

ENGINEERING  
TOMORROW



# Sustainability

## Report 2015



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# CEO Comment

In 2015, Danfoss launched a new and ambitious climate strategy. By 2030 Danfoss will be using half as much energy to keep the wheels of business running as in 2007. And this energy will emit half as much CO<sub>2</sub> per kWh.

Energy efficiency is a key element of the Danfoss Core & Clear strategy and the technologies and solutions we offer our customers. Demonstrating leadership and improving Danfoss' own energy efficiency is an ongoing task and with the new climate strategy, we intensify our own efforts building on what we have already done and achieved.

Quality, reliability and innovation for the long term are the focal points of all our activities, when we develop energy-efficient solutions for our customers. We encourage them to use less energy, so setting ambitious targets for ourselves is only a natural part of taking climate leadership.

In 2015, we continued implementing the Danfoss Group sustainability program. During its implementation period, this program guides our work within a strengthened group-wide framework, while at the same time setting out clear goals for the work in our organization within the defined focus areas: health and safety; ethical conduct; product compliance & transparency; and finally energy-efficiency in Danfoss.

In 2015, we have made progress within all above-mentioned focus areas and have initiated solid programs to improve the health and safety of our employees further and to ensure a strong focus on product regulatory issues by building a new Group Regulatory function in Corporate Legal. Looking back at 2015, the COP21 summit marked an important milestone on the path towards a low carbon world in which Danfoss and our products play an important role.

Also in 2015, the United Nations launched 17 Sustainable Development Goals as an inspiring platform for companies to work with. Danfoss supports the Sustainable Development Goals and aim at integrating them into the company's sustainability work from 2016.

Danfoss became a signatory to the UN Global Compact In 2002. We continue to support the Global Compact and its principles as governing in our sustainability efforts. This report serves as our Communication on Progress report to the UN.



Niels B. Christiansen  
President & CEO



Niels B. Christiansen  
President & CEO



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact**.

We welcome feedback on its contents.

## FOCUS AREAS



**ENVIRONMENT,  
HEALTH &  
SAFETY**



**PRODUCT  
COMPLIANCE &  
TRANSPARENCY**



**ENERGY  
EFFICIENCY**



**ETHICAL  
CONDUCT**

## SUSTAINABILITY HIGHLIGHTS

	2011	2012	2013*	2014*	2015**
<b>RESOURCE CONSUMPTION AND CLIMATE</b>					
Energy consumption (MWh)	379,582	363,300	604,611	583,635	586,799
CO <sub>2</sub> emissions (tons)	127,524	126,873	219,299	229,245	234,440
Water consumption (m <sup>3</sup> )	770,494	637,082	841,433	806,784	840,926
<b>HEALTH &amp; SAFETY</b>					
LTI - Lost Time Injuries	146	136	172	165	127
LTIF - Lost Time Injury Frequency	6.1	5.8	4.7	4.4	3.4
LDR - Lost Day Rate	84	121	82	66	59
<b>SOCIAL RESPONSIBILITY</b>					
Dismissals due to unethical behavior	26	47	31	30	31
Number of inquiries in AskUs			69	75	85
Number of cases in Ethics Hotline			112	123	93
<b>PEOPLE &amp; PERFORMANCE</b>					
Number of employees	23,430	23,092	23,463	24,117	23,420
Percentage of female managers				18	18
<b>FINANCIAL HIGHLIGHTS</b>					
Net sales	33,904	34,007	33,628	34,375	38,031

(\*) Includes Power Solutions acquired in 2013

(\*\*) Includes Vacon acquired in 2014

# Danfoss at a glance

Danfoss engineers technologies that enable the world of tomorrow to do more with less. We meet the growing need for infrastructure, food supply, energy efficiency and climate-friendly solutions.

## **Danfoss Power Solutions**

Danfoss Power Solutions is one of the world's leading players in the mobile hydraulics market. The segment covers three divisions: Hydrostatics, Work Function, Controls, as well as some stand-alone businesses. Within each division, the segment plays a leading role in R&D, design, manufacture and sale of innovative and performance-enhancing hydraulic and electronic systems and components. The business segment is highly specialized in mobile hydraulics and provides world-class solutions for the construction, agriculture, and other off-highway vehicle markets.

## **Danfoss Cooling**

Danfoss Cooling is the player in the air-conditioning and refrigeration industry with the most complete offering. The business segment is an industry frontrunner in energy-efficient engineering, and strong application expertise within commercial refrigeration, industrial refrigeration, air-conditioning, and supermarket refrigeration.

With more than 10,000 components, including compressors, valves, sensors and switches, Danfoss Cooling provides its customers with innovative, energy-saving and precise control solutions.

## **Danfoss Drives**

Danfoss Drives is a leading player in the market for low voltage AC drives. The key competitive advantage for Danfoss Drives is unique expertise and application knowledge, and Danfoss Drives is driven by passion to develop, manufacture and sell the best AC drives in the world and provide customers with efficient product lifecycle services.

AC drives are used, for example, in pumps, fans, elevators, escalators, conveyors and compressors. Danfoss Drives solutions also play a key role when energy is produced from renewable sources. Danfoss Silicon Power is also part of the Danfoss Drives segment. This business develops and manufactures power modules and stacks for a number of industries, like the automotive and wind industries.

## **Danfoss Heating**

Danfoss Heating is a key player within the heating industry. The business segment is the leader in a number of advanced heating components and systems that deliver comfort, energy efficiency, and enhanced heating performance in residential and commercial buildings as well as in district energy systems. Danfoss Heating supplies heating components and systems within residential heating, commercial heating and district energy for cities for the entire supply of heating and cooling for optimal comfort while reducing energy consumption.

## **We are Engineering Tomorrow**

At Danfoss, we see opportunities everywhere: feeding a growing population, saving energy, enabling everyone to enjoy a more comfortable, better quality of life. We aim to rise to increasingly complex challenges and, through knowledge and hard work, engineer solutions that achieve more with less.

Quality, reliability and innovation are rooted in our DNA. Our technologies and products can be trusted to push the boundaries for what is possible, deliver exceptional performance and answer the real needs of our customers.

With leading expertise in refrigeration and air conditioning, controls for electric motors, heating systems for buildings and cities, and hydraulic solutions to power agricultural and construction machinery, our impact can be felt everywhere. This is what drives us: To realize more of the potential of this amazing world, and engineer the dreams of tomorrow, today.

We engineer technologies that enable the world of tomorrow to do more with less. Our ambition is to realize the vast potential for better infrastructure, improved food supply, higher energy productivity and more climate-friendly solutions. For our customers, we aim to deliver quality, reliability and innovation in everything we do.

# 2015 highlights

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Total net sales  
/ m DKK

**38,031**

Sales growth in DKK

**11%**

R&D spend  
/ m DKK

**1,607**

Free cash flow (before M&A)  
/ m DKK

**3,397**

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EBIT / m DKK

**4,097**

Equity  
/ m DKK

**15,424**

Equity  
ratio

**41.4%**

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## Financials in brief

In 2015, the Danfoss Group maintained good performance and delivered financial results in line with expectations. The year was characterized by continuing low, global growth conditions and the business environment remained mixed across markets and regions.

The demand for energy efficiency and increased focus on climate-friendly solutions were strong drivers for Danfoss technologies supporting an improved performance in the two business segments Danfoss Cooling and Danfoss Drives. On the other hand, for the Danfoss Power Solutions business segment, results were impacted by a downturn in the global mobile hydraulics market due to low activity levels in the global agricultural sector as well as lower construction activity in China. Also, Danfoss Heating had a challenging year due to the economic downturn in Russia and slowdown in China.

For the Group, net sales were at DKK 38,031m against DKK 34,375m in the same period last year. The improvement corresponds to 11% growth. In local currency, growth was 5%. EBIT was improved to DKK 4,097m against DKK 3,925m last year, which is equal to an increase of 4%. Net profit was at DKK 2,597m record-high and 13% above last year. The free cash flow before M&A was DKK 3,397m against DKK 3,389m in the year-earlier period.

In conclusion, the Group's performance in 2015 was satisfactory.

# Sustainability at **Danfoss**

## **Danfoss' sustainability program**

Danfoss has defined its sustainability program based on global megatrends, the Group's expectations in relation to future growth areas within food, infrastructure, energy and climate, and through interviews with managers and key employees in the Danfoss segments and corporate functions.

The program supports Danfoss' strategy with regards to profitable growth and will ensure achievements in prioritized areas through a clear structure, goals and follow-up.

## **Material issues**

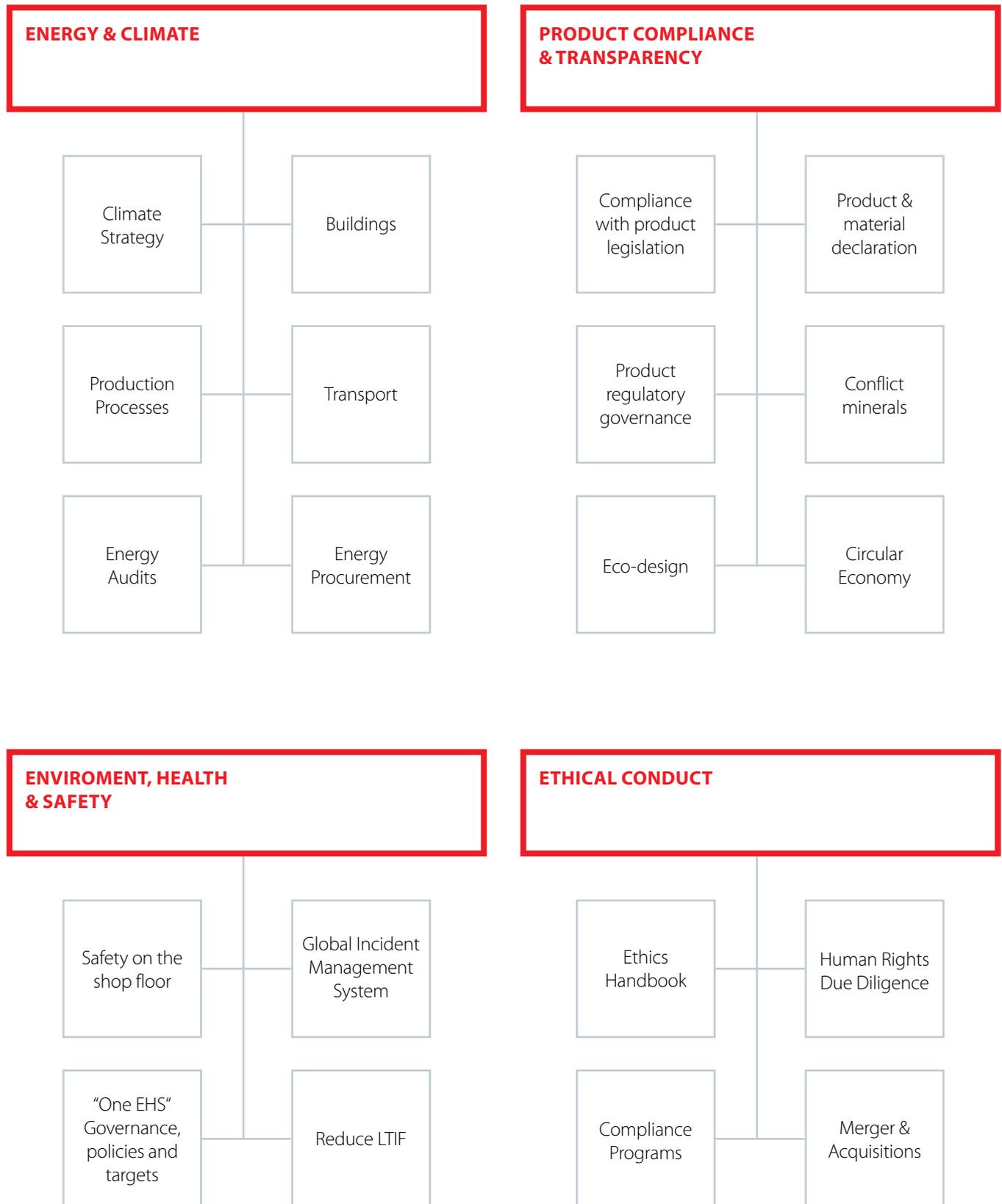
Using a systematic selection process, Danfoss has identified those key focus areas to be addressed in the Group's sustainability program.

