

Sustainability Report 2020

**BITTEN &
MADS CLAUSENS FOND**
TIL GAVN FOR DANFOSS





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About the report

The BMC Group's principal subsidiary, Danfoss A/S has been aligned with the UN Global Compact Initiatives for more than 10 years. In line with this, the Foundation seeks to relate proactively to standards and legislation to ensure the sustainable development of society. The Foundation wishes to actively take part in sustainable global development through BMC Group's activities, where social accountability and respect for the environment and climate go hand in hand with sound business development. Therefore, it is important for the Foundation to not only respond to the issues that affect the business here and now, but to also involve trends that will affect the business challenges and opportunities in the future.

The Foundation's overall objective is for the BMC Group's companies in all circumstances to be considered sustainable, responsible and having their "own house in order". The concept sustainability unifies and balances the overall term of social, environmental and financial responsibility. The Foundation has special focus on social aspects and impact as the Foundation, through its direct local support activities and the BMC Group companies with their presence in many communities have local importance and therefore, must work for good corporate citizenship.

In connection with the BMC Group's investments the Foundation requires, among other things, that individual companies comply with laws and ethical

standards, etc. within the areas of human rights, labor, environment and anti-corruption in the countries and communities in which each company operates.

This Sustainability Report complements the Foundations Annual Report 2020. As the Foundation does not have independently formulated policies regarding social responsibility, an additional report on a group basis outlining the Foundation's consolidated policies, efforts and results based on the CSR report for Danfoss A/S have been prepared. The CSR report for Danfoss A/S describes essentially the activities and results that have been implemented and achieved at group level in the BMC Foundation.

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](https://unglobalcompact.org)



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.

Green Restart

To decarbonize the buildings, industrial and transport sectors, we need to make energy efficiency, electrification and sector integration, our priorities.

[Read more](#)



Climate & Energy

Stepping up on climate action is the way forward. At Danfoss, we continue to set ourselves new and ambitious targets followed by action.

[Read more](#)



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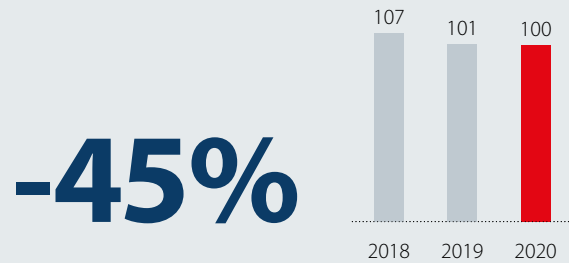
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Sustainability highlights

Energy intensity

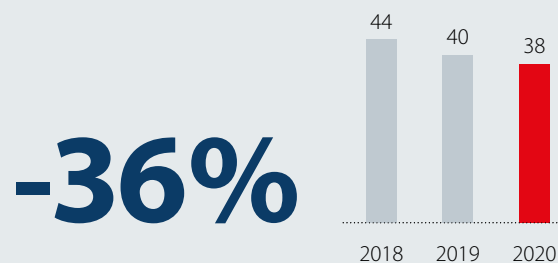
MWh consumed energy per EURm net sales



Since 2007, we have reduced the energy intensity of our operations by 45%. This means that we are only using half the energy as in 2007 per production output.

CO2 intensity

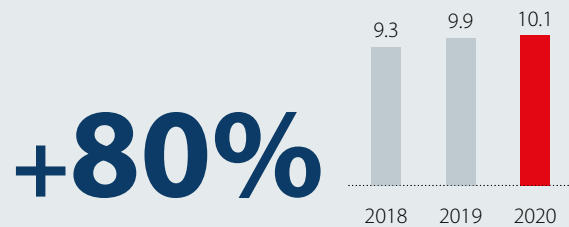
Tons CO2 (scope 1 & 2) per EURm net sales



Since 2007, we have reduced the indexed CO2 emissions from the energy consumed in our operations by 36%.

Energy productivity

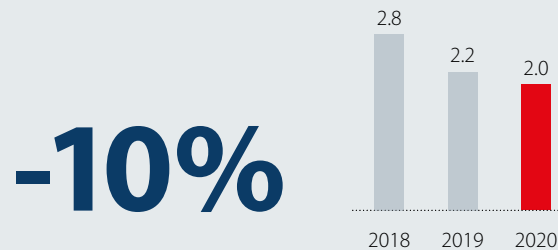
EURm net sales per GWh consumed energy



Since 2007, we have improved the energy productivity by 80%. We have almost doubled our production output on the same energy consumption as in 2007.

Lost Time Injury Frequency

Lost time injuries per million hours worked



The Lost Time Injury Frequency was down 10% from 2019, reaching a record low level of 2.0 in 2020. We continue our efforts to take good care of our people and improving their health and safety.

25%

CO2-neutral electricity in all locations in Denmark and Germany from January 2021 provided through a Power Purchase Agreement



20%

Female leaders - targeting 30% in 2025



42%

Reduction in Danfoss' water intensity since the base year 2007





A green and sustainable restart

As we seek to rebuild economies after the COVID-19 pandemic, let's make this a turning point and rebuild our societies to be more resilient and meet climate goals.

2020 saw an increasing global movement in terms of focusing investments on rebuilding economies in a sustainable way and, in doing so, keeping emissions lower while promoting growth and jobs creation.

The time is now if we are to achieve the goal of the Paris Agreement: To cap the increase in global temperature at 1.5°C.

And the most cost-effective and efficient path to reach these climate goals, and at the same time recover our economies, is by investing in energy efficiency. 78% of global emissions are generated by buildings, transport and industry, and we have the energy-efficient solutions to lower them substantially, now. By doing so, we will reduce our overall need for energy and thus also the need for extra energy capacity and infrastructure in e.g. renewables.

This will enable a faster, renewable roll-out, create sustainable, green jobs, and move us closer to achieving the global climate goals.

A green and sustainable restart will speed up the green transition. The solutions are ready. Now, it is about scale and speed of implementation.

Let's not go back to what we had, **but forward to what we want**

Danfoss' 'Green Restart' campaign was created to showcase how we can accelerate the pace of economic recovery and generate sustainable growth, by working together towards a decarbonized future.

Going beyond the problems and looking at concrete solutions, is exactly what is needed. Based on scientific reports, industry expertise

and leadership within energy efficiency, renewables and electrification, we have consolidated key perspectives, solutions and actions on how to create jobs, building green, and generating sustainable growth.

It's essential to decarbonize the buildings, industrial and transport sectors, we need to make energy efficiency, electrification, and sector integration our priorities.



Play video

Click to watch the video about what is required to make this moment a Green Restart





Working together for stronger climate action

Higher climate and energy ambitions are high on our agenda. We are continuously ramping up our work with progressive leaders and decision-makers, and making the most of the new, green growth agenda. Why? Because by 2030, bold climate action will hopefully have put us on track towards meeting our Paris climate commitments. In addition, it is expected to have created USD 26 trillion worth of opportunities, according to World Resource Institute (WRI).

To move faster, businesses and governments need to push one another and work together: We can create a cycle where bold business commitments support bold policies – in turn, supporting even bolder business action.

This is not a matter of creating a new economy from scratch. Most of the technologies that can accelerate the energy transition over the coming decades are already present, proven, and ready to be accelerated.



Play video

[Click to watch the video about green growth and sustainable jobs.](#)

44%
reduction in CO₂ emissions can be achieved with energy-efficiency improvements

Energy efficiency first

Energy-efficiency improvements can account for 44% of the reduction in energy-related CO₂ emissions needed to meet Paris targets.

