

Sustainability in Danfoss - an introduction

March 2021

In 2002, Danfoss became a signatory to the UN Global Compact Initiative as one of the first Danish companies. Global Compact deals with human rights, labor rights, the environment and anti-corruption. We continue to support the Global Compact, as a governing principle in our sustainability efforts.

In 2013, our efforts resulted in a new sustainability program for the Danfoss Group that combines existing and new sustainability initiatives. During its implementation period, the program will guide the work on sustainability at Danfoss within a strengthened group-wide framework, while at the same time setting out clear goals for the work in our organization in the areas of energy savings, occupational health and safety, ethics and product lifecycles.

A new and ambitious climate strategy launched in January 2020 paves the way for CO₂ neutrality before 2030.

Danfoss want to play an active role in a sustainable global development where social responsibility, environmental and climate considerations go together with sound business development. We therefore make it a priority not only to respond to the circumstances which have an immediate effect on the company, but also consider the trends that outlines the challenges and the opportunities of the future.

This document describes the key elements in Danfoss approach to sustainability and you are invited to read more on our webpage: <http://www.danfoss.com>.

Inquiries regarding Danfoss' work with Sustainability can be directed to Danfoss Public Affairs & Sustainability at sustainability@Danfoss.com.

Danfoss A/S



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Sustainability Director

Group Public Affairs & Sustainability

A strong sustainability program

Together with our aspiration, promise, values and behaviors, our sustainability program ensures that our strategic focus is on those areas in which we have the biggest impact and create the best results.

We're meeting many of the world's climate, urbanization, and food challenges with proven and reliable solutions with strong focus on energy efficiency. Driven by the power of an electrified society, and fueled by the opportunities of going digital, Danfoss is dedicated to engineering solutions that can unleash the potential of tomorrow.

We act, and we're confident that engineering will lead the way to a better future. Engineering solves challenges and drives society forward every day, across the world. By rethinking, crafting, and transforming, engineering is paving the way to a sustainable tomorrow. Our sustainability program supports this journey while providing guidance within our prioritized focus areas: Business and Products and People and Communities.

The sustainability program also supports our business ambition and serves as an enabler for our ambition to achieve sustainable growth and deliver products that fulfil our customers' need for energy efficiency and improved performance.

At the societal level, our work on sustainability and the United Nations' Sustainable Development Goals creates value for society benefitting from us taking responsibility for the less fortunate in the labor market.

Danfoss' sustainability policy

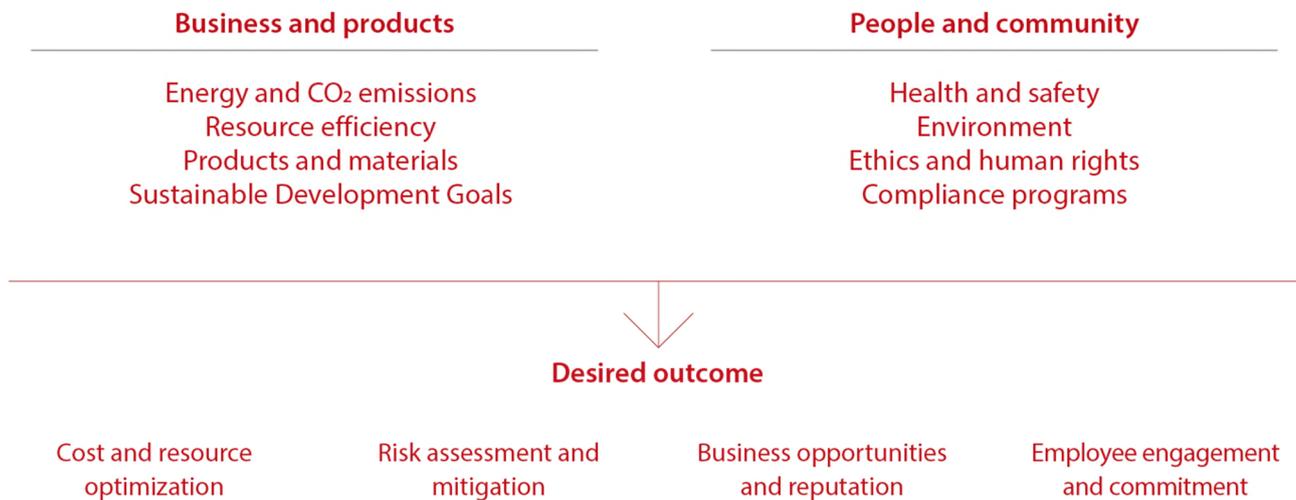
We will be a reliable and trustworthy business partner by acting responsibly while balancing financial, environmental and social issues.

