10 accidents resulted in one to four days' absence, six accidents resulted in five to ten days' absence and three resulted in more than 20 days' absence. The maximum was three accidents per company. The accident rate of office employees is estimated to be around two, considering that no exact record exists of the total number of office workers' working hours.

In 2009, none of the work accidents at Danfoss' companies led to death.

Six of Danfoss' factories had accident rates which exceed 40, of which two – Danfoss Socla in France and Danfoss Semco in Denmark – had accident rates which equal or exceed 100.

62% of the work accidents in 2009 were less serious, with less than ten days of absence, which is slightly more than 2008. The remaining accidents were more serious with absence rates exceeding ten days, of which 57 accidents resulted in the employee being absent for more than 20 working days. In 2008, this figure was 86 accidents.

Hands and fingers remain the most exposed to injuries, accounting for 121 accidents. This number equals almost half of the accidents. 11% of the accidents resulted in injuries

to the head, whereas the leg/feet and the remaining body parts represented 22% and 19% of the accidents, respectively. These figures are, on the whole, unchanged compared with previous years.

### **Targeted safety measures**

Targeted efforts to improve safety at Danfoss' factory in Mexico led to an impressive outcome. Key words in the process were management focus, continuous focus on safety at all levels and very structured follow-up procedures.

In 2005, the factory had 39 work accidents. In 2009, this figure had dropped to four. The implementation of 5S (systematic method to improve tidiness and eliminate potential mistakes), the factory's zero-tolerance policy regarding accidents as well as the extensive use of internal audits caused the major improvements. The management meet every month to discuss safety, following up on the results achieved and initiating any required improvements. Each quarter, all of the employees are gathered and presented with the outcome of the safety activities and next quarter's improvement objectives.

### **No hearing protection, no bonus**

Employees at Danfoss Qinbao in China, who produce heat exchangers, were reluctant to wear hearing protection, gloves or safety shoes. However, this has changed, thanks to a bonus system which couples safety and 5S rules, which focus on tidiness and order. Each week, the factory carries out audits focusing on good order, tidiness and safety.

The local version of 5S fully integrates safety into the bonus system, and productivity and waste are also included, with the result that the bonus is reduced if the employee does not wear the required personal protection equipment. Following the introduction of the system, the factory management has recorded an improvement of the safety, reflected in the reduced number of work accidents.

The parts for heat exchangers are processed in large machines under high pressure. Last year, there were three accidents at the factory and work has started to clarify how to prevent that kind of accident.

In 2009, a tour of the factories revealed that employees at Danfoss in Romania did not use the required welding protection equipment. The preparation of an action plan was immediately initiated and all welding and assembly supervisors have received training in the importance of using and monitoring exhaust during welding.

The workers at the welding and assembly line have been trained in the importance of local exhaust ventilation and checks have been made to ensure that suction exists in all parts of the factory.

### **The H1N1 pandemic**

The H1N1 pandemic left its mark on 2009; first, in Mexico, then across the USA and ultimately, spreading to the rest of the world. The influenza broke out in February 2009 in Mexico, with a good deal of uncertainty as to the seriousness of the influenza epidemic.

As it spread, it was clear that it was equivalent to the seasonal influenzas recurring during the winter, maybe even slightly less serious.

In the course of summer, Danfoss examined the prevalence of the disease among the group's employees worldwide in order to establish an overview of the disease and the gravity of illness. It was revealed that the infection rate was relatively modest and that only a low percentage of the employees were hit. Only very few serious cases were reported.

Prevalence on the northern and the southern hemisphere was almost the same and nowhere did the H1N1 pandemic result in any considerable interruption of the production in any of the Danfoss companies. Danfoss continues to monitor the incidence of H1N1. Other infectious diseases, which may result in losses on behalf of the company or problematic situations for its employees, are also monitored closely.

### **Violations of working environment regulations**

Two violations of the working environment regulations were recorded in 2009, resulting in local authorities imposing directions. One violation was reported by Danfoss in Silkeborg, Denmark which was required to set up additional safety measures on a machine.

At LPM in Finland, an employee had a minor accident at an excenter press in June 2007. Subsequently, the matter was brought before the court and the ruling was not made until 2009. The court imposed 20 day fines on each of two production managers and payment of Danfoss' share of legal costs. Danfoss was sentenced to pay 2,800 Euros to the injured person for suffering and damages.



## Climate and environment

Danfoss is a global industrial group with strong competencies within energy-efficient solutions. Since its foundation in 1933, the group has based its work on the fundamental respect of efficient use of Nature's resources. The philosophy behind the first Danfoss products was to make optimal use of energy while minimising waste, in the best way possible.

Danfoss' three key competencies are the heating of buildings, refrigeration techniques and energy consumption control in electric engines. With this as its firm platform, the company is constantly searching for new areas where it can contribute to making the technology of modern life work even more efficiently.

District heating, heat pumps, floor heating systems, solar energy, the cooling of food in supermarkets, air conditioning and the control and monitoring of water supply are only a few examples of business areas which stem from Danfoss' key competencies and where energy can be saved when using the right solutions.

According to Danfoss' simple philosophy, money saved today through reduced energy consumption is money that can be invested in green technology in the long run. And the solutions to energy savings already exist. With existing and well-proven technology, it is possible to immediately cut the energy consumption in a range of industries and societal sectors. The environmental issues described in the following pages have been singled out because of their significance and importance to Danfoss' reputation and the company's customers.

Danfoss has chosen to review the company's role in and activities relating to the COP15 climate summit, which was held in Copenhagen in December 2009, given that Danfoss was an official partner and sponsor for the

summit. In conjunction with these activities, a number of cases about Danfoss products and services are reviewed which particularly impact the company's or the customers' emission of CO<sub>2</sub>.

Finally, this section includes a review of the company's own emissions and other significant impacts on the external surroundings or the working environment at the factories. In this context, the materiality concept covers the largest quantities, most hazardous substances or the largest risks to the environment or people.

### Danfoss' internal work with climate

The climate strategy is based on the 3x25 objective, with which Danfoss aims to reduce the absolute emission of CO<sub>2</sub> by 25% and increase the share of renewable energy by 25% before 2025. The target figures are absolute and are measured relative to the emission in 2007.

The basis for the climate strategy (baseline) is the sum of CO<sub>2</sub> emissions caused by Danfoss' production of electricity and heat as well as emissions caused by energy purchased (electricity and district heating) as well as emissions caused by business trips and the transport of products to the customer. In its baseline of the climate strategy, Danfoss did not include emissions in the supply chain (e.g. extraction of raw materials, production at suppliers and transport of raw materials) and the emission of greenhouse gases due use of products is not included in the calculations. These emissions are, however, documented to a certain extent using the cases in the Corporate Citizenship Report.

In 2007, 250,000 tons of CO<sub>2</sub> were emitted and by 2025, this is set to be reduced to less than 190,000 tons, independent of the fact that Danfoss' activities are expected to increase considerably in the period until 2025.

For our efforts to reduce the CO<sub>2</sub> emissions to bear fruit, it is necessary for us to focus on the reduction of emissions caused by acquired energy, own production of energy and the transport of products and employees.

The energy-saving projects, which were initiated in 2007 and 2008, remained in focus in 2009. The projects were implemented at factories in Slovenia and Germany.

The project in Slovenia was concluded in 2009, resulting in savings which exceeded expectations. Thanks to the project, the power consumption was reduced by 5.5 million kWh, corresponding to more than 17%, and together with gas savings, the total annual reduction of CO<sub>2</sub> emissions amounted to approx. 5,200 tons.

In Germany, savings reached approx. 5 million kWh in electricity, 4.5 million kWh in district heating and 2.3 million kWh in oil. The savings equal approx. 3,500 tons of CO<sub>2</sub>.

The savings obtained exceed the result due to the decrease in activities. In addition to the CO<sub>2</sub> reductions, the projects were financially profitable, considering that the savings generated by the projects exceed 1.2m Euros a year, with the payback time being less than two years.

In 2009, Danfoss launched projects at even more factories. Danfoss Commercial Compressors' factories in Reyrieux and Anse, France, targeted savings of approx. 5% on the power consumption, compared to 2008. This corresponds to approx. 1.4 million kWh in electricity. The project will conclude in 2010.

In January 2010, Danfoss Drives implemented efforts to reduce its CO<sub>2</sub> emissions in a project where the Danish factories in

Gråsten and Tørsbøl aimed to cut 20% off their energy consumption, compared to the consumption in 2008. This is set to generate savings of 2.5m DKK, corresponding to 1,250 tons of CO<sub>2</sub> – which is more than 1 tonne per employee. It will be a three-phase project and the project management expects to complete the project in 2011. The project is the first to be launched at Danfoss' factories in Denmark.

During 2008 and 2009, Danfoss implemented a so-called "Montage™ Utility Management Information System" in five of the ten largest factories in terms of energy consumption. The system benefits include data collection and analysis and it facilitates target control. All users worldwide can gain access to the system via a centrally placed server. The target is for the largest production units in Danfoss, who represent more than 90% of the total energy consumption, to make use of this web-based system, which also has been implemented for use by a range of key customers.

### **Climate summit in Copenhagen**

Danfoss was an official partner of the COP15 meeting which was held in Copenhagen in December 2009. Danfoss was the only company within our industrial field to be permitted to use the official "COP15 partnership logo" throughout 2009 on banners, stationary, in brochures and on homepages.

At the end of 2008, Danfoss joined as one of three main sponsors of the Climate Consortium, a partnership called OPP (public-private partnership consisting of several ministries, commercial organisations and three privately-owned companies), whose job it was to raise the image of Denmark and Danish climate solutions up until and during the COP15. In 2009, Chief Reputation Officer Ole Daugbjerg sat on the board of the Consortium. Through the cooperation with the Climate Consortium, Danfoss gained additional impact for its core message relating to energy efficiency as a solution to the CO<sub>2</sub> challenge and in the synergy with other Danish solutions.

The Danish hosting of the Climate Summit and, not least, the work of the Climate Consortium meant that interest in Danish climate and energy solutions increased substantially.

### **Common sense using well-proven technology**

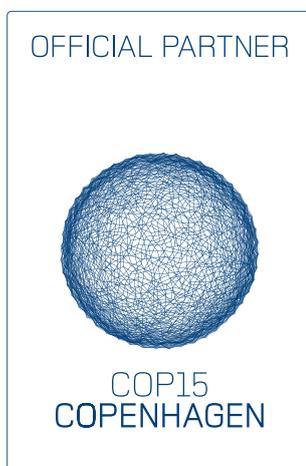
In its capacity as one of the world-leading knowledge centres of energy-efficient solutions, Danfoss has chosen to put focus on how existing technologies can help save energy and reduce the emission of greenhouse gases here and now, through relatively few investments.

The overall theme of Danfoss' activities during the climate summit was "Solutions Ready". Prior to the climate summit, Danfoss created a dedicated website ([www.danfoss.com/SolutionsReady](http://www.danfoss.com/SolutionsReady)) on energy efficiency and the climate debate, featuring newspaper articles, blogs and videos which illustrate the potential energy savings using existing technology and common sense.

Good examples from Danfoss included: radiator thermostats that save 80 litres of oil annually; frequency converters that halve the energy consumption in electrical engines; and ADAP KOOL® systems which control energy consumption in supermarkets, typically cutting energy consumption by 20%. These examples represent solutions which build on common sense and well-proven technologies and which still have an enormous untapped potential on a global scale. Half of the Kyoto obligations for Europe could be reached simply by installing thermostats on all radiators.

### **Energy savings are the first important step**

Newly developed products, innovations and greener energy sources are not necessarily prerequisites of realising the climate targets agreed upon globally, but the money saved





by reducing energy consumption through existing solutions is an essential foundation for society's ability to invest in development and research in new technologies.

Danfoss is at the forefront in terms of developing a long range of the green energy sources of the future and we are in the process of establishing promising business units within solar inverters, heat pumps and components for the wind turbine industry.

Over the next years, Danfoss, like many other companies, intends to find out why well-proven and well-documented energy-saving solutions are not spreading faster, considering that existing technologies allow energy consumption to be reduced with immediate effect.

### **The road to Copenhagen**

Denmark, Copenhagen and Danish climate solutions became the centre of massive international attention in the year leading up to the climate summit.