The materiality assessment and the priorities have been addressed with various stakeholders: NGOs, Danfoss' managers and Danfoss' EHS (Environment, Health & Safety) community. It's our intention to broaden this part of the company's stakeholder engagement activities. Each of the material issues are described in the following sections of this report.



# The main focus areas in Danfoss' Sustainability Program

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### **Policies and strategies**

Danfoss has established rules and guidelines to supplement legislation, which governs how Danfoss intends to act in matters related to sustainability. These policies and strategies are described in details in the notes at the back of this report.

Information about Danfoss' overall business strategies and financial performance can be found in Danfoss' Annual Report 2015 or at the company's webpage: [www.danfoss.com](http://www.danfoss.com).

### **New setup for sustainability**

Over the last two years, Danfoss has implemented its sustainability program within defined focus areas. The program will now be taken to a new level: to strengthen the alignment between public affairs, branding and sustainability activities across all regions and segments, and strengthen our position with regard to Danfoss' external stakeholders. As of September 2015, Danfoss established a new Sustainability function and a new Regulatory unit. The Danfoss Sustainability function is placed within Corporate Communications and Reputation.

Joining forces across Public Affairs and Sustainability will generate further possibilities when positioning Danfoss as a world leader within sustainable solutions for energy, climate, food and infrastructure.

The Regulatory unit has combined existing resources within product compliance and product approvals, and has strengthened the support to Danfoss' business segments.

The Group Regulatory unit is placed within Danfoss' Legal department and is responsible for Danfoss standards, and business ethics, including the Danfoss Ethics Handbook.

### **Governance**

Danfoss' Executive Committee has the overall responsibility for sustainability in Danfoss and defines the framework for the Company's sustainability efforts. Danfoss' Risk & Compliance Committee has the overall responsibility for ensuring an effective enterprise risk management program and effective compliance programs for selected areas.

Danfoss' Public Affairs & Sustainability function is responsible for defining, implementing and reporting on Danfoss' global program, Group targets, and activities for sustainability and corporate citizenship. The function is also responsible for coordination of cross-segment initiatives.

More details about the sustainability governance can be found in the notes at the back of this report and at the company's webpage.

## Public Affairs at Danfoss

Following Danfoss' overall ambition to engineer cities and communities that achieve more by using less energy, we advocate the deployment of more energy-efficient technologies in our four main areas of expertise: food, infrastructure, energy and climate. In Danfoss' key markets: the United States of America, Germany, China, India, and broadly Europe, the Public Affairs function focuses on six priorities:

1. Awareness-raising about district energy as a state-of-the-art and future-proof system that provides the most cost-efficient and low-carbon solution for heating and cooling of buildings in urban areas. With regard to ensuring energy independence, energy security, and the integration of renewable energy sources, the Danfoss Public Affairs team works together with associations like Euroheat and Power in Brussels to make policy-makers aware of the multiple benefits of district energy. On a global level, Danfoss supports capacity-building in cities through organizations like UNEP's 'District Energy in Cities Initiative', in cooperation with C40 cities, ICLEI – Local Governments for Sustainability and SE4ALL - Sustainable Energy for All.
2. Together with leading industry players in support of the Montreal Protocol, Danfoss is working on sustainable solutions for refrigeration and a phasing down of HFC gases. HFCs are potent greenhouse gases used in refrigerators, air conditioners, and industrial applications. To that end, we work together with GRMI - The Global Refrigerant Management Initiative. Its aim is to educate the HVACR industry's global supply chain to improve the management of refrigerants to reduce leak and service emissions, and to promote the recycling, recovery, reclaiming, and end-of-life destruction of refrigerants and foam blowing agents. Danfoss also participates in the GFCCC –Global Food Cold Chain Council, where we facilitate the establishment of sustainable cold chains with low-GWP refrigerants. As industry leader, we see it as the company's responsibility to build the capacity and awareness about sustainable cold chains and to push for progress within the use of natural refrigerants.
3. The energy efficiency of existing and new buildings holds large opportunities for the sustainable development of our urban centers. Danfoss, therefore, advocates for building codes in emerging markets and the implementation of existing and more ambitious building codes in established markets. Consequently, optimizing energy efficiency in new buildings, right from the start, is extremely important so that we do not lock ourselves into inefficient technologies for decades. An even bigger potential stems from renovating the existing building stock, which currently accounts for about a third of global energy use and energy-related GHG emissions. For this reason, Danfoss support the International Energy Agency's recommendation for a global renovation rate of 1-2% of existing buildings per year. In the EU, Danfoss want to make buildings ready for demand-response in order to provide the needed flexibility for the integration and uptake of renewable energy. We advocate looking at buildings as part of the bigger energy system; hence taking into account the supply and demand side of energy.
4. Danfoss promotes efficient motor systems through a system-based approach together with organizations like IEA and ZVEI. Electric motors account for 60-70% of the industrial electricity demand, which creates a strong case for optimizing electric motor systems with variable speed drives. Yet, 70-80% of new industrial motors worldwide are not fitted with these drives which, the IEA suggests, should be made mandatory. Danfoss advocate for mandatory transparency and disclosure of efficiency data on motor systems.
5. On green trade, Danfoss advocates the inclusion of energy-efficient technologies in the World Trade Organization's Environmental Goods Agreement, to facilitate the competitiveness of related products and a higher uptake and implementation of renewable energy sources, following the principle of energy efficiency first.
6. In Danfoss' home market, Denmark, the decoupling of growth and energy consumption in the Gross Domestic Product (GDP) figures has since the 1970s allowed cost and energy savings as well as significant CO<sub>2</sub> emission reductions. The high penetration rate of district energy (60%) in particular, has enabled the integration of a high proportion of renewable energy sources, such as wind, solar, biomass or industry surplus heat. The next step for Denmark's green transition will be to ensure an even greater uptake of renewable energy through closer cooperation between sectors and smart energy technology.

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It's **Danfoss'** overall ambition to engineer cities and communities that achieve more by using less energy.

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With a focus on these priorities, Danfoss is working with stakeholders, such as the International Energy Agency (IEA), the World Economic Forum (WEF), Sustainable Energy for All (SE4ALL), the United Nations Environment Program (UNEP), and the Alliance to Save Energy in the US and EU, and many more leading associations.

As a global leader for energy-efficient solutions, Danfoss participated in the COP21 climate conference in Paris. We stand ready to transform the ambitious agreement that was reached on December 12, 2015, into action on the ground by accelerating the uptake of the best available technology that can be implemented today.

### **Danfoss supports global climate initiatives**

Danfoss supports a number of global initiatives and programs, which are aimed at reducing global CO<sub>2</sub> emissions, reducing global warming or emphasizing the need for action to mitigate the climate challenge. More details can be found in the notes at the back of this report.

- UN Caring for Climate Initiative
- Statement on Putting a Price on Carbon
- Business Leadership Criteria on Carbon Pricing
- WEF Climate Leaders' Open Letter
- We Commit - Business for Energy Efficiency at COP21
- Paris Pledge for Action (through ICC)
- Global Alliance for Energy Productivity
- American Business Act on Climate Pledge
- We Mean Business

### **Risk and compliance**

Maintaining efficient risk management is a cornerstone at Danfoss as well as a prerequisite for running a business and responding rapidly and flexibly when conditions change. Risks are reported on an ongoing basis between the various managerial levels; for example at quarterly business review meetings. In addition, the Group Risk Management function annually prepares a report on the most significant risks, which they submit to the Board of Directors, the Audit Committee and the Executive Committee. The Risk & Compliance Committee provides overall supervision of the risk management process and monitors selected corporate risks as well as potential new risks.

Like its industry peers, Danfoss is exposed to a number of general and basic risks. These are risks relating to customers and markets, factories and suppliers in the supply chain, law and regulatory regimes, and internal processes and systems. Danfoss' exposure to such risks is similar to the general risk exposure of its peers.

The Executive Committee has defined two specific risk areas of the risk management process that, due to their special nature, are of particular importance to Danfoss' sustainability work. The areas are described on page 13.

### *Compliance programs*

Danfoss wishes to maintain and continually improve its reputation as a company that conducts itself properly and responsibly. This means that Danfoss will do its utmost to live up to its legal and ethical responsibilities.

As a global enterprise, Danfoss supports the growing international focus on regulation and legislation in areas such as anti-corruption, competition law, export control and good business ethics. Better regulation across the globe would help ensure a level playing field, which would be a huge advantage for a company like Danfoss. For this reason, Danfoss is strongly focused on compliance with current rules and legislation, and the Group has established internal programs and control mechanisms to minimize the risk of rule violations.

### *Training and compliance follow-up*

Compliance efforts are based on an extensive program of prevention based on employee training and clear rules and guidelines. Follow-up procedures to verify the effectiveness of such rules form an integral part of internal controls and audits at Danfoss, as do spot checks conducted by the company's internal audit function.

The Group has compliance programs in a number of areas (e.g. anti-corruption and ethical behaviors). As part of the competition compliance program, a dawn-raid manual has also been released and implemented. Furthermore, as part of the Export Control program, processes regarding product screening, which deals with identification of possible dual-use products within the Danfoss portfolio, have been established.

### *Compliance hotlines*

In addition to the compliance programs, Danfoss also has a query function AskUs, where the Group's employees can find answers to any questions and doubts they may have regarding ethics and compliance. The purpose of AskUs is to minimize uncertainty among the Group's employees and prevent unintended non-compliance. AskUs receives enquiries from employees seeking guidance on how best to follow ethical guidelines or compliance requirements in a specific situation.

Danfoss also has a whistle-blower function, the Ethics Hotline, which employees can use to anonymously report suspected breaches of internal guidelines and legislation without involving a manager.



## Risks related to sustainability

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### Ethical Conduct

The ethical behavior of companies and their employees is an area of growing focus from several stakeholders, with increased level of regulation and sanctions being introduced worldwide in areas such as anti-corruption, export control and competition law.

Unethical or outright illegal conduct by Danfoss employees or agents acting on behalf, could cause considerable damage to Danfoss' reputation and result in substantial financial sanctions.

### Risk Mitigation Measures

Danfoss has implemented ethical guidelines and compliance programs. Compliance is verified through follow-up procedures that include internal inspections and other measures. In addition, Danfoss has an AskUs enquiry function, from which employees can seek advice and guidance on ethical conduct.

Danfoss also operates an Ethics Hotline which employees can use to anonymously report suspected breaches of internal guidelines and legislation without involving a manager.

### Product Compliance

Failure to comply with an increasing number of product regulations could have severe consequences for Danfoss: damage to relationships with customers, loss of business or reputation and possible lawsuits. Ensuring compliance with product-related legislation is important to uphold Danfoss' "license to sell".

### Risk Mitigation Measures

Danfoss is in the process of implementing a Group-wide product compliance & transparency program to ensure a "One Company – One Way" approach to the handling of product legislation like REACH (Registration, Evaluation, Authorization and Restriction of Chemicals), RoHS (Restriction of (the use of certain) Hazardous Substances) and WEEE (Waste of Electrical and Electronic Equipment).

Danfoss Group Regulatory is responsible for monitoring existing and upcoming legislation and coordinates the Group's efforts to ensure alignment and efficient implementation of the legislation.

# Danfoss and the Sustainable Development Goals

When the UN member states agreed on a new plan to manage the world in a more sustainable way at the UN summit in New York in 2015, it was not only good news for the global community - but also for Danfoss.

