Sustainability Report 2018

ENGINEERING TOMORROW

Danfoss

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About this report

Danfoss has a long and proud history as a family-owned company founded in 1933 by Mads Clausen. Since then, courage, entrepreneurialism and innovation have been central to Danfoss' DNA. The Danfoss DNA and our culture have been instrumental in Danfoss' ability to build leading positions across multiple industries.

Sustainability, with regard to people and the environment as well as financial performance, is a precondition for Danfoss' long-term success and for the company's ability to make long-term investments.

The Sustainability Report 2018 reports on Danfoss' activities from a sustainability perspective and presents Danfoss' contribution as a committed participant in the UN Global Compact. The Sustainability Report is framed in the context of our sustainability program. In essence, this report is about how we do business responsibly and profitably, with a view to maximizing sustainable value creation for society.

This report complements Danfoss' Annual Report 2018, which presents our business and financial results for the year and outlines the company's strategy and priorities. Danfoss' annual reporting is prepared in accordance with the Danish Financial Statements Act (FSA). Together with the Annual Report 2018, the Sustainability Report 2018 fulfills the requirements of FSA, Sections 99a and 99b, by accounting for Danfoss' activities relating to social responsibility and reporting on activities in the areas of human rights, labor rights, diversity, environment, anti-corruption, and climate change.

This Sustainability Report 2018 has been prepared and published in English. The report is released as an electronic publication only and made available at www.danfoss.com.

UN GLOBAL COMPACT
COMMUNICATION ON PROGRESS

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

We welcome feedback on its contents.

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

Read more at unglobalcompact.org

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Smart energy solutions – sustainable for the long run

"We enable our customers and the world to use less energy, and we also take our own medicine to reduce our CO_2 footprint and make more efficient use of energy in our factories."

Global mega-trends transform our world. Massive urbanization, food supply for a growing population and climate change, in combination with the increasing global focus on the Paris Agreement and UN's Sustainable Development Goals, fit right into our business context.

The potential is huge – by combining our application know-how and innovative engineering to create smart sustainable solutions, we help our customers to build more competitive positions. We also play a significant role in the transition towards more electrification and lower carbon emissions, making the world's energy consumption more sustainable. That is how Danfoss helps to build a better future – with a short payback time – this is actually good business.

Danfoss has never been more relevant. While delivering robust financial results, Danfoss continues to strengthen the business and invest in new technologies to drive sustainable growth and customer relevance across the globe. We enable our customers and the world to use less energy, and we also take our own medicine to reduce our CO_2 footprint and make more efficient use of energy in our factories.

In 2018, we remain on track of our climate ambition to cut our own energy consumption and CO_2 emissions in half by 2030. By 2018, we had reduced our energy consumption by 43% and CO_2 emissions by 25%, mainly driven by energy-saving projects in the Group's largest factories across the world.

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

All of this is about teamwork. At Danfoss, we are a team of 27,795 excited colleagues deeply engaged in working with our customers to find the best solutions for their needs – to enable their success in a changing world.

Kim Fausing
President & CEO

Selected partnerships

EP100 – Energy Productivity 100

Danfoss joined EP100 to support the goal of the Global Alliance for Energy Productivity to double energy productivity by 2030. Thereby we have committed to double our economic output from every unit of energy consumed. At the same time, we will achieve reductions in energy costs and greenhouse gas emissions.

SEforALL – Sustainable Energy for All

SEforALL is a global initiative launched by the UN in support of making sustainable energy for all a reality by 2030 and mobilizing action from all sectors of society, including governments, business and civil society to deliver on three objectives: universal access to modern energy services; doubling the global rate of improvement in energy efficiency; and doubling the share of renewable energy in the global energy mix.

PACI – Partnering Against Corruption Initiative

Danfoss is committing to the PACI Principles for Countering Corruption to support a global, cross-industry, multi-stakeholder anti-corruption initiative established by the World Economic Forum. We commit to implement and develop an effective anti-corruption program and to play an active role in advancing the global anti-corruption agenda.

Step Up Now

Danfoss joined Step Up Now to demonstrate support of a stronger response to climate change in Europe. By bringing together rich and diverse experiences of European actors across cities, regions, businesses and investors supporting a net-zero by 2050 goal, Step Up Now pledges to scale up efforts over the next decade and showcases existing actions on climate change.

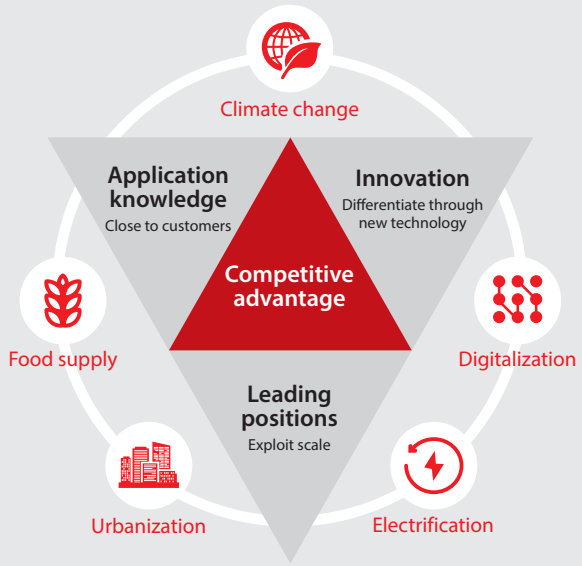
Danfoss in brief

We engineer technologies, which enable the world to reduce energy consumption and ensure an efficient use of resources.

We produce and sell an extensive range of products and solutions for refrigeration, air conditioning, heating, motor control and off-highway machinery. We also provide solutions for renewable energy, such as solar and wind power, as well as district energy infrastructure for cities.

Danfoss is a global Group, divided into four business segments: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives and Danfoss Heating. Danfoss Power Solutions is a leading player in hydraulic systems and electronic controls for powering off-highway vehicles used in construction, agriculture and road-building industries. Danfoss Cooling is a market leader in the air-conditioning and refrigeration industry. Danfoss Drives is a leading player within low and medium voltage AC drives, power modules and stacks for several industries. Danfoss Heating enjoys leading positions within residential and commercial heating as well as district energy.

Business model



Read more in the Annual Report 2018

Business model

Our business model builds on competitive advantages: Application knowledge, innovation and leading positions. Key elements are an aligned approach across the Group, our operational setup with extensive, global coverage, and a strong regional presence close to customers.

Global mega-trends

Our business model links to five global mega-trends, which are driving new opportunities to grow our business. Our mechanical, electrical and software engineering enable bold innovation and constant improvement. The megatrends change the way we do business, our customers' needs and expectations, and inspire us to engineer a sustainable, energy-efficient future. We engineer tomorrow.

The mega-trends are detailed in the Annual Report 2018 and briefly described at the following pages. These trends are also addressing our prioritized Sustainable Development Goals (SDGs). Read more about how we contribute to the prioritized SDGs on pages 7-9.

The Danfoss heritage

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

Key facts

27,795 employees
dedicated to engineering solutions, which make a difference to people and businesses worldwide.

23 R&D sites
dedicated to exploring, inventing and testing our products and solutions for our customers.

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

Group highlights

Net sales, EURbn
6.1

Growth in local currency
7%

EBIT margin
10.6%

Energy reduction since 2007
43%

CO_2 reduction since 2007
25%

Digitalization

What we do

To increase customer value, Danfoss develops and provides digital solutions and advanced services based on innovative software and connectivity. Some examples are the modern thermostat Danfoss Link® used in heating solutions and BELT telematics used in off-highway machinery, providing customers additional data and analytics for optimal management. Furthermore, we are improving the digital customer experience with better end-to-end processes between our supply chain and our customers, enabled by the new common IT system, One ERP, in combination with the corporate website, danfoss.com.

In our innovation, we use digital technology to bring speed into Research & Development, for example by using simulation and 3D printing, and we optimize our production by implementing smart technology. Just one example is the Danfoss refrigeration and air-conditioning compressor factory in Wuqing, China, where operators are supplied with components by autonomous robot vehicles and use intelligent bluetooth-connected tools, which automatically detect if an assembly process is being incorrectly performed. The factory has been recognized as one of the world's smartest factories by the World Economic Forum from among 1,000 candidate sites.