Improving energy efficiency also means that the overall energy demand is reduced, and that the remaining energy needs are covered in a more efficient way, bringing down the need for additional, expensive energy infrastructure.

An 'energy efficiency first' principle is therefore instrumental in helping us decarbonize our energy system, and free up electricity to make our cars, buses and ferries electric, our buildings green, and our cities sustainable.

Energy efficiency has massive potential, but currently, it is not being leveraged. To achieve and sustain annual energy-efficiency improvements of 3% requires coordinated efforts between governments and business partners.

We work with cross-sector coalitions like the Three Percent Club to support implementation of energy-efficient infrastructure across the economy. This initiative supports countries and cities in developing energy-efficient buildings and district heating and cooling systems, for future-proof, sustainable societies.

And the powers of electrification extend beyond efficiency: They can also make processes healthier, quieter and smoother.



Sustainable buildings for greener cities

According to International Energy Agency (IEA), buildings account for nearly 40% of global energy consumption and about a third of global greenhouse gas emissions – and have massive potential for energy savings.

Ambitious and binding annual renovation targets for different categories of buildings will ensure they increase their energy efficiency and emit less. At the same time, it will lead to an increase in economic activity by retaining and creating jobs: In 2019, 7% of total global employment – or 220 million jobs – depended on such investments. The building sector presents an untapped opportunity to respond to the climate crisis.



Play video

Click to watch the video about sustainable solutions for buildings.



Decarbonized future for industry

Global manufacturing and industry is responsible for 25% of the final energy consumption and for about 20% of total greenhouse-gas emissions.

The Danish climate partnership for the manufacturing industry has announced an ambitious but realistic target: To become the world's first climate-neutral industry by investing heavily in energy efficiency and electrification. Introducing higher energy-efficiency standards for manufacturing processes will allow industries to become cleaner and more competitive, and offers massive – and largely untapped – potential.

To ensure stimulation of economic growth does not lead to increased emissions, it is essential to separate economic growth from growth in emissions. And it's possible: Since the 1980s, Denmark's GDP has more than doubled – while emissions have decreased.

To achieve that and more, decarbonized industry rests on a combination of increasing energy efficiency, electrification, sector integration and scaling up renewable energy. To drive this change, ambitious political action is required.

That's why we are advocating for higher national and EU targets for energy efficiency to create pressure and incentives to act boldly. Energy efficiency is not a strategic focus area in most industrial sectors, and investments in energy efficiency are competing with many other potential industry investments. Therefore, to unleash the potential, a strong legislative framework, incentives and funding are required.



Play video

Click to watch the video about decarbonized future for industries.



Accelerating the electrification of transport

And finally, there is no way around transport. The European Commission estimates, that road transport alone is responsible for around 70% of EU greenhouse-gas emissions in transport and around 20% of total EU emissions, and the effects of pollution from transport are especially important in cities, where large numbers of people and vehicles move within a small geographical area.

As a result, air pollution is an increasing challenge, but one we can address. Currently available electrification technologies have the potential to reduce NOx emissions by 90% per passenger kilometer by 2050. Additionally, if all urban areas in Europe, China and the US electrified their private and public transport, they could cover 28% of the emissions reductions needed between today's total emissions and a 1.5°C scenario.

But electrification of transport is not limited to land. The potential is also substantial on water, both in terms of electric-powered vessels and shore supply. Shore supply provides vessels with electric power from the land grid – while in port - to charge batteries for fully electrical and hybrid vessels. It also supplies electricity from local grids to fossil-fuel-powered vessels, instead of using the diesel generators on board to power everything from the ship's coffee machines to the lights.

90%
cut in NOx emissions from transport can be achieved by 2050 with electrification technologies

Thailand's first fleet of fully electric ferries

The Government of Thailand is on the path towards cleaning up its air via several methods, including the promotion of alternative energy modes of transport. Energy Absolute, a company that is investing in sustainable transportation is leading the way in this area, with its fleet of fully electric catamarans forming part of an ambitious blueprint, which also includes a US\$3 billion battery factory and range of electric cars.

The fleet of 27 fully electric catamarans will help clean Bangkok's air and transform

the city's Chao Phraya River. Danfoss Editron is providing the electric drivetrain systems for the catamarans, which are small, light and more efficient.

The project is part of Energy Absolute's ambitious plans to promote and increase alternative energy modes of transport in Thailand.

It is possible to charge the ferries in approximately 15 minutes. The ferries will be able to operate for between two and four hours on each charge, with a range of 80-100 km.

 Play video

Click to watch the video about Thailand's fully electric passenger ferries



Our commitment to sustainability

We act responsibly in the world in which we operate. It has been part of the Danfoss core since the company was founded. The Danfoss DNA and our culture have been instrumental in building our leading position across multiple industries.

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.

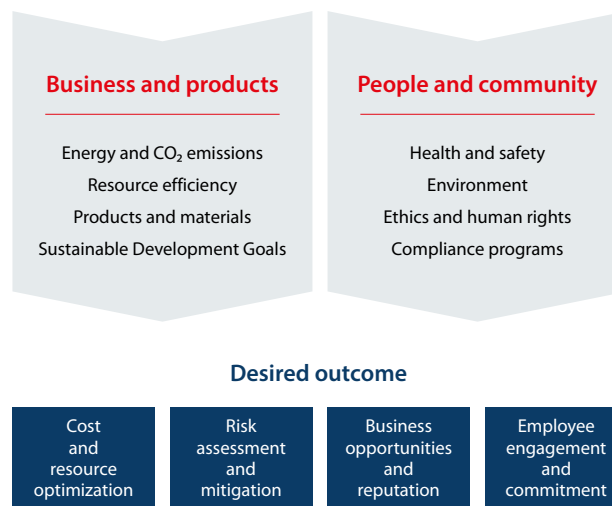
We're meeting many of the world's climate, urbanization, and food challenges with proven and reliable solutions with strong focus on energy efficiency. Driven by the power of an electrified society, and fueled by the opportunities of going digital, Danfoss is dedicated to engineering solutions that can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



But we cannot deliver on the above without ensuring that we act in compliance with global minimum standards for human rights, labor rights, the environment and anti-corruption, and the UN Global Compact's ten principles.

We keep our own house in order and are proud to be a leading player in the fight against global warming.

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.

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.



Achievements 2020 and **targets 2021**

2020 – What we said

2020 – what we did

2021 – What we want



Climate consciousness

- Establish roadmap for decarbonizing Danfoss' global operations.
- Implement Power Purchase Agreement in Northern Europe.
- Develop Science-Based Targets.
- Establish roadmap for electric vehicles in Danfoss.

- Roadmap for decarbonizing electricity 2020-2025 prepared.
- Green Power Purchase Agreement negotiated for all locations in Denmark and Germany.
- Science-Based Targets baseline in place for scope 1 & 2 emissions. Baseline development for scope 3 emissions initiated.
- Roadmap developed for electric vehicles and ambassador network established in selected countries. Electric vehicles pilot project launched in Sweden.

- Half of Danfoss' electricity consumption shall be covered by green Power Purchase Agreements.
- Prepare roadmap for decarbonizing Danfoss' heating demand.
- Establish Science-Based Targets and mitigation plans and get targets approved by Science Based Targets initiative.
- Run electric vehicles project in Sweden..
- Continue global energy-saving projects in selected factories to cut energy consumption and maintenance cost by up to 40%.