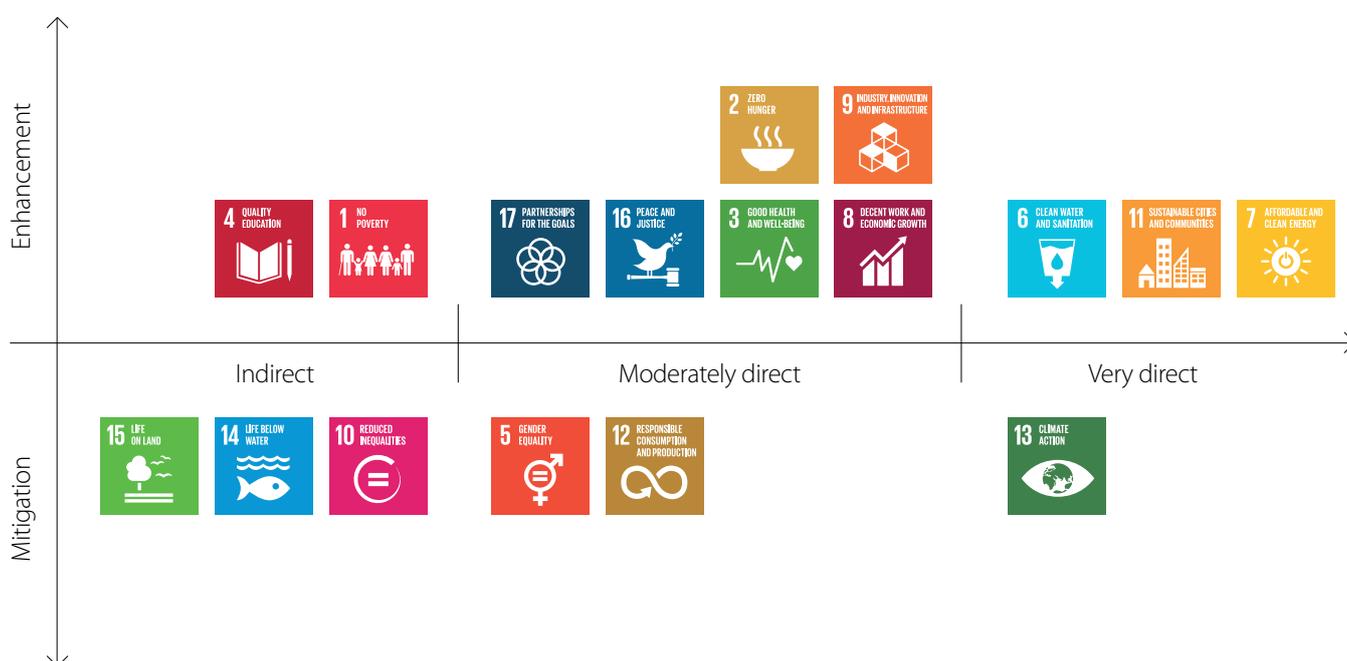
As part of the plan, the UN aims to double the rate of improvement in energy efficiency globally by 2030. This is the first time that the UN has prioritized energy on an equal footing with other development targets, stressing that energy-access-for-all is a key driver in reducing poverty and leading the planet onto a sustainable path.

The plan is a roadmap for all UN bodies and there will be massive investment going into the different targets, so an agreement like this has great benefit for a company like Danfoss that innovates to make more from less.

The plan consists of 17 Sustainable Development Goals, SDGs. The purpose of the SDGs is to eliminate extreme poverty, reduce inequality, safeguard equal rights, improve water quality and energy supply – and take immediate action to fight climate change.

Danfoss has started the process of assessing the Sustainable Development Goals and their impact on the company as well as the impact that Danfoss can have on the SDGs. The preliminary results of the assessment show that Danfoss has moderate or very direct impact on 12 of the 17 SDGs as illustrated in below figure.

## Sustainable Development goals





**12/17**

Danfoss has moderate or very direct impact on 12 of the 17 SDGs

The tables below illustrate where Danfoss has an impact on the Sustainable Development Goals

SUSTAINABLE DEVELOPMENT GOAL	DANFOSS STRATEGIC OR GROWTH THEMES	DANFOSS' RESPONSE (NOT EXHAUSTIVE)
 <p>1. End poverty in all its forms everywhere</p>		
 <p>2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture</p>		<p>Improving agricultural productivity and keeping food cold and fresh all the way to the customers with minimum waste</p>
 <p>3. Ensure healthy lives and promote well-being for all at all ages</p>		<p>Reducing air pollution through utilization of excess heat from factories</p>
 <p>4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</p>		
 <p>5. Achieve gender equality and empower all women and girls</p>		<p>Engaging in empowerment projects in e.g. India. Ensure gender equality through ethics rules</p>
 <p>6. Ensure availability and sustainable management of water and sanitation for all</p>		<p>Providing solutions for water and waste water handling</p>
 <p>7. Ensure access to affordable, reliable, sustainable and modern energy.</p>		<p>Providing solutions for increased energy efficiency and minimization of waste = get more from less.</p>
 <p>8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p>		<p>Putting safety first and driving passion and performance through leadership, diversity and winning teams</p>
 <p>9. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation</p>		<p>Providing energy-saving solutions and technologies to build infrastructure - roads, buildings and energy systems</p>
 <p>10. Reduce inequality within and among countries</p>		
 <p>11. Make cities and human settlements inclusive, safe, resilient and sustainable</p>		<p>Providing technologies to build infrastructure for the world's growing cities in a sustainable and efficient way</p>

SUSTAINABLE DEVELOPMENT GOAL	DANFOSS STRATEGIC OR GROWTH THEMES	DANFOSS' RESPONSE (NOT EXHAUSTIVE)
 <p>12. Ensure sustainable consumption and production patterns</p>		Having a flexible and competitive Supply Chain with focus on constantly having a “One Company – One Way” approach to drive improvements and transparency
 <p>13. Take urgent action to combat climate change and its impacts</p>		Providing products that meet the global climate challenge. Innovative technologies lower emissions and increase human well-being outside as well as inside by optimizing heating, ventilation and air-conditioning systems
 <p>14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development</p>		
 <p>15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss</p>		
 <p>16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels</p>		Ensuring effective handling of human and labor rights issues, diversity and protection of intellectual properties
 <p>17. Strengthen the means of implementation and revitalize the global partnership for sustainable development</p>		Engaging in national and global partnerships and sponsorships to drive sustainable development

DANFOSS GROWTH THEMES	DANFOSS STRATEGIC THEMES
 <p>Infrastructure</p>  <p>Food</p>  <p>Energy</p>  <p>Climate</p>	 <p>Core &amp; Clear</p>  <p>Free &amp; Agile</p>  <p>Customer &amp; Innovation</p>  <p>Passion &amp; performance</p>

# Targets, efforts and achievements

This part of the report describes Danfoss' efforts and achievements within the defined focus areas of the sustainability program as well as other areas of importance.

## Summary of targets and achievements

Danfoss has during 2015 worked to implement the Sustainability Program. The table below highlights the major targets and achievements in 2015.

Targets and achievements 2015:

PRIORITIZED ISSUE	TARGET 2015	ACHIEVEMENTS 2015
<b>ENERGY &amp; CLIMATE</b>	Emissions reductions and energy savings in buildings	● Global Energy-Saving Project extended to largest 21 sites. Implementation progressing according to plan
	Emissions reductions and energy savings in processes	● Initiated in 2015. Plans to be developed in 2016
	Emissions reductions and energy savings in transportation	● Baseline established. Development of model for greener transport prioritized for 2016
	Energy audits in EU sites according to EU directive	● Completed according to plan. Findings assessed for saving potentials
	New climate strategy and plan for energy-efficient business	● New climate strategy launched in November 2015 including objectives and targets for buildings, processes and transport
<b>PRODUCT COMPLIANCE &amp; TRANSPARENCY</b>	Establish global structure for compliance with product legislation	● Product Compliance Committee established under Danfoss Supply Chain Board. Ownership of product compliance issues assigned to new Group Regulatory function

	Including implementation of conflict minerals scheme	● Solid process for handling of supplier inquiries and requests from customers in place
	Develop and implement Eco-design guideline	● Draft guideline developed. Prioritized for 2016
<b>ENVIRONMENT, HEALTH &amp; SAFETY</b>	Implement "Safety on the shop floor" in all Danfoss factories	● Implementation completed in all factories. Shop floor audits carried out by Danfoss Business System
	Implement Global Incident Management System	● Specification started. Approved for implementation in 2016
	Develop and implement "One EHS" - Global EHS approach including governance policies and targets	● Concept developed and decision made to start implementation from 2016.
	Reduced number of work-related lost time injuries and Lost Time Injury Frequency	● LTIF has decreased to 3.4 from 4.4 in 2014
<b>ETHICAL CONDUCT &amp; HUMAN RIGHTS</b>	Human Rights due diligence	● New due diligence process initiated in 2015 and prioritized for scoping in 2016
	Ethical Behavior Compliance program	● Ethics Handbook rolled out to all employees in Vacon. More than 3,600 managers trained in dealing with ethical dilemmasthrough revised training module (Ethics@work).
	Other Group Compliance programs	● An updated Export Control manual released together with revised product-screening process. All products have been rescreened with regard to dual-use status.  Binding corporate rules setup developed and application for approval by the EU data protections authorities submitted.  Online compliance training modules transferred to and consolidated in Danfoss' learning management system
	Ethics in the M&A process	● Request lists for use during the M&A due diligence process developed

**PROGRESS:**

- Achieved      ● In progress      ● Delayed

# Targets 2016

Danfoss is continuing the company's efforts to successfully implement the Sustainability Program in 2016 and is striving to achieve the targets below.

Targets 2016:

PRIORITIZED ISSUE	TARGET 2016
<b>ENERGY &amp; CLIMATE</b>	<ul style="list-style-type: none"> <li>Develop program for process energy savings</li> <li>Maintain strong focus on building renovation and refurbishment</li> <li>Strengthen support to local initiatives driving green transformation</li> <li>Develop CO<sub>2</sub> calculation model for transport</li> <li>Develop processes for validation of products' climate performance claims</li> </ul>
<b>PRODUCT COMPLIANCE &amp; TRANSPARENCY</b>	<ul style="list-style-type: none"> <li>Develop and implement Group Regulatory Governance</li> <li>Strengthen processes for product compliance</li> </ul>
<b>ENVIRONMENT, HEALTH &amp; SAFETY</b>	<ul style="list-style-type: none"> <li>Develop and launch "One EHS" approach to environment, health and safety</li> <li>Establish a Global Incident Management System for work-related injuries and incidents</li> <li>Reduce the Lost Time Injury Frequency by 10% compared to 2015</li> </ul>
<b>ETHICAL CONDUCT AND HUMAN RIGHTS</b>	<ul style="list-style-type: none"> <li>Develop and run pilot for Human Rights due diligence process</li> <li>Develop revised process for screening of business partners regarding anti-corruption and export control</li> <li>Re-train employees in the compliance programs Anti-corruption@work and Fair-competition@work</li> <li>Develop and implement new Data Privacy compliance manual</li> </ul>



# Ethical Conduct

In 2015, Danfoss rolled out the Ethics Handbook to 1,600 new colleagues joining Danfoss following the acquisition of Vacon Plc. At the same time, the Ethics Hotline and the AskUs function was made available to Vacon. Several of the new employees in Vacon have already used the AskUs function, where it is possible to ask questions about ethics in Danfoss.

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Training in ethical decision-making is an important part of a having high standard in the company. Therefore, Danfoss' e-learning on ethics, Ethics@work, has been updated based on former cases or questions about ethics in Danfoss, which ensures that the content of the training is highly business-relevant.

The target group is mainly people managers, as these are the role models for employees. More than 3,300 people managers and employees have been trained in Ethics@work during 2015.

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## **Compliance hotlines**

In 2015, AskUs received 85 enquiries from employees seeking guidance on how best to follow ethical guidelines or compliance requirements in a specific situation.

Danfoss also has a whistle-blower function, the Ethics Hotline where employees can report suspected breaches of internal guidelines and legislation anonymously and without involving a manager. A total of 93 cases were reported to the Ethics Hotline in 2015 versus 123 cases in 2014. Disciplinary action has been taken in all substantiated cases: none of these cases have had significant consequences for Danfoss.

## **Ethics cases**

A total of 31 employees left Danfoss in 2015 due to unethical behavior. The figures include both dismissals and voluntary resignations connected with ethical issues. The number of dismissals due to unethical behavior was 30 in 2014 and 31 in 2013.

The number of dismissals for unethical behavior is based on information from Danfoss' Ethics Hotline and a People Manager survey sent to all 3,045 people managers. A total of 93% of the managers responded to the survey, stating the number of dismissals due to unethical behavior. The data has been revised internally, so that double-reporting has been avoided.



# 81%

Code of Conduct  
percentage  
improved from  
61 to 81.