Sources: Digitalization & Energy, International Energy Agency, 2017
Peter Asmus, Principal Research Analyst at Navigant Research, 2017

Electrification

What we do

With electrification comes great opportunities to enhance the flexibility, efficiency and environmental performance of almost any application or system, leading to increased customer value. Danfoss has a range of innovative technologies, for example solutions used for power conversion in wind turbines and solar. Several of our technologies can also be seen in automotive applications, for example customized silicon carbide (SiC) power modules, which are used in electric and hybrid cars. In the off-highway market, we help manufacturers to meet goals related to efficiency and to meet strengthened emissions regulations by providing electric solution technology for hybrid and electric vehicles with integrated and smarter systems. In the marine and offshore industry, we help shipyard and vessel owners to optimize operational performance and minimize environmental impact by providing flexibility in design and installation.

As we have seen customer demand grow, we are investing heavily to further strengthen our capabilities within electrification. For example, with the acquisitions of the technology businesses Visedo in 2017 and AXCO-Motors in 2018, which have made Danfoss the world's number one in electric solutions for off-highway and marine transport technology.

Sources: Bloomberg, New Energy Outlook, 2017
International Energy Agency, Energy Technology Perspectives, 2017

Urbanization

What we do

The growing population and increased urbanization will lead to higher living standards and a demand for comfort. To support this, the need for construction and refurbishment of residential and commercial buildings will be massive. Moreover, the urban growth will entail new infrastructure for transportation, water, power, heating, cooling, and waste handling.

In all this infrastructure, Danfoss has the technologies, which can save energy and increase efficiency – and by adding the digital dimension to our solutions, and contributing to connecting the world's energy systems, we are part of making the urbanization sustainable. A few examples are our skillfully engineered components, solutions and services used in road-building machinery and district energy systems, for heating and air conditioning of buildings, refrigeration in supermarkets, as well as precision motor control in elevators, lifts and escalators.

Sources: NOAA, Global Climate Change Indicators, 2018
International Energy Agency, Energy Technology Perspectives, 2016

Food supply

What we do

Danfoss products and solutions play a vital role in food supply, from helping to optimize the harvest on farms and the efficiency in the food production to making refrigerated transportation and storage of food possible worldwide.

Danfoss offers a broad range of digital techniques to monitor and optimize agricultural production processes. By combining sensors, robots, GPS, mapping tools and data-analytics software, farmers receive feedback in real time and can then deliver water, pesticide or fertilizer in calibrated doses just to the areas that need it.

Furthermore, our cold chain solutions help to secure that products remain at the correct temperature and humidity, optimizing food safety and security – while lowering the CO_2 footprint. One example is our cost-effective and energy-efficient cold-room solutions, saving up to 20 percent in energy costs. Or take our food retail solutions, which offer highly efficient refrigeration systems optimized for CO_2 refrigeration and other natural refrigerants. They provide a low total cost of ownership, while at the same time reducing the carbon footprint of the supermarket refrigeration system.

Sources: FAO, Global Food Losses and Waste, 2014
FAO, Food wastage footprint, 2013

Climate change

What we do

Danfoss contributes to combatting climate change through our energy-efficient and electrification technologies, allowing the world to get more from less. This mindset is built into all our technologies. No matter what we produce, the goal is always to optimize performance, increase efficiency, and minimize impact on the environment.

Through our innovative technologies, we have a huge impact on the solutions needed for the world to mitigate the most serious effects of global warming. Just one example is the technology we provide, which enables off-highway machines, ferries and cars to go hybrid or electric.

Furthermore, Danfoss delivers technologies and solutions for connected smart energy systems, creating enormous opportunities to reduce carbon emissions. A few examples are connecting electricity, heating and cooling, and the integration of various energy sources, such as renewables and recovered energy from data centers or supermarkets. This will contribute to creating the synergies needed to increase efficiency and deliver on the United Nation's global action plan to keep global warming below two degrees Celsius as set out in the Paris Agreement.

Sources: United Nations, World Population Prospects, 2017 / World Resources Institute, Accelerating Building Efficiency, 2016 / United Nations, SDG facts & figures, 2015

Examples of what we do

High efficiency in construction

Operating in urban environments drives an increased demand for highly efficient and more productive construction machinery with minimal environmental impact. Available Danfoss electric solution technology deliver improved productivity, increased energy efficiency and significant reductions of noise and emissions.

Improved energy flexibility

Connected smart energy systems can contribute to create the synergies needed to move the world towards a low carbon future. In a supermarket in Germany, Danfoss demonstrates energy flexibility by combining energy-efficient cooling, solar energy, battery storage, heat recovery and electric vehicle charging, leading to high flexibility and a reduced energy bill.

The SDGs tie it all together

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

We have a broad range of products within climate and energy and the Global Goals fit well into our business context. Many of our products contribute to achieving the goals, and we focus on how we can actively – globally and locally, commercially and politically – contribute to the fulfillment of the Global Goals.

One of the ways we have chosen is to focus on four of the Global Goals that relate most to our core business. For Danfoss, SDG 6, SDG 7, SDG 11 and SDG 12 are at the heart of our efforts.

At the more social level, the work on sustainability and the Global Goals creates value directly or indirectly through our activities. Society benefits from companies taking responsibility for vulnerable people in the labor market, for training employees or contributing to increasing the share of green energy.

How we contribute to achieving the SDGs is outlined to the right, and examples of our impact are given on the following pages.

Although our business is most directly linked to four of the 17 SDGs, they cannot be considered in isolatation, and we impact all of them in one way or another.

6: Clean water and sanitation

Ensure availability and sustainable management of water and sanitation for all. We provide solutions for water and wastewater handling to optimize and reduce energy consumption. This leads to increased energy efficiency and lower operating costs in, for example, a wastewater treatment plant, ensuring sustainable management of water for all.

7: Affordable and clean energy

Ensure access to affordable, reliable, sustainable, and modern energy for all. Danfoss is a world leader in energy-efficient technologies. Improved energy efficiency will help us meet the growing demand for energy and ensure access to reliable and modern energy, which all can afford.

11: Sustainable cities and communities

Make cities and human settlements inclusive, safe, resilient, and sustainable. By 2030, an additional 1.5 billion people will live in our cities. We help build roads, buildings and energy systems for the world's growing cities and support progress for people, communities and businesses across the world.

12: Responsible consumption and production

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

2018 What we said

Strengthen Danfoss' engagement in the Sustainable Development Goals.

2018 What we did

The SDGs have been part of internal and external communication, webinars and events throughout the year.

Danfoss' CEO appointed member of the advisory board of the Confederation of Danish Industry's initiative "UN's Global Goals – from philanthropy to business".

2019 What we want

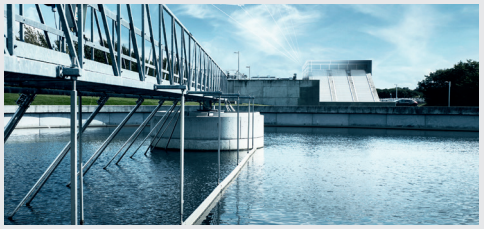
Increased ownership and commitment to the Sustainable Development Goals in Danfoss' global organization.

Engage in more projects and partnerships to advance the SDGs.

Examples of our impact on the SDGs

Energy-efficient wastewater management

Water treatment and distribution is vital for human wellbeing. Our variable speed drives help reduce energy use for water supply and wastewater treatment plants.



Water leakage reduction

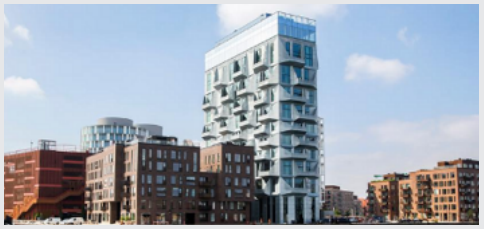
Worldwide, we face increased water demand and water loss. Our solutions with drives and sensors offer 30-40 percent leakage reduction by controlling water pressure in the pipes related to water distribution.

Irrigation

Food production in many countries relies on irrigation. With our accurate pump control, the resulting energy spend can be reduced.

Waterborne heating in multi-family homes

Buildings consume energy. Our digital solutions provide energy savings, for example by using sensors, integrated cloud connectivity and artificial intelligence.