Resources and products

- Reduce global water consumption intensity.
- Develop and implement scheme for Environmental Product Declarations.
- Regulatory monitoring tool for product legislation.

- Water consumption intensity reduced by 42% since 2007.
- Scheme for Environmental Product Declarations developed with Drives Segment.
- New regulatory monitoring tool and process implemented.

- Roll-in product chemical-compliance system and recycling administration system for electronic equipment, batteries and packaging as part of Group ERP-system.
- Roll-in setup for Life Cycle Assessment and Environmental Product Declaration of products.



Responsible business

- Reduce global LTIF to 1.6 per million hours worked.
- Implement "Danfoss Machine Safety Inspection Tool".

- LTIF - Lost Time Injury Frequency reduced to 2.0 lost time injuries per million hours worked.
- Danfoss Machine Safety Inspection Tool implemented in the segments.

- Continue to reduce the global LTIF towards 1.6 lost time injuries per million hours worked.
- Develop global tools for identification and mitigation of ergonomic hazards and for management of safety data sheets.

- Evaluate and align Danfoss' compliance practices with emerging and relevant Modern Slavery Act regulations.

- Danfoss' compliance with Modern Slavery Act regulations evaluated and risk assessment in our supply chain strengthened.
- Process for assessment of high-risk suppliers strengthened.

- Evaluate where processes to avoid forced labor in recruitment of temporary workers are relevant and implement accordingly.

- Strengthen our diversity and inclusion ambassador network across the globe.
- Drive initiatives to increase diversity in teams and the percentage of female leaders to 25% by 2022.

- Regional working groups established to remove local barriers to diversity and inclusion.
- Our global diversity and inclusion ambassador network strengthened.
- Head of Diversity & Inclusion in Global HR hired.
- Mentoring program for female talents established.

- Establish governance to ensure traction of regional short-term targets.
- Educate our leaders on inclusive leadership and unconscious bias.

Sustainable Development Goals

The climate crisis has created an urgent need for a global sustainable transformation across sectors. That is the greatest challenge of our generation. As a leader in energy-efficient technology and innovation, Danfoss can enable the transition.

We make impact on four goals

Our product portfolio offers a wide range of solutions, enabling customers to minimize their carbon emissions through energy efficiency and electrification, and mitigate environmental issues, such as air pollution.

The Sustainable Development Goals, adopted by the UN Member States, serve as a 2030 global framework to deliver on sustainable development. Danfoss has worked with the SDGs since their adoption in 2015. Based on our passion for electrification and energy efficiency, we have chosen four key Sustainable Development Goals – SDG 6, SDG 7, SDG 11, and SDG 12 – these are the areas where we consider our products and solutions to have the highest impact. Read more about our impact [here](#).

We contribute to more SDGs

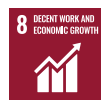
Our impact on the SDGs is not limited to these four key goals, however. Our policies on climate neutrality by 2030, our Safety First! approach in the workplace, our devotion to human rights, as well as our effort to foster high-performing diverse teams, are closely connected to achieving gender equality, promoting productive employment and decent work for all, taking actions on climate change and its impacts, promoting human rights, and engaging with global partnerships for sustainable development.



SDG 5 Gender Equality

We are committed to fostering a culture of diversity and inclusion across our organization. We have set a global target of 30% female leaders by 2025. It is a stretched, ambitious, and yet, we believe, an achievable goal.

To ensure action is taken, we have set individual short-term targets on the female percentage in leadership in all regions. Employees can contribute to the diversity and inclusion culture in Danfoss through our ambassador network



SDG 8 Decent Work and Economic Growth

We are continuously working on improving health and safety in the workplace. Our Safety First! program resulted in a substantial reduction in the Lost Time Injury Frequency. In a combined effort between leaders and employees, we have made Danfoss a safer and healthier place to work.

In 2020, there was an extra focus on health, safety and wellbeing due to COVID-19. In Europe, Danfoss took a precautionary step by distributing 15,000 antigen tests across our organization. This enabled us to act fast to secure our employees' health during the pandemic as well as keeping business continuity.





SDG 13 Climate Action

We know that the battle against climate change requires a real change. Therefore, in 2020, Danfoss committed to become CO₂ neutral in

2030 by starting to decarbonize electricity in our factories in Denmark and Germany from 2021 through the 'energy efficiency first' principle. This will generate a significant reduction in our global carbon footprint.

We have also committed to set Science-Based Targets as a part of the UN Global Compact campaign, Business Ambition for 1.5°C, and to optimize our energy-saving projects based on approved climate science. We are in the process of setting targets for a reduction in our carbon emissions throughout entire global value chain.



SDG 16 Peace, Justice and Strong Institutions

It matters to Danfoss that our results are created with a strong moral compass and respecting human rights. We have our own Ethics

Handbook, which addresses human rights and labor rights. All managers in Danfoss are required to take Danfoss' Ethics E-learning Program on an annual basis. In 2020, Danfoss was ranked number four in an analysis by the Danish Institute of Human Rights (DIHR) among 20 Danish companies, in terms of compliance to the UN Guiding Principles for Human Rights.



SDG 17 Partnerships for the Goals

We believe we need strong partnerships to reach our goals – including the Sustainable Development Goals. We are actively working

with partners across business, government, civil society, and academia to maximize impact, share knowledge, and promote sustainable technologies. We also support and take part in more formal partnerships to accelerate action on sustainable development.



Visit danfoss.com

Read more about our impact to the SDGs.

Cool Coalition – partnership on climate-friendly cooling

In 2019, Danfoss joined the Cool Coalition with a commitment to train 30,000 people in sustainable cooling. The Cool Coalition is a global multi-stakeholder partnership that connects a wide range of key actors from government, cities, international organizations, businesses, finance, academia, and civil society groups to facilitate knowledge exchange, advocacy and joint action towards a rapid global transition to efficient and climate-friendly cooling.

These efforts contribute to SDG 7 in ensuring access to affordable, reliable, sustainable and modern energy for all (in particular target 7.3 on doubling the global rate of improvement in energy efficiency by 2030), SDG 11 in making cities and communities more sustainable, and SDG 12 as more reliable, sustainable and efficient cooling can help reduce food loss and waste, as well as several other SDGs.

The Cool Coalition promotes an 'avoid-shift-improve-protect' holistic and cross-sectoral approach to meeting the cooling needs of both industrialized and developing countries through urban form, better building design, energy efficiency, renewables, and thermal storage as well as phasing down HFCs.

To date, Danfoss has run virtual training sessions with over 90,000 attendees; tripling the original training commitment. This was achieved through strong efforts from regional and segment marketing teams, just as the shutdown of societies in the pandemic allowed a stronger focus on online training opportunities, making it possible to reach more people more quickly.





Ambitious **climate actions**

We have entered what the United Nations calls "The Decade of Action". We need to step up on climate action to combat the climate crisis – and more talk won't help us.

That's why, at Danfoss, we continue to set ourselves new and ambitious targets followed by action.

We aim for carbon neutrality by 2030

In 2020, Danfoss embarked on the third part of our journey towards carbon neutrality since we launched the company's first climate strategy in 2008. We announced our ambition to be CO₂ neutral in all our global operations by 2030 and to contribute to the goals of the Paris Agreement in accordance with science.