## Human rights risk assessment

The UN Guiding Principles on Business and Human Rights require that companies conduct a human rights due diligence to prevent and mitigate any potential or actual negative impact on human rights in their value chains.

Danfoss has monitored and mitigated its human right impact for many years. Having followed the development within the area of human rights and business closely, it has been clear that Danfoss needs to do more in terms of carrying out the due diligence process and especially to integrate human rights considerations in the business. Currently, the company is in process of scoping the human rights due diligence and integration in its own operations. As the language around human rights poses a challenge to businesses by being very academic, the due diligence and integration process must be designed in a way that translates human rights into a business context. It is necessary to carry out this process in Danfoss' own operations before extending it out to the supply chain.

In 2015 a site visit was conducted at Danfoss in India. One of the topics discussed during the visit was "caste discrimination". The issue of caste has cultural, social, economic and religious implications and is highly sensitive as it deals with hierarchical structures in the society. The most exposed group is the SC/ST (Scheduled Caste/Scheduled Tribes). This group is exposed to discrimination in terms of lack of access to employment, discrimination at the workplace and general lack of equal rights. It is also the case, that often, people from these communities have difficulties in terms of social skills, as their low status can result in low self-esteem and lack of self-confidence.

At the site visit, the aim was to understand the complex issue of caste, deal with it in a culturally sensitive way and make an agreement that fits with the way Danfoss does business locally.

In the recruitment process, Danfoss in India does not ask questions regarding people's caste when hiring new employees, as the aim is hiring the best candidate for the job. A census carried out by the local authorities in 2014 revealed that 40% of blue collar workers in Danfoss are SC/ST's. This is positive and supports the Danfoss behavior of Embracing Diversity. Also, CSR flagship of Danfoss India - engagement with a rural community college near Pondicherry - is situated in an area where almost 100% of the pupils belong to backward communities. Here, Danfoss facilitates Refrigeration & Air-conditioning classes; Danfoss managers go and educate the students in the rural community college from time to time apart from setting up a well-equipped lab and training room.

During the site visit, the following was agreed together with the Danfoss India management team: To continue the current practice of not asking about or registering caste in the recruitment process; To include the issue of "caste" in Danfoss' Ethics Handbook and To have a focus on the employability off all employees.

The aim is to develop the skills and full potential of all employees. Danfoss India uses existing HR processes to enhance knowledge & skill of employees and this in turn also benefits employees from SC/ST and OBC (Other Backward Communities).

It has also been agreed to consider supporting more local Indian colleges with soft-skills training where many SC/ST students may also be studying. This may help the SC/ST students' employability by infusing them with confidence and at the same time improving the recruitment base locally for Danfoss and other businesses.

## Responsible supplier handling

Danfoss works systematically with risk assessment and supplier management. Since 2004, Danfoss has had a Code of Conduct for Suppliers that defines the Group's environmental and social requirements. All suppliers are required to sign the Code, and Danfoss performs regular supplier audits to verify compliance and to ensure that any non-compliance is addressed.

Danfoss supplier base is very global and a large number of the company's suppliers are situated in China and India. In 2015, Danfoss decided to move the Code of Conduct Competence Center from Denmark to India, to be closer to the suppliers in the high-risk countries: China and India. The new organization and a new Code of Conduct manager, who was hired from outside Danfoss, will ensure that Danfoss maintains the previous high level of engagement with suppliers to ensure compliance not only with Danfoss' Code of Conduct but also local legislation within environment, safety, working conditions and human rights.

Danfoss has implemented a supplier risk assessment model that forms the basis for measures taken at the individual supplier where the company has the most influence. The risk assessment model includes where the supplier is located, ensuring that suppliers in areas posing the greatest risk of non-compliance are given the highest priority. The model also emphasizes preferred suppliers rather than, as previously, the value of purchases made from each supplier, which ensures that focus is on the suppliers that Danfoss wants to continue to do business with.

Danfoss' Code of Conduct Competence Center conducts the training of all Danfoss employees, who have contact with suppliers on an ongoing basis. This is to ensure that they are familiar with Danfoss' Code of Conduct and the roles and responsibilities within the area. The training consists of multiple modules, primarily as online training. In 2015, 55 employees completed the training.

In 2015, 517 additional suppliers signed Danfoss' Code of Conduct, and 168 audits were conducted to verify supplier compliance with the rules. 128 of the audits were first-time audits and 40 follow-up audits. Follow-up audits are conducted to follow up on matters such as inadequate safety measures, missing or blocked emergency exits, missing or malfunctioning fire extinguishers, lack of personal protective equipment, incorrect handling or storage of hazardous chemicals and discharge of waste water.

In 2014, a new measuring method of Code of Conduct compliance was introduced, measuring the percentage of spend in compliance and enabling the development of one overall compliance percentage for each supplier, regardless of how many locations the supplier may have and how each location performs.

In 2015, Danfoss focused on improving the Code of Conduct compliance percentage for TOP80 suppliers. The compliance percentage indicates the share of suppliers that have signed the Code of Conduct and was improved from 61 to 81.



# Product compliance and **transparency**

## **Regulatory governance**

The Danfoss Group Regulatory function is responsible for defining and implementing the company's product compliance programs; e.g. within environment and product safety. This includes programs within chemicals (REACH), restricted substances in electronics (RoHS), conflict minerals, explosion (ATEX) and low voltage (LVD). The Regulatory function prepares guidelines and instructions, and coordinates activities across the Group. Key priorities are aligned with the Danfoss Product Compliance Committee with representatives from all business segments and relevant Group functions.

## **Eco-design and materials**

Since Danfoss participated in a Danish research project called "EDIP - Environmental Design of Industrial Products" in the mid-1990s, the company has taken environmental considerations into account when designing new products. The methods are adapted to the individual needs of each business unit because the type of product and the associated technologies are very different.

Over the years, each segment or business unit has implemented its own guidelines and tools based on corporate guidance.

Danfoss has developed common Eco-design guidelines suitable for all business segments. Guidelines have been developed together with an external consultant and are based on the latest developments within Eco-design, taking into account relevant legislation as well as known upcoming requirements for Environmental Product Declarations.

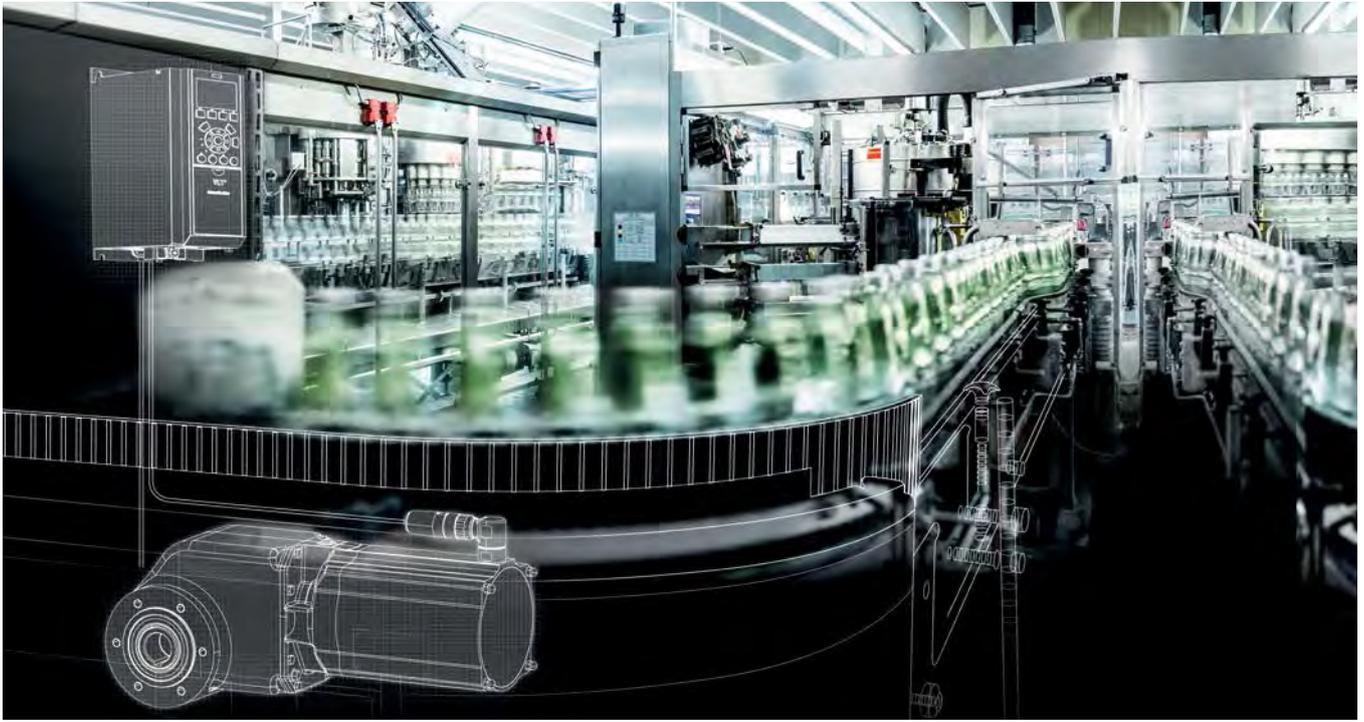
## **Conflict minerals**

In 2010, the US Congress passed the Dodd-Frank Act, which from 2014 has required listed US companies, to notify the authorities if they are using so-called 3TG materials: tin, tantalum, tungsten and gold originating from the Democratic Republic of Congo or neighboring countries. The materials are primarily used in electronic and electromechanical components, but also in some alloys that are sourced from Danfoss' suppliers.

Danfoss is not directly subject to the rules of the Dodd-Frank Act, but some of the company's customers require information about the origins of these so-called "conflict minerals". For this reason, Danfoss ensures that its customers receive the required information – to the extent Danfoss is able to obtain it – with regard to the origins of materials it receives from suppliers.

Danfoss continued its efforts to ensure the transparent declaration of conflict minerals used in the company's products, throughout 2015, and has implemented a robust process to ensure this.

In 2015, some 234 of Danfoss' suppliers were asked to specify the origin of conflict minerals in their products. Such information may determine whether the materials originate from so-called "conflict-free" smelters; a prerequisite for a product or a business being deemed "DRC conflict-free." Often, it is a long way from the mines to the businesses that use components containing, for example, gold or tin, and the process of obtaining the required information from all suppliers can take several months.



At the end of 2015, about 51% of the 234 suppliers had responded to Danfoss' enquiry. This has led to the identification of several hundred smelting plants that process raw ore from the mines into metals to be used in the manufacture of components.

### **Circular economy**

In contrast to today's largely linear, 'take-make-use-dispose' economy, a circular economy represents a development strategy that enables economic growth while aiming to optimize the chain of consumption of biological and technical materials.

Circular economy systems keep the added value in products for as long as possible and eliminate waste. They keep resources within the economy when a product has reached the end of its life, so that they can be productively used again and again, and hence create further value.

As the demand and competition for finite and scarce resources continue to increase, and pressure on resources causes greater environmental degradation and fragility, we can benefit economically and environmentally from making better use of those resources.

Business-driven studies based demonstrate significant material cost saving opportunities for industry from circular economy approaches and a potential to boost e.g. the EU GDP by up to 3.9% by creating new markets and new products and creating value for business. Furthermore, it is estimated that resource efficiency improvements all along the value chain could reduce material input needs by up to 24% by 2030, and

a better use of resources could represent an overall savings potential of EUR 630bn per year for European industry. The circular economy concept is high on the political agenda at EU level. As competition for scarce resources continue to increase, and as pressure on resources is causing greater environmental degradation, it makes both economic and environmental sense to use those resources efficiently. In December last year, the European Commission presented the Circular Economy Package, including a Communication containing an action plan targeting production, consumption, markets for secondary raw materials, and innovation. It aims at stimulating new business opportunities and helps unlock growth and jobs in Europe.

Danfoss has designed the majority of its products using linear thinking, but increasing raw material prices and increased scarcity of rare earth metals and materials used for special electronic components have in recent years led to an increased focus on designing products with less material consumption and higher recyclability.

More than 10 years ago, Danfoss implemented a corporate standard for environmentally conscious product design, but this document did not provide guidance on circular economy. Circular economy has now been embedded in the new eco-design standard developed in 2015.