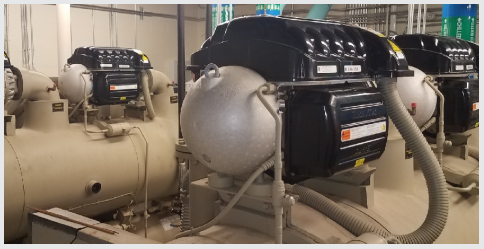


Electric vehicles and charging

We design, develop and manufacture customized power modules. Our range of innovative technologies can already be seen in a wide range of automotive applications, such as electric traction inverters, electrical power steering and chargers.

Air conditioning of buildings

The Danfoss oil-free Turbocor® series of centrifugal compressors use environmentally friendly refrigerants and deliver the highest energy efficiency on the market.



Examples of our impact on the SDGs

District heating

District heating is the most sustainable approach for the mitigation of climate changes and improving energy efficiency is more efficient than individual heating while enabling reuse of otherwise wasted process heat.

Mobile hydraulics solutions

Our mobile hydraulics solutions for the construction and off-highway vehicle markets keep machines and operators working at peak efficiency; increasing reliability and speed, and getting the work done with the least resource consumption and lowest emission.

Safety in the heights

Cities grow up and down, when they cannot expand sideways. With altitude comes elevators, lifts and escalators. Dedicated frequency control ensures optimal energy efficiency, while keeping safety at the highest level.

Productive harvesting

Danfoss mobile hydraulic systems and electronic controls for powering off-highway vehicles help to ensure efficient and productive farming practices, increasing the productivity of every acre of land.

Cold rooms

We ensure food safety and minimal food loss from farm to fork. Danfoss cold-room solutions are cost effective and energy efficient, reducing operational expenditure by saving 15–20 percent in energy costs vis-à-vis conventional cold stores.

Smart Store supermarket

Danfoss Smart Store provides 24/7 temperature control on refrigeration equipment to reduce food loss and improve food safety. We offer solutions, which reduce CO_2 emissions by up to by 60 percent by replacing synthetic refrigerants with natural refrigerants.

Our commitment to sustainability

Sustainability is an important and integrated part of the way, we operate our business. While our products and services are helping the world to grow in a more sustainable way, we also look inwards to optimize our own production and services. This is an integrated part of our sustainability program, which aims to ensure a sustainable and responsible business conduct and is a guideline for the entire organization, when it comes to corporate responsibility.

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

In 2018, we revised our sustainability program to reduce complexity and increase the focus on the importance of working with the Sustainable Development Goals – contributing to an improved knowledge of sustainability in society.

We aim to further strengthen and develop our sustainability program in line with requirements under the Paris Agreement and science-based targets. We believe that a carbon-free world can be developed today to the benefit of climate, companies and citizens.

As a family-owned business, we are in for the long run, and we want to lead to make the transformation of our society a successful one. We will explore how to make our operations and processes carbon neutral in the coming years and develop initiatives that support resource efficiency in every way possible.

Read more about Danfoss' management structures and governance mechanisms in the Statutory Report on Corporate Governance 2018 on www.danfoss.com.

Danfoss sustainability program

Business and products

Energy and CO_2 emissions
Resource efficiency
Products and materials
Sustainable Development Goals

People and community

Health and safety
Environment
Ethics and human rights
Compliance programs

Desired outcome

- Cost and resource optimization
- Risk assessment and mitigation
- Business opportunities and reputation
- Employee engagement and commitment

The aim of our Sustainability Policy is to ensure a sustainable and responsible business conduct

- We comply with UN Global Compact and support the Sustainable Development Goals
- We will be a reliable and trustworthy business partner by acting responsibly while balancing financial, environmental and social ssues
- We focus on resource efficiency, risk mitigation, reputation and people

For more information about our business model, strategy, and financial performance, see the Annual Report 2018 on www.danfoss.com.

Energy, climate and environment

The relevant UN Global Compact principles guiding us on energy, climate and environment

Global Compact principles require us to:
- Support a precautionary approach to environmental challenges;
- Undertake initiatives to promote greater environmental responsibility;
- Encourage the development and diffusion of environmentally friendly technologies.

Our policies supporting the Global Compact principles:
- Environment, Health and Safety Policy
- Sustainability Policy

Further documents supporting the Global Compact principles:
- Danfoss Sustainability Program
- Danfoss Climate Strategy 2030

Read more about our policies on www.danfoss.com

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

Climate change is the largest global challenge of the modern world. Since 1990, global greenhouse gases have increased by 50 percent. Even though almost all countries in the world committed to address climate change when they signed the Paris Agreement, energy-related CO_2 emissions are on the rise again.

We have very little time to curb the trend; if we want to change the course of global warming, we need to act today.

Danfoss' strong focus on quality, reliability and innovation allows us to help our customers create a more sustainable world by delivering smart and energy-efficient products, services and solutions.

An ambitious climate strategy

With the Danfoss Climate Strategy 2030, we set ambitious targets for our own business. Our aim is to halve the energy intensity (MWh consumed energy per EURm net sale) of our operations as well as to halve the CO_2 intensity (tons of CO_2 emitted per EURm net sale) of the energy actually used, in both cases measured against the base year 2007.

Solar cells on overtime in May to July

The Danish 2018 summer went into the history books as one of the best ever. May 2018 was the sunniest May month ever recorded in Denmark. And July was extremely sunny as well.

So, the solar park at Danfoss headquarters, Nordborg in Denmark, worked overtime from May through July producing 24 percent more electricity than in the same period in 2017. The extra electricity is equivalent to the annual consumption of roughly 50 private homes.

On an annual basis, Danfoss' solar park in Nordborg produces 2.2 million kWh which corresponds to the consumption of all office areas in the Nordborg facility.

2018 What we said

Further reduce energy intensity and CO_2 intensity through global energy-saving project in the largest factories.

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

2018 What we did

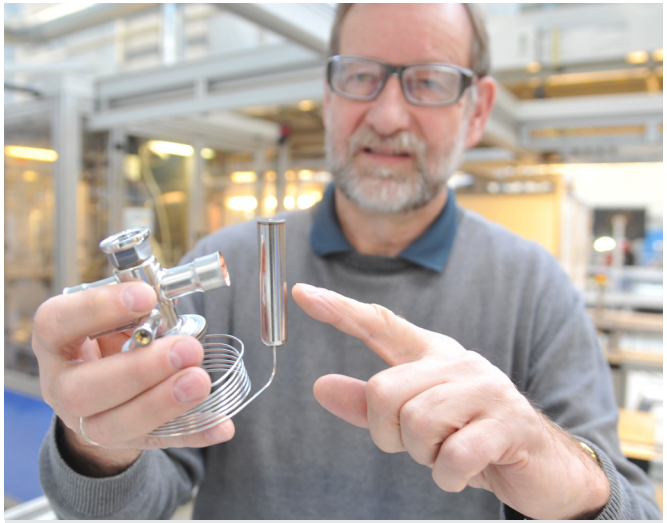
Since 2007, we have reduced our energy intensity by 43 percent and our CO_2 intensity by 25 percent.

Impact assessment methodology deployed and tested as part of the World Alliance for Efficient Solutions.

2019 What we want

Further reduce energy intensity and CO_2 intensity in the largest factories.

Explore what radical steps we could take to accelerate the decarbonization of our energy consumption.



CO_2 footprint shrinks thanks to new refrigerant

Danfoss Cooling is a front runner in the refrigeration industry. Our cooling technologies and solutions are energy efficient, encourage the use of natural refrigerants, help to reduce overall emissions and minimize the impact of cooling on global warming.

The Cooling factories in Denmark, Mexico and China have exchanged a previously used refrigerant with a new one, leading to a reduction of 86,000 tons of CO_2 at end-of-life, the same as what is emitted annually by 45,000 average passenger cars.

The reason is that new refrigerants have a much lower Global Warming Potential (GWP) number than the one previously used. This leads to a significantly reduced carbon footprint in supermarket refrigeration systems, while helping to ensure food safety and security.

To achieve our climate targets, we have implemented many measures to reduce our energy consumption and drive greener technology investments in buildings and processes, and we are well underway.