Being one of three main sponsors of the Climate Consortium and as an official partner of COP15, Danfoss played a key role in many of the activities carried out in the period until and during the climate summit:

### **Energy Tours**

In cooperation with Danish ambassadors worldwide, guests from outside Denmark paid a visit to Danish companies in Denmark. Danfoss particularly focused on local, political decision-makers, energy supply companies and journalists. Since the first visit in March 2009, we hosted a total of 19 group visits. In this connection, 117 people from 25 countries visited

Danfoss – the majority came from China, the USA and Russia.

### **Energy Map**

The website Energymap.dk was launched by the Climate Consortium at the beginning of 2009 to put the spotlight on Danish companies and their climate solutions. Danfoss appears on the site, presenting many specific examples of product and application solutions as well as energy efficiency review using cases.

Energymap.dk is expected maintained and developed over the next years, and Danfoss aims to be an active co-player in the visualisation of its relevant solutions.

### **EE Global Forum in Paris**

Over the past years, Danfoss has supported the North American organisation, Alliance to Save Energy (ASE), which shares Danfoss' views on solutions aimed at solving the climate challenges. So, it was natural for Danfoss to join ASE's first conference and exhibition organised outside the USA.

With Danfoss CEO Niels B. Christiansen as a speaker and an exhibition stand, the event was similar to a trial run ahead of the activities which marked 2009.

### **World Business Summit on Climate Change**

This international conference, which was held in Copenhagen and with the participation of political and business top leaders, was concluded with a recommendation for the COP15 meeting, called "the Copenhagen Call", and the publication of "the Danish Carbon Case", which was headed by Danfoss and seven other Danish companies. The publication highlighted the

fact that Denmark, since 1980, has had financial growth amounting to more than 80% and nearly zero-growth in energy consumption.

### **Nordic Climate Solutions**

Danfoss took an active part in this major event which was held prior to the COP15, which included conferences, workshops and exhibitions in the Bella Centre in Copenhagen. On the exhibition front, Danfoss cooperated with two other partners within the field of energy-efficient construction (Grundfos and Velux).

### **Bright Green Youth: climate summit of youth**

Danfoss was there when 500 young people from all over the world gathered in August in 2009 at a major international climate conference in Sønderborg, Denmark.

During the three-day conference, the 500 participants between the ages of 14 and 18 exchanged views on concerns, problems, facts and possible solutions to the global climate changes. International researchers and experts also attended to offer their knowledge, including a team of engineers from Danfoss.

The outcome was 14 creative proposals for achieving energy savings and CO<sub>2</sub> reductions in daily life – the proposals were submitted to the Danish Prime Minister at the COP15.

Bright Green Youth was arranged in cooperation between Danfoss Universe, MS Action Aid Denmark and ProjectZero.

### Bright Green Expo

The commercial event of the COP15 was Bright Green Expo, which was held in Copenhagen on December 12-13. Danfoss attended, presenting examples of well-proven, existing solutions and the message that the industry has much to learn in order to be able to operate in the green economy of the future.

Danfoss took part in Bright Green with stands, fictitious lawsuits, the Energy Efficiency Race, talks by Danfoss CEO Niels B. Christiansen and discussions with the many visiting stakeholders.

A total of 15,000 people from all over the world visited the exhibition, where companies and organisations worldwide displayed their solutions to the climate challenge.

Danfoss had two stands at Bright Green; one with examples of well-proven solutions that can save millions of tons of CO<sub>2</sub> here and now; and one with focus on district energy.

Thirty young technology experts from Danfoss also took part to examine the barriers which prevent well-proven energy-efficient technology to be fully spread. They found that social factors such as communication and inter-professional cooperation are key to the process. The event was the kick-off of a learning process in Danfoss in which the 30 participants and their colleagues will undergo throughout 2010.



### Danfoss' climate competencies

Retail stores can typically reduce the CO<sub>2</sub> emission by 30% if they use Danfoss' solutions to replace synthetic refrigerants by natural CO<sub>2</sub> refrigerant. 30% corresponds to a reduction of 150-400 tons of CO<sub>2</sub> in a supermarket.

Synthetic greenhouse gases are used as refrigerants in cooling systems worldwide and make a considerable contribution to CO<sub>2</sub> emissions and global warming as a result of leakages. Danfoss leads the market within solutions which make it possible to replace the synthetic greenhouse gases by the natural refrigerant CO<sub>2</sub> in a number of industrial sectors.

In Europe, around 5% of retail stores selling food have fully or partially replaced synthetic refrigerants with CO<sub>2</sub>. As for the remaining parts of the world, only very few have taken this step. Denmark is a good example – here, all newly built and reconstructed shops use CO<sub>2</sub> as refrigerants, since Danish regulations on the use of refrigerants has enforced the amendment.

With more than ten years' experience in developing CO<sub>2</sub>-based compressors, Danfoss has supplied solutions to a large proportion of the CO<sub>2</sub> systems installed in retail stores throughout the world. In addition to delivering components, Danfoss also contributes by building up the retail chain's knowledge about CO<sub>2</sub> technologies.

In addition to reducing CO<sub>2</sub> emissions, the new CO<sub>2</sub> systems have proven to be equally efficient or even more efficient than systems with conventional synthetic refrigerants.

### Thermostats save 50 millions of tons of CO<sub>2</sub>

On a global scale, around 350 million Danfoss radiator thermostats are installed and each of them saves approx. 100 kilos of CO<sub>2</sub> annually. However, in Europe alone, around 500 million manually operated radiator valves remain.

This means that 50 million tons of CO<sub>2</sub> emissions could be avoided each year, simply by installing a thermostat.

### Major energy savings in industry

Industrial production uses 27% of the total energy consumption in the EU. This is the reason why such a huge potential exists in making factories run even more efficiently. According to Danfoss Solutions' previous findings, it is feasible to help large industrial



production units cut 15-20% off the annual energy consumption within a period of one, two or three years by implementing a few, very simple changes.

### **District heating makes better use of energy**

District heating is one of the areas that represent a major untapped potential. Large-scale benefits can be obtained by connecting an entire city to the same energy source, instead of having decentralised sources in each building. The decisive factor is the ability to use the excess heat, among other things, that is generated through the production of electricity in particular.

The advantage of district heating is a particularly efficient use of heat supplied to residences which are in close proximity to each other. All fuel sources – bio-mass or solar heat – can heat the water in the district heating network, so in principle, district heating supply can be entirely CO<sub>2</sub>-neutral.

Danfoss' district heating business supplies heat distribution systems for both large buildings and for privately-owned houses. If EU member countries increase the share of district heating from the current six to 12%, it would result in annual savings of 400 million tons of CO<sub>2</sub>.

### **Wind energy**

A wind turbine looks like a simple construction in the landscape: a tower and three wings. However, a wind turbine consists of 8,000 components – and

Danfoss can supply a large proportion of them.

Danfoss supplies heat exchangers for the cooling of the top of the turbine to Vestas, the world's biggest manufacturer of wind turbines, and the world's third-largest wind turbine manufacturer, Spanish Gamesa, has selected Danfoss Industrial Automation as the sole supplier of temperature sensors to be used in the development of their next generation of wind turbines. The sensors measure the temperature of the bearings in the main shaft.

Several other Danfoss products can also be used on wind turbines: Danfoss Silicon Power's power modules for use in the wind turbine converters, transforming the turbine-generated electricity into power for the power supply; and Danfoss High-Pressure Systems used to extinguish fires in the turbine. Finally, Danfoss Drives frequency converters control different motors installed in the turbine.

Wind and solar cells are well-known sources of renewable energy and heat pumps are also expected to be included in this category over the next few years. Over the past three years, Danfoss has acquired six heat pump producers located in Europe.

Over the past 12 months, the EU has worked to define the climate targets of the future. The renewable energy target is set to be reached through a directive concerning renewable energy, called RES, which is an element of the EU's climate

package. The adoption of the RES directive means that, going forward, heat pumps and district heating will be considered sources of energy which supplies renewable energy and which the EU member countries will focus on.

Heat pumps contribute to reducing the CO<sub>2</sub> level, compared to fossil energy sources. Moreover, heat pumps use the cost-free solar heat as a significant proportion of the energy production, supplying more energy than it consumes.

### **Three cases about energy savings**

#### **Energy savings in supermarkets**

In 2009, Danfoss installed energy-efficient solutions in major supermarket chains worldwide – in 230 shops in United Kingdom and 100 shops in Australia, among others. The supermarket chains are aware that investments in energy savings can help them get through a period of decrease in consumer purchases. Danfoss' solutions, called ADAP-KOOL®, have so far resulted in energy savings of an average of 15-20% in the shops. The ADAP-KOOL® solutions covered a central monitoring system, among other things, which registers data on the different cooling, lighting and air-conditioning units and optimises and adjusts their energy consumption on an ongoing basis.

#### **Brewery saved 1 million Euros**

Over the past year, Portugal's largest drinks producer, saved over 1m Euros by reducing the energy consumption at its largest beer brewery. The savings were the result of



a three-year partnership with Danfoss Solutions, which helped the producer improve its control of the energy consumption and the processes affecting it.

The brewery cut 18% off the total energy consumption, corresponding to an annual CO<sub>2</sub> reduction of 3,400 tons. The results were achieved through an improved awareness of energy consumption and through the implementation of new systems and technology solutions. The employees are now focusing on saving energy as part of their daily work. The brewery also reached some of the biggest single savings by improving the steam consumption when brewing the beer and by optimising the refrigeration system using 25 VLT® frequency converters, among other things.

The largest beverage producer in Portugal, UNICER, owns the brewery and Danfoss has made several agreements with them concerning energy optimisation at breweries and mineral water factories.

### Energy optimisation in Danish municipalities

In 2009, Danfoss entered into agreements with ten Danish municipalities for the optimisation of existing heating systems in selected buildings. Experience shows that, this way, the heating consumption can be reduced by between 15 and 25% with an investment, which is typically paid back in less than one year.

One of the local authorities is the Sønderborg municipality which made an EnergyTrim™ agreement with Danfoss in August 2009. Under the agreement, the municipality's heating system is reviewed and optimised over the next three years. So far, 70 of the municipality's geriatric care facilities, primary and lower secondary schools and day care facilities are covered by the agreement and they expect to save a total of more than 1m DKK annually on the heating bill.

The agreements with the municipalities include Danfoss' EnergyTrim™ concept meaning that Danfoss' technicians review the heating and tap water systems, adjust the systems for optimum use and point out any defect or worn down components. The technicians return several times each year to trim the heating systems and, thereby, they make sure that the energy consumption continuously decreases.

### Danfoss recognised in the USA

In December 2009, Danfoss was honoured in the American Parliament, Capitol Hill, by the American department of energy. The ceremony was attended by 32 companies from across USA, receiving recognition as "Save Energy Now Leaders" for their contribution to the goal of reducing the energy consumption by 25% during the next ten years.

The initiative "Save Energy Now Leader" was set up as a voluntary programme with the purpose of establishing a partnership with industry and contributing to the fulfilling of the objectives of the "American Recovery and Reinvestment Act" by reducing industry's consumption of energy and the emission of CO<sub>2</sub>.

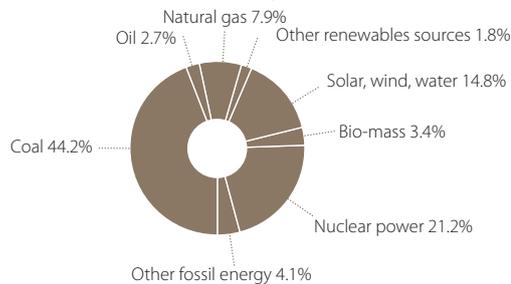
In addition to Danfoss, others were also recognised as leaders within energy savings: 3M, Honeywell, Nissan and Trane, among others.

Danfoss in the USA has worked closely with the American department of energy and the Alliance to Save Energy to market energy efficiency and launch the far-reaching Energy and Climate Change Bill, which is being considered in the US Senate. Danfoss was one of the 100 companies invited to the White House Clean Energy Economy Forum at the end of October.

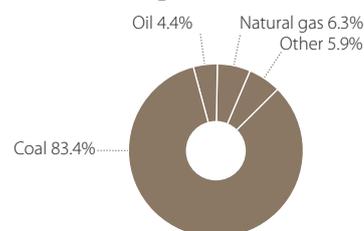
### Carbon Disclosure Project

At the beginning of 2009, Danfoss was contacted by one of our key customers, encouraging Danfoss to report on the company's climate activities and emission of CO<sub>2</sub> to the Carbon Disclosure Project's Supply Chain Program.