Danfoss is participating in a Ph.D. project on circular economy and resource efficiency at the University of Aalborg, Denmark, to explore the business potential of circular economy going forward.

# Energy & **climate**

Global warming must be brought to a halt and, according to the International Energy Agency, energy efficiency can deliver 38% of the greenhouse gas reduction required. Danfoss provides some of the most innovative energy-saving solutions, and the company is now accelerating its own efforts by introducing new ambitious climate targets.

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Most of the world's energy consumption comes from industry and buildings, and the potential for reduction is equally huge. Danfoss wants to be a role model, and set new ambitious targets for itself. By 2030, the company plans to use half as much energy to run its business, and emit half as much CO<sub>2</sub> from the energy it uses.

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## **New climate strategy**

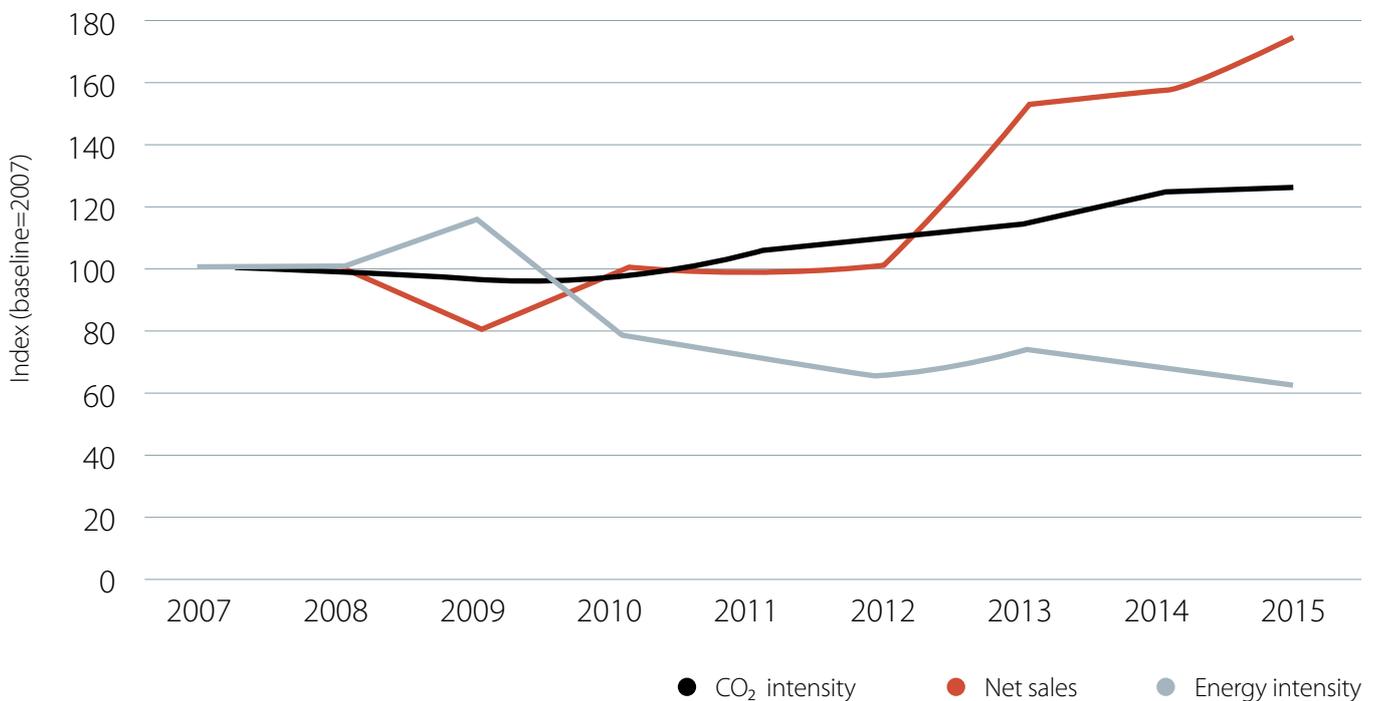
Danfoss' new climate strategy aims at reducing the company's energy intensity by 50% and reducing the CO<sub>2</sub> intensity of the energy used by 50% before 2030.

Danfoss is already making good progress in living up to these targets. Between 2007 and 2014, the company's net sales increased by 55%, whereas energy consumption, compared to sales, dropped by 29%.

The new climate strategy replaces the 2007 strategy, which went under the name "3x25". Here, the goal was to reduce CO<sub>2</sub> emissions and increase the number of green energy sources by 25% by the year 2025.

At the time, it was an ambitious plan, but since then the global focus on energy efficiency has grown and objectives set by international bodies such as the EU and UN have been made more stringent.

## Danfoss energy intensity and CO<sub>2</sub> intensity



### Facts about the new climate targets:

- The ambition is to reduce energy intensity by 50%, from 24 MWh per 1m DKK sold in 2007 to 12 MWh per 1m DKK by 2030.
- At the same time, the amount of energy used by the company must produce half the amount of CO<sub>2</sub>. In 2007, Danfoss emitted 320kg CO<sub>2</sub> per 1 MWh of energy. By 2030, this is set to be a maximum of 160 kg CO<sub>2</sub> per MWh.
- The aim is for energy intensity at Danfoss to drop by an annual 3% from 2017, and the emissions of CO<sub>2</sub> per 1MWh energy by 5%.

Danfoss will achieve these goals by putting in place a series of measures. Danfoss' Global Real Estate function will intensify the work already underway to make the company's factory and office buildings around the globe more energy efficient. Production line processes will be thoroughly scrutinized and measures taken to reduce energy use.

### Our objectives to reach 50% lower energy intensity

- Establish Process Energy Program in 2016
- Establish "Danfoss Green Fund" in 2017
- General payback <3 years for energy projects
- 3-5 years payback for selected investments
- Strengthen focus on building renovation and refurbishment
- Regular energy audits in largest factories
- Showcase own solutions in campuses
- All new sites LEED certified

### Our objectives to reach 50% lower CO<sub>2</sub> intensity

- Invest in own or third party CO<sub>2</sub> neutral sources (starting with Nordborg)
- Strengthen support to local initiatives driving green transformation
- Purchase low carbon or CO<sub>2</sub> neutral energy from existing sources
- Implement CO<sub>2</sub> calculation and simulation model to drive transformation
- Change logistics strategy towards greener transport

## Energy consumption and CO<sub>2</sub> emissions

Danfoss has been running energy-saving projects, among other things, at the largest factories worldwide. Typically, this reduces the energy consumption required to run the buildings by 25-30%. Gas consumption has been reduced by 20% at the factory in Nordborg, and there is potential for further energy savings of up to 40%. The savings are primarily obtained through optimization of the systems controlling the ventilation, heating and cooling using Danfoss' own products.

Based on these positive experiences, Danfoss is intensifying its efforts to energy-optimize the company's buildings all over the world. In addition, production line processes will be systematically examined for further energy saving potentials.

Danfoss is also set to continue the introduction of green energy sources. In 2013, for example, Danfoss set up a solar cell park – the biggest of its kind in Scandinavia – next to its headquarters in Nordborg, Denmark. It produces electricity corresponding to the annual consumption of 400 single-family houses, and has a total capacity of 2 MW. A 1MW solar-cell system was also opened at Danfoss' new campus in India last year. This campus has received the international LEED Platinum rating, whereby it is certified as a green and sustainable building complex. A range of Danfoss products have been installed to save energy.

In 2015, Danfoss emitted 234,000 tons of CO<sub>2</sub> as a result of its electricity and heat consumption compared to 229,000 tons in 2014. The sources were both scope 1 emissions (its own plants for the generation of power and heat) and scope 2 emissions (purchase of power and heat from external sources). This is 4,000 tons more than in 2014 which primarily is caused by increased electricity consumption in those countries where the CO<sub>2</sub> intensity of the electricity is high (China, India and Poland). Implemented energy savings in other countries does not fully compensated for the increases. The overall CO<sub>2</sub> intensity in all energy used in 2015 increased slightly from 393 kg CO<sub>2</sub>/MWh in 2014 to 398 kg CO<sub>2</sub>/MWh.

The energy intensity fell to 15.4 MWh/m DKK in 2015 versus 17 MWh/m DKK in 2014. The net sale increased by 11% while Danfoss managed to keep the energy consumption at the same level as in 2014.

Danfoss' electricity consumption accounted for 84% of the Group's total CO<sub>2</sub> emissions in 2015, corresponding to 198,000 tons. Heating contributed 36,000 tons of CO<sub>2</sub> emissions.

In 2015, Danfoss consumed electricity amounting to 395 million kWh which is the same as in 2014. The energy consumption for heating was 192 million kWh in 2015 compared to 189 million kWh in 2014.

Danfoss' total energy consumption increased by 0.5% to 587 million kWh.

The consumption of electricity represented 67% of Danfoss' total energy consumption in 2015 but accounted for 84% of CO<sub>2</sub> emissions. Of the total electricity consumption, 13% came from renewable sources such as solar, water, wind and biomass. Electricity from nuclear power plants accounted for 19% of the Group's consumption, and the rest derived from fossil sources such as coal, oil and gas.

Consumption of energy for heating increased by 1.4% relative to 2014 due to an increase in the heated space in the Group caused by the acquisition of Vacon. Only 1.6% of the energy used for heating in 2015 came from renewable sources while 84% came from natural gas.

## Energy-saving projects in buildings

In 2015, Danfoss continued its efforts to reduce energy consumption and CO<sub>2</sub> emissions, and extended the global energy-saving project to include the 21 largest factories. The project focuses primarily on energy consumption in buildings, whereas the energy used in the production processes will be added as a focal point from 2016. The 21 largest factories account for 70% of Danfoss' total energy consumption. Half of the energy consumed is used for buildings, and the rest is used in the production processes.

The savings potential of the global project is estimated to reduce of the energy consumption in buildings by 34%. The largest saving potentials are identified as ventilation (39%); process cooling (35%); air conditioning (30%) and heating (22%).

Danfoss has identified more than 160 projects at the sites currently in the program. By the end of 2015, 56% of the project has been implemented and 36% of the savings harvested. The remaining parts of the project will be implemented over the coming years.

## EU energy audits

The European Energy Efficiency Directive or "EED" came into force in 2012 and contains a number of measures intended to increase energy efficiency across the European Union.

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The **energy intensity** fell from **17** kg CO<sub>2</sub>/MWh in 2014 to **15.4** kg CO<sub>2</sub>/MWh in 2015.

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	2014	2015
Energy consumption [MWh]	583,535	584,513
Energy intensity [MWh/m DKK]	17.0	15.4
CO <sub>2</sub> emission [tons]	229,245	232,918
CO <sub>2</sub> intensity [kg/MWh]	393	398

# 50%

Reduction of transport emissions required before 2030.

EU's Europe 2020 Strategy, Energy Strategy and Roadmap aims at improving the competitiveness and sustainability of Europe, lowering emissions and energy dependency as well as taking advantage of the employment opportunities and other social impacts. One of the key target groups to improve energy efficiency and drive change are enterprises. A pre-condition for making the necessary improvements is the availability and uptake of high-quality energy audits (EA).

Danfoss considered the energy audits required by the Energy Efficiency Directive not only as a legal requirement but also an opportunity to reveal the untapped potential for energy savings in the factories where the Global Energy Saving Program has not yet been implemented as well as get an external view of the saving potentials in areas already covered by Danfoss' own projects.

Danfoss is active in 27 EU countries with 65 legal entities operating a total of 155 sites. Based on national legislation and the company's current energy management systems, our obligation to conduct energy audits has been reduced to 10 countries with 14 legal entities and a total of 20 sites. The aim of the audits was to identify energy saving measures with short amortization time and high reduction of CO<sub>2</sub> emissions.

Danfoss signed up with an external consultant mid-2015 to ensure compliance with all national legislation on energy audits. After a thorough screening of national legislation, the energy audits were carried out in September 2015 to January 2016.

The energy audits included:

- Overview of energy consumption and load profiles and key performance indicators
- A list of measures for improvement of the energy efficiency reducing the energy consumption and the CO<sub>2</sub> emission
- Recommendations of the measures for efficiency improvement to be realized

Following equipment and installations were within the scope of the energy audit: lighting equipment; HVAC equipment; chillers and cooling towers; heating equipment; hot water production units; production processes; compressed air

equipment; elevators and conveying equipment; pumps; motors and drives; control systems and user behavior. The audited sites represent 40% of the global energy consumption in Danfoss buildings. 60% of the energy used is electricity and the rest is heating.