In 2018, Danfoss' energy consumption was 638 GWh compared to 594 GWh in 2017. Acquired Sondex and White Drives are included for the first time causing the energy consumption to increase.

Danfoss' energy intensity fell to 105 MWh/EURm in 2018 against 106 MWh/EURm in 2017. The energy intensity has been reduced by 43 percent since 2007.

In 2018, the energy productivity remained unchanged from 2017 at 9.5 EURm/GWh. The energy productivity has increased by 73 percent since 2007.

In 2018, Danfoss continued the energy-saving projects at the 27 largest factories worldwide, accounting for 84 percent of Danfoss' total energy consumption. The annual energy consumption for heating, ventilation and lighting in these buildings amounts to more than 285 GWh, of which 30 percent is expected to be saved.

CO_2 emissions

In 2018, Danfoss emitted 264,000 tons of CO_2 against 244,000 tons in the previous year. The sources were generation of electricity and heat in our own facilities as well as the purchase of electricity and heat from external sources.

In 2018, the CO_2 intensity of the energy used remained unchanged from 2017 at 43 tons CO_2/EURm equal to a reduction of 25 percent from 2007. The CO_2 intensity in 2018 is impacted by increasing electricity consumption in countries with high carbon intensity in the electricity supply. In 2018, customer demand grew faster for products produced in factories depending on a more CO_2-intense electricity supply. We remain committed to the 50 percent reduction target by 2030.

Danfoss' electricity consumption was the source of 89 percent of the Group's total CO_2 emissions, corresponding to 234,000 tons. Other energy (e.g. used for heating) led to 30,000 tons of CO_2 emissions.

Renewable energy in India

The wind and sun together cover 60 percent of the power needed by Danfoss in Chennai, India.

The factory has solar cells installed supplying 14 percent of the factory's annual power needs. And now, wind supplies another 46 percent of the power needed to keep the factory running.

That's the result after the factory signed an agreement with a private wind-power company. In the area where the wind turbines are located, the wind blows enough to supply Danfoss' factory in Chennai with electric power for roughly eight months a year.

This means that the Chennai factory can substantially cut its use of electricity generated by traditional powerplants, which burn fossil fuels such as coal, oil or diesel. The amount of fossil fuel, which Danfoss saves thanks to the agreement, equals 157 tanker trucks worth of gasoline. That's 5,100 tons of CO_2 saved.

The factory in Chennai is Platinum LEED certified. LEED is short for Leadership in Energy and Environmental Design, which is one of the most widely used green building-rating systems.

Electricity accounted for 75 percent of total energy consumption. 15 percent of the electricity came from renewable sources, such as solar, water, wind and biomass. Electricity from nuclear power plants accounted for 16 percent of the Group's consumption, and the rest derived from fossil sources, such as coal, oil and gas.

Compared to the previous year, energy consumption for heating fell by 1 percent , primarily due to the reduction in our consumption of natural gas and district energy; 96 percent of the energy used for heating came from fossil sources.

Supply chain emissions

As a global company, we have a global and diverse supply chain. Approximately 3,500 suppliers of direct materials supply their products to Danfoss, driving energy consumption and greenhouse gas emissions.

The global emissions are estimated to 950,000 tons of CO_2, which is 3.5 times the emissions from Danfoss' own energy consumption in processes and buildings. The largest sources of emissions are from the manufacturing of turned or cast metal parts, electronics and electromechanical parts, and plastics.

Environmental management

For many years, Danfoss has worked systematically to reduce the environmental impact of the operating activities, including production and transportation. It is still a Group target for all production companies to maintain certified environmental management systems according to the ISO 14001 standard to manage performance and identify potential environmental improvements.

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

Environmental due diligence

We follow a strict due diligence procedure when dealing with potential environmental risks from the acquisition of land and companies. Thorough reviews of potential land acquisitions are conducted, examining the site and the environmental history of the surroundings. Regional hydrogeological and geotechnical

Partnership for green growth

The P4G (Partnering for Green Growth and Global Goals 2030) Summit in Copenhagen in October, 2018, emphasized that partnerships between the private and public sectors are necessary to fight hunger, inequality and climate change.

Danfoss participated to show how our solutions and our focus on the UN Global Goals makes a difference.

In the center of Copenhagen, a genuine city apartment was created to show what changes we can all make in our own homes and daily lives to become more sustainable.

In the kitchen, a box of bananas told a story about the importance of the cold chain to keep our food fresh from field to fork. In the living room, the Danfoss Link® thermostat taught visitors how much they could save on their heating bill. And in the bathroom, a toilet flushed to demonstrate how smart wastewater systems can end up producing energy.

Women unite for Climate Action

In January 2018, Danfoss participated in the Global Goals World Cup (GGWCup) in Dubai, United Arab Emirates.

The women-only football tournament was the first of its kind being held in the Middle East and aimed to raise awareness for the United Nation's 17 Sustainable Development Goals.

The team from Danfoss, the Danfoss Climate Champions, was made up of women from nine different countries, who were promoting Climate Action.

The interest and mindfulness in the Middle East concerning climate change and the increasing power and role of women, are some of the reasons why initiatives like the GGWCup have such high levels of engagement and participation. However, there's still a long way to go, before we have reached our goals for Climate Action.

conditions are evaluated as field surveys to discover ground pollution or historical deposits.

Water

In 2018, consumption of water for processes and sanitary purposes increased to 1,162,000 m³ from 962,000 m³ the previous year. The water consumption intensity measured as cubic meters of consumed water per EURm net sales increased to 190 m³/EURm from 171 m³/EURm in 2017. The increase is mainly caused by the acquisitions of Sondex and White Drives and increased water use in a facility in China due to building projects. Danfoss' global water consumption intensity has been reduced by 32 percent since 2007.

Initiatives are taken to reduce the consumption of water over the coming years, especially in water stressed areas.

Less plastic project in Danfoss Poland

Massive plastic waste

In our factory and office in Grodzisk Mazowiecki, Poland, the team found that each employee uses and then – a few minutes later – throws into a trash bin about 250 PET bottles on average per year. On average it is 8.6 tons per year of PET waste.

Less plastic project

Danfoss Poland has come up with the project "LessPlastic" to reduce and eventually eradicate single-use, consumption-linked plastics, starting with PET water bottles.

The big change

The big change comes by applying the five Rs:

- **Reduce** plastic waste
- **Reuse** – employees receive reusable water bottles
- **Recycle** – these reusable water bottles will be collected and recycled at end of their life cycle
- **Rethink** – we switch to drinking tap water instead of bottled water
- **Refuse** – we refuse PET bottles and plastic cups

This initiative has been met with huge support and enthusiasm from colleagues, who are proud to be initiating the change they want to see.

The future

The "LessPlastic" project was implemented at the end of 2018 in Poland. In 2019, Danfoss teams in the entire East Europe Region will also take up the initiative, and after that, the initiative is expected to move on to Danfoss teams in other regions of the world.

Mexico green week

What do you do to live in a greener way? In 2018, the Environment, Health, and Safety organization in Danfoss Mexico recently asked employees to consider this question – and then write their answers on a piece of paper. All answers were put up on a big inspirational poster shaped like a tree.

The event was part of an entire week in which the factory put extra focus on environmental consciousness. External experts delivered speeches on how to help the environment at work and at home, and employees could participate in different activities, including tree-planting. Colleagues who planted a tree were given responsibility for watering and fertilizing it. By doing this, we are contributing to building a more sustainable mindset as part of our efforts to build a better future.

Our people

Danfoss has a strategic focus on people and the power of having high-performing, diverse teams to create better innovation and results.

The relevant UN Global Compact principles guiding us on Our people

Global Compact requires us to:
- Uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Uphold the elimination of all forms of forced and compulsory labor;
- Uphold the effective abolition of child labor;
- Uphold the elimination of discrimination in respect of employment and occupation.

Our policies supporting the Global Compact principles:
- People Policy

Further documents supporting the Global Compact principles:
- Global Recruitment
- Performance management
- Manage Employee Performance and Competences

Read more about our policies on www.danfoss.com

In 2018, Danfoss initiated a new phase of the Core & Clear strategy: Going Great. The name of this phase reflects our ambitions to significantly grow and develop Danfoss. High-performing, diverse and engaged teams are the foundation for achieving these ambitions. Therefore, a key focus of Going Great is developing our people and future leaders as well as ensuring that Danfoss is a great place to work.