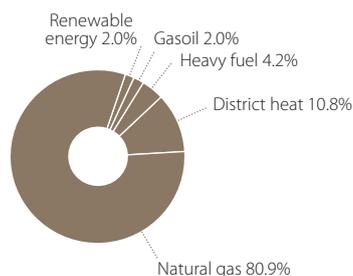
### Consumption of electricity per source



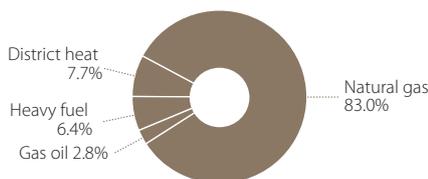
### Sources for CO<sub>2</sub> emission from electricity



## Consumption of other energy



## Sources of CO<sub>2</sub> emission from other energy



In many sectors, such as within the retail sector, IT and quickly marketable consumer goods, the emission of CO<sub>2</sub> caused by supplier activities often exceed that of the producers. The Carbon Disclosure Project provides companies with knowledge about their carbon footprint (emission of CO<sub>2</sub> per produced unit) by moving the focus from mere measurements of direct emissions of greenhouse gases to also to include climate changes and the suppliers' climate-related risks and opportunities across the supply chain.

The Carbon Disclosure Project ensures that the companies which join the Supply Chain programme, get a coherent picture of the supply chain's CO<sub>2</sub> emissions and, at the same time, that the emissions are made public for the benefit of other companies. The collected information is applied by the top management in more than 40 of the largest organisations worldwide. One of the main objectives of the Supply Chain programme is to drive the climate activities performed by purchasers and their suppliers.

Danfoss reported its climate strategy, emissions of CO<sub>2</sub> and the challenges and risks that the company expects to face in the course of the next years. Together with Danfoss' expectations for the development of new markets of climate and energy-efficient solutions, the report to the Carbon Disclosure Project forms a solid foundation for our future work with the climate strategy.

Information on the Carbon Disclosure Project is available at: [www.cdproject.net](http://www.cdproject.net) and Danfoss' reporting is available at: [http://www.danfoss.com/AboutUs/Corporate+Citizenship/Climate\\_change](http://www.danfoss.com/AboutUs/Corporate+Citizenship/Climate_change).

### Danfoss' CO<sub>2</sub> emissions

All of Danfoss' production sites record consumption of energy from fossil and renewable energy sources. Therefore, Danfoss is able to calculate each factory's emission of CO<sub>2</sub>.

Danfoss calculates the CO<sub>2</sub> emissions on the basis of the definitions in the Greenhouse Gas Protocol. The emissions are stated as the sum of scope 1 emissions (from own sources), scope 2 emissions (from acquired energy produced elsewhere than at Danfoss' factories) and the scope 3 emissions which are caused by business trips and the transport of products between Danfoss factories and the customers.

In 2009, Danfoss emitted around 160,000 tons of CO<sub>2</sub> as a result of the group's consumption of electricity and heat, which is 10.7% less compared to 2008. As a result of the implemented energy-saving projects, the drop in CO<sub>2</sub> emissions since 2008 exceeded the total energy consumption, which only fell by 7.8%. The CO<sub>2</sub> emissions in 2009 are, therefore, considered satisfactory.

The total energy consumption did not fall proportionately with the decrease in the activity level, measured by raw material volume, which is due to the fact that

a very large share of the energy consumption – at some factories, amounting to 50-80% of the total energy consumption – was independent of the size of production. This idle consumption primarily represents lighting, heating and stand-by consumption in office and production equipment.

The power consumption represents 74% of the group's total CO<sub>2</sub> emissions, corresponding to 120,000 tons in 2009. The consumption of electricity produced by fossil fuels dropped by 15%, whereas 3% more electricity from renewable sources was consumed in 2009, compared to 2008.

In 2009, 41,000 tons of CO<sub>2</sub> were emitted from the energy sources used for heating. The consumption of fossil fuels for heating dropped by 5%, while the consumption of energy from renewable sources increased by 24%.

### Environmental management

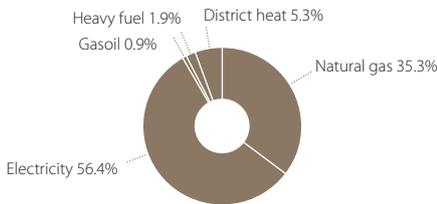
Danfoss is a global company, and takes co-responsibility for sustainable development in the areas and countries in which the group is operating.

The group's policies concerning working environment, environment and social responsibility ensure high managerial focus on the compliance with national and international guidelines and declarations. Factories with more than 20 employees are required to be certified according to ISO 14001, and all Danish factories are also required to be certified according to the

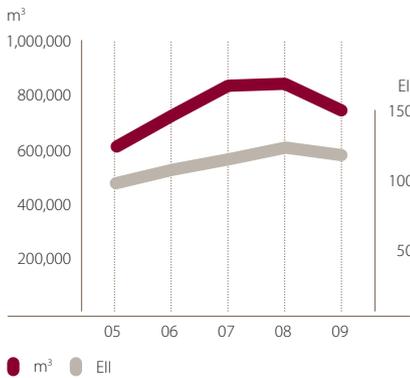
**Energy consumption**



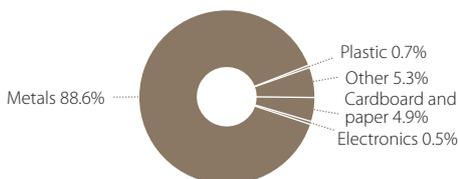
**Distribution of energy sources**



**Water consumption**



**Recycled waste**



OHSAS 18001. However, one Danish factory still needs to become certified. In 2009, the group had 56 factories that are set to be ISO 14001-certified, of which 51 have been certified, while the remaining are working on certification.

Danfoss expects contractors and tradesmen working at Danfoss' factories and plants to live up to the standards of quality, working environment and environment which are similar to those of Danfoss. Prior to the work, all contractors and tradesmen are instructed on safety and environmental issues.

**Employee involvement**

For the outcome of environmental activities to be successful, the employees must have consideration for the environment and appreciate that Danfoss' resources are used efficiently and with the least possible waste.

Danfoss appeal continuously to the employees' environmental awareness and their commitment to the environmental work is maintained through, among other things, education and training, proper conditions in the factories, by retaining the environmental standard when outsourcing the production and setting environmental requirements for the suppliers to comply with.

Danfoss educates and trains the employees to have state-of-the-art knowledge and, consequently, have the best possible platform for further improving environment and safety throughout the group. Training is planned to meet local needs, and amounted to 40,600 hours in 2009, a drop of 17% compared to the year before. On the whole, the number of working hours dropped correspondingly, which reflects the fact that education and training of employees in environment, working environment and safety was not given a lower priority during the financial crisis.

**Environment at the factories**

This section reviews Danfoss' consumption of resources, chemical substances and raw materials as well as waste volumes. The most significant indicators - "traffic lights" show the development of the relative impact since 2005. Green stands for a positive development and the red colour represents a comparatively increasing impact on the environment in 2009, compared to 2005. The activity level, which forms the basis for the calculation of the indicators, is determined from the group's consumption of raw materials. 2005 is the base year for calculations and is fixed at index 100.

In 2005, the raw materials consumption relating to the compressor businesses fell substantially compared with the previous year, and the group's total raw materials consumption fell by 10%. This reduced consumption of raw materials in 2005 is reflected in, largely, every indicator in the diagram on page 166, in that developments in years 2006-2009 are compared with 2005.

Please refer to the GRI-table and the table of significant environmental parameters at the back of the Annual Report for further information about Danfoss' environmental performance.

**Raw materials and auxiliary materials**

The majority of the raw materials that Danfoss consumes are metals, plastics, electronics and packaging.

The consumption of raw materials and other resources are optimised on an ongoing basis by minimising the size of the products, but also by improving production and quality processes with the purpose of reducing the waste of materials.

The group's total consumption of raw materials has fallen by 10.4% since 2008. Please refer to the raw materials volume table on page 166.

## Environmental indicators

|  |                             |  |                                 |  |
|--|-----------------------------|--|---------------------------------|--|
|  | Energy                      |  | Environmentally dangerous       |  |
|  | Water consumption           |  | Organic solvent                 |  |
|  | Waste water discharge       |  | HCFC Montreal Protocol          |  |
|  | Heavy metals in waste water |  | HFC (Kyoto Protocol)            |  |
|  | Total amount of waste       |  | CFC and trichlorethylene        |  |
|  | Waste for incineration      |  | Process oil containing chlorine |  |
|  | Waste for landfill          |  | Kerosene                        |  |
|  | Oil and chemical waste      |  | Chromium (+6)                   |  |
|  | Recycled waste              |  | Nickel salts                    |  |
|  | CRAN materials              |  | Cyanides                        |  |
|  | Toxic substances            |  | Accidents                       |  |

A number of auxiliary materials – often cutting oils, refrigerants and detergents for washing and cleaning items – that are not part of the finished products are required to produce the products.

In 2009, 571 tons of cutting oil was used to cool and lubricate metal items during processing. This was 14.6% less than in 2008.

### Energy

Making up 56% of Danfoss' total energy consumption, electricity was the largest energy source. The consumption of electricity fell by 10.1% compared to 2008, whereas the total energy consumption, including natural gas, among others, fell by 7.8%.

In 2009, all factories recorded the sources of their energy consumption (such as wind, bio-mass or water power). The recording was a vital prerequisite for calculating the group's total emission of greenhouse gases.

Renewable sources, such as solar, water, wind and bio-mass, accounted for 20% of the total power consumption. Electricity from nuclear power plants accounted for 21% of the group's consumption, while the remaining share originated from fossil sources, such as coal, oil and gas. Coal continued to account for the largest source of the production of electricity, with 44% of the total energy consumption.

98% of energy consumption for heating stemmed from fossil sources. Natural gas accounted for by far the largest share.

The relative energy consumption increased slightly compared to 2008, which was due to the fact that the energy consumption and the produced quantity of products are not proportionate. A significant part of the energy consumption is used for heating and stand-by consumption in production equipment.

### Water, waste water and waste

The group consumption of water fell by 11.7%, compared to 2008, to 741,000 m<sup>3</sup>.

The consumption of ground water amounts to 51% of the total available water volume, whereas the rest amounts to surface water from lakes or water reservoirs and reused water from other external sources. In 2009, 106,000 m<sup>3</sup> of water were used for production or washing processes, corresponding to 14% of the total water consumption.

Around one third of Danfoss' factories discharge industrial waste water and the total volume fell by 24% since 2008. The drop was particular in Nordborg, where 68% less waste water was discharged in 2009, compared to the year before.

The heavy metals, which were discharged with the waste water in 2009, amount to 139 kilos, which is 25% less than in the year before.

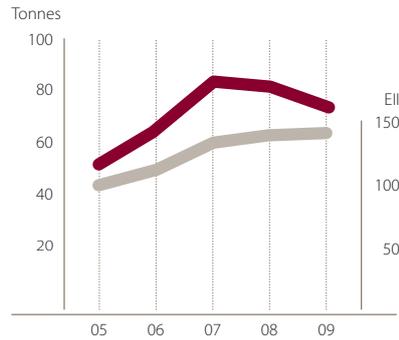
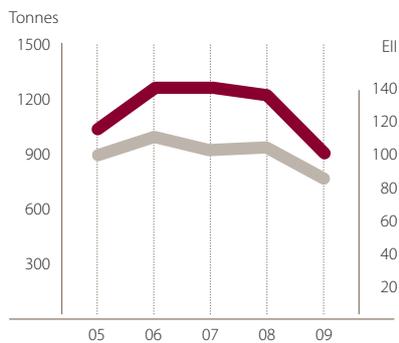
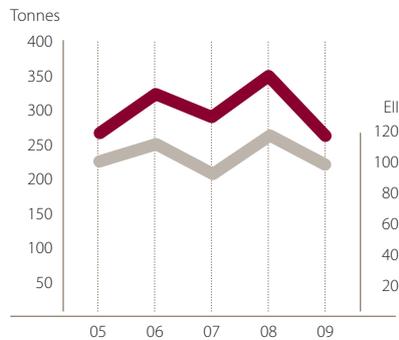
The total waste volume fell by 22% in 2009, compared to the year before. This goes to show that, in times of crisis, focus is on making optimum use of raw materials and reducing the waste volume as much as possible.