The preliminary result of the analysis performed at the audits shows that roughly half of the electricity consumption is for production processes while a major part of the rest is used for ventilation and compressed air.

The energy audits showed potential for energy savings mainly in the areas of ventilation, compressed air, lighting and electrical motors. The effect of the audit will not fully be assessed until all reports have been finished and the findings analyzed. This will happen during 2016 and the results will be used to prioritize the next steps in Danfoss' pursuit of energy efficiency in own buildings and installations.

### Transport of products

Danfoss' products are moved from the factories to the customers by air, sea or land. All of these modes of transport are sources of CO<sub>2</sub> emissions that contribute to global warming. Reducing CO<sub>2</sub> emissions from the transport of finished products forms part of Danfoss' climate strategy, and the Group also aims to reduce emissions in this area by 50% by the year 2030.

Danfoss has implemented a calculation tool, which enables the company to monitor and calculate its CO<sub>2</sub> emissions from freight transport. The tool gives Danfoss not only the ability to calculate the "as-is" impact of transport by air, sea and land, but also to simulate the "what-if" impact of changes in the transport pattern.

Danfoss Global Logistics will lead on establishing a program for the transformation to low carbon transport by moving goods by sea or land instead of by air. A part of this project is to carry out thorough analysis of the emissions from transport of products including analysis of the transport pattern and necessary behavioral changes to meet Danfoss emission targets.



# People and performance

Danfoss' more than 23,000 dedicated employees are engineering solutions that make a difference to people and businesses worldwide. In order to deliver on our promises to customers every day – to engineer tomorrow – our employees are empowered to make an impact, to exceed expectations, and to achieve sustainable results. Each employee has the right to a safe and healthy working environment where discrimination is prohibited and personal well-being is promoted. Danfoss is a global organization that values differences and promotes diversity.

## *Making Danfoss a great place to work*

One of Danfoss' strategic targets is to make the company a great place to work. Danfoss aspires to be world class in Human Resource management, enabling accelerated profitable growth by means of a high-performing and engaged Danfoss organization.

We strive to foster a collaborative, agile and flexible organization where employees make a difference and leaders inspire people to deliver the best results. Real impact, strong teamwork, global career opportunities and continuous focus on development make Danfoss a great place to work.

Attracting and hiring new employees is part of Danfoss' Human Resource strategy, which supports Danfoss' growth ambition. Other key focus areas include developing more and better leaders, building a strong internal and external pipeline of leaders and highly skilled experts and developing a workforce with the competencies needed today and in the future.

Danfoss' goal is to retain and develop current employees to be ready for the right roles at the right time. Around 74% of Danfoss' open positions for managers are filled internally.

## *Danfoss embrace diversity and inclusion*

Danfoss believes the diversity of its employee base builds a competitive advantage towards customers through creativity, innovation and local customer understanding.

As a global company, we are focused on maintaining an inclusive work environment encouraging and harnessing our employee's opinions, knowledge, collaboration and diverse perspectives.

Danfoss is specifically looking at hiring and developing more female leaders, engaging the different generations and ensuring strong local leaders facing our customers.

The Group's overall goal was to increase the percentage of female managers to 20% by 2015 from 18% in 2014, in order to ensure that the Group's managers increasingly reflect the diversity of the Danfoss workforce, of which 30% were women in 2015. The percentage of female managers remained 18% in 2015. Although Danfoss hasn't reached its goal of 20%, we continue to focus on developing the female leaders currently in our talent pipeline as well as attracting female leaders to join at all levels. We have made great progress in China and Eastern Europe with over 25% female leadership. We will continue our aspiration to reach 20% overall by 2017.

Danfoss aims for the composition of its top governing body to reflect the diversity of the rest of the Group. Women are underrepresented in the Group, and the Board of Directors has as yet no female members, other than an employee-elected member.

At its annual meeting in 2017, Danfoss will attempt to raise the number of women serving on the Board to at least one of the six members. In order to achieve this goal, the Board will, before recommending candidates for the Board, work to identify at least one candidate who represents women. Should two candidates be equally qualified, the Board of Directors will recommend the candidate who represents women for election by the shareholders.

During the reporting year, employees of more than 90 different nationalities worked at Danfoss.



### *One team – committed, open and passionate*

At the heart of Danfoss as a workplace, we aim to empower all colleagues to make an impact. This also includes how we interact and collaborate with employees and customers, the decisions made and the behaviors exhibited every day.

OUR BEHAVIOR describes the company's intention with regard to doing business at a company level. These are overall behavior statements that help us fulfil our Aspiration and Promise to the market.

OUR BEHAVIORS IN ACTION serve to guide the employees in how to interact and collaborate with each other and with the customers to create a best-in-class company and profitable growth.

### *Key themes in 2015*

In 2015, the main focus of Danfoss Human Resource management has been on merging Danfoss Power Solutions and the AC drives company Vacon into the Danfoss Group and forming one strong global HR function.

In 2015, Danfoss implemented a new cloud-based Performance Management Process to support high-quality dialogues between people managers and their employees. The goal was to create a model, which is effective in all countries of operation and across the Group supporting the ongoing dialogue with regular and structured feedback, as well as to build cross-segment alignment within regional sales objectives.

During 2015, Danfoss leaders have been equipped with the skills for performance coaching with the support of the Danfoss Behaviors in Action. The cross-segment collaboration has been a key theme at all leadership levels and new targets as well as IT systems have been set to support it. A number of leadership programs to support leaders' competency development have been executed. Moreover, Danfoss has put programs in place to develop the matrix working competence in all of the business segment teams.

### *People drive performance*

Danfoss values high performance across the organization. We believe in linking company objectives, and pay for performance as well as personal development throughout a person's career at Danfoss. Danfoss regularly ask for feedback through employee engagement surveys, regular team meetings and strong leader-employee dialogues. Danfoss believe that having fun as a team, enjoying coming to work and forming strong bonds with colleagues encourages high performance.

Clear individual objective-setting is a key to performance management at Danfoss. Performance objectives can consist of a mix of organizational, team and individual objectives. The objectives are being quarterly discussed between the manager and the employee and updates will be made as needed. The output from the annual performance management process impacts our total rewards program. The Short-Term Incentives (STI) is part of the pay-for-performance

principle at Danfoss and is one of the rewards that create a clear link between the individual's contribution and rewards received.

### *Individual development plans*

In addition to setting performance objectives, individual development plans are also key factors in performance management. The purpose is to ensure that all employees have the knowledge, skills and abilities needed to fulfil the current position and to define development actions for future career opportunities. In the plans, the focus is on competency, career planning and on the Danfoss Behaviors in Action. Regular frequent performance and development feedback has been encouraged and included as part of the annual development plan.

### *Survey on Performance Management*

A survey on performance management is conducted regularly to receive feedback on how managers are managing performance. The twice-yearly survey is part of Danfoss' efforts to continuously improve leadership, direction-setting and performance management.

The results have remained high during 2015, which shows that Danfoss leaders continue to have a strong focus on performance, communicating clarity of direction and ensuring quality in the dialogues; thus setting objectives that drive profitable growth and providing regular feedback.

### *Focus on talent management*

During 2015, Danfoss focused on aligning development processes across the company and building our employer brand and leadership development portfolio.

A number of talent management initiatives have been kicked off to support the business and develop the succession in those areas. Danfoss will be focusing on establishing talent pools, perfecting our recruitment processes and employer brand, defining and developing strategic competencies, working on organizational effectiveness and continuing the leadership development programs with increased focus on diversity and inclusion.

### *Engagement survey*

During 2015, Danfoss launched a new engagement survey for the entire Group. Voice replaces three engagement surveys at Danfoss. The survey covers areas such as employee engagement, performance enablement, strategy, behaviors and leadership.

The results of the first engagement survey for the whole Danfoss Group, Voice, show a high engagement score of 76 on a 100-point scale. 93% of the employees filled out the survey and gave their feedback about what we do well at Danfoss and what needs to be improved.

As the questions are new, one cannot compare the results directly with those of previous surveys, but the engagement score remains at a similar level to previous survey results.

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Our aspiration:

We are engineering tomorrow.

We passionately push boundaries on results and reputation.

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## Our way of **working**

As an organization we place our customers and employees at the center of everything we do. Our behaviors in action guide us in bringing our Core & Clear strategy to life.

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### Earn customer loyalty

- Establish trust and respect
- Think customer in everything we do

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

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### Embrace diversity

- Value differences
- Be inclusive

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

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### Go beyond the ordinary

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

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

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### Honor commitments

- Be entrusted to take ownership
- Deliver as promised

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

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### Lead by example

- Show and encourage engagement
- Role model the way

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

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### Think Danfoss

- Take initiatives to leverage synergies
- Support others in succeeding

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

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Other results show that 27% are considered fiery advocates - highly loyal and committed to Danfoss. More than half of the employees, 52%, believe that their managers show strong leadership, with a balanced focus on performance and people skills. The investment in developing the leaders in the past few years has started to show an impact in a positive way. The results also indicate that the integration process within Danfoss Drives is progressing well.

#### *Rewarding*

The Danfoss behaviors play an integral role in how employees are rewarded and compensated. The Danfoss rewards framework is intended to inspire, motivate and engage employees with easy-to-understand standards, guidelines and practices that align with the Core & Clear business strategy and development programs.

Danfoss makes a significant investment in the range of monetary and non-monetary rewards offered to the employees, and call this total reward. This framework focuses on paying for performance and aims to be transparent and clearly communicated. The employees are able to drive performance and have a positive impact on their total rewards through increased short-term incentive payouts and annual salary review adjustments. Non-financial rewards include training and development, opportunities for job rotation and career advancement. Financial rewards include locally-tailored benefits and compensation packages.

The total rewards program is a part of the performance management process where quarterly reviews on

development, behavior and performance are matched against personal targets and discussed. Danfoss also asks for feedback about how these discussions are being conducted in the Survey on Performance Management. While the rewards standards are consistent across Danfoss, the practices are flexible enough to meet local needs. Danfoss also has a long-term incentive program for senior management that links the company results with individual compensation.

The compensation and other benefits of the Board of Directors and the Executive Committee are disclosed in the Danfoss Annual Report 2015.

#### *European Works Council*

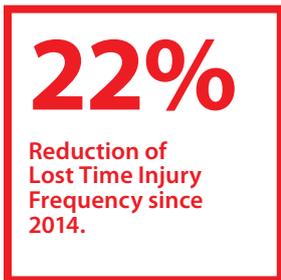
A new European Works Council in Danfoss was formed in 2015. The works council is a forum with elected delegates from Europe and Turkey that was set up to discuss relevant topics through open and constructive dialogue between management and employees.

According to EU Directive 2009/38/EC, companies are obligated to set up a council, if employees in larger international companies want this kind of forum. With this European Works Council, Danfoss has a solid approach in terms of how to cooperate and conduct the meetings between the company and its employees in Europe. The meetings are to be inclusive and involve a two-way discussion on topics relevant to employees in more than one country.

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**Employee well-being** is handled in our global teams by means of wellness programs, campaigns addressing stress management and similar activities at country level.

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### Health and safety

Ensuring low impact on the environment from Danfoss' activities and improving the health and safety of the employees is a top priority for Danfoss.

In 2015, Danfoss established a project team to develop and align the company's activities and efforts within environment, and health and safety across the global organization. The aim is to ensure that the approach established through the Core & Clear strategy also applies to environment, and health and safety at Danfoss. The project will build on the strong foundation created by the "Safety on the Shop Floor" concept implemented at all factories and ware-houses.

Danfoss will in 2016 align policies, internal standards as well as organization and targets to build a resilient and ambitious EHS model; driving significant improvement in all areas while at the same time reducing costs and supporting Danfoss' overall growth themes. Danfoss strives to create a work-life balance that is both satisfying and fulfilling in a flexible working environment.

Employee well-being is handled by means of wellness programs, campaigns addressing stress management and similar activities at country level. Regular audits are being conducted to monitor employee well-being.

#### *Work-related accidents*

Danfoss recorded 127 Lost Time Injuries (LTI) resulting in at least one day's absence in 2015. The number of LTI's in 2014 was 165.