We are building a better future and talents are playing a vital part. Danfoss opens great opportunities to make a difference and develop a career, for example by working across functions and borders, exploring different cultures, and being part of the Danfoss family.

To succeed with Going Great, we have sharpened our focus on three behaviors: Frontline Passion, Run the Business – like your own, and Think Danfoss. Our behaviors are a guideline for how we want to run the business, and everything we do and every decision we make should reflect our behaviors. The behaviors are described on page 17.

Read more about the Core & Clear Going Great strategy in the Annual Report 2018.

Great leadership and talents

It takes great leadership to attract and develop talents and create a great performance culture. Therefore, we invest in our people managers, as we see leadership as one of the most important enablers for achieving our long-term business goals.

To be successful, it is key that people managers understands the strategy and the role they play in making it happen. That is why we regularly ask our employees how their immediate manager is leading performance and whether regular dialogues are taking place. The feedback given helps us spot what works well and where improvements are needed to continue to have a strong performance culture. The most recent survey on performance management carried out in 2018 had a steady high response rate of 93 percent participating. The overall score was 80 on a 100-point scale, showing that Danfoss leaders have set a clear direction and had an ongoing dialogue with their teams.

As fas as we are concerned, a great leader not only delivers strong results, he or she also encourages and enables our people to develop and take on new responsibilities across the organization to ensure that Danfoss has the right people and talent to grow and to be successful. This is the responsibility of all leaders in Danfoss.

Talent hackathon

Danfoss is growing – we continue to need more leaders and we are continuously looking for better ways to develop them faster. Facing this challenge, Danfoss invited 40 employees with different nationality, seniority and job levels across the business to come together at a talent hackathon.

Within 24 hours, the hackathon participants worked on ideas on develop talents, so they could add even more value to the business. At the end of the hackathon, the ideas were pitched in front of a committee of six senior leaders.

Engaging the potential of our people gave us a lot of new learnings in only 24 hours. The winning idea challenges the way we do things today and could be implemented immediately, taking us another step forward in the development of future leaders within Danfoss.

Global mentor program

Each year, 34 leader talents with significant potential are handpicked to take part in the Global Mentoring Program, preparing them to become the leaders of tomorrow.

During the one-year program, the mentees are carefully paired with experienced senior leaders from different parts of the organization. They meet on a regular basis, discussing challenges, purpose, and strategy. The mentors share their experiences with the ambitious young talents, helping them become better leaders.

On average, seven out of ten new leaders in Danfoss come from within the organization. This is not only important for fueling our growth, but also to keep our strong Danfoss culture. We expect most of our mentees to grow into more senior leadership roles.

Postgraduate program

There is no better way to kickstart a career than by being part of our two-year development program as a postgraduate. The participants can look forward to working across our global organization to learn from colleagues with different skills and cultures. Along the way, they build a network, which can benefit them throughout their career.

Each year, a new team of postgraduates joins Danfoss in our two-year Postgraduate Program. Every postgraduate teams up with a mentor, who follows their progress and helps them learn and develop their personal and professional profile. Together, they select four different projects, each of six month's duration, in which the postgraduates are given the opportunity to play a key role. At least one of these projects is completed in a different country than the postgraduate is based in.

The Danfoss Postgraduate Program is designed to offer talents an intensive development process, which prepares them to make a valuable impact on our business.

University program

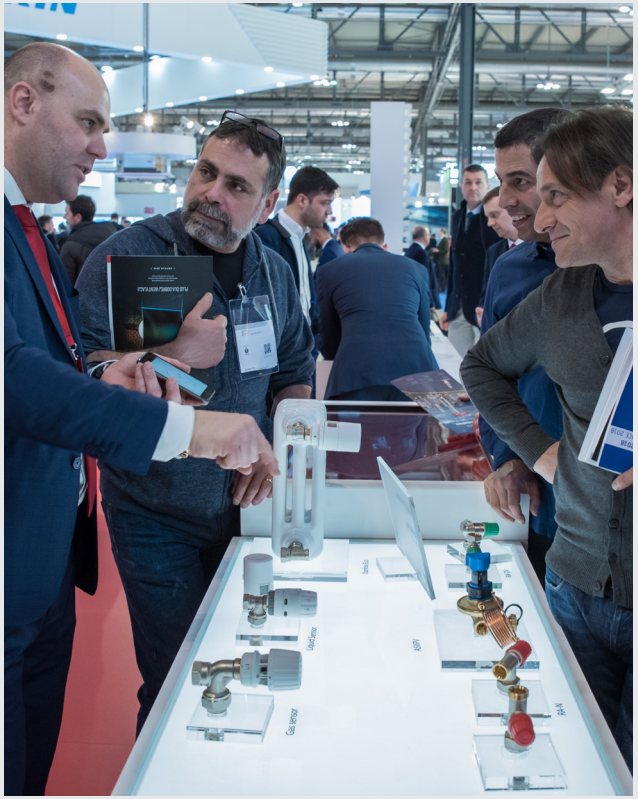
We want to attract the most skilled talents to Danfoss. That is why we cooperate with many universities worldwide and participate in workshops with students – to get in touch, to learn from each other and to discuss our sustainable growth journey.

One example was a workshop held in 2018 at Aarhus University in Denmark with 80 students from the master's degree course in IT, Communication and Organization. Danfoss provided three cases, and the students had the chance to work with challenges from real life in a global company.

The workshop gave Danfoss the opportunity to get academic feedback, the latest knowledge, and fresh input from the talented students. Afterwards, Danfoss was contacted by several ambitious students, who found our journey interesting and asked to write their master thesis in collaboration with Danfoss.

Inspired by the many good discussions, we plan to do similar workshops next year.

Our Behaviors



Frontline Passion

Frontline Passion is about getting even closer to our customers, listening to them and making them the center of everything we do. Every Danfoss employee plays a role in this. Some in sales or other customer-facing teams. Other colleagues make a difference to the customers from behind the scenes, by supporting and empowering our frontline staff, so they can make even more things happen for our customers.

Run the Business – like your own

Run the Business – like your own is a mindset. How would you do things, if it were your business? We have a framework, and within that framework we are able to take risks, try new things, make investments and make the right decisions for the business. This is about reducing complexity, taking action and spending wisely.

Think Danfoss

Think Danfoss is about living up to our values, acting with integrity and staying compliant. We safeguard the trust that our customers and employees have in the company. Thinking Danfoss also means developing our people to ensure that the entire company has the people and talents it needs to grow and be successful.

Diversity

Our high-performing, diverse and engaged teams are the foundation for achieving our ambitions to significantly grow and develop Danfoss.

We aim to employ a diverse workforce that reflects society in terms of culture, nationality, gender and age. In 2018, employees of more than 100 different nationalities worked in the Danfoss Group. We focus on diversity both in our recruitment processes and when we bring colleagues together to take on a new project, as we believe that diverse teams drive innovation and better results. We take pride in creating an inclusive working environment, which embraces diverse backgrounds, skills and perspectives.

The target has been to increase the percentage of female managers to 20 percent by 2017 from 18 percent in 2014. In 2018, the percentage of female managers was 19 percent , which is the same as in 2017. We recognize that we need to make further steps and are still aiming for the 20 percent ratio. In 2019, the target will be reviewed.

Gender composition in Board of Directors

Section 99b of the Danish Financial Statements Act (FSA) requires that corporate entities of a certain size and type report on the gender composition in management. Danfoss aims at a gender composition in the Group's Board of Directors, which reflects that of the rest of the Group, and has a target of having at least one female member of the Board of Directors, who is elected at the Annual General Meeting (AGM). Danfoss meets this target. In 2018, the Board of Directors had three female members, one AGM-elected and two employee-elected. Furthermore, the Board of Directors consists of persons with diverse backgrounds in terms of professional skills, nationality and age.

Gender composition targets similar to that of the Board of Directors have been implemented in the relevant subsidiaries of a certain size and type. Danfoss meets the gender composition target for the Board of Directors of Danfoss Power Solutions ApS, but not of Danfoss Power Electronics A/S (Danfoss Drives), Danfoss International A/S and Sondex A/S, as the composition of the boards did not change during the year. However, Danfoss Drives has a female board member elected by the employees. In these relevant subsidiaries, the gender composition target for the Board of Directors is expected to be met in 2021.