The recommended disposal method continued to be recycling, and more than 86% of the total waste volume was recycled. 89% of the recycled waste was metal waste from processing machines, among other things.

Only 2.4% of the total waste volume was incinerated, whereas almost 8% was oil and chemical waste which is disposed of via approved waste facilities.

### Use of refrigerants

Danfoss uses the refrigerants HCFC and HFC during production or testing of a range of products. Around 85% of the refrigerants are collected and reused. The specification in this report shows the total volume of acquired greenhouse gases, whether or not they are emitted into the atmosphere.

**HFC****CRAN substances****Organic solvents****Substances toxic to man**

● Tonnes  
● EII

The consumption of HCFC in Danfoss' factories amounted to 7.3 tons in 2009, a drop of 17% compared to 2008 which primarily was a result of the decreased consumption at Scroll Technologies in the USA and Danfoss' factory in Mexico.

The consumption of HFC gases fell to 75 tons in 2009. This was a decrease of 10.1%, compared to the previous year.

Household Compressors in Slovenia and the central laboratories located in Nordborg, Denmark, are the only ones in Danfoss to use CFC. In 2009, they used 3 kilos (for laboratory purposes) and 16 kilos, respectively.

CFC and HCFC are ozone-depleting refrigerants which had an ODP (Ozone Depleting Potential) of 418 kilos of CFC-11 equivalents, compared to 533 kilos in 2008.

CFC, HCFC and HFC add to the global warming and Danfoss' total consumption of these had a GWP (Global Warming Potential) which amounted to 157,000 tons of CO<sub>2</sub> equivalents. The corresponding figure in 2008 was 179,000 tons of CO<sub>2</sub> equivalents. HFC accounts for more than 90% of total GWP of Danfoss' consumption of refrigerants.

**Negative list of chemical substances**

Potentially harmful substances are substances and materials which can pose a risk to employees or the environment. The substances are used in the manufacturing of products and if they are not immediately expendable or replaceable, they must be used as efficiently as possible and measures must be taken to protect employees and the environment.

Danfoss maintains a list of chemical substances which are prohibited in Danfoss and which suppliers are required to phase out as soon as possible. The list is called the Negative List. Danfoss' Negative List forms the cornerstone of efforts and most of the factories target the reduction of harmful substances. The Negative List is a vital guideline in the development of products to make sure that unwanted substances are not applied in the production or filled in Danfoss' products.

To make sure that the suppliers always have access to the most recent version of the Negative List, a site has been created on [www.danfoss.com](http://www.danfoss.com), where all suppliers can subscribe to a news service which continuously informs recipients about amendments to the Negative List. It is expected that the service will include all existing suppliers over the course of 2010. New suppliers will not be approved until they have subscribed to the news service.

**CRAN substances**

CRAN is the overall term 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 nervous system (N). Examples of materials containing the CRAN effect are glue, moulding masses, paint or detergents.

The Danfoss Group's total use of CRAN substances fell by 26% compared with 2008, corresponding to 316 tons. In 2009, the consumption of CRAN substances totalled 903 tons. 69% of CRAN substances were applied at Danfoss' factory in Mexico, while the rest of the consumption was equally distributed between the remaining factories. The factory in Mexico consumed 601 tons of filtering material for the production of dryer filters in 2009. The material contains 1% quartz, which is classified as being carcinogenic and, consequently, the entire consumption was recorded as CRAN substance in the environmental accounts. In 2009, the Danish factories used a total of 122 tons of CRAN materials and accounted for 13.5% of the consumption of CRAN, whereas they only used 10% of the total raw materials volume.

## Solvents

Organic solvents are absorbed through the respiratory system and skin and can result in permanent injuries. Danfoss has stopped using large quantities of solvents in their pure form, except for the solvent trichlorethylene (TRI), which is used for degreasing at Danfoss Chatleff in USA.

In 2009, Chatleff's consumption of TRI amounted to 3,293 kilos, and contrary to expectations, the level remained the same at the end of 2009. The phasing out of TRI as a degreasing agent at Chatleff was delayed due to technical difficulties, but it is expected that the factory will stop using TRI during the first half of 2010.

## Toxic substances

Toxic substances are chemicals which have an acute lethal effect when handled incorrectly. This is primarily nitrite which is used in surface treatment systems in Mexico. The employees have received training in how to correctly handle the substances.

The group's total consumption of toxic substances amounted to 24 tons in 2009, which is an 11% decrease compared to the year before.

## Environmentally dangerous substances

Environmentally dangerous substances have a harmful effect on plants, animals, water, water organisms and the ozone layer. At Danfoss, environmentally dangerous substances are primarily oils that are stored in sealed systems with waste trays which limit the discharge to the surrounding environment as much as possible.

In 2009, Danfoss used 177 tons of environmentally dangerous substances, which is a decrease of 32% compared to 2008. Only one of three Danfoss factories recorded an increase, whereas the remaining decreased their consumption of the environmentally dangerous substances which exceed the drop in the raw materials volume. In total, the relative environmental impact of environmentally dangerous substances increased slightly since 2005.

## Violations of environmental regulations

Danfoss considers transparency on environmental issues an important element of a good relationship with neighbours and the authorities. The factories have entered into agreements with the environmental authorities and local approvals that need to be observed.

Violations of approvals or environmental regulations occurred 27 times, of which 16 took place in the factory facility in Nordborg, where waste water is treated in two different ways: neutralisation of industrial waste water and ultra-filtration of oil and cutting fluids. Fifteen of the violations were due to increased discharge values at the ultra-filtration plant, of which 13 violations were due to the nickel concentration exceeding the municipal requirement of discharge to waste water treatment plants. In addition, two violations of the copper concentration level occurred. The running of the previous plant was sometimes problematic, which had been in operation for around 25 years until it was replaced by a new one. The problems are expected to be solved now.

The last of the 16 violations included purified waste water which is discharged directly into the sea from the neutralisation plant in the Nordborg factory. Nickel concentration values were exceeded, caused by excess pumping of liquid from the foundation beneath a chemical-nickel plant to a waste water pumping station.

At the factory in Russia, the number of violations increased by 50% to reach nine violations in 2009. They were caused by a defect sewer system which, thereby, polluted a nearby river. The factory management has started cooperation with the local authorities to solve the problem, but this is a lengthy process. If the current plan does not solve the problem fully, the factory intends to renovate the entire sewer system network, but this is a rather drastic and very costly solution.

The remaining violations are of such a nature that they do not have any real impact on the environment.

## Accounting principles

### CSR

#### Collecting data

Data in the CSR section of Danfoss' Corporate Citizenship report is collected via five channels:

- An annual electronic questionnaire (CSR survey) distributed to all of the group's factories and sales companies
- An electronic questionnaire (People Manager Survey) to all of the group's managers with direct reports
- Factory visits during which data is collected using observation, interviews and dialogues
- Supplier data is gathered in SCoCIS II (Supplier CoC Information System II), a database maintained by Global Procurement
- Data on supplier conditions is also collected from Danfoss' purchasers who are interviewed about their experiences with activities in the supplier chain.

The accounting period is from January 1 until December 31, 2009.

#### Reporting guideline

Since 2003, Danfoss has conducted an annual CSR survey about human rights, labour rights, business ethics and anti-corruption of all of the group's factories and sales companies.

Danfoss conducted for the first time in 2009 a survey (People Manager Survey) amongst all managers with direct reports focusing on business ethics and compliance to certain legislative requirements. The results from the CSR survey are reported to the respondents and the Executive Committee. The Executive Committee also receives the results of the People Manager Survey.

If critical conditions are established, the companies involved are approached with the purpose of rectifying the matters.

Most results from the CSR survey are included in Danfoss' Corporate Citizenship report, which is published as part of the company's efforts to make Danfoss' activities and results transparent. Some results are only included in the internal report.

Danfoss applies the guidelines contained in GRI (Global Reporting Initiative) to ensure transparent and comprehensive results in the HR, CSR and environmental reports. It is not compulsory for organisations to submit reports on financial, environmental and social dimensions of their activities.

The GRI table on page 168 includes a list of the indicators covered by the Corporate Citizenship report.

Since Danfoss has signed the UN Global Compact, the company is under an obligation to prepare an annual Communication on Progress (CoP) for UN. The paper discusses the work with human rights, labour rights and anti-corruption. Danfoss' CoP is the Corporate Citizenship report.

#### CSR data

The Corporate Citizenship report's section on social responsibility includes data about the following: the right to privacy (in relation to recruitment processes), the use of health tests, the scope of child labour, youngsters employed, voluntary unionism, the use of imprisoned labour, discrimination, anti-corruption, product issues etc.

The report also includes data about corporate responsibility in the supplier chain.

The report contains a separate section on unethical behaviour, dealing with the number of dismissals and voluntary resignations due to violation of the company's ethical guidelines or other policies.

#### The implementation of the Danfoss Ethics Handbook is also reviewed in the report.

Data relating to Danfoss' interaction with the external society cover the number of complaints submitted by local communities in which Danfoss operates as well as the size and amount of donations to local organisations. Furthermore, Danfoss activities relating to Public Affairs are reviewed.

### **CSR survey, People Manager survey and calculation methods**

The CSR survey 2009 was distributed to 103 contact people (Presidents/General Managers) who were asked to give their feedback on behalf of all factories and companies in the group. As a result of Danfoss' organisational structure, there are fewer respondents than there are companies. All sales companies are organised in GS (Global Services) where one single GS manager is dedicated to handle the administrative shared functions existing in several countries, such as HR.

Feedback was received from 95 out of 103 respondents, resulting in a response rate of 92%. The answers represent 98% of the group's 19,623 employees.

In 2009, the People Manager survey was distributed to 2,196 managers with employees reporting to them. 1,886 managers filled in the questionnaire, a response rate of 86%.

The section on CSR in the Corporate Citizenship report includes all of the companies in which Danfoss had the controlling interest throughout 2009. Companies acquired in 2009 will not be included in the Corporate Citizenship report until 2010.

### **CSR survey as a tool**

The Danfoss CSR survey and the People Manager survey were prepared in SurveyXact, which is designed by Rambøll Management.

A respondent profile is created in SurveyXact including relevant information about country, company code, e-mail address and the number of employees, among other things. The number of employees is an extract from HR SAP.

### **Validation, consolidation and calculation**

Validation of data takes place after deadline. Respondents whose replies are controversial, questionable or self-contradictory are contacted in order to correct or clear up any errors. If there is a need to include supplementary explanations in the Corporate Citizenship report or in the internal reporting, the companies in question are asked to provide the necessary information.

The data is analysed in a spreadsheet and form the basis for the survey conclusions. The internal reporting of social issues also includes a wide range of graphs.

### **Factory visits**

During a calendar year, visits are paid to the factories, gathering information about environmental and social issues in Danfoss' companies.

Some of the information in the Corporate Citizenship report is based on reports, minutes and e-mail correspondence relating to the factory visits.

Four factory visits were carried out in 2009 in India, China, Romania and Slovenia.

### **Supply chain**

Danfoss' suppliers are grouped in a risk-effect matrix. The purpose is to ensure a systematised approach to supplier management, prioritising the most risk-prone suppliers. All of the countries are rated according to the level of risk, which describes the risk of the supplier not complying with the Code of Conduct, and the effect is determined by the extent of the purchase.

In 2009, 19% of the suppliers delivering goods for production were categorised as coming from high-risk countries; 10% were from mid-risk countries, and 71% were from low-risk countries.

### **External verification**

In 2009, Danfoss had an external pre-verification evaluation of the Corporate Citizenship 2008 report with a view to prepare a final verification of social data starting in 2010. The pre-verification evaluation was conducted by the company Det Norske Veritas, which interviewed leaders in key functions to evaluate system and attitudinal matters pertaining to the preparation of the Corporate Citizenship report.

## Accounting principles environment

### Data in the Environmental Accounts

The Danfoss Environmental Accounts cover input data in the form of raw materials, energy, water and potentially harmful substances and output data in the form of wastewater, heavy metals, and waste. The factories report on these data once a year. Other outputs in the form of emission of flue gases are centrally calculated. cf. the calculation principles later in this document.

In addition to the aforementioned environmental data, the factories must report the number and type of accidents and if they have exceeded the terms of the environmental approvals or other agreements with the environmental authorities.

The data are collected by Danfoss' Corporate Environment Function. Data from the factories are collected and reported according to defined procedures and in a standardised format. The development of the environmental data is monitored constantly.