This means that we:

- Comply with UN Global Compact and support the Sustainable Development Goals
- Engage with our stakeholders to promote sustainable development
- Do our utmost to implement decisions and actions with dignity and fairness
- Ensure that sustainability is a fundamental element of our business conduct focusing on resource efficiency, risk mitigation, reputation and engagement
- Ensure that all employees comply with local and international legislation



Danfoss' ambition is to make sustainability a real business driver and a fundamental element of our business based on the following elements:



Our sustainability governance

Danfoss has a two-tier management system consisting of the Board of Directors and the Group Executive Team. The Board of Directors lays the general course for the company and the Group Executive Team develops the strategy and handles the day-to-day management of the company and execution of the strategy. The Board of Directors and Group Executive Team have overall responsibility 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.

It is the responsibility of Danfoss' Group Risk & Compliance function to develop and implement guidelines and relevant programs covering ethics and human rights issues. The function is also responsible for the internal AskUs function and our whistleblower function, the Danfoss Ethics Hotline, with an external company accepting and keeping records of reports on any breaches of Danfoss' rules.

Strong policies supporting our programs

We ensure that our efforts are supported by policies and procedures to reflect not only the requirements from Global Compact's principles but also the ambitions of our management. The policies reflecting these ambitions and requirements can be found on the company's website.

Danfoss Ethics Handbook

The Ethics Handbook outlines Danfoss' ethical guidelines in three main sections:

- Danfoss and our employees
- Danfoss and our external partners
- Danfoss and the society

The handbook applies for all employees and companies in the Danfoss Group, including subsidiaries and joint ventures where Danfoss has a controlling interest.

All Danfoss' companies, business units, departments and employees must, as a minimum, comply with the local laws of the countries in which they operate. Complying with the country's legislation is regarded as a basic requirement. In addition, the ethical guidelines in the Ethics Handbook must be complied with at all times.

Training and compliance programs

Danfoss supports the growing international focus on regulation and legislation in areas such as anti-corruption and human rights.

We maintain internal compliance manuals, programs and control mechanisms to minimize the risk of rule violations. These programs define clear ownership, policies, operational procedures, and recurring training and awareness activities.

Compliance efforts are based on extensive preventive programs based on clear rules and guidelines and key employee training. 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 Group's internal audit function.

All managers must complete the Ethics program within a defined time frame. The program addresses competition, anti-corruption, equal treatment, anti-discrimination, and other issues.

Danfoss follows up on managers' and key employees' completion of the programs: failure to complete mandatory training may have severe consequences for their employment.

Ethics and Human rights management

The United Nations' Guiding principles on Business and Human Rights (UNGP) requires companies to carry out human rights due diligence to identify, assess, prioritize and mitigate potential negative impacts on human rights and to report on their progress.

We respect internationally declared human rights and ensure that our company is always associated with proper working conditions and social and environmental considerations.

We drive profitable growth in a decent, ethical manner. This means that we apply high ethical business standards in everything we do while acting with due diligence and being transparent about our business policies and decisions.

Transparency about ethical issues is important for maintaining an ethics culture in the company. To track ethical behavior, Danfoss monitors the number of dismissals due to unethical behavior.

We commit to the United Nations' Guiding Principles (UNGP) on human rights requiring us to identify and mitigate negative impacts on human rights.

Our process is decentral and risk-based to handle human rights issues in the regions where we operate. The regional top management owns the process and approves local mitigation plans. Regular follow-up ensures progress and the regions with highest risk of negative impacts on human rights are prioritized.

One outcome of the human rights due diligence process is the identification of our salient human rights, meaning the rights on which can we potentially impact most severely.

Mitigating Modern Slavery

Danfoss considers Modern Slavery (an umbrella term covering forced labor, human trafficking, work performed under threat of penalty and other exploitative practices) to be part of our work with human rights due diligence.

Danfoss addresses forced labor both in our supply chain and in our own factories, where outsourced functions like cleaning, catering and construction comes with increased risk of forced labor.

Suppliers of indirect materials and services must adhere to Danfoss' Code of Conduct but are not regularly presented with new updates of the Code and are not subject to third-party audits. Research shows that some indirect suppliers are more exposed to forced labor than direct suppliers, because they are sectors employing many low- or unskilled workers paid relatively low wages.

The table on the text page shows which human rights are most salient to Danfoss, examples of what the salient rights could entail and how we mitigate them.

I 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.

Ethics Hotline and AskUs query function

Danfoss has a whistleblower function called the "Ethics Hotline", where employees can report suspected breaches of law and internal guidelines anonymously and without involving a manager.

To ensure professional treatment of all such reports, Danfoss has entered into an agreement with the company EthicsPoint who will receive the reports either via internet or by telephone and will forward them to Danfoss' Ethics Committee for decision.

Danfoss also has a query function called "AskUs", which the Group's employees can contact for immediate advice or find answers to any questions regarding ethics and compliance. The purpose of AskUs is to minimize uncertainty among the Group's employees and prevent unintended non-compliance.