Employees

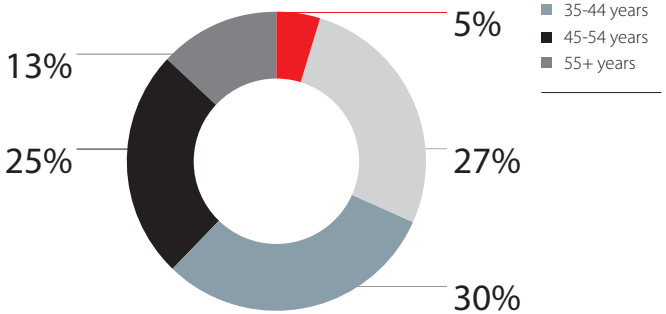
Females
30%

Female managers
19%

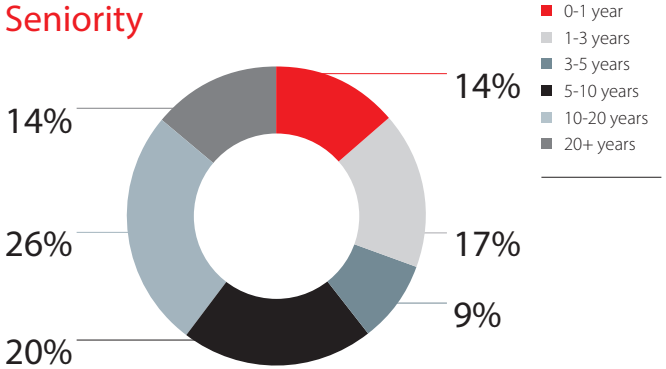
Males
70%

Male managers
81%

Age distribution



Seniority



Diverse teams deliver improved innovation and results

We have a bold ambition to implement our new common One ERP platform as quickly as possible. This requires a diverse team with a broad variety of competencies from different parts of the organization to deliver the right solutions.

More than 200 experts with different know-how, experiences and skills have been brought together under one roof in Flensburg, Germany, to work on Danfoss' One ERP project, which will become the backbone of Danfoss' digital transformation. In addition to bringing a crucial package of competencies to the project, the participants can also enjoy being part of a team, which consists of 25 different nationalities, representing a wide scale of ethnical and cultural backgrounds, different educational backgrounds and very different career paths.

By using each other's experiences and strengths, the team will ensure that customers, suppliers and colleagues will be able to benefit from Danfoss having a common One ERP system. It's all about the people and high-performing diverse teams.

Facts about One ERP

The One ERP (Enterprise Resource Planning) project consolidates the current ERP systems within Danfoss into one common IT platform across Danfoss. This will enable improved customer experience and reduced complexity in our customer service and processes.

Health and safety

The relevant UN Global Compact principles guiding us on Health and safety

Global Compact requires us to:
- Uphold the freedom of association and the effective recognition of the right to collective bargaining;
- Uphold the elimination of all forms of forced and compulsory labor;
- Uphold the effective abolition of child labor;
- Uphold the elimination of discrimination in respect of employment and occupation.

Our policies supporting the Global Compact principles:
- Environment, Health and Safety Policy
- Health and Wellbeing Policy

Further documents supporting the Global Compact principles:
- Safety at Danfoss
- Manage EHS incidents and hazards

Read more about our policies on www.danfoss.com

Taking care of our people and improving health and safety on an ongoing basis is a top priority across Danfoss. Everyone should feel safe at work and no one should become injured or sick from working with Danfoss.

Safety First!

Danfoss' "Safety First!" program was established in 2015 as Danfoss' systematic approach to a safe workplace. Focus is on clear, aligned procedures and processes to ensure a safe working environment and avoiding accidents across all Danfoss sites.

An important element in "Safety First!" is the mandatory use of safety shoes and safety glasses for anyone entering the shop floor in any Danfoss factory worldwide or performing gardening or outdoor maintenance work. Hearing protection is also mandatory for employees working at machines with high noise levels, and safe walkways have been identified and marked in all factories.

Work-related incidents

The total Group LTIF – Lost Time Injury Frequency – ended at 2.8 in 2018 from 3.4 the previous year. Most segments reduced their LTIF significantly from 2017. Danfoss Heating segment and Danfoss Drives segment have still some way to go before the target for 2019 is met.

Safety training room

Danfoss Power Solutions' factory in Bielany Wroclawskie, Poland, constantly strives to improve the safety skills and awareness among all employees. In 2018, the factory created a new safety training room designed as an interactive learning space offering hands-on learning.

In the safety training room, the employees are introduced to potential hazards in the workplace and trained in managing them. By doing so, we reduce the exposure to harmful situations and substances, which might end up in an accident.

2018 What we said

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

Reduce LTIF (Lost Time Injury Frequency) by 10 percent from achieved 2017 level.

2018 What we did

Global Incident Management System implemented according to plan. All incidents are now registered and analyzed through GIMS.

The LTIF ended at 2.8 which equals a reduction of 18 percent from previous year.

2019 What we want

Reduce global LTIF with a step change to 50 percent below achieved 2017 level equal to 1.7 lost time incidents per million hours worked.

Danfoss Heating segment acquired Sondex in 2017. The LTIF of this business unit is higher than the rest of Danfoss Heating and special initiatives are being implemented to reduce the LTIF to Danfoss average. Danfoss' global LTIF ended in 2018 at 2.2 not including Sondex.

We aim to be amongst the leaders when it comes to safety. Achieving this requires a step change, as the LTIF has only shown incremental improvements since 2015. We have set an ambitious goal of reducing the Group LTIF by 50 percent by the end of 2019 from the 2017 result.

The Lost Day Rate (LDR) in 2018 was 57 (the number of days of absence, due to LTIs per million hours worked). This is an increase from 36 in 2017 but at level with 2013-2016. The 2017 Lost Day Rate was exceptionally low. In 2018, the injured employees were absent for a total of 2,546 days, corresponding to an average absence of 20 days per Lost Time Injury.

While the overall incidence rate on injuries was reduced, a fatal incident tragically occurred in 2018, when a Danfoss operations employee in the US suffered injuries while at work.

Halving the LTIF

To achieve the ambitious target of halving the global LTIF in only two years, priorities will focus on enhanced safety processes and tools. Danfoss' One EHS Steering Committee has identified a set of requirements to form the building blocks for a future EHS toolbox.

In 2018, Danfoss continued to align policies, internal standards as well as the EHS organization to build a resilient and ambitious EHS model; driving significant improvement in all areas, while at the same time reducing costs. Shared processes within the management of environment, health and safety has been developed to ensure consistency.

In 2018, further programs focusing on hand & finger injuries, trips & slips, and machine safety were developed and launched.

Programs for safety leadership, powered industrial vehicles, general safety awareness and management of changes to production processes and equipment is being developed and implementation will commence in the first quarter of 2019.

Global incident management

In 2018, Danfoss implemented a Global Incident Management System – called GIMS in all factories around the world. It is a risk and incident management software solution with focus on environment, health and safety. The solution is used for reporting and assessing incidents, tracking actions and analyzing trends using a common approach.

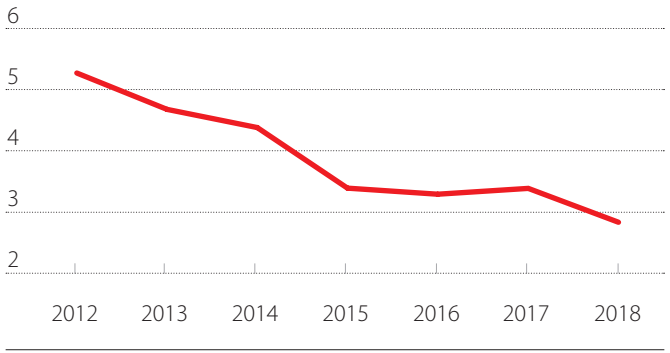
With super users appointed and trained at all sites globally, it is ensured that the entire organization is comfortable using GIMS as the future tool for registration and analysis of all incidents as well as for sharing knowledge about risks and potential incidents.