A corporate standard defining the data collection and data formats is maintained including definitions of quality control of data.

### Standards and databases

The foundation of the reporting of data for the Group Environmental Accounts is available in two Danfoss standards: The first, "Corporate Environmental Reporting" (corporate standard 500B0806), defines the general guidelines for reporting of data. The second, "Reporting of raw materials, auxiliary materials and potentially harmful substances" (corporate standard 500B734), defines the precise guidelines for the reporting of raw materials, auxiliary materials and potentially harmful substances. The latter also defines what to observe in order to avoid reporting by double entry due to internal trading with other Danfoss factories and what should be done to ensure inclusion of all relevant data in the reporting.

In order to support the factories in their work to provide valid data to be used in the Environmental Accounts, training seminars are held regularly and training also takes place during factory visits.

The factories must report a total of 85 different parameters (data types) via Hyperion Financial Management (HFM), which is also used for reporting of financial figures in the group. To ensure a uniform and valid reporting of data, guidelines and help texts are available for each parameter

### Accounting principles

The overall principles of the preparation of the accounts are materiality, relevance and transparency.

### Environmental Impact Index (EII)

The Environmental Accounts include an environmental impact index (EII), to express the group's relative environmental impact. EII reflects how efficiently resources are used and of the group's ability to reduce the discharges relative to the volume of production. A decreasing EII indicates a lower relative environmental impact.

The environmental impact index is calculated as follows:

$$EII = \frac{\text{index for environmental data}}{\text{index for activity (production)}}$$

Environmental data and activities are compared to 2005, for which the index is 100, since the accounts show environmental data for the past five years. The activity index is calculated on the basis of the raw material consumption level, since the latter best reflects the size of the production. Danfoss is a growing enterprise, and consequently the company's environmental impact is growing in absolute terms. Most figures in these accounts show both the relative and absolute development of the group's impact on the environment.

Increases in the consumption level, which exceed the group's total activity development, will be reflected in an increasing relative environmental impact in the shown charts.

#### **Calculation of consumption**

Consumption of raw material and potentially harmful substances occurs according to two principles: either at the registering of movements in stock or at purchasing. Most factories of the group use the latter. Other data is mainly stated in proportion to drawn up invoices in connection with purchasing/sales. This applies for example to the purchasing of energy and water or generation of waste. Heavy metals in wastewater data is normally measured by external laboratories.

#### **Raw materials and auxiliary materials**

The consumption of raw materials is reported as 23 different types of raw materials. The raw material types have been selected for their significance as to volume or since they include important information on the sectors in which Danfoss is active. Raw material types that cannot be related to a specific raw material type are reported under "Other raw materials".

Auxiliary materials have been added as a new category in 2005 and consist of cutting fluids and cleaning agents used in production processes.

#### **Potentially harmful substances**

The materiality criterion of potentially harmful substances in the Environmental Accounts is the volume or hazardousness of the substances, or that they are covered by the factories' environmental approvals. In order to facilitate clarity, the substances are grouped. It should be noted that some substances are only included in regard to the work environment. This applies for example to the substances that are called CRAN substances. These substances are considered carcinogenic, harmful to the ability to reproduce healthy children, allergenic, or harmful to the central nervous system.

11 substance groups exist in the potentially harmful substances category. Some substances are found in several substance groups, for example the chlorinated refrigerants HCFC, HFC and CFC, which, apart from being individually reported, are also included in the group of organic solvents. Danfoss has selected this approach to show the development in consumption of the substances that are particularly important in the public environmental issues debate but also to emphasise that the substances often have several characteristics.

The CRAN substances are stated according to national law on the labelling of substances, to ensure best possible coherence with the factories' environmental management systems.

#### **Erroneous reporting**

If systematic errors are revealed in the reported data or in the foundation of the data, the data in question are corrected five years back to ensure comparability. If changes are made to the classifying of chemical substances, the change only takes effect as of the year referred to, since it creates an entirely new situation. Changes in historical data must be approved by the external audit (refer below).

#### **Internal audit of data prior to consolidation**

An internal audit Group reviews a total of about 5,000 data reported each year by the factories, before the consolidation of data. During the internal audit comparisons are made on basis of previous years' of data, and a number of correlations between different data are reviewed. An example is the correlation between raw material consumption, energy consumption and waste, or the question whether the different kinds of waste types or potentially harmful substances have been correctly reported.

The Environmental Accounts includes 56 reporting entities. Some factories are split into several reporting entities (mostly located in Nordborg and China). Other factories make an aggregate reporting because a split of e.g. electricity is impossible between the factories if located at the same premises.

#### **Consolidation**

When consolidating data, extracts are made for the different kinds of information and these are being consolidated at Group level. This applies for example to raw materials and potentially harmful substances. It is also checked that data are in accordance with previous years' consolidated data.

Due to the fact that Danish factories have access to Danfoss' Material Safety Data Sheet system, separate calculation of the factories' consumption of potentially harmful substances is made. The calculation is centrally made since the data are compared with the central consumption database and the Danish Material Safety Datasheet database.

Central reporting of wastewater emission data, energy and water consumption and consumption of piped media is performed for the factories in Nordborg, since these are shared facilities. Examples of piped media are petroleum and spirits. Subsequently, these data are checked and consolidated with other data on Group level.

#### **Calculation of flue gas emissions**

The calculation of flue gas emissions is made on basis of the energy consumption multiplied by relevant emission factors. The source of the emission factors is the Danish Energy Agency and World Resources Institute/IPCC. The calculation is based on Danfoss' consumption of oil and gas, its own energy production and heating

consumption as a result of purchased electricity and district heating at external energy manufacturers. Each factory reports their consumption of energy as coming from renewable and non-renewable sources. For factories unable to supply this information, the calculations will be based on EU standards, where about half of all electricity is manufactured from fossil fuels.

Average considerations like these do not accurately reflect the actual conditions but Danfoss believes that this amounts to a distinct improvement when it comes to showing the environmental impact from the Group's production plants.

#### **Transport**

The environmental impact of internal transport is not included in the Environmental Accounts 2008. This is due to the weighing between the impacts on the factories and on the other hand lack of methodical simplicity in the statement of the environmental impact of transport.

#### **Factories included in the environmental accounts**

The accounts include all the factories of which Danfoss had the majority share throughout 2009.

In 2009, Commercial Compressors in Georgia, USA, the Thermostat factory in Ukraine and Gearmotors in München, Germany has been closed or the production has been moved to other Danfoss locations. These factories has reported data to the extent possible.

Household Compressors, Danfoss Holip and Qinbao Heat Exchangers, all in China, District Heating in Romania and High Pressure Systems in Danmark report for the first time in 2009.

#### **Division's environmental conditions**

Danfoss' Divisions have, to a large extent, similar environmental conditions and impact: consumption of resources, substances and materials and generation of waste and emissions.

It would not be logical to detail each Division's environmental impact. However, if specific environmental impacts in the Divisions influence the overall environmental impacts in the Group, they will be described in this report.

#### **External verification**

External, independent third-party verification of the environmental accounts is performed. As the factories gain more experience with environmental management, Danfoss has extended the area of external verification to include all Danfoss factories globally. The verification is performed as spot checks, site audits and in the form of verification of the applied data reporting procedures.

All factories are subject to third-party verifications.

## Assurance statement

### Introduction

Det Norske Veritas AS ('DNV') has been commissioned by the management of Danfoss ('the Company') to carry out an assurance engagement on the Environment and Work Environment sections of the Company's Corporate Citizenship Report 2009 ('the Report').

Danfoss is responsible for the collection, analysis, aggregation and presentation of information in the Report. DNV's responsibility in performing this work is to the management of Danfoss and in accordance with agreed terms of reference. Our assurance engagement is based on the assumption that the information provided to us is true.

This statement is intended for the management and broader stakeholders of Danfoss.

### Scope of Assurance and Limitations

DNV agreed the following scope of work with Danfoss:

- Verification of the text and performance data presented in the Environment and Work Environment Section in the Report, covering Danfoss' global activities from 1 January - 31 December 2009.
- Evaluation of the underlying process for collecting and analysing data from business unit segments and consolidating at Corporate level, but not detailed verification at business units' operating levels.
- We did not interview any external stakeholders.
- Verification activities took place at Danfoss' Head Office and at one business unit, Danfoss Drives, in Denmark during February 2010.

### Verification Methodology

DNV planned and carried out the assurance engagement in accordance with DNV's Protocol for Verification of Sustainability Reporting<sup>1)</sup>. We reviewed the mechanisms for implementing the Company's environmental and occupational health & safety policies and challenged the related statements made in the Report. We assessed the robustness of the underlying data management systems, information flows and internal control processes. To trace key performance data up through the reporting system, we conducted on-site verification at Danfoss Drives and performed sample-based data checks of ten production sites worldwide, selected using a risk-based approach. Finally, we evaluated the Report's adherence to six principles: Materiality, Completeness, Reliability, Responsiveness, Stakeholder Inclusiveness, and Neutrality. Our conclusions are based on interviews with 14 staff of various functions (including senior management) and review of relevant documentation and tools.

### Conclusions

In DNV's opinion, the Environment and Work Environment sections of the 2009 Corporate Citizenship Report provides a fair and credible representation of Danfoss' performance. The sections describe the issues – especially relating to climate and energy – that are most important across the Company's operations and how Danfoss has responded. The information is presented in a way that will help stakeholders make informed decisions about the Company's performance in these areas.

1) [www.dnv.com/services/assessment/corporate\\_responsibility/services\\_solutions/sustainabilityreporting](http://www.dnv.com/services/assessment/corporate_responsibility/services_solutions/sustainabilityreporting)

We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

**Materiality:**

*Good.* Danfoss maintains a strong focus on identifying and monitoring its material risks relating to the environment and work environment. The Report reflects not only the maturity of the Company's management of its significant impacts, but also the priority focus on climate and energy in the organisational strategy and decision-making during 2009 and beyond.

**Completeness:**

*Acceptable.* Within the reporting scope and boundary defined by the Company, we do not believe that the Report omits relevant information that would significantly influence a stakeholder's assessment of the Company's performance in managing its impacts on the environment and work environment.

**Reliability:**

*Acceptable.* Danfoss has comprehensive, documented environmental accounting principles in place. The Company has demonstrated a good level of data traceability through a sophisticated database and effective internal control procedures at corporate level. At the level of certain production sites, internal control procedures were identified as less effective.

**Responsiveness:**

*Good.* The Company has built systematic and effective responses to expectations of environmentally friendly production and energy efficient products. The responses

are fully integrated into the organisational strategy. Company-wide policies, comprehensive guidance and management systems are in place and supported by a very competent team responsible for compliance, training, and performance monitoring, also in the supply chain.

**Stakeholder inclusiveness:**

*Acceptable.* The Report communicates how Danfoss has developed leadership and engagement in the area of energy efficiency. Periodic stakeholder engagement on environmental and work-related impacts helps to guide improvements in performance and reporting, but is not systematically implemented across the Company.

**Neutrality:**

*Good.* Danfoss has reported its environment and work environment issues in a balanced manner, both in content and tone. Positive and negative performance is reported, along with commitments to future improvements.

**Opportunities for Improvement**

The following is an excerpt from the observations and further opportunities for improvement we have reported to the management of Danfoss. However, these do not affect our conclusions on the Report, and they are indeed generally consistent with the management objectives already in place.

- Improve data reliability and transparency on use of materials and water consumption through consistent calculations and their inclusion in the Accounting Principles.

- Introduce more comprehensive internal revision procedures at production site level to help reduce the risk of errors appearing in the data consolidation.
- Implement a systematic approach to engagement with stakeholders on environmental and broader climate issues and include views and responses in future reporting.
- Strengthen performance measurement in future reporting by applying different methods of accounting for the greenhouse gas emissions (scope 3) associated with Danfoss' products across their full lifecycles.

**DNV's Competence and Independence**

DNV provides sustainability risk management services through qualified specialists worldwide. DNV was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV maintains complete impartiality towards people interviewed during the assignment. DNV expressly disclaims any liability or co-responsibility for any decision a person or entity would make based on this Assurance Statement.