A lost time injury is defined as an incident that results in an absence from work of one or more calendar days in addition to the day of the incident. The lost time injury frequency (LTIF) is defined as the number of LTIs per one million hours worked.

The key performance indicator in measuring employee safety, the Lost Time Injury Frequency (LTIF), dropped from 4.4 in 2014 to 3.4 in 2015. This significant improvement was obtained via our new global "Safety on the shop floor" program which during 2015 was implemented in all Danfoss factories around the world.

The lost day rate (LDR) in 2015 was 59 (the number of days of absence due to LTIs per one million hours worked). This is a reduction from 66 in 2014.

The injured employees were absent for a total of 2,205 days, corresponding to an average absence of 17 days per LTI. This is an increase from 15 days per LTI in 2014.

Danfoss implemented three new safety KPIs in 2015: medical treatment incident rate (MTIR), minor incident rate (MIR) and near-miss incident rate (NMIR) as a consequence of "Safety on the Shop Floor". These indicators are reported for the first time and, therefore, cannot be compared to previous years. All indicators are calculated per one million hours worked.

#### *Safety on the Shop Floor*

All Danfoss sites finished the implementation of "Safety on the Shop Floor" initiative in 2015. This introduces new safety routines in production areas across Danfoss. The initiative was

launched to focus on the safe behavior of employees and visitors and thereby reduce the number of lost time injuries and other safety incidents.

“Safety on the Shop Floor” means that visitors to production areas, and employees on site, are required, amongst other things, to wear safety glasses to protect their eyes and safety shoes to protect their feet. Aisles must also be color-coded, so it is clear where it is safe to walk. And safety is now a regular item on the agenda at shop floor meetings as well as forming part of the brief that visitors receive before entering a site.

This goes for every Danfoss site across the world. All locations need to have the same high safety standards, no matter where we work, to ensure a high standard across the organization. By making these efforts, we will help look after our colleagues and visitors, and ensure that Danfoss continues to be a safe place to work.

The implementation of “Safety on the Shop Floor” is audited by Danfoss Business System and all deviations to the agreed plans are dealt with, and the necessary corrections made, to ensure that the safety measures are fully functional at all times.

### **Selected achievements in the factories**

#### *Ten years without accidents*

More than ten years ago, in March 2005, an employee at Power Solutions’ Electronic Components assembly line in Nordborg, Denmark hurt his back while lifting a product and, therefore, had to stay home for a few days to get well. No work accident has happened in the area since then.

The employees in Electronic Components – as in all other Danfoss production areas worldwide – hold daily meetings where safety is on the agenda. And one of the main reasons for the ten years without an accident is the employees’ very high motivation level at precisely these meetings.

The employees are extremely serious about safety and they never hesitate to come up with suggestions for improvements. And they can be sure that the production supervisor and the safety representative always listen and act on the ideas.

#### *More than one and a half million hours without accidents*

Over 1.5 million man hour equivalent to 365 days without accidents in the production is an important milestone for the more than 800 employees at Danfoss’ facility in Mexico. This was achieved in December 2015 and it is intended to be kept for as long as possible.

It is the first time since the Mexican facility started operations since 1995 that production areas register a record of a full year with no lost time injury.

Two programs at the factory are considered key to achieve these results. The first one began in 2014, with the initiative to train supervisors and other leaders close to the operations in order to identify safety risks in the production areas. Since then, risk audits take place every week. When a risk is detected a tag is placed in the area and in this rather visual way it is easier to notice the risk and to follow it up.

The other program was launched in 2015 with the objective of promoting the use of the Personal Protective Equipment (PPE). One of the activities within this program was a communication campaign named “Get Safe” to increase awareness and engagement in Safety.

In connection to the UN celebration of the World Day for Safety and Health at Work, a Safety Exhibition was set on the canteen with information and displays about personal safety equipment, visitor safety rules, and preventive healthcare. The main activity consisted in granting points that could be exchanged for gifts to those who spotted someone in the shop floor not wearing all the PPE required in the specific area and ask him/her either to wear the complete PPE or to leave.



## HEALTH & SAFETY

	2014	2015
Lost time injuries (LTI)	165	127
Lost time injury frequency (LTIF)	4.4	3.4
Days of absence	2,458	2,205
Lost day rate (LDR)	66	59
Medical treatment incident rate (MTIR)		3.2
Minor incident rate (MIR)		20.2
Near-miss incident rate (NMIR)		78.7

## LTIF PER SEGMENT

	2014	2015
Danfoss Cooling	4.4	1.9
Danfoss Heating	3.6	4.4
Danfoss Drives	3.5	5.3
Danfoss Power Solutions	4.3	2.8

# Community and **stakeholder engagement**

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Danfoss has always been an integral part of society - globally by delivering solutions that raises the standard of living while making more out of the energy we use, and locally by helping to generate benefits for the communities in which we operate.

Danfoss recognizes that different communities have different needs and challenges when we choose where to engage. It is common to identify areas that have a close link to Danfoss' business and where the company can have a great impact.

Danfoss works with local stakeholders and partner organizations to increase our understanding and insight and hereby effectively contribute to local development.

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Danfoss seeks to engage actively with its employees, managers and external stakeholders. This enables Danfoss to adapt its processes and tools to match both the requirements of the global community and any developments in countries and areas where Danfoss operates.

Engagement with stakeholders such as NGOs, authorities and customers helps Danfoss to be aware of the framework conditions for business operations in countries where Danfoss operates. Danfoss considers information on new legislation, new initiatives from organizations, and the Group being challenged on attitudes and policies to be a natural and necessary part of meeting its global challenges.

In the context of its new Sustainability program, Danfoss intends to engage even more effectively with the community and our stakeholders, including customers and decision-makers. More information about the company's stakeholder engagement is available at [www.danfoss.com](http://www.danfoss.com).

#### *Supporting the technologies of tomorrow*

Endorsing the know-how and technologies that enables the world of tomorrow to do more with less and meeting the growing need for infrastructure, food supply, energy efficiency and climate-friendly solutions, is one of the main focus areas when developing initiatives with our stakeholders. Danfoss does this by supporting research and training - projects which can help drive technological research and development, as well as promote the development of manpower relevant for Danfoss. Collaborating with universities about educational programs and projects and supporting projects in renewable energy and energy efficiency benefits Danfoss' vision to promote sustainable behavior and solutions.

### *Local partnerships*

Danfoss is also an active partner in the local community through sponsorships, involvement in trade organizations and groups, and through participation in social work. It is important for Danfoss to support the improvement of the local communities, neighborhoods and regional development in the communities where the company operates, and create an attractive dynamic local environment for Danfoss employees and their families, and to strengthen Danfoss' reputation, so that Danfoss can attract and retain qualified employees. This is organized by local Danfoss projects around the globe and through several specialized foundations.

### *Employee welfare and safety in India*

Living in a modern world, where dual income families are slowly becoming the necessary norm of comfortable urban life; being part of a corporate world where waves of women's empowerment and female leadership increase are key priorities for most organizations across the world; Danfoss' campus in Chennai, India, adopts a caring and sustainable approach to overall welfare of the female staff associated with them.

In India, 20% of the white collar employees in India, 32% of the production staff in Danfoss' Chennai campus and 40% of the sites service staff (housekeeping, canteen & security) are women. To make the female employees feel appreciated being a part of Danfoss, several programs have been set up:

Self-defense training is conducted for all female employees empowering them to prevent, avoid and escape from possible

real-life conflict situations. In case any female employees work in second shift ending late in the evening, a female security guard will be present in the shop floor and will accompany them in the shuttle bus transporting them to their home. The busses have GPS tracking which allows monitoring of the location of busses to make female employees feel safe during transport.

A "Health is wealth" initiative aimed at improving the wellness of employees focuses on developing the five koshas - physical body, energy body, mind body, intuitive body and state of bliss - through a combination of low intensity and high intensity workouts that elements from both Yoga, Tai chi, Zumba and Aerobics.

A fully equipped Medical Center at the campus takes care of any health challenges on-site, especially for female staff. Due to instability of the local emergency services, an ambulance service is provided by Danfoss to ensure timely response in case of emergencies. Special attention is given to female workers' dietary needs and need for medicine and general consultation to prevent common and well-known female health problems.

The company has furthermore set up a daycare-center to encourage female employees and especially the breastfeeding mothers to come to work with their toddlers so that they can visit them during work as needed. This enables the women to get back to work after giving birth and thereby providing improved living conditions for their family.



### *Running in Poland to help poor children*

Polish employees recently put on their running shoes and ran a total of 1,056 kilometers to help needy children as part of the factory's annual Danfoss Run. The company donated 16.5 Euros for each kilometer run. So the employees raised about 17,500 Euros – an all-time record. Danfoss will spend the money on health, education and sports activities for poor children. 385 employees participated in this year's run.

### **Danfoss Foundations support local communities**

#### *The Fabrikant Mads Clausen Foundation*

The Fabrikant Mads Clausen Foundation was established by the founder of Danfoss in 1960. The purpose of the Foundation is to provide support to charitable projects in Denmark and abroad. Initially, support was primarily provided in the local community near the factory in Nordborg. However, in line with the expansion and globalization of Danfoss, the support area has increased, and today it also includes some of Danfoss' other locations in Denmark and abroad. The Foundation provides financial support for training, research, sports, the arts, culture and various charitable organizations.

In 2015, the Fabrikant Mads Clausen Foundation distributed DKK 18.6m to close to 300 recipients, among them a large number of organizations and institutions in Danfoss' local community, including schools and universities, hospitals, sports clubs, scout groups, pensioners' associations, institutions for the disabled, and museums, choirs and orchestras.

Several large donations of DKK 100,000 or more were made in 2015. The money went to education projects, equipment for sports clubs and various cultural projects. One of the largest donations, DKK 1.4m went to maintenance of Havnbjerg Mølle in Nordborg, Denmark.

Some of the major grants were given to local singing and musical talents in Southern Jutland, Denmark. The Southern Jutland Symphony Orchestra received extensive grants for the hire of soloists and guest conductors for the upcoming 2016-2017 season. The orchestra is one of Denmark's five regional orchestras. As such, it plays concerts all over the

region. Moreover, it cooperates with its equivalent in Southern Schleswig, Germany. The Southern Jutland Song Center received grants for the development of classical singing talents. The center was set up in 2012 and aims to improve interest in singing among children and youngsters in the local community. This is achieved through close cooperation with schools and singing teachers, among other things. The Danfoss Orchestra was also a recipient. The Danfoss Orchestra celebrated its 60th anniversary in 2015, and is a brassband consisting of both Danfoss employees and external amateur musicians.

#### *The Danfoss Employee Foundation*

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

In 2015, the foundation considered about 350 applications. Many of these applications concerned poor financial situations caused by divorce or dissolved relationships. Also in 2015, many employees applied for help in connection with church confirmation of their children, stays at boarding schools and dental expenses. The foundation also provided financial support for vacations and Christmas to the benefit of many families with children. The foundation granted total financial support of approximately DKK 3m in 2015.

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

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## The Fabrikant Mads Clausen Foundation

provides financial **support** for training, research, sports, the arts, culture and various charitable organizations.

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# Notes

Organization and management  
Policies and strategies  
Danfoss supports climate initiatives  
Supporting tables

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## Organization and management

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

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

- Danfoss' Board of Directors and Executive Committee have overall responsibility and define the framework for the Company's sustainability efforts.
- Danfoss Risk & Compliance Committee has the overall responsibility for ensuring an effective enterprise risk management program and effective compliance programs for selected areas.
- Danfoss' Sustainability & Public Affairs function is responsible for defining and implementing Danfoss' global program, Group targets, and activities for sustainability and corporate citizenship. The function is also responsible for reporting on these issues.
- All people managers are responsible for ensuring that their areas are aware of and comply with Danfoss' rules and guidelines. In addition, all factory managers are responsible for environmental and health and safety activities at individual sites, which also include appointing people with responsibility for day-to-day environmental and

health & safety tasks, and to participate in knowledge and experience sharing across the Group.

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

More information about Danfoss' management structures and governance mechanisms can be found in Danfoss Annual Report 2015.