All leaders play an important role in using the system to ensure proper and timely reporting of incidents. Plant managers and site directors are engaged in the incident management process at their respective sites as they have the responsibility to review and approve specific incident assessments, actions and closure of actions.

Health and safety	2017	2018
Lost time injuries (LTI)	135	123
Lost time injury frequency (LTIF)	3.4	2.8

LTIF – Lost Time Injury Frequency

(Injuries with absense per million hours worked)



Safety campaign in Danfoss Drives

"StaySafe@Danfoss. We care about you – and we want you to be safe". That was the key message in a safety campaign run in 2018 at Danfoss Drives' factories in Vaasa, Finland, and Graasten, Denmark. The campaign emphasizes the importance of everyone to be safe – always.

Throughout the campaign, employees, management, and safety staff were actively involved in various activities, while conveying key messages to increase safety awareness and what to do to prevent future incidents. The campaign was spiced up with posters, banners, badges and small candy boxes with the campaign slogan. The campaign was kicked off by management handing out reflective vests and headlights to wear if walking or biking to work.

The StaySafe@Danfoss safety campaign is one of many elements of the work with health and safety in Danfoss Drives segment. Maintaining a strong safety mindset and culture is an ongoing activity, where management takes the lead and demonstrates visible leadership.

Compliance, ethics and human rights

The relevant UN Global Compact principles guiding us on Compliance, ethics and human rights

Global Compact requires us to:

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

Our policies supporting the Global Compact principles:

- Ethics and Compliance Policy
- Human Rights Policy

Further documents supporting the Global Compact principles:

- Ethics Handbook
- Anti-Corruption Manual
- Competition Compliance Manual
- Export Control Manual
- Data Privacy Handbook

Read more about our policies on www.danfoss.com

It is important to Danfoss that all employees act with integrity and comply with legislation and internal policies.

Growing international focus on regulation and legislation within anti-corruption, competition law, data privacy, export control, and good business ethics triggers a high internal awareness and motivation to ensure that internal compliance programs and control mechanisms are in place and well-functioning to minimize the risk of rule violations.

All our compliance programs include clear ownership, policy setting, operational procedures, as well as recurring training and awareness activities.

Ethical guidelines

Danfoss has its own ethical guidelines, The Ethics Handbook, which include mandatory e-learning for all managers on ethics. This program, as well as other compliance programs continues to get updated with the newest legislation and stakeholder expectations.

Taking ethics to the next level

In 2018, Danfoss continued the initiative "Taking Ethics to the next level", where focus is on identifying, preventing and counteracting unethical behavior in Danfoss. In 2018, training was carried out on Danfoss sites in Russia and Latin America. To provide tailor-made training material, which translates into a local context, interviews were carried out with local managers to understand the business environment and culture. Furthermore, lessons learned and anonymous examples from the Ethics Hotline formed an important part of the training.

Transparency about ethical issues is important to maintain an ethics culture in Danfoss. Danfoss monitors the number of dismissals due to unethical behavior.

In 2018, 39 employees left Danfoss due to unethical behavior, compared to 51 in 2017 and 32 in 2016. The figure includes both dismissals and voluntary resignations connected with ethical issues. The main reasons for the dismissals are fraudulent behavior, disloyal behavior or other violations of company policies.

Ethics Hotline

Danfoss has a whistle-blower function, where employees and others anonymously can report violation of internal guidelines or legislation. It operates independently of Danfoss, and in 2018, a total of 77 new reports were received from all parts of the world where Danfoss operates. Corrective actions have been taken for all substantiated allegations ranging from stopping inexpedient behavior to termination of employment.

Additionally, Danfoss' employees can find answers to questions or doubts regarding ethics and compliance using the "AskUs"-function. This inquiry function was established in 2012 to minimize uncertainty and prevent unintended non-compliance, when making managerial or business decisions.

2018 What we said

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

2018 What we did

In 2018, "Taking ethics to the next level" has been carried out in Russia and Latin America according to plans.

2019 What we want

Conduct human rights due diligence project and ethics training in Turkey and Middle East.

Ensuring compliance with new Data Privacy regulations

In 2018, the Group compliance team received many questions from the colleagues in the organization regarding various data privacy issues, showing that the business wanted to be compliant and that employees sought information to make the right choices.

Data Privacy community

The compliance team wanted to be sharing unified answers with the colleagues in a fast and convenient manner to ensure that everyone was aligned on how we conduct business. Therefore, a Data Privacy community was launched at an internal social media platform, which has global reach. Not only did the community allow to share the answers on the hot issues and speed up the process, but also to announce important news and learnings.

Keeping high awareness of Data Privacy

Our colleagues reacted enthusiastically to the new community by voluntarily joining it, engaging with the content as well as spreading the word about it to their peers. The community makes their lives easier when navigating the data privacy regulations, from questions about how to deal with a passport copy when arranging business trips, to what constitutes a personal data breach. Driving the community and engaging our colleagues, keeps the awareness of Data Privacy regulations high and creates ambassadors in the organization.

Tools to stay compliant

Besides the Data Privacy community, other tools helping us to stay compliant are the Data Privacy Handbook, e-learning and face-to-face trainings, and an intranet page. Customized training is offered to those employees who handle personal data on a daily basis, such as in IT, HR, Finance, Sales and Marketing.

Data privacy

In 2018, the new and stricter European Data Privacy regulation became effective. To enable all employees to process personal data correctly, we developed a Data Privacy Handbook. It is based on our Binding Corporate Rules, approved by the Danish Data Protection Authority, which forms the basis for how personal data is processed at Danfoss. Furthermore, we implemented the Data Privacy Handbook, developed trainings and completed other elements required by the new legislation – because, just as Danfoss does business in an ethical and open manner, we also respect the right to privacy.

This applies to our employees and external partners as well as in our processing of personal data. It is essential that the world knows that the personal data entrusted to Danfoss is safeguarded, and that personal data is used in accordance with applicable legislation. If we do not adhere to the rules, it may have serious consequences in the form of heavy fines and loss of reputation.

Export control

In 2018, the export control compliance program was further strengthened by including processes for secondary sanctioned party screening. Furthermore, with the roll-out of the One ERP solution, all import and export transactions will be screened against sanction lists. Additionally, Danfoss extended the compliance program to include rules and guidance on anti-money laundering.

Responsible sourcing

In 2018, Danfoss continued the systematic work with supplier management. Our Code of Conduct for Suppliers defines our requirements on environmental, social and ethical issues. In 2018, the Code of Conduct was updated according to the anti-corruption clause and the UK Modern Slavery Act.

All existing and new suppliers are required to accept and sign our Code of Conduct, and we perform regular supplier audits to verify compliance and to ensure that any non-compliance is addressed. 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 wastewater.

Furthermore, we conduct training of all Danfoss employees, who have contact with suppliers on an ongoing basis to ensure that they are familiar with our Code of Conduct and their roles and responsibilities. The training consists of multiple modules, primarily as online training, and we expect to introduce a new improved e-learning training course in 2019.

In 2018, the compliance was measured on all suppliers with a score of 90 percent against a score of 85 percent measured on the top 90 percent spend suppliers in 2017.

As a new initiative and to have a pragmatic approach to low spend suppliers, Danfoss introduced self-assessment questionnaires for these suppliers in 2018.

Human Rights

In 2018, as part of our commitment to live up to the UN Guiding Principles for Human Rights, Danfoss deployed processes for human rights due diligence in Russia, Brazil and Mexico. Building capacity and training the local management in the human rights due diligence process and handling of human rights aspects, create strong ownership at local level.

Assessment of legislation and actual practices in the countries where we operate is an important and integral part of our human rights due diligence process. Based on this, we conduct a thorough process where human rights issues are identified, assessed, prioritized and mitigated. Action plans addressing the actual or potential impacts on human rights are drawn up with local management and regular follow-up meetings ensure that the process is maintained.

Regulation like the UK Modern Slavery Act and California Transparency Act require Danfoss to handle issues like forced labor, if we were to be faced with them. More than 3,500 suppliers of direct materials used in our products and 10,000 suppliers of services and indirect materials, make assessment of human rights issues quite complex. To gain more understanding of this, outsourced facility management services, like cleaning and construction, were included in the due diligence process in Russia, Brazil and Mexico in 2018.