**For Det Norske Veritas AS**

*Copenhagen, 5 March 2010*

Dr Helena Barton  
Lead Verifier  
Global Manager, Corporate Responsibility Services

Jens Peter Høise  
Verifier  
Key Customer Manager

| <b>Working environment management systems</b>           | <b>2008</b> | <b>2009</b> |
|---|-------------|-------------|
| Worldwide   | -           | 35%         |
| Denmark   | -           | 80%         |
| <b>Dismissals due to unethical behaviour</b>            | <b>2008</b> | <b>2009</b> |
| Total   | 64          | 29          |
| Hereof cases through the Ethics Hotline                 | 6           | 1           |
| <b>Accidents – salary paid employees</b>                | <b>2008</b> | <b>2009</b> |
| Total   | 21          | 19          |
| 1-4 days of absense                                     | 11          | 10          |
| 5-10 days of absense                                    | 5           | 6           |
| 11-19 days of absense                                   | 2           | 0           |
| 20+ days of absense                                     | 2           | 3           |
| <b>Fatal accidents</b>                                  | <b>2008</b> | <b>2009</b> |
| Number  | 0           | 0           |
| <b>Juveniles between 15 and 18</b>                      | <b>2008</b> | <b>2009</b> |
| Total   | 192         | 78          |
| Production  | 119         | 37          |
| Hereof trainees   | 83          | 21          |
| Administration  | 27          | 11          |
| Hereof trainees   | 21          | 5           |
| Other fuctions  | 46          | 30          |
| Hereof trainees   | 41          | 26          |
| <b>Cases of discrimination</b>                          | <b>2008</b> | <b>2009</b> |
| Number of cases   | 2           | 2           |
| <b>Product liability</b>                                | <b>2008</b> | <b>2009</b> |
| Number of cases   | 7           | 2           |
| <b>Employees with disabilities</b>                      | <b>2008</b> | <b>2009</b> |
| Number  | -           | 185         |
| <b>Complaints from local community</b>                  | <b>2008</b> | <b>2009</b> |
| Number  | 2           | 1           |
| <b>Health test of employees (number of companies)</b>   | <b>2008</b> | <b>2009</b> |
| Medical examination                                     | -           | 24          |
| X-ray   | -           | 5           |
| Blood sample  | -           | 14          |
| Urine test  | -           | 23          |
| HIV/AIDS  | -           | 0           |
| Hepatitis   | -           | 3           |
| <b>Suppliers</b>  | <b>2008</b> | <b>2009</b> |
| Direct suppliers (supply goods for products)            | 3758        | 3498        |
| <b>Distribution of direct suppliers</b>                 | <b>2008</b> | <b>2009</b> |
| High risk countries                                     | 10%         | 19%         |
| Medium risk countries                                   | 15%         | 10%         |
| Low risk countries                                      | 75%         | 71%         |
| <b>Suppliers having signed Code of Conduct (number)</b> | <b>2008</b> | <b>2009</b> |
| High risk countries                                     | 106         | 193         |
| Medium risk countries                                   | 46          | 98          |
| Low risk countries                                      | 478         | 1157        |
| <b>Audits at suppliers (%)</b>                          | <b>2008</b> | <b>2009</b> |
| High risk countries                                     | 23%         | 14%         |
| Medium risk countries                                   | 8%          | 7%          |
| Low risk countries                                      | 4%          | 5%          |
| <b>Donations from Fabrikant Mads Clausens Fond</b>      | <b>2008</b> | <b>2009</b> |
| Donations (m DKK)                                       | 10          | 11.6        |
| <b>Danfoss Employee Foundation</b>                      | <b>2008</b> | <b>2009</b> |
| Number of cases   | 400         | 300         |
| Donation (m DKK)  | 5           | 2.6         |



# Significant HR parameters

| Headcount per region | GLOBAL | Denmark | EMA    | NAM   | LAM | China | APA |
|----------------------|--------|---------|--------|-------|-----|-------|-----|
| End of 2009          | 19,623 | 5,226   | 8,971  | 1,829 | 212 | 2,963 | 422 |
| End of 2008          | 22,133 | 6,150   | 10,351 | 2,365 | 227 | 2,591 | 450 |
| End of 2007          | 22,323 | 6,465   | 10,403 | 2,626 | 220 | 2,152 | 457 |

| Headcount per employment type (%) | TOTAL  | Exec | Manager | Salary paid | Hourly paid | Trainee Appren |
|-----------------------------------|--------|------|---------|-------------|-------------|----------------|
| End of 2009                       | 19,623 | 98   | 2,243   | 7,408       | 9,481       | 393            |
| End of 2008                       | 22,133 | 103  | 2,252   | 8,210       | 11,165      | 403            |

| Employees & managers per gender (%) | GLOBAL | Denmark | EMA | NAM | LAM | China | APA |
|-------------------------------------|--------|---------|-----|-----|-----|-------|-----|
| All employees - Males               | 68     | 65      | 69  | 66  | 82  | 70    | 67  |
| All employees - Females             | 32     | 35      | 31  | 34  | 18  | 30    | 33  |
| Managers - Males                    | 81     | 84      | 83  | 82  | 81  | 71    | 71  |
| Managers - Females                  | 19     | 16      | 17  | 18  | 19  | 29    | 29  |

| Employee categories by gender (%) | Males  | Females | Total  |
|-----------------------------------|--------|---------|--------|
| Total                             | 13,348 | 6,275   | 19,623 |
| Executives                        | 97     | 1       | 98     |
| Managers                          | 1,802  | 441     | 2,243  |
| Salary paid employees             | 5,029  | 2,379   | 7,408  |
| Hourly paid employees             | 6,136  | 3,345   | 9,481  |
| Trainees/ Apprentices             | 284    | 109     | 393    |

| Employee categories by age group (%) | 15-24 | 25-34 | 35-44 | 45-54 | 55+   | Total  |
|--------------------------------------|-------|-------|-------|-------|-------|--------|
| Total                                | 1,554 | 5,913 | 5,722 | 4,338 | 2,096 | 19,623 |
| Executives                           | -     | 1     | 29    | 48    | 20    | 98     |
| Managers                             | 3     | 475   | 941   | 591   | 233   | 2,243  |
| Salary paid employees                | 244   | 2,638 | 2,249 | 1,454 | 823   | 7,408  |
| Hourly paid employees                | 985   | 2,738 | 2,493 | 2,245 | 1,020 | 9,481  |
| Trainees/ Apprentices                | 321   | 61    | 11    | -     | -     | 393    |

| Manager national origin (%) | Denmark | China | Germany | USA | France | Slovenia | Others |
|-----------------------------|---------|-------|---------|-----|--------|----------|--------|
| Total managers              | 65.2    | 0.0   | 10.5    | 2.1 | 4.2    | 3.2      | 11.6   |
| Executives                  | 28.4    | 8.8   | 8.1     | 5.8 | 5.3    | 4.2      | 39.4   |

| Employee turnover by region (%) | GLOBAL | DK   | EMA  | NAM  | LAM  | CHINA | APA  |
|---------------------------------|--------|------|------|------|------|-------|------|
| Total turnover                  | 20.2   | 19.7 | 18.9 | 34.4 | 11.9 | 17.5  | 14.8 |
| Voluntary resignation           | 3.8    | 2.9  | 2.7  | 4.4  | 0.6  | 8.1   | 6.3  |

| Employee turnover by service length (%) | TOTAL | 0-2 yrs | 2-4 yrs | 5-9 yrs | 10-19 yrs | 20+ yrs |
|---|-------|---------|---------|---------|-----------|---------|
| Total turnover 2009                     | 20.2  | 30.6    | 17.8    | 14.0    | 11.0      | 15.9    |
| Voluntary resignation rate 2009         | 3.8   | 6.9     | 4.0     | 2.3     | 1.1       | 0.8     |

| Employee turnover by employee group (%) | TOTAL | Exec | Manager | Salary paid | Hourly paid |
|---|-------|------|---------|-------------|-------------|
| Total turnover 2009                     | 20.2  | 14.6 | 7.1     | 17.6        | 26.1        |
| Voluntary resignation rate 2009         | 3.8   | 1.0  | 2.4     | 4.5         | 3.8         |

| Employee turnover by age group (%) | TOTAL | 15-24 | 25-34 | 35-44 | 45-54 | 55+  |
|------------------------------------|-------|-------|-------|-------|-------|------|
| Total turnover 2009                | 20.2  | 34.7  | 19.9  | 16.1  | 16.4  | 30.4 |
| Voluntary resignation rate 2009    | 3.8   | 11.1  | 5.4   | 3.1   | 1.5   | 1.4  |

| Employee turnover by gender (%) | TOTAL | Males | Females |
|---------------------------------|-------|-------|---------|
| Total turnover 2009             | 20.2  | 19.0  | 22.7    |
| Voluntary resignation rate 2009 | 3.8   | 4.1   | 3.2     |

| <b>Total EDDs completed (%)</b>                | <b>GLOBAL</b> | <b>DK</b> | <b>EMA</b> | <b>NAM</b> | <b>LAM</b> | <b>CHINA</b> | <b>APA</b> |
|--|---------------|-----------|------------|------------|------------|--------------|------------|
| Dialogues 2009                                 | 59.3          | 68.5      | 52.8       | 70.0       | 72.2       | 52.9         | 78.6       |
| Dialogues 2008                                 | 62.8          | 82.1      | 52.4       | 78.9       | 31.7       | 46.6         | 69.2       |
| Dialogues 2007                                 | 65.9          | 82.5      | 54.0       | 70.0       | 64.2       | 66.6         | 70.5       |
| <b>Manager EDDs completed (%)</b>              | <b>GLOBAL</b> | <b>DK</b> | <b>EMA</b> | <b>NAM</b> | <b>LAM</b> | <b>CHINA</b> | <b>APA</b> |
| Dialogues 2009                                 | 63.0          | 65.4      | 72.1       | 79.0       | 54.2       | 49.0         | 74.5       |
| Dialogues 2008                                 | 69.5          | 83.6      | 73.7       | 73.5       | 41.8       | 29.9         | 71.7       |
| Dialogues 2007                                 | 74.2          | 81.5      | 70.3       | 71.1       | 78.1       | 71.0         | 81.4       |
| <b>Leadership development per region (%)</b>   | <b>GLOBAL</b> | <b>DK</b> | <b>EMA</b> | <b>NAM</b> | <b>LAM</b> | <b>CHINA</b> | <b>APA</b> |
| Share of managers 2009                         | 58.8          | 39.5      | 44.5       | 97.9       | 100.0      | 56.2         | 39.6       |
| Share of managers 2008                         | 70.6          | 76.5      | 65.9       | 90.9       | 69.1       | 55.7         | 69.7       |
| Share of managers 2007                         | 69.3          | 84.1      | 58.6       | 72.0       | 65.6       | 72.2         | 62.9       |
| <b>Leadership training (participants days)</b> | <b>TOTAL</b>  |           |            |            |            |              |            |
| No. of days 2009                               | 1,827         |           |            |            |            |              |            |
| No. of days 2008                               | 3,196         |           |            |            |            |              |            |
| No. of days 2007                               | 815           |           |            |            |            |              |            |

Abbreviations:

**EMA:** Europe, Middle East and Africa

**NAM:** North America

**LAM:** Latin America

**APA:** Asia/Pacific

# Significant environmental parameters

| <b>Energy</b>   | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Energy consumption (TJ)   | 1,689       | 1,777       | 1,940       | 1,965       | 1,812       |
| EII - Energy  | 100         | 96          | 97          | 104         | 107         |
| Natural gas (MJ), 102   |             |             |             |             | 35.3%       |
| Electricity (MJ)  |             |             |             |             | 56.4%       |
| Gasoil (MJ)   |             |             |             |             | 0.9%        |
| Heavy fuel (MJ)   |             |             |             |             | 1.9%        |
| District heat (MJ)  |             |             |             |             | 5.5%        |
| <b>Other energy</b>   | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| <b>Non renewables</b>   |             |             |             |             |             |
| Oil   |             |             |             |             | 44.2%       |
| Gas   |             |             |             |             | 2.7%        |
| Misc.   |             |             |             |             | 7.9%        |
|   |             |             |             |             | 4.1%        |
| <b>Solar, wind</b>  |             |             |             |             |             |
| Biomass   |             |             |             |             | 14.8%       |
| Misc.   |             |             |             |             | 3.4%        |
|   |             |             |             |             | 1.8%        |
| <b>Nuclear power</b>  |             |             |             |             |             |
|   |             |             |             |             | 21.2%       |
| <b>Water</b>  | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Water consumption (m <sup>3</sup> )                                 | 607,567     | 722,762     | 829,793     | 839,004     | 741,126     |
| EII - Water   | 100         | 108         | 116         | 124         | 122         |
| Surface water consumption (m <sup>3</sup> )                         |             |             |             |             | 40.6%       |
| Ground water consumption (m <sup>3</sup> )                          |             |             |             |             | 51.7%       |
| Recycled water (m <sup>3</sup> )                                    |             |             |             |             | 7.7%        |
| Water for processes (m <sup>3</sup> )                               |             |             |             |             | 14.4%       |
| Water for gardening (m <sup>3</sup> )                               |             |             |             |             | 3.0%        |
| <b>Raw materials</b>  | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Iron  | 177,429     | 191,523     | 202,669     | 189,522     | 166,227     |
| Stainless steel   | 3,714       | 4,013       | 5,474       | 4,971       | 4,380       |
| Brass and copper (incl. alloys)                                     | 24,931      | 26,334      | 25,579      | 26,606      | 20,983      |
| Aluminium and aluminium alloys                                      | 7,440       | 7,176       | 8,084       | 8,157       | 6,978       |
| Other metals  | 225         | 285         | 168         | 164         | 109         |
| PVC   | 661         | 796         | 684         | 725         | 622         |
| Plastics with formaldehyde emission                                 | 240         | 243         | 276         | 228         | 176         |
| Other plastics types (incl. rubber)                                 | 4,560       | 5,189       | 5,575       | 5,539       | 5,134       |
| Electronic and electro-mechanical components                        | 12,620      | 18,540      | 23,427      | 21,057      | 24,810      |
| Soldering materials (incl. leaded)                                  | 38          | 55          | 62          | 67          | 113         |
| Wood (incl. Wooden pallets)   | 9,863       | 10,145      | 11,619      | 11,967      | 10,582      |
| Packaging of cardboard and plastics                                 | 5,403       | 6,580       | 6,973       | 6,963       | 6,001       |
| Other raw materials (incl. filling media and chemicals in products) | 7,061       | 7,873       | 9,362       | 8,218       | 8,427       |
| Group's total raw material volume                                   | 254,185     | 278,751     | 299,955     | 284,183     | 254,543     |
| <b>Potentially harmful substances</b>                               | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| CRAN materials (tonnes)   | 1,034       | 1,256       | 1,262       | 1,219       | 903         |
| EII - CRAN materials  | 100         | 111         | 103         | 105         | 87          |
| Substances toxic to man (tonnes)                                    | 25          | 38          | 37          | 27          | 24          |
| EII - Toxic substances  | 100         | 138         | 124         | 97          | 97          |
| Dangerous for the environment (tonnes)                              | 151         | 232         | 288         | 262         | 177         |
| EII - Dangerous for the environment                                 | 100         | 140         | 161         | 155         | 117         |
| Organic solvents (tonnes)   | 265         | 321         | 288         | 347         | 261         |
| EII - Organic solvents  | 100         | 111         | 92          | 117         | 98          |
| HCFCs controlled by the MP (tonnes)                                 | 5,6         | 4,7         | 10,1        | 8,8         | 7,3         |
| EII - HCFC Montreal Protocol  | 100         | 77          | 153         | 140         | 130         |
| Green House Gases control by KP(tonnes)                             | 53          | 66          | 85          | 83          | 75          |
| EII - HFC (Kyoto Protocol)  | 100         | 112         | 134         | 140         | 140         |

| <b>Potentially harmful substances (cont.)</b>       | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| CFC+TRI+ PER until 2008 (kg)                        | 196.6       | 89.0        | 36.0        | 4,552.0     |             |
| EII - CFC+TRI+ PER until 2008                       | 100         | 41          | 16          | 2,071       |             |
| TRI + PER after 2008 (kg)                           |             |             |             |             | 3,293       |
| EII - TRI + PER after 2008                          |             |             |             |             |             |
| CFC after 2008 (kg)                                 |             |             |             |             | 19          |
| EII - CFC after 2008                                |             |             |             |             |             |
| Chlorinated oils (tonnes)                           | 11          | 9           | 10          | 7           | 6           |
| EII - Process oil containing chlorine               | 100         | 74          | 73          | 54          | 54          |
| Kerosene (tonnes)                                   | 46          | 54          | 37          | 64          | 48          |
| EII - Kerosene                                      | 100         | 108         | 69          | 123         | 105         |
| Hexavalent Chromiums (tonnes Chromium)              | 0           | 0           | 0           | -           | -           |
| EII - Chromium (+6)                                 | 100         | 241         | 22          | -           | -           |
| Nickel salts (tonnes Nickel)                        | 4           | 4           | 5           | 2           | -           |
| EII - Nickel salts                                  | 100         | 85          | 94          | -           | -           |
| Cyanides (tonnes)                                   | 6           | 7           | 5           | -           | -           |
| EII - Cyanides                                      | 100         | 102         | 77          | -           | -           |
| <b>Waste water</b>                                  | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Discharged industrial waste water (m <sup>3</sup> ) | 184,945     | 169,498     | 256,465     | 261,179     | 198,047     |
| EII - Discharged industrial waste water             | 100         | 84          | 118         | 126         | 107         |
| Heavy metals in waste water (kg)                    | 133         | 104         | 192         | 186         | 139         |
| EII - Heavy metals in waste water                   | 100         | 71          | 123         | 125         | 105         |
| <b>Waste (tonnes)</b>                               | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Waste (tonnes)                                      | 67,569      | 76,066      | 79,912      | 76,710      | 55,106      |
| EII - Waste   | 109         | 111         | 109         | 110         | 88          |
| Waste for incineration (tonnes)                     | 1,579       | 1,514       | 1,668       | 1,776       | 1,312       |
| EII - Incineration                                  | 100         | 87          | 90          | 101         | 83          |
| Waste for landfill (tonnes)                         | 1,294       | 1,454       | 2,849       | 3,154       | 1,993       |
| EII - Landfill                                      | 100         | 102         | 187         | 218         | 154         |
| Oil and chemical waste (tonnes)                     | 3,345       | 4,046       | 4,057       | 4,657       | 4,152       |
| EII - Oil and chemical waste                        | 100         | 110         | 103         | 125         | 124         |
| Waste for recycling (tonnes)                        | 56,049      | 62,619      | 64,565      | 60,952      | 47,649      |
| EII - Recycled waste                                | 100         | 102         | 98          | 97          | 85          |
| <b>Accidents</b>                                    | <b>2005</b> | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2009</b> |
| Number of accidents                                 | 298         | 292         | 312         | 330         | 254         |
| Frequency of accidents                              | 17.8        | 16.2        | 15.5        | 16.8        | 15.5        |
| Total number of days of absence                     | 4,282       | 4,406       | 5,438       | 6,864       | 5,048       |
| Finger/Hand/Arm accidents                           |             |             |             |             | 48%         |
| Head accidents                                      |             |             |             |             | 11%         |
| Legs/Feet accidents                                 |             |             |             |             | 22%         |
| Other parts of body accidents                       |             |             |             |             | 19%         |

Pages references in the GRI table to pages numbered lower than 100 is to the financial section of Danfoss' Annual Report 2009.

|                                | Compliance   | GC principle | Page       | Results/Comments   |
|--------------------------------|--|--------------|------------|--|
| <b>PROFILE</b>                 |  |              |            |  |
| <b>Strategy &amp; Analysis</b> |  |              |            |  |
| <b>1.1</b>                     | Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.  |              |            | Global Compact statement of continued support                              |
| <b>Organisational Profile</b>  |  |              |            |  |
| <b>2.1</b>                     | Name of the organisation   |              | 5          |  |
| <b>2.2</b>                     | Primary brands, products, and/or services  |              | 4, 12      |  |
| <b>2.3</b>                     | Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.  |              | 4, 13, 121 |  |
| <b>2.4</b>                     | Location of organisation's headquarters  |              | 5          | Nordborgvej 81, DK-6430 Nordborg, Denmark                                  |
| <b>2.5</b>                     | Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.   |              | 121        |  |
| <b>2.6</b>                     | Nature of ownership and legal form   |              | 23, 49, 62 |  |
| <b>2.7</b>                     | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)  |              | 30         |  |
| <b>2.8</b>                     | Scale of the reporting organisation, including: <ul style="list-style-type: none"> <li>· Number of employees</li> <li>· Net sales (for private sector organisations) or net revenues (for public sector organisations)</li> <li>· Total capitalisation broken down in terms of debt and equity (for private sector organisations); and</li> <li>· Quantity of products or services provided.</li> </ul>                |              | 6          | Notes in Financial Report  |
| <b>2.9</b>                     | Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> <li>· The location of, or changes in operations, including facility openings, closings, and expansions; and</li> <li>· Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations).</li> </ul> |              | 8, 10, 14  | Notes in Financial Report  |
| <b>2.10</b>                    | Awards received in the reporting period  |              |            | Not detailed   |
| <b>Report Parameters</b>       |  |              |            |  |
| <b>3.1</b>                     | Reporting period (e.g., fiscal/calendar year) for information provided   |              |            | Reporting period is January 1. -December 31, 2009.                         |
| <b>3.2</b>                     | Date of most recent previous report (if any)   |              |            | Annual Report 2008 published on 30 March 2009                              |
| <b>3.3</b>                     | Reporting cycle (annual, biennial, etc.)   |              |            | Annual   |
| <b>3.4</b>                     | Contact point for questions regarding the report or its contents   |              |            | Corporate Communications & Reputation Management, Chief Reputation Officer |

|   | Compliance  | GC principle | Page       | Results/Comments   |
|---|---|--------------|------------|--|
| <b>PROFILE</b>                                  |   |              |            |  |
| <b>3.5</b>                                      | Process for defining report content, including:<br>· Determining materiality;<br>· Prioritizing topics within the report; and<br>· Identifying stakeholders the organisation expects to use the report.   |              |            | Detailed accounting principles are available on the Danfoss Group webpage under Corporate Citizenship  |
| <b>3.6</b>                                      | Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance   |              |            | The report include all companies where Danfoss has an owner share exceeding 50% for the whole year 2009. The report does not include Sauer-Danfoss activities. |
| <b>3.7</b>                                      | State any specific limitations on the scope or boundary of the report   |              |            | See accounting principles for CSR & environment  |
| <b>3.8</b>                                      | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations  |              |            | See accounting principles for CSR & environment  |
| <b>3.10</b>                                     | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)  |              |            | See accounting principles for CSR & environment  |
| <b>3.11</b>                                     | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report  |              |            | No significant changes   |
| <b>3.12</b>                                     | Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found:<br>· Strategy and Analysis 1.1 – 1.2;<br>· Organizational Profile 2.1 – 2.10;<br>· Report Parameters 3.1 – 3.13;<br>· Governance, Commitments, and Engagement 4.1 – 4.17;<br>· Disclosure of Management Approach, per category;<br>· Core Performance Indicators;<br>· Any GRI Additional Indicators that were included; and<br>· Any GRI Sector Supplement Indicators included in the report. |              | This table |  |
| <b>Governance, Commitments &amp; Engagement</b> |   |              |            |  |
| <b>4.1</b>                                      | Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.  |              | 23         |  |
| <b>4.2</b>                                      | Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement).  |              | 20         |  |
| <b>4.3</b>                                      | For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.  |              | 20         |  |