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# Policies and strategies

Danfoss has implemented and maintains a number of internal policies and company standards that govern business processes and behavior. The below list includes the relevant documents within sustainability. Where relevant, the content of the documents is highlighted. The documents apply to the entire Danfoss Group unless otherwise stated.

Further information about the content of the below-listed documents can be obtained from Danfoss Sustainability & Public Affairs.

## Shared documents

- *Danfoss' Business Conduct (overall company policy)*  
This policy sets the overall direction and expectations for Danfoss' business conduct and applies to all companies and business units in the Danfoss Group.
- *Danfoss Sustainability Program*  
The Danfoss Sustainability program supports Danfoss growth strategy via a strong group framework for sustainability, ambitious goals and a clear direction on which areas to focus activities on. In line with Danfoss' Core & Clear strategy, the sustainability program promotes an aligned "One Company – One Way" approach to sustainability across the Group.

## Ethical conduct

- *Danfoss Ethics Handbook*  
The Ethics Handbook outlines Danfoss' ethical guidelines and is aimed at all employees and companies in the Danfoss Group, including subsidiaries and joint ventures where Danfoss has a controlling interest.

- *Danfoss Anti-Corruption Manual*  
Defines and outlines correct ethical behavior within anti-corruption. The manual describes a number of concepts and guidelines which outline how to avoid contributing to corruption.
- *Danfoss Competition Compliance Manual*  
Defines and outlines correct ethical behavior within fair competition and compliance. The manual describes a number of concepts and guidelines which outline how to avoid unfair trade.
- *Danfoss Export Control Compliance Manual*  
Defines and outlines correct ethical behavior within export control. The manual describes a number of concepts and guidelines which outline how to avoid breaking export control legislation.
- *Danfoss standard - Social Responsibility Issues*  
The standard establish the Group's overall handling of social responsibility issues including human rights, labor rights, anti-discrimination, anti-corruption and the right to collective bargaining. The content is widely implemented through the Ethics Handbook.
- *Danfoss standard - Reporting unethical behavior*  
Defines guidelines of how to report unethical behavior, i.e. behavior which is in conflict with the Ethics Handbook, legislation, or other applicable rules.
- *Danfoss standard - Global Recruitment*  
Defines Danfoss Global Recruitment, stipulating the

fundamental principles for the global recruitment as well as the principles that surround the Global Recruitment Process ensuring “the right candidate to the right job and the right job to the right candidate at the right time”. The standard also considers ethical conduct during the recruitment process and diversity.

### **Product compliance and transparency**

- *Environmental Design Guide*  
The document stipulates guidelines for life cycle considerations during the development of products to ensure that all phases in the life of the product from the extraction of raw materials to final disposal of the product are considered and assessed.
- *Danfoss standard - compliance with RoHS*  
Interpret the RoHS directive related to Danfoss’ product portfolio and align processes, tools and templates needed to collect and evaluate the needed documentation.
- *Danfoss’ Negative List of chemicals and substances*  
Bans or restricts the use of substances and materials in Danfoss’ products and production processes and by Danfoss’ suppliers, contractors and tenants.
- *Danfoss’ conflict minerals policy*  
Defines Danfoss’ approach to handling of conflict minerals inquiries from customers and how to collect and validate the information Danfoss’ require from its suppliers to support the reporting of conflict minerals.

### **Energy and resource efficiency**

- *Danfoss Climate Strategy 2030*  
The focus of Danfoss Climate Strategy 2030 is the company’s own business processes, production and buildings, and the aim is two-fold: to halve the energy intensity, and to halve the CO<sub>2</sub> emissions from the energy actually used.

### **Environment, health and safety**

- *Danfoss standard - Environmental issues*  
Defines the overall work with environmental issues in the Danfoss Group and how Danfoss will continuously improve the company’s environmental performance.
- *Danfoss standard - Health & Safety issues*  
Defines how Danfoss will plan and perform all activities with regard to a safe and healthy working environment and ensure that the working environment efforts primarily are of preventive nature and in accordance with the legislation at all times.
- *Danfoss standard - Safety at the shop floor*  
Establishes the minimum requirements for safety on the shop floor including requirements for Personal Protective Equipment (PPE), Pedestrian Safety, Visitor Safety, Health & Safety KPI’s and handling of deviations and exemptions.

### **Other prioritized areas**

- *Danfoss Code of Conduct for suppliers*  
The Code describes Danfoss’ corporate social responsibility requirements for suppliers covering child labor, discrimination, forced labor, working environment, working hours and salary, the right to organize and collective bargaining, the right to privacy, environment and corruption.
- *Danfoss Supplier Quality Manual*  
The Supplier Quality Manual sets the rules, standards, and requirements for Danfoss’ suppliers regarding product quality. The same rules, standards and requirements apply when Danfoss evaluates a potential supplier’s fitness for becoming a Danfoss Supplier.
- *Danfoss standard - Risk Management*  
The standard defines the roles and responsibilities regarding Risk Management, and gives directions on how Risk Management shall be approached.

# Danfoss-supported climate initiatives

## **UN Caring for Climate Initiative**

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

## **Statement on Putting a Price on Carbon**

The World Bank Group and the United Nations Global Compact, together with other partners launched Statement on Putting a Price on Carbon by which supporting companies will join a growing coalition of governments worldwide taking the lead on putting a price on carbon. Danfoss expressed support to the initiative in 2014.

## **Business Leadership Criteria on Carbon Pricing**

Business Leadership Criteria on Carbon Pricing have been developed as a complement to the Statement to give recognition to a selected group of top business leaders who are at the forefront of advocating for a price on carbon. Danfoss expressed support to the initiative in 2014.

Consistent with the 2°C global target, Danfoss committed to:

- Set an internal carbon price high enough to materially affect investment decisions to drive down greenhouse gas emissions;
- Publicly advocate the importance of carbon pricing through policy mechanisms that take into account country specific economies and policy contexts; and
- Communicate on progress over time on the two criteria above in public corporate reports

## **WEF Climate Leaders Open Letter**

CEOs from 78 companies with operations in over 150 countries and territories, and facilitated by the World Economic Forum, believes the private sector has a responsibility to actively engage in global efforts to reduce greenhouse gas (GHG) emissions, and to help lead the global transition to a low-carbon, climate-resilient economy. The CEO climate leaders urge the world's leaders to reach an ambitious climate deal at COP21, aligned with the UN Post-2015 Sustainable Development Goals (SDGs).

## **We Commit - Business for Energy Efficiency at COP21**

The SE4All Energy Efficiency Accelerator Platform is a public-private partnership program to scale up energy efficiency policy, action and investment, with the aim of doubling the rate of improvement in energy efficiency worldwide by 2030.

Under the umbrella of this initiative, Danfoss has joined forces with other businesses to work on energy efficiency related topics like the UNEP led 'District Energy in Cities Initiative' and the World Resources Institute's (WRI) Buildings Efficiency Accelerator. Since businesses will deliver a huge part on the pathway to limit global warming to 1.5 degrees C, the SE4ALL energy efficiency 'we commit' campaign aims to encourage companies to take the lead on reducing energy-related emissions by 1.5GT by 2020.

## **Paris Pledge for Action (through ICC)**

The Paris Pledge for Action is an initiative endorsed by the French presidency of COP21 who is inviting all organizations, businesses, regions, cities, and investors to add their name to the Paris Pledge for Action. Organizations pledge their support to implement the results of the agreement immediately, but also to achieve and exceed the ambition of the agreement that results from COP21.

## **Global Alliance for Energy Productivity**

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

## **American Business Act on Climate Pledge**

81 companies from across the American economy joined the American Business Act on Climate Pledge prior to COP21. The companies have signed the American Business Act on Climate Pledge to demonstrate their support for action on climate change and the conclusion of a climate change agreement in Paris that takes a strong step forward toward a low-carbon, sustainable future. These 81 companies have operations in all 50 states, employ over 9 million people, represent more than \$3 trillion in annual revenue, and have a combined market capitalization of over \$5 trillion.

## **We Mean Business**

We Mean Business is a coalition of organizations working with thousands of the world's most influential businesses and investors. These businesses recognize that the transition to a low carbon economy is the only way to secure sustainable economic growth and prosperity for all. To accelerate this transition, they have formed a common platform to amplify the business voice, catalyze bold climate action by all, and promote smart policy frameworks.

# Supporting tables

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## GENDER - PER REGION

APA	Female	28%	Male	72%
CNR	Female	32%	Male	68%
EMA-CER	Female	20%	Male	80%
EMA-EER	Female	38%	Male	62%
EMA-NOR	Female	31%	Male	69%
EMA-SER	Female	23%	Male	77%
EMA-TMA	Female	17%	Male	83%
IN	Female	12%	Male	88%
LAM	Female	35%	Male	65%
NAM	Female	25%	Male	75%
RU	Female	34%	Male	66%

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## SENIORITY

<1 Year	4%
1 < 3 Years	14%
3 < 5 Years	14%
5 < 10 Years	29%
10 < 20 Years	25%
20+ Years	15%

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## HOURLY AND SALARIED PAID

Hourly	40%
Salaried	60%

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## PEOPLE MANAGERS

Not People Manager	87%
People Manager	13%

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## GENDER - MANAGERS

Female	18%
Male	82%

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## GENDER - ALL EMPLOYEES

Female	30%
Male	70%

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## GENDER - SALARIED EMPLOYEES

Female	28%
Male	72%

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## GENDER - HOURLY PAID EMPLOYEES

Female	32%
Male	68%

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# Supporting tables

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## AGE DISTRIBUTION

15 - 24 Years	4%
25 - 34 Years	29%
35 - 44 Years	29%
45 - 54 Years	24%
55+ Years	14%

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## LOCATION OF EMPLOYEES - PER REGION

APAC (excl. IN & CN)	2%
CN	17%
EMA-CER	8%
EMA-EER	13%
EMA-NOR	29%
EMA-SER	5%
EMA-TMA	1%
IN	3%
LAM (incl MX)	5%
NAM	12%
RU	5%

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## JOB CATEGORY

After Sales Service	1%
Corporate Administration	3%
Finance and Accounting	3%
General Management	0%
Human Resources	2%
Information Technology	3%
Internal Service	1%
Production	51%
Purchasing and Logistics	6%
Research and Development	10%
Sales and Marketing	20%

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# Supporting tables

	2011	2012	2013*	2014*	2015**
<b>RESOURCE CONSUMPTION AND CLIMATE</b>					
Energy consumption (MWh)	379,582	363,300	604,611	583,535	586,799
Hereof electricity (share)	58%	58%	63%	67%	67%
Hereof heating (share)	42%	42%	37%	33%	33%
Total CO <sub>2</sub> emissions (tons)	127,524	126,873	223,906	229,265	234,440
From electricity (share)	77%	78%	81%	83%	84%
From heating (share)	23%	22%	19%	17%	16%
Water consumption (m3)	770.494	637.082	841,434	806,789	840,926

<b>HEALTH &amp; SAFETY</b>					
LTI - Lost Time Injuries	146	136	172	165	127
LTIF - Lost Time Injury Frequency	6.1	5.8	4.7	4.4	3.4
Total number of lost days	1,990	2,883	3,039	2,458	2,205
LDR - Lost Day Rate	84	121	82	66	59
MTI - Medical Treatment Incidents					120
MTIR - Medical Treatment Incident Rate					3.2
MI - Minor Incidents					751
MIR - Minor Incident Rate					20.2
NMI - Near Miss Incidents					2,925
NMIR - Near Miss Incident Rate					78.7

	2011	2012	2013*	2014*	2015**
<b>RESPONSIBLE SUPPLIER MANAGEMENT</b>					
Suppliers in high-risk countries	905	702	799	936	840
Signed the Code of Conduct	53%	83%	65%	73%	67%
Suppliers in medium-risk countries	358	284	322	360	391
Signed the Code of Conduct	56%	68%	61%	68%	68%
Suppliers in low-risk countries	2,251	1,791	2,575	2,468	2,104
Signed the Code of Conduc	65%	81%	47%	57%	53%

<b>SOCIAL RESPONSIBILITY</b>					
Dismissals due to unethical behavior	26	47	31	30	31
Number of inquiries in AskUs				75	85
Number of cases in Ethics Hotline				123	93

(\*) Includes Power Solutions acquired in 2013

(\*\*) Includes Vacon acquired in 2014



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