Climate strategy

Climate change involving drought and flooding, scarcity of resources, and other impacts pose huge challenges for the world, requiring long-term, targeted work and investments. Danfoss is a world-leading supplier of technologies and solutions that support the growing need for efficient energy utilization and better climate control, and we develop, manufacture and sell products that lower energy consumption and reduce CO₂ emissions and thus help meet these challenges.

For this reason, it is natural for Danfoss to seek to reduce the climate impact of our own activities. In January 2020 Danfoss has taken its climate strategy an ambitious step up, with new targets to be met by 2030. Danfoss is now embarking on an ambitious journey to become CO₂ neutral in our global operations by 2030 at the latest. Joining the “Business Ambition for 1.5°C - Our Only Future” and setting science-based targets will further emphasize Danfoss’ commitment to combat the climate crisis.

Business initiatives for action

In December 2019, Danfoss joined, as the first global technology company, all three business action initiatives under The Climate Group. Danfoss signed up for the RE100 and EV100 initiatives on top of EP100, which the company joined in 2016.

EP100 - Energy efficiency first

Focusing on energy efficiency and electrification is at the very core of our business and the solutions we provide to our customers. The cheapest and cleanest energy is still the one not used.

EV100 - Electric company cars

We work with partners in cities, utilities and governments on the infrastructure needed for sector integration, to drive the uptake of electric mobility, and to transform our own company car fleet to all electric. First pilots have started in Northern Europe to phase out combustion-engine vehicles and develop plans for charging infrastructure.

RE100 - Renewables

We support the development of futureproof district energy and ensure that buildings become smart, and able to consume and produce energy, such as when we utilize the surplus heat from supermarkets to heat our homes.

And ultimately, we are investing heavily in electrification powered, of course, by renewable energy.

We set Science-Based Targets

Danfoss joined the Science-Based Targets initiative in 2020 and the process of preparing a baseline is ongoing. We expect to set Science-Based Targets and define associated mitigation activities for the reduction of our carbon emissions throughout the entire global value chain mid-2021 and expect the targets to be approved by the Science-Based Targets initiative within 2021. Read more on our website.

We roll out electric company cars

We have joined several forward-looking companies to make electric transport the new normal and are committed to transforming our company car fleet to all-electric by 2030. Shifting our company’s car fleet to electric, supports our strategic approach to delivering our products to the car industry.

In 2020, a project team developed a roadmap for the first few years of our journey towards the full electrification of our company car fleet. The roadmap will be revised as technology develops and the availability of EVs and charging infrastructure becomes better.

A safe and healthy place to work

Danfoss regards environment and health & safety as important elements in all business activities, ranging from product design and manufacturing processes to the maintenance of buildings and plants.

For many years, Danfoss has worked systematically to reduce the environmental impact of its operating activities, including production and transportation. Danfoss works to ensure that the company's health and safety efforts are performed within the framework of recognized management standards. Two-thirds of our manufacturing locations are certified to OHSAS 18001 or ISO 45001 while the remaining sites operate health and safety systems in line with the standards although not certified by a third party.

Every company in the Group prioritizes working environment and safety, as set out by Danfoss' environmental and working environment policy, which defines the issues and target areas that the business units must address. Making sure that all employees are not exposed to work-related danger is deeply rooted in Danfoss' culture.

Conflict minerals

Danfoss supports the efforts of governments and human rights organizations to end violence and atrocities in conflict zones e.g. in Central Africa. Danfoss has established a process to ensure that our suppliers adopt policies and management systems with respect to conflict minerals.

Danfoss requires its suppliers to establish own due diligence program to ensure conflict-free supply chains. Suppliers are required to supply materials to Danfoss that are documented conflict-free.

Danfoss aligns its conflict-free efforts with practices established by industry peers – including the Electronics Industry Citizenship Coalition (EICC) and Global e-Sustainability Initiative (GeSI) – to enable companies to source conflict-free minerals.

Danfoss supports the Responsible Minerals Initiative (RMI) and reviews whether we source conflict minerals like tin, tantalum, tungsten, or gold from conflict regions. We collect data from more than 1,400 tier-one suppliers to provide conflict mineral reports to our customers.

Responsible supplier management

All suppliers must adhere to Danfoss' Code of Conduct and all new direct suppliers in high-risk countries are subject to internal audits and self-assessment questionnaires prior to third-party audits as a precondition for being approved as a new supplier by Danfoss' Sourcing Committee. Existing direct suppliers are regularly visited by our Supplier Development Managers performing quality assessments and audits. If required, the existing suppliers are also subject to external audits.

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Stakeholder relations

Danfoss seeks to engage actively with our employees, managers and external stakeholders such as customers and NGOs. This enables Danfoss to adapt our processes and tools to match the requirements of the global community and developments in countries and areas where Danfoss operates.

Being challenged on our attitudes and policies is considered a natural and necessary part of dealing with global challenges and living up to our commitments as a global business.

In the context of our new sustainability program, Danfoss intends to engage even more effectively with stakeholders, including customers, thought-leaders, and decision-makers.