|                                  | Compliance   | GC principle | Page | Results/Comments   |  |
|----------------------------------|--|--------------|------|--|--|
| <b>PROFILE</b>                   |  |              |      |  |  |
| <b>4.14</b>                      | List of stakeholder groups engaged by the organisation   | Not reported |      | Information is not available at present  |  |
| <b>4.15</b>                      | Basis for identification and selection of stakeholders with whom to engage.  | Not reported |      | Once a year, Danfoss invites for a dialogue session with different kinds of stakeholders, both in the social and environmental area.         |  |
| <b>SOCIETY</b>                   |  |              |      |  |  |
| <b>Community</b>                 |  |              |      |  |  |
| <b>SO1</b>                       | Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core) | Partly       | 1    | Requirements in terms of open and honest communication in company operations is described in the Ethics Handbook that all leaders must sign. |  |
| <b>Corruption</b>                |  |              |      |  |  |
| <b>SO2</b>                       | Percentage and total number of business units analyzed for risks related to corruption. (Core)   | Full         | 10   | 128, 132   | In the annual CSR Survey all factories and sales companies are asked questions about how they minimise the risk of corruption. Country risk analyses are available for all the 25 countries where Danfoss has production facilities. They uncover the current situation in a country in terms of human rights, labour rights, community relations and corruption. The country risk analyses are used as a starting point for discussions on compliance when companies in the Group are visited for audit.  |
| <b>SO3</b>                       | Percentage of employees trained in organization's anti-corruption policies and procedures. (Core)  | Partly       | 10   | 128, 132   | Danfoss has developed two dilemma games: one on corruption and bribery, based on dilemmas that regional sales managers have experienced, and one on company ethics in general. The dilemma games are used when visiting factories and the dilemma game on corruption and bribery is also available in an online version on the Intranet. When carrying out visits to factories and sales companies, a workshop on anti-corruption is always a part of the visit. During 2009 about 90 top managers, sales managers and purchasing managers have been trained in anti-corruption. |
| <b>SO4</b>                       | Actions taken in response to incidents of corruption. (Core)   | Full         | 10   | 128, 131   | In the annual CSR survey all presidents/general managers are asked questions about corruption and bribery, and in the annual People Manager survey all managers with staff responsibilities are asked questions about corruption and bribery and unethical behaviour. The results are sent to all presidents/general managers as well as the Executive Committee. If non-compliance or risk of non-compliance are found the company will be asked to remedy immediately.   |
| <b>Public Policy</b>             |  |              |      |  |  |
| <b>SO5</b>                       | Public policy positions and participation in public policy development and lobbying. (Core)  | Partly       | 10   | 135  | In August 2009 Danfoss established a Public Affairs Office in Brussels and at Capitol Hill.  |
| <b>SO6</b>                       | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)  | Partly       | 10   |  | Danfoss' Ethics Handbook states that employees must not use Danfoss' letter head/e-mail address to express personal political views or to link Danfoss' name with party-specific political activities of any kind. Furthermore it is not allowed to financially support political parties on behalf of the company and to use Danfoss effects when taking part in party-specific political activities.   |
| <b>Anti-Competitive Behavior</b> |  |              |      |  |  |
| <b>SO7</b>                       | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.(Additional)  | Not reported | 10   |  |  |
| <b>SO8</b>                       | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. (Core)  | Full         | 7,8  |  | No significant fines have been issued during 2009. All breaches of laws are mentioned in the Environmental Part of the Annual Report.  |

|                                       | Compliance   | GC principle | Page | Results/Comments |   |
|---------------------------------------|--|--------------|------|------------------|---|
| <b>LABOUR PRACTICES</b>               |  |              |      |                  |   |
| <b>LA Employment</b>                  |  |              |      |                  |   |
| <b>LA1</b>                            | Total workforce by employment type, employment contract, and region. (Core)  | Full         |      | 141              |   |
| <b>LA2</b>                            | Total number and rate of employee turnover by age group, gender, and region. (Core)  | Full         | 6    | 138              |   |
| <b>LA3</b>                            | LA3 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)  | Not reported | 6    |                  |   |
| <b>Labour/Management Relations</b>    |  |              |      |                  |   |
| <b>LA4</b>                            | Percentage of employees covered by collective bargaining agreements.(core)   | Partly       | 3    |                  | In the annual CSR Survey 2009 34,7% of the respondents reported to have taken part in a collective bargaining agreement.<br>Danfoss is operating in a lot of different countries, also countries where there is not a free choice of unionising. In these cases, Danfoss has established alternative forums in terms of discussing work related issues.                 |
| <b>Labour/Management Relations</b>    |  |              |      |                  |   |
| <b>LA5</b>                            | Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. (Core)   | Partly       | 3    |                  | 40% of companies in the CSR survey reports to have undergone lay offs affecting more than 10% of the workforce. 42% of them economically compensated more than required by law. 39% offered longer notice period than required, 61% set up employment offices to help fired employees get new jobs, and 39% offered extra education/training to upgrade qualifications. |
| <b>Occupational Health and Safety</b> |  |              |      |                  |   |
| <b>LA6</b>                            | Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional) | Full         | 1    |                  | 61% of the companies in the CSR survey reports that more than 80% of the employees (both salary and hourly paid) are covered by formal management-employee health and safety committees or forums, while 36% of the companies report that less than 20% of the employees are covered.   |
| <b>LA7</b>                            | Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. (Core)  | Partly       | 1    | 142              | Danfoss reports the frequency of accidents as well as the severity of the accidents.  |
| <b>LA8</b>                            | Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.(core)            | Not reported | 1    |                  |   |
| <b>LA9</b>                            | LA9 Health and safety topics covered in formal agreements with trade unions. Health and safety topics covered in formal agreements with trade unions. (Additional)                             | Not reported | 3    |                  |   |
| <b>Training and Education</b>         |  |              |      |                  |   |
| <b>LA10</b>                           | Average hours of training per year per employee by employee category. (Core)   | Partly       |      | 151, 152         | Danfoss reports the number of hours used for environmental training.  |
| <b>LA11</b>                           | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)                            | Partly       |      | 140, 141         |   |
| <b>LA12</b>                           | Percentage of employees receiving regular performance and career development reviews. (Additional)   | Full         |      | 140              |   |

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| <b>Diversity and Equal Opportunity</b>   |              |              |      |  |
| <b>LA13</b> Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)                                | Full         | 1,6          | 23   |  |
| <b>LA14</b> Ratio of basic salary of men to women by employee category. (Core)   | Not reported | 1,6          |      |  |
| <b>HUMAN RIGHTS</b>  |              |              |      |  |
| <b>Investment and Procurement Practices</b>  |              |              |      |  |
| <b>HR1</b> Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)  | Not reported | 1,2,3,4,5,6  |      |  |
| <b>HR2</b> Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)   | Full         | 1,2,3,4,5,6  | 133  |  |
| <b>HR3</b> Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional)                   | Partly       | 1,2,3,4,5,6  | 132  | Danfoss does not measure the total hours of employee training on human rights and related areas, but measures the total number of managers trained in these issues.  |
| <b>Non-discrimination</b>  |              |              |      |  |
| <b>HR4</b> Total number of incidents of discrimination and actions taken. (Core)   | Full         | 1,6          | 130  |  |
| <b>Freedom of Association and Collective Bargaining</b>  |              |              |      |  |
| <b>HR5</b> Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)                           | Full         | 1,3          | 131  | In countries where national law does not give employees the right to freely choose a trade union or where an established trade union system is not possible, Danfoss ensures that employees can meet with management in other ways to discuss work-related conditions. This has been established at nine Danfoss sites where a free choice regarding union membership is not possible. |
| <b>Child Labour</b>  |              |              |      |  |
| <b>HR6</b> Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)   | Full         | 1,5          | 130  |  |
| <b>Forced and Compulsory Labour</b>  |              |              |      |  |
| <b>HR7</b> Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)                             | Full         | 1,4          | 131  |  |
| <b>Security Practices</b>  |              |              |      |  |
| <b>HR8</b> Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations.(Additional)   | not reported | 1            |      |  |
| <b>Indigenous Rights</b>   |              |              |      |  |
| <b>HR9</b> Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)   | Full         | 1            |      | The CSR survey 2009 disclosed no negative impact on indigenous people.   |
| <b>PRODUCT RESPONSIBILITY</b>  |              |              |      |  |
| <b>Customer Health and Safety</b>  |              |              |      |  |
| <b>PR1</b> Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core) | Partly       | 8            |      | All new and changed products must be subjected to safety assessments in accordance with valid standards before being released for sale. The assessment must be carried out for all relevante life cycle stages including use and service   |

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| <b>Customer Health and Safety</b>   |              |              |          |  |
| <b>PR2</b> Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)  | Not reported | 8            |          |  |
| <b>Product and Service Labeling</b>   |              |              |          |  |
| <b>PR3</b> Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)                                       | Not reported | 8            |          |  |
| <b>PR4</b> Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.(Additional)                                 | Not reported | 8            |          |  |
| <b>PR5</b> Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)   | Not reported |              |          |  |
| <b>Marketing Communications</b>   |              |              |          |  |
| <b>PR6</b> Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)  | Not reported |              |          |  |
| <b>PR7</b> Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes. (Additional) | Not reported |              |          |  |
| <b>Customer Privacy</b>   |              |              |          |  |
| <b>PR8</b> Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)  | Not reported |              |          |  |
| <b>Compliance</b>   |              |              |          |  |
| <b>PR9</b> Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core)   | Full         |              |          | All significant fines (if any) are mentioned in the Management Report section of the Annual Report |
| <b>ENVIRONMENT</b>  |              |              |          |  |
| <b>Materials</b>  |              |              |          |  |
| <b>EN1</b> Materials used by weight or volume. (core)   | Full         | 8,9          | 166      |  |
| <b>EN2</b> Percentage of materials used that are recycled input materials. (core)   | Partly       | 8,9          | 152, 166 |  |
| <b>Energy</b>   |              |              |          |  |
| <b>EN3</b> Direct energy consumption by primary energy source.(core)  | Full         | 8            | 152, 166 |  |
| <b>EN4</b> Indirect energy consumption by primary source. (Core)  | Full         | 8            | 152, 166 |  |
| <b>EN5</b> Energy saved due to conservation and efficiency improvements.(Additional)  | Full         | 8,9          | 151, 152 |  |

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| <b>Materials cont.</b>                |  |              |       |                  |  |
| <b>EN6</b>                            | Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)  | Full         | 8,9   | 148              |  |
| <b>EN7</b>                            | Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)  | Full         | 8,9   | 151, 152         |  |
| <b>Water</b>                          |  |              |       |                  |  |
| <b>EN8</b>                            | Total water withdrawal by source. (Core)   | Full         | 8     | 166              |  |
| <b>EN9</b>                            | Water sources significantly affected by withdrawal of water. (Additional)  | Not reported | 7,8   |                  |  |
| <b>EN10</b>                           | Percentage and total volume of water recycled and reused. (Additional)   | Partly       | 8,9   | 153, 166         |  |
| <b>Biodiversity</b>                   |  |              |       |                  |  |
| <b>EN11</b>                           | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)  | Not reported | 8     |                  |  |
| <b>EN12</b>                           | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)   | Not reported | 7,8   |                  |  |
| <b>EN13</b>                           | Habitats protected or restored. (Additional)   | Not reported | 8     |                  |  |
| <b>EN14</b>                           | Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)   | Not reported | 8     |                  |  |
| <b>EN15</b>                           | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)  | Not reported | 7,8   |                  |  |
| <b>Emissions, Effluents and Waste</b> |  |              |       |                  |  |
| <b>EN16</b>                           | Total direct and indirect greenhouse gas emissions by weight. (Core)   | Full         | 7,8,9 | 150, 151         |  |
| <b>EN17</b>                           | Other relevant indirect greenhouse gas emissions by weight. (Core)   | Full         | 7,8,9 | 150, 151         |  |
| <b>EN18</b>                           | Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)   | Full         | 7,8,9 | 145              |  |
| <b>EN19</b>                           | Emissions of ozone-depleting substances by weight. (Core)  | Partly       | 7,8,9 | 153              |  |
| <b>EN20</b>                           | NO <sub>x</sub> , SO <sub>x</sub> , and other significant air emissions by type and weight. (Core)   | Partly       | 8     | 153, 166         |  |
| <b>EN21</b>                           | Total water discharge by quality and destination. (Core)   | Full         | 8     | 153, 166         |  |
| <b>EN22</b>                           | Total weight of waste by type and disposal method. (Core)  | Full         | 8     | 153, 166         |  |
| <b>EN23</b>                           | Total number and volume of significant spills. (core)  | Partly       | 8     | 154              |  |
| <b>EN24</b>                           | Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional) | Not reported | 7,8   |                  |  |

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| <b>Emissions, Effluents and Waste cont.</b>   |              |              |      |  |
| <b>EN25</b> Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. (Additional) | Not reported | 7,8          |      |  |
| <b>Products and Services</b>  |              |              |      |  |
| <b>EN26</b> Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)   | Partly       | 8,9          | 151  |  |
| <b>EN27</b> Percentage of products sold and their packaging materials that are reclaimed by category. (Core)  | Not reported | 8,9          |      |  |
| <b>Compliance</b>   |              |              |      |  |
| <b>EN28</b> Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. (Core)   | Partly       | 8            |      | All significant fines (if any) are mentioned in the Management Report section of the Annual Report |
| <b>Transport</b>  |              |              |      |  |
| <b>EN29</b> Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. (Additional)          | Not reported | 8            |      | Not specifically reported this year  |
| <b>Overall</b>  |              |              |      |  |
| <b>EN30</b> Total environmental protection expenditures and investments by type. (Additional)   | Not reported | 7,8          |      |  |