We joined the UN Global Compact's campaign: Business Ambition for 1.5°C - Our Only Future and committed to setting science-based targets before the end of 2021 by joining the Science-Based Targets initiative (SBTi). We aim to achieve our ambitions by the continuous prioritization of energy efficiency in buildings and processes. We are moving towards electrification to meet our heating demand and finally we source green electricity from renewable sources to limit our global carbon-emissions footprint.

In 2020, Danfoss joined, as the first global technology company, the three initiatives EP100, RE100 and EV100 under The Climate Group to send a strong signal to our business partners that we deliver on our ambition in "the decade of action" mainly by investing in energy efficiency.

Successful reduction of energy consumption

We have reduced the energy intensity of our factories by 45%. But there is room for further improvement, for instance through moving towards the electrification of heating processes.





Half of Danfoss' energy consumption is used for buildings including ventilation, air conditioning, lighting and other utilities, and the other half for manufacturing and processes.

Close to 200 energy-saving projects at the 27 largest factories worldwide since 2013 have proven their value and are now completed with great success. The factories account for 85% of Danfoss' total energy consumption. The global energy intensity has been reduced significantly since 2007 due to these projects, but there is still a huge potential to further improve energy efficiency in our buildings and processes.

The next phase of the energy-savings project will revisit a number of the factories where significant savings have already been harvested. Applying a new and holistic approach to the utilization of excess heat from processes, getting the most out of the heat exchanges in our ventilation systems and rethinking the airflow in our buildings will enable us to cut up to 40% of the energy consumption. We also expect to cut the maintenance costs by up to 40%.

We source green electricity

To deliver on our climate ambitions, we prioritize to work with our electricity consumption because more than 85% of the emissions from our use of energy come from electricity. We will use green Power Purchase Agreements (PPAs) as the primary way to source green electricity.

From January 2021, Danfoss sources carbon-neutral electricity for all the company's locations in Denmark and Germany through our first Power Purchase Agreement. The agreement delivers 116 GWh electricity annually, corresponding to 25% of the group's total electricity consumption, and is an important step towards carbon neutrality by 2030. The PPA will reduce Danfoss' global CO₂ emissions by an estimated 30,000 tons.

The next steps will focus on the sourcing of green electricity for our facilities in Eastern and Southern Europe and the USA where PPAs are readily available. We aim at reaching 50% CO₂-neutral electricity in 2021.

We aim to substitute the natural gas and fossil-based district energy used for heating with renewable energy sources

while, at the same time, we will continue to reduce energy demand by ensuring that no heat is wasted but is recovered and reused. In two-thirds of our factories, heating is based on natural gas with indirect gas heaters in the air-handling units and without a hydronic heating system. The work will start in 2021-2022.

Energy consumption and emissions

In 2020, Danfoss' total energy consumption for buildings and processes fell by 7% to 590 GWh. Danfoss' energy intensity was in 2020 on par with the previous year.

We are close to reaching our target to double the energy productivity in our factories by 2030. In 2020, we also maintained the energy productivity at the same level as in 2019. The energy intensity and productivity figures are relative to the Group's net sales, which decreased 7% from 2019. We continue the global energy saving projects and expect to double the energy productivity within the next few years, which means that we will generate the same output with half the energy consumption as in 2007.

In 2020, Danfoss emitted 227,000 tons of CO₂ from the company's consumption of electricity and heating, which is a reduction of 11% compared to the previous year. The sources were generation of electricity and heat in our own facilities as well as the purchase of electricity and district heating from external sources.

In 2020, Danfoss' CO₂ intensity fell to 39 tons per EURm, equal to an overall reduction of 36% since 2007. The CO₂ emissions in 2020 were impacted positively by a 10% reduction in the consumption of electricity and a modest drop in the heating consumption combined with a 50% increase in the amount of renewable energy used for heating purposes. The CO₂ intensity of purchased electricity fell by 2% to 463 g per kWh.

CO₂-neutral headquarters

All electricity and heating for buildings at Danfoss' headquarters in Nordborg, Denmark, will be carbon neutral by the end of 2022. The campus covers more than 250,000 m² and has within recent years undergone a massive change to improve the energy efficiency. The demand for fossil fuels for heating has been reduced by almost 80% since 2007 and the journey continues.

We will source green electricity for our headquarters from the beginning of 2021 and aim to cover 60% of the heating demand by CO₂-neutral district energy from a new municipal district-heating facility next to our headquarters that came into operation mid-2020. Electrifying the heating systems by installing electric boilers will also be considered.

Utilization of excess heat from Danfoss' own manufacturing processes and from a newly built datacenter will, together with heat pumps, cover the remaining demand for heating in offices and production areas.





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.

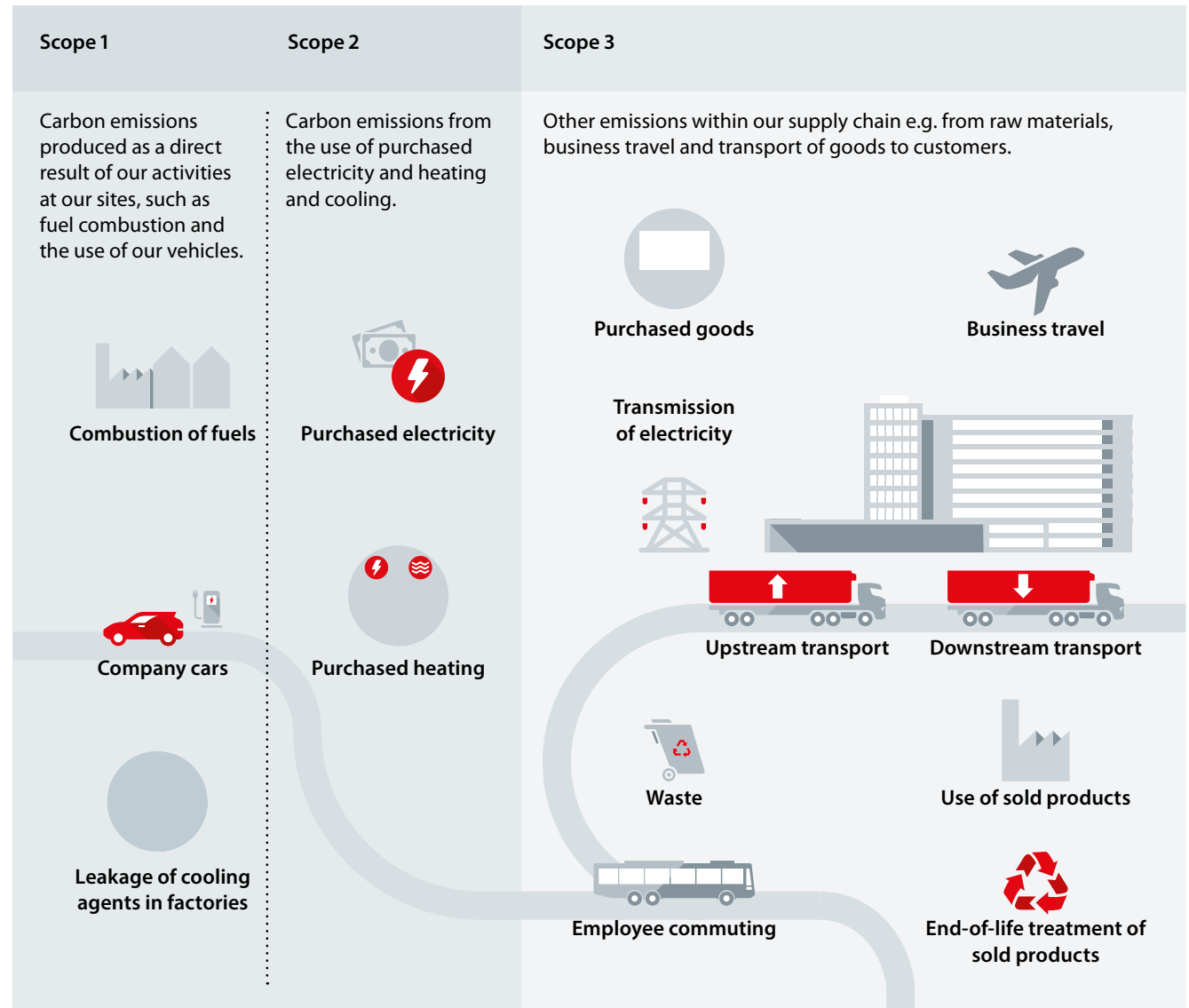
We will set targets for:

- 1. Direct emissions (Scope 1)**
Carbon emissions produced as a direct result of our activities at our sites, such as fuel combustion and the use of our vehicles.
- 2. Indirect emissions (Scope 2)**
Carbon emissions from our use of purchased electricity, heating and cooling.
- 3. Upstream and downstream processes (Scope 3)**
All other emissions within our supply chain, e.g. from raw materials, business travel and transport of goods to customers.

As Danfoss has already committed to zero carbon emissions by 2030 within scope 1 and 2, the focus is on creating a robust baseline for scope 3 emissions.

In the upstream part of the value chain, purchased goods and transmission of energy are the biggest sources of emissions, while transportation, and the use of sold products, cause the most downstream emissions.

The below figure illustrates the relevant emission categories included in Danfoss' scope 1, 2 and 3 baseline.





We roll out electric company cars

In January 2020, Danfoss joined the EV100 initiative under The Climate Group to support the global transition to electric vehicles. By signing up for the initiative, 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, the Danfoss company car fleet contributed with 9,200 tons of CO₂ emissions to the entire company's carbon footprint. These emissions will decrease in the coming years and by 2030 will be eliminated completely.

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.

Sweden starts the transition to electric vehicles

The transition to electric vehicles will first focus on European countries where the visibility of our actions and the interest and push from customers and politicians is high.

The first geographical roll-out piloted in Sweden where the first electric and plug-in hybrid cars were ordered, and electric charging stations installed at employees' homes. The transition will run through to 2023. The goal is to make all company cars in Sweden running on electricity in 2024. Germany, the Netherlands, France, Austria and Norway are also ready for the next steps in their fleet transition.

The next step is to develop plans for implementing the necessary charging infrastructure at selected Danfoss locations and to start the implementation wherever it is realistic and feasible, since the EV market is still developing and maturing.





Our people

We invest in our people and their development by cultivating an atmosphere where everyone feels safe, heard, and encouraged to grow and innovate.

In 2020, amidst COVID-19, we maintained our commitment to the health and safety of our colleagues, while supporting our customers in the best way possible. We invested in digital working practices to embrace flexible working, while implementing company-wide work-from-home arrangements.

Providing our people with opportunities to develop, connect, and seek new challenges remained key to Danfoss' success throughout the year. We are particularly proud of 'Danfoss Connect', our global knowledge-sharing platform created by colleagues for colleagues. Here everyone can share best-practices on getting through COVID-19 or topic-specific knowledge. Since its launch, 59 teams have shared their insights with more than 1,000 colleagues. We have also launched new digital learnings, focused on wellbeing, resilience and coaching. More than 3,000 leaders and colleagues have attended.

How our teams adapted and built resilience

COVID-19 has forced us to find new ways to connect with our customers and peers. In 2020, we launched Danfoss' first-ever fully immersive digital and live event experience, 'Cooling United Live', with the purpose of fostering professional development and relationships. Cooling United Live served both as a learning forum and a technology exhibition, designed specifically for HVAC-R (Heating, Ventilation, Air-Conditioning and Refrigeration) audiences. More than 5,500 cooling professionals signed up, and there was an opportunity to engage in local languages in post-event conversations.

The adaptable mindset of our teams, as well as their resilience, innovation and engagement during these turbulent times, is something we truly value. It is also a reflection of our latest Employee Satisfaction & Engagement Survey, in which 91% of employees participated. We achieved an overall score of 80 on a scale from 0-100, which is positive. We will strive to maintain similar best-in-class satisfaction and engagement levels moving forward.

Putting people at the center during integrations

Danfoss is growing significantly, both organically and through acquisitions. Hence, people integration is an ongoing priority. In 2020, we announced the acquisition of the Eaton Hydraulics business, which will add approximately 10,000 new colleagues. To keep people engaged and motivated during integrations, we prioritize the tools and processes to ensure smooth transitions.

We will sharpen our focus to keep momentum, safeguard our employees' mental and physical wellbeing, and continuously push the boundaries of people development.

The adaptable mindset of our teams, as well as **their resilience, innovation and engagement** during these turbulent times, is something we truly value.





We prioritize **diversity and inclusion**

We want to foster a culture of high-performing diverse teams that operate in an inclusive environment. We define diversity as: generations, nationality, gender, various backgrounds, and individual characteristics. The last two, among others, covering racial origin, industry background and sexual orientation. We will increase the representation of all dimensions to reflect the increasingly diverse and global marketplace we operate in.

However, we acknowledge that diversity depends on inclusion. Inclusion starts with creating a safe space and helping everyone to be seen, heard, valued and respected. The more inclusive we are, the better we will be at developing and empowering everyone to contribute at their full potential. We create a true sense of belonging for all employees at Danfoss.

We also recognize that diversity and inclusion challenges are unique to teams and locations. That is why we are working intensively in our 11 regions to accelerate progress.

30% female leaders by 2025 - how are we doing?

We are on an ambitious journey to ensure that the number of female leaders increases significantly over the next five years.

Our aspiration with this stretched target is to create momentum, build awareness of the imbalance in gender representation, and improve our overall performance by becoming even more diverse. By the end of 2020, our gender distribution across leadership positions was 80% men and 20% women, unchanged from 2019.



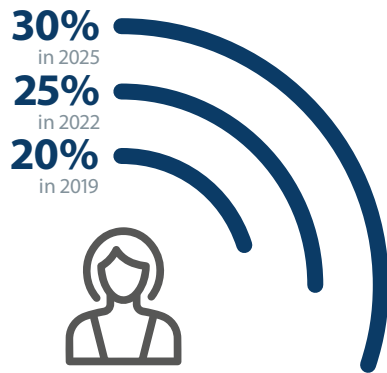


We recognize the importance of continuing to sharpen our focus to achieve the set target of 25% of women leaders in 2022 and 30% by 2025.

Building the foundation for a D&I strategy

A cohesive Diversity and Inclusion (D&I) strategy is the foundation for success on our journey – and it goes beyond increasing the share of female leadership. In 2020, we therefore introduced the formal role of Head of Diversity & Inclusion to drive initiatives and support the organization in building a global strategy. The strategy will be centered around our diversity and inclusion definitions and will cover structural inclusion, such as processes and systems, as well as the behavioral inclusion experienced in our day-to-day decision-making processes and leadership behavior.

Our targets on female leaders



We are on a journey to integrate diversity and inclusion perspectives into recruitment, promotion and talent-management processes across all regions. We have started reviewing compensation and benefits packages regionally to improve parental leave policies where needed.