Companies are required to report which of the human rights are most salient to them; meaning which of the rights could be most severely impacted by the operation of the company.
The table shows which human rights are most salient to Danfoss, examples of what the salient rights could entail and how we mitigate them.

See videos and read more at www.danfoss.com about how Danfoss salutes the human rights.

Human right	Example of potential salient human rights issue	How we mitigate
Right to life	Few Danfoss products are so-called 'dual use' products, which are subject to export control regulations. The issue is that the products potentially can be built into military equipment or surveillance technologies.	All Danfoss companies must live up to legislation and internal rules on export control. To support this, Danfoss has a training program for relevant parts of the organization, especially sales people.
Right to land, right to adequate standard of living.	Danfoss is present in countries where relocation of people can take place to provide land for industrial use. If local people are not adequately compensated, they do not only lose housing, but also their livelihood (land for farming)	In countries where this is the case, land management is part of Danfoss' due diligence process on human rights. Action plans were issued to establish a process for ensuring early awareness and action.
Right to freedom from forced labor	International research shows that forced labor can be an issue in industries where low- or un-skilled workers seek employment; e.g. cleaning, catering, construction, clothing and transport. Furthermore, recruitment is a high-risk area for forced labor because of fees in the hiring process.	We have updated our Code of Conduct for Suppliers with more specific requirements for avoiding forced labor. Furthermore, action plans on forced labor issues are part of our due diligence program.
Right to freedom from discrimination	Discrimination due to ethnicity, caste, gender, sexual minorities etc. can be a problem in some of the countries where Danfoss operates.	In countries where discriminations is the case, action plans to address the specific issues are made. Examples are building awareness and establishing processes to avoid discrimination.
Right to health	A safe workplace is fundamental for ensuring the right to health.	Safety is a key priority to Danfoss, and all factories are covered by our Safety First! program.
Right to fair working conditions, including leisure time	Excessive working hours can challenge health, safety and family life.	During peak seasons, a few Danfoss factories experience a high number of working hours. When excessive hours are experienced, local action plans are made to reduce overtime.

We mitigate caste discrimination in India

In India, caste discrimination is one of the most salient human rights issues on country level and is therefore part of Danfoss' due diligence process. The issue of caste has cultural, social, economic and religious implications and is sensitive as it deals with hierarchical structures in the society.

The most exposed group is the SC/ST (Scheduled Cast/ Scheduled Tribes), which is a marginalized group. This group can be exposed to discrimination in terms of lack of access to employment, discrimination in the workplace and a general lack of equal rights.

When conducting the due diligence process in Danfoss in India, we worked with the four Es; Education, Employment, Employability and Entrepreneurship as a framework as it can be a good way of dealing with the many aspects uplifting marginalized communities. Danfoss in India has taken several initiatives in this field, e.g. by supporting a rural college in an area where the vast majority of students are SC/STs. More than 500 students have been trained so far.

Products and materials

The relevant UN Global Compact principles guiding us on Products and materials

Global Compact requires us to:
- Support a precautionary approach to environmental challenges;
- Undertake initiatives to promote greater environmental responsibility;
- Encourage the development and diffusion of environmentally friendly technologies

Our policies supporting the Global Compact principles:
- Product Compliance Policy
- Quality Policy

Further documents supporting the Global Compact principles:
- Supplier Quality Manual
- Negative List of chemicals and substances
- Positions on RoHS, REACH, WEEE and Battery Directives
- Position on conflict minerals

Read more about our policies and positions on www.danfoss.com

Integrity and compliance are key to Danfoss. In 2018, we continued to strengthen our focus on product compliance as an important enabler for growth.

Danfoss wants to make safe and sustainable products and proactively meet compliance obligations to customers and regulators. For that reason, we run a Product Compliance Program, which is integrated in our management systems. The purpose is to align competencies, processes and tools as well as sharing best practices across Danfoss.

Product compliance platform

Danfoss is committed to increasing customer loyalty by providing fast, easy and relevant product compliance information.
To improve our capacity to generate transparent product information for our customers, we defined key requirements and process flows and investigated data exchange platforms in 2018. In 2019, we will implement a solution as a pilot test in one of our business segments. The solution is anchored in the Danfoss One ERP project, and once deployed, the solution will enable our businesses to deliver fast reliable compliance information to customers and authorities, including full material declarations (FMD) with complete breakdown of materials and substances.

Regulatory foresight

Danfoss tracks and complies with product regulations and standards at national, regional and international level. We monitor and communicate existing and upcoming regulatory requirements to our business segments and functions to ensure on-going compliance.

Conflict minerals

Danfoss complies with the Conflicts Minerals Rule issued by the US Securities and Exchange Commission. We review whether tin, tantalum, tungsten, or gold (3TG) in our products originate from conflict regions in and around the Democratic Republic of Congo. In 2018, we collected smelter reports from 1,400 tier-one suppliers identified as potentially delivering materials or components containing 3TG materials. These suppliers report to an external service provider, who ensures that conflict minerals reports are delivered timely and with the correct content. Danfoss supervises the process and facilitates customers' requests for specific reports. In 2018, the average response rate from suppliers was 69 percent, which is satisfactory. However, in 2019, we aim to increase the response rate by further engagement with the external service provider.

Danfoss Negative List

The Danfoss Negative List is the back-bone of our continuous efforts to avoid the use of harmful elements and substances in products and production processes. The list is based on European

2018 What we said

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

Build concept for Group Product Chemical Compliance platform.

2018 What we did

Process for monitoring and communication of regulations to all business segments defined. A monitoring solution platform is defined and selected for implementation in 2019 and 2020.

Pilot project has been anchored in the Danfoss One ERP project with defined key requirements, process flows and data exchange platforms.

2019 What we want

Strengthen approach that support resource efficiency and circular economy.

Conduct Product Chemical Compliance pilot providing relevant information to customers.

chemical legislation, but the bans and restrictions are applicable worldwide and can only be replaced by stricter local legislation. All suppliers, tenants and contractors working with Danfoss must comply with our negative list.

REACH regulation

Danfoss is committed to protecting human health and the environment through compliance with the European REACH regulation (Registration, Evaluation, Authorization and restriction of CHemicals) and similar regulations in our markets.
In 2018, we have reviewed our processes and tools to ensure compliance with customer and regulatory requirements across the Group. In 2019, we will review our processes and tools to ensure compliance with the upcoming reporting requirements from the European Chemical Agency.

RoHS, WEEE and Batteries Directives

Many Danfoss products are in direct or indirect scope of the EU's Restriction of Hazardous Substances (RoHS) Directive or similar regulations in other countries restricting the use of hazardous substances in electrical and electronic equipment. In 2018, we strengthened Group processes to ensure compliance with substance regulations around the world. In 2019, we will train employees globally within research and development, procurement, and sales to comply with the requirements.

Danfoss supports the objectives of the European WEEE Directive (Waste Electric and Electronic Equipment) and the European Battery Directive to improve the environmental management of electronic waste. We contribute to resource efficiency by improving the collection, treatment and recycling of electronics and waste batteries at the end of their life. In 2019, we will deploy aligned Group processes to further strengthen our compliance in these areas.

Circular economy

Circular Economy promotes the sharing, leasing, reusing, repairing, refurbishing, and recycling of existing materials and waste in an almost closed loop. The traditional linear model of the economy draws regularly on resources to create products that eventually end up as trash: raw materials are harvested, transformed, sold as goods and wind up in landfill.
It makes long-term business and environmental sense to transition from our current "take-make-waste" linear economy to a more "circular" one that views waste as a resource, where we can use resources more efficiently and for longer periods of time.

As a leading expert within energy technologies, we are committed to making this shift easy, efficient and productive for our customers. This requires that we view the entire value chain through the glasses of circular economy with the entire life cycle in mind (including ease of reuse, repair and recycling), finding more efficient materials and means (including use of renewable resources) and looking at new business models.

For several years, we have included circular thinking in our product design, focusing on the reduction of in-process waste and on the reduction of material use in products. We continue our work to understand the potential opportunities for Danfoss in circular economy and to build this principle into our design of products and processes.

ENGINEERING
TOMORROW

Our legacy and values

- We build our business on trust and integrity
- We are innovative in our ambition to exceed expectations
- We are global and embrace diversity
- We treasure sustainable results

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

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