We recognize that our business, as well as the industry we operate in, is dominated by men. We seize the opportunity to lead globally by making the industry more attractive to females and helping more women pursue a career in science.

Focusing on partnerships with universities and showing role models in the company is a way of doing this.

As we move along, we offer learning opportunities to all employees to recognize bias and equip them to mitigate those in decision-making and collaboration processes. We offer new leadership development opportunities to current and future leaders. One of the fundamental building blocks of the trainings is inclusive leadership.

The power of mentoring for growth and diversity

In 2020, we focused on developing and retaining existing female talent by introducing a mentoring program, in which our CEO Kim Fausing mentored four talented female colleagues. Other Group Executive Team members are also mentoring talents from our business, passing on their personal experience to build competencies and enabling our talents to grow personally and professionally. It is important to our senior leaders to stay connected to the pipeline of talent and learn from the younger generations as well.

Measuring perceived inclusion for a stronger workplace

Another focus areas is tracking of the perceived inclusion in the workplace. We have tracked the perceived inclusion through our Employee Satisfaction & Engagement Survey. This data has served as a spotlight to identify relevant focus areas and initiatives per region but we see a need to take a step further. That is why, from 2021, we will have dedicated inclusion questions in our Engagement Survey to help shine a light on perceptions of inclusion across demographics.

Everyone plays a role in shaping our culture

We want our employees to play an activate part in shaping the diversity and inclusion agenda. That is why we continue to strengthen our diversity and inclusion ambassador network, which now numbers more than 100 active members.

The purpose of the ambassador network is to have visible role models showcasing inclusive behavior, supporting the global and regional initiatives, and actively embracing the differences we all bring to work. We want to encourage our employees and leaders across the globe to bring their full identities to work.



Kim Fausing
President & CEO

We need to be an even more diverse workplace going forward, ensuring that all the great employees working with us can be at their best every day.

This requires an inclusive workplace where everyone can bring their strength to develop Danfoss further and help us, and our customers, to fight the challenges we face, especially in becoming a more sustainable world.

The reason I am personally invested in the female-mentoring program is to make sure we do not miss out on the excellent female talent available in and outside of our organization.

I am also gaining hugely from their reflections and ideas - and I am confident that together, we are contributing to the improvement of gender equality at Danfoss.



Getting hold of the talents of tomorrow

To secure our continuous development journey at Danfoss and at the same time safeguard our future intake of world-class talent, Danfoss has partnered with some of the world's leading educational institutions.

To further strengthening our position of being a great place to work and become even more diverse, we are committed to attracting talent from different industries, generations, educational backgrounds, nationalities, and cultural origins.

The partnerships formed with institutions like MIT – Massachusetts Institute of Technology, IMD Business School and INSEAD Business School, University of Southern Denmark, and Iowa State University, are all playing a vital part in our people-development efforts as well serving a great way to connect with external talent and put Danfoss on their radar as a potential future employer.

We are proud to be a corporate partner of UNITECH International that develops high-performing MSc engineering graduates with enhanced global awareness, and a solid technical base that prepares them well for a career anywhere in the world.

Danfoss Connect brings colleagues together

Danfoss Connect is our global knowledge-sharing platform created by colleagues for colleagues. The initiative was created during the extraordinary confinement period in April, in which we were forced to adapt new ways of working. The initiative aims at using peer-to-peer learning, sharing and engagement to spread these insights and support the organization on this journey.

"We wanted to create a place where everyone could share ideas, learnings and solve problems across the organization. In short, the value of Danfoss Connect lies in bringing people together," says Karen Fredenslund, one of the drivers of the initiative.

To achieve its objective, the team behind Danfoss Connect organized #ConnectMe Days, 2 days full of webinars, online trainings and workshops. Fifty-nine colleagues from all over the world led a total of 41 sessions on topics ranging from supply-chain disruption and virtual customer-training to wellbeing and resilience. More than 1,000 people attended.

Danfoss Connect has the ambition to expand the concept by increasing the number of relevant topics and activities, and spreading the word across Danfoss.





We engage in communities

Danfoss values strong, societal and community engagement. We deliver solutions that raise standards of living while making more out of the energy we use to the benefit of the communities in which we operate.

We are a strong local partner

Different communities have different challenges. Danfoss works with local stakeholders and partner organizations to increase our understanding and insight, and ensure that our efforts contribute to local development.

We engage with NGOs, authorities and customers to understand their needs and the conditions for business operations in the countries in which Danfoss operates.

Danfoss is an active partner in the local communities through sponsorships, involvement in trade organizations and networks, and through participation in social work and employee-volunteering activities. We support the improvement of local communities, neighborhoods and regional development in the communities in which the company operates.

We create an attractive dynamic local environment for Danfoss employees and their families, and strengthen Danfoss' reputation, so we can attract and retain qualified and highly motivated employees. This is organized by local Danfoss staff around the globe and through several specialized foundations.

We cooperate with universities and schools

We want to attract the most skilled talents to Danfoss through cooperation with many universities worldwide and participation in workshops with students – to get in touch, to learn from each other and to discuss our sustainable growth journey.

Danfoss aims to be recognized as a great employer, not only among seasoned experts, but also among bright students and graduates. Danfoss has increased its strategic focus on technology investment and is seeding early-stage research in order to get ahead of the competition. As a result, the state of the relationship between Danfoss and universities has never been more important.

Danfoss supports research projects, which can help drive technological research and development. Collaborating with universities about educational programs and projects, and supporting projects in renewable energy and energy efficiency, benefits Danfoss' vision to promote sustainable behavior and solutions.

Engaging with elementary schools is an important factor in our search for talents with an interest in science and business. Pupils and college students benefit from engagement with Danfoss employees as part of their curriculum.

US colleagues supporting Habitat for Humanity

During the past 12 years, colleagues from the Danfoss Power Solutions' plant in Minneapolis, USA, have participated in the Habitat for Humanity program, helping to build housing for families with limited income. It has been an annual event coordinated by the Minneapolis Community Involvement Association, a Danfoss volunteer team that coordinates several different community events throughout the year, such as packing lunches for the homeless, collecting toys for the Toys4Tots program, making blankets for the sick, and cooking meals for families at a children's hospital.

Colleagues from Danfoss Drives Segment and Danfoss' sales organization in Canada, along with friends and partners, have also teamed up with Habitat for Humanity to support the building of affordable homes for families in need of a home for themselves and their children.

Habitat for Humanity is a global nonprofit housing organization working in local communities across approximately 70 countries. Habitat's vision is of a world where everyone has a decent place to live.





A **safe and healthy** place to work

We take care of our employees and it is a top priority for Danfoss to continuously improve the health and safety of our colleagues all over the world.

We show strong results

We are proud to have reduced the LTIF (Lost Time Injury Frequency) for the eighteenth consecutive year. Since 2003, we have reduced the LTIF from 20 to 2 – a 90% reduction documenting that our efforts to ensure a safe and healthy workplace is fruitful.

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.

"Safety First!" ensures focus and improvements

When Danfoss established the Safety First! program in 2015, the aim was to increase the internal awareness amongst leaders and employees on safe behavior and a preventive approach to the daily routines. This approach has been successful and has led to significant improvements in safety and awareness amongst our employees.

Initiatives like Trip & Slip, and Danfoss Machine Safety Inspection Tool have led to a steady decrease in the Lost Time Injury Frequency and to a highly motivated staff seeking to go the last mile to make Danfoss a safe and healthy place to work.

We handled COVID-19 successfully

Since SARS, Danfoss Company Doctor Rikke S. Wallentin has been monitoring for epidemics. When she first registered the new coronavirus outbreak in January 2020, it had resulted in one known casualty, and there were no confirmed cases of human-to-human transfer of COVID-19. One week later, the WHO confirmed the first human-to-human transfer of the virus and as of December 2020, 84 million people have been infected and more than 1.8 million have died from COVID-19.

In the fight against COVID-19, Danfoss took a precautionary step by distributing thousands of antigen tests across our European organization. Within 15 minutes and with an accuracy comparable to PCR throat test, the antigen test can tell whether an employee is infected with COVID-19 even after just one day of infection. This enables us to act fast to secure employees' safety while maintaining business continuity.

Being able to make the antigen test ourselves makes a big difference for a lot of our people. Colleagues who potentially could be infected go for a throat test with the local medical authorities and must stay home in isolation until results are known. This can vary from 2-14 days. With the in-house test, we can offer our colleagues a much quicker response time and high certainty.



Rikke S. Wallentin
Company Doctor.

It has been a pleasure to feel the intensity and the engagement from colleagues and to see how we can cooperate and solve the COVID-19 challenges together.

I have really felt the pulse and the DNA of our Danfoss family.

It has been necessary to make decisions before guidelines were available from the authorities. As a doctor, you are not used to that.

We ensure wellbeing at work for our employees

Thriving employees are a prerequisite for a healthy and efficient company.

We do not see work-related stress as a problem expected to be solved by the individual employee, but as something to be identified and handled by the workplace. We support our leaders and employees with a wide range of tools enabling them to balance work-related requirements and personal resources.



Danfoss strives for a culture of openness, attention and trust where everyone – employees and managers alike – make a joint effort to prevent stress in their daily work.

Danfoss employees are co-responsible for creating an atmosphere of wellbeing and our leaders are responsible for ensuring that employees experience a reasonable balance between personal resources and work-related requirements.

We prevent accidents from happening

In 2020, following an incident where an employee broke both legs in a severe accident involving a step-board pallet stacker, analysis showed that it was not possible to guarantee that this type of incident could not happen again. As a consequence, it was decided to replace this type of vehicle at all locations globally with vehicles providing full driver-protection. By the end of 2020, this was completed at all Danfoss sites.

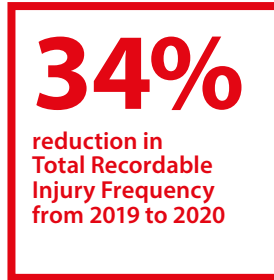
As a manufacturing company, we interact with thousands of machines daily and it is critical that our machines are safe to use. To identify and manage the potential risks when using a machine, the Danfoss Machine Safety Inspection Tool, called “DMSIT” was implemented in 2020. The tool can be used by any employee with a minimum of training.

Successful reduction of Lost Time Injuries

In 2020, the LTIF (Lost Time Injury Frequency) was reduced to 2.0 compared to 2.2 in 2019. LTIF is the number of incidents per million hours worked where the injured person is absent for more than one full day. A total of 85 Lost Time Injuries were experienced in 2020 compared to 97 the previous year.

The severity of the injuries in 2020 was on par with that of 2019. In 2020, the number of lost days summed up to 1,404 against 1,223 in 2019. The Lost Day Rate (LDR) – the number of days of absence per million hours worked – therefore ended at 33, which is a slight increase from 28 the previous year.

When measuring our safety performance, it makes sense to look at the total number of Lost Time Injuries and Medical Treatment Injuries combined. We call this the Total Recordable Injury Frequency (TRIF).



During 2020, the TRIF has dropped to 3.0 compared to 4.4 in 2019 – a reduction of 34%. This indicates that the safety level at Danfoss has improved considerably due to the many initiatives implemented since 2018.

Chinese leaders take responsibility for safety

Danfoss Power Solutions in China implemented a system of EHS responsibility where all levels of employees perform potential-hazards inspections. They are actively encouraging all employees to speak up for safety, offering rewards and recognition to those employees who raise particularly good safety suggestions.

A series of EHS training plans and emergency practice plans have also been set up, in order to gradually improve our employees’ safety awareness and competence.

In China, June is traditionally a national safety month for production. Each plant in Danfoss Power Solutions China organized a lot of activities, such as a knowledge competition, emergency drills, and daily safety information. In order to remind and park all employees' attention to safety, everyone is continuously reminded how to speak up for safety.



Visit danfoss.com

Health and safety is very important to Danfoss and our employees. Click to learn more.

Farewell to bucket and broom – hello robot

Cleaning cleanrooms can be a tedious procedure. In Minden, Germany, at the thin-film sensor production unit they had to wash the floor in slow motion so as not to stir up too many particles. In their 300 m² cleanroom, it took an operator more than 1.5 hours to clean. But now, they have bought two cleaning robots to do the job for them and the operators are happy. They leave the work to their new best friends and avoid back pains after washing the floor.

The first robot was installed in the cleanroom in September 2020 and after evaluation and measuring of the particle level they bought one more soon after. So ,now the robots are activated by the last operator to leave the cleanroom.

The identification and solving of problems are part of our continuous focus on safety.





Strong focus on ethics and **human rights**

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.

Comprehensive ethical guidelines

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.

Danfoss Group Risk & Compliance ensures that we act with integrity and comply with legislation and internal policies. We have implemented compliance programs, providing mandatory training on different levels of the organization to minimize the risk of non-compliance.

Danfoss' Ethics Handbook was issued for the first time in 2008 and addresses human rights and labor rights issues, all managers at Danfoss are required to complete the ethics e-learning program annually. Our guidelines and training programs continue to be updated and maintained according to the newest legislation and stakeholder expectations. In 2020, we updated the Ethics Handbook and our Anti-corruption Manual and introduced a new corporate manual on identification and handling of Conflicts of Interest. A revised Anti-corruption training program has been also been developed in 2020.

Our whistleblower function

Danfoss has a whistleblower function, called the Ethics Hotline, where employees and others can anonymously report violations of internal guidelines or legislation. In 2020, 42 reports were received from all parts of the world in which 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 noncompliance when making managerial or business decisions.

Dismissals due to unethical behavior

Transparency about ethical issues is important in maintaining an ethics culture and since 2004, Danfoss has asked all people managers to report on whether they have dismissed employees due to unethical behavior.

In 2020, 24 employees left Danfoss due to unethical behavior, compared to 32 in 2019 and 39 in 2018. The figure includes both dismissals and voluntary resignations connected with ethical issues. The main reasons for the dismissals are fraudulent behavior, conflicts of interest, disloyal behavior or other violations of company policies. Approximately one third of the dismissals were handled by Danfoss' Ethics Hotline, while the rest were handled directly by line managers.

Our work with human rights due diligence

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 have until now deployed the due diligence process in these regions: China, Asia Pacific, India, Russia, Latin America and Turkey/ Middle East/Africa. 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. Information on Danfoss' human rights due diligence process and the salient rights can be found on the company's website.

Danfoss scores high on human rights benchmark

In 2020, the Danish Institute of Human Rights (DIHR) conducted an analysis of how 20 Danish companies live up to the UN Guiding Principles using the The Corporate Human Rights Benchmark as a framework to assess policy commitment, human rights due diligence and grievance mechanisms. Danfoss scored 15.5 out of 26 points and was ranked fourth amongst the companies. The companies ranked as number 1 and 2 scored 16.5 points. The full benchmark can be read [here](#).

The human rights benchmark identified grievance mechanisms as an improvement area for Danfoss. We use our Ethics Hotline as our human rights grievance mechanism and, in 2021, will evaluate our process and implement the necessary changes.

24
employees left
Danfoss in 2020 due
to breaches of the
ethical guidelines



We source responsibly

Danfoss has more than 3,400 suppliers of direct materials used in products and 10,000 suppliers of indirect materials and services like cleaning and catering.

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.

In 2020, Danfoss conducted fewer external audits than normal due to COVID-19. Instead we created a framework for the online and digital qualification of suppliers and conducted remote and virtual audits notwithstanding the fact that remote audits cannot fully replace physical audits.

In 2020, Danfoss experienced one potential supplier retaining original personal documents from employees, three suppliers who did not pay at least the minimum wage to their employees, and three suppliers having issues with excessive working days. All issues were experienced in high-risk countries.

Retention of personal papers is a critical issue because the employee's freedom of movement is restricted. The issue has been remedied.

Not meeting local standards for the payment of minimum wage is critical because minimum wages might not always be enough to live on. Audits at two of the suppliers confirmed that the wage issues were remedied. The third agreed to immediate remediation.

Excessive working days (not having one day off in seven workdays for a long period of time) is serious but difficult to solve at short notice. Having time off is a basic human right and is important to health & safety and product quality. Two of the three suppliers remedied the issues, while the third agreed to remedy. Follow-up audits will take place early in 2021.

Mitigating modern slavery

Several countries have issued regulations to avoid modern slavery, which comprises all forms of forced or bonded labor. 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. These sectors are e.g. cleaning, catering, construction, clothing, transport, security and recruitment. In the following, they are called high-risk sectors.

In 2020, Danfoss strengthened the human rights processes for suppliers in high-risk sectors. We have asked suppliers in these sectors, where we spend more than 150,000 EUR annually, to accept our newest Code of Conduct specifically addressing modern slavery and force-labor issues. Due to COVID-19, audits at some of the high-risk suppliers were postponed to 2021. In the meantime, we strengthened the modern slavery risk assessment in our supply chain to better understand the situation at suppliers with the highest risk of forced labor.

We aligned Danfoss' modern slavery practices with our third-party auditing partner, who provided us with in-depth knowledge of sector-specific modern slavery risks. Relevant indirect suppliers will be selected for assessments in 2021. The assessment will qualify the selection of suppliers for forced-labor audits and give Danfoss more insight into modern slavery and forced-labor practices.

In 2020, we trained all the company's Supplier Development Managers in regulations, requirements and identification of modern slavery practices.





Ensuring **sustainable products** and materials

Integrity and compliance are key values to Danfoss and we ensure that our products are safe and sustainable.

In 2020, we further strengthened our product compliance as an important enabler for customer satisfaction, growth and sustainability. We proactively drive compliance program, monitor requirements from customers and regulators and address risks through efficient processes. We work with our supply chain to minimize adverse impacts and continually improve compliance processes across our businesses.

We monitor regulatory requirements

In 2020, we strengthened our monitoring and managing of the growing number of product regulations and standards enabling us to continue to deliver compliant products to our customers. In 2020, we deployed a monitoring tool and process by which we communicate regulatory requirements to our business segments.

We digitalize product compliance

Developments in both regulatory and customer requirements over 2020 confirms that digitalization, robust product and supply chain data management will be increasingly more important for us to stay compliant and support sustainable business growth.

Danfoss has over the last years developed common processes and effective solutions to manage both product chemical compliance and recycling administration under extended producer responsibility schemes. In 2020, we completed pilots and our business segments will from 2021 roll-in the solutions anchored in the Danfoss One ERP platform. When rolled in, our businesses can deliver

reliable compliance information to customers and authorities, including full material declarations and recycling information.

Strong processes and tools

In 2020, Danfoss strengthened processes and tools to ensure continuous compliance with legislative and customer requirements. 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.

Danfoss' Negative List is the back-bone of our efforts to avoid hazardous substances in products and production processes and must be complied with by all our suppliers, tenants and contractors. In 2021, main focus areas will be monitoring and reporting under REACH, updating our Negative List and deliver data for ECHA's SCIP database.

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. We strive to substitute hazardous substances and materials with more sustainable ones whenever developing new products.

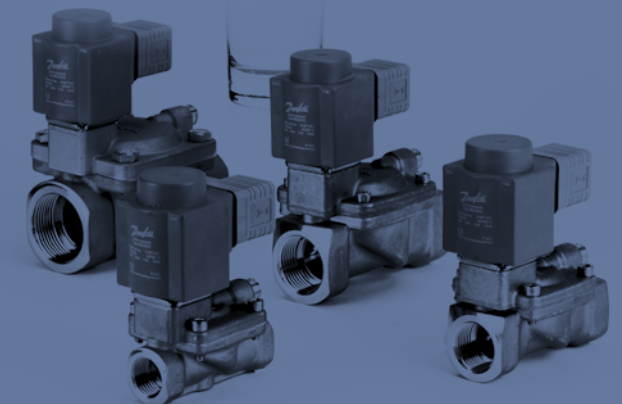
A new standard of purity

Protecting the public water supply is crucial. Even the smallest amounts of bacteria or trace of metals can cause sickness, so governing bodies have been tightening the regulations concerning water systems.

This means that every component must have the right approvals and meet strict legislative requirements, while still performing reliably at a high level.

The new Danfoss ECO Brass valve series ensures the customers a new standard of purity. ECO Brass contains no toxic additives, such as lead or nickel. It also has superior corrosion resistance compared to conventional free-cutting brass.

The new valve is not only compliant with the European RoHS directive's requirements for the products to be lead-free but is also ahead of the competition by having all country specific approvals for drinking-water applications.





Making Danfoss more **circular**

We actively contribute to creating a circular economy respecting the limits of our planet.

Circular economy promotes elimination of waste and the continual use of natural resources through sharing, leasing, reusing, repairing, refurbishing, and recycling of existing materials and waste in an almost closed loop. At Danfoss, we support the circular-economy approach and have embarked on the journey towards a more circular business. The most significant environmental aspect of a Danfoss product within its lifecycle is its ability to save energy in the application in which it is used.

Danfoss is also including circular thinking in our product design, reducing in-process waste and the use of raw materials while ensuring high durability and long lifetime.

Sustainable use of resources

As the economy continues to grow with rapid urbanization as one driver, there is a growing demand for more products which in turn means more raw materials need to be extracted and more waste is produced. For Danfoss, as a product manufacturer, this translates into more pressure in terms of how we source our materials.

Circular economy helps to address resource inefficiency and waste creation by designing for circularity (e.g. making our products more modular for ease of disassembly, repairing), transitioning into using renewable energy, cycling valuable products and materials through multiple-use cycles through serviceability options (repair and maintenance, refurbishing, remanufacturing) and recovery, and finally promoting the use of bio-based materials that can be safely returned back to nature.

As an industry leader, Danfoss wants to drive the change. Some of our biggest customers are already on the circular-economy journey and Danfoss can support them in further fulfilling their sustainability commitments. Achieving true circularity is not a one-company job. It can only be done by involving stakeholders across the whole value chain both internally and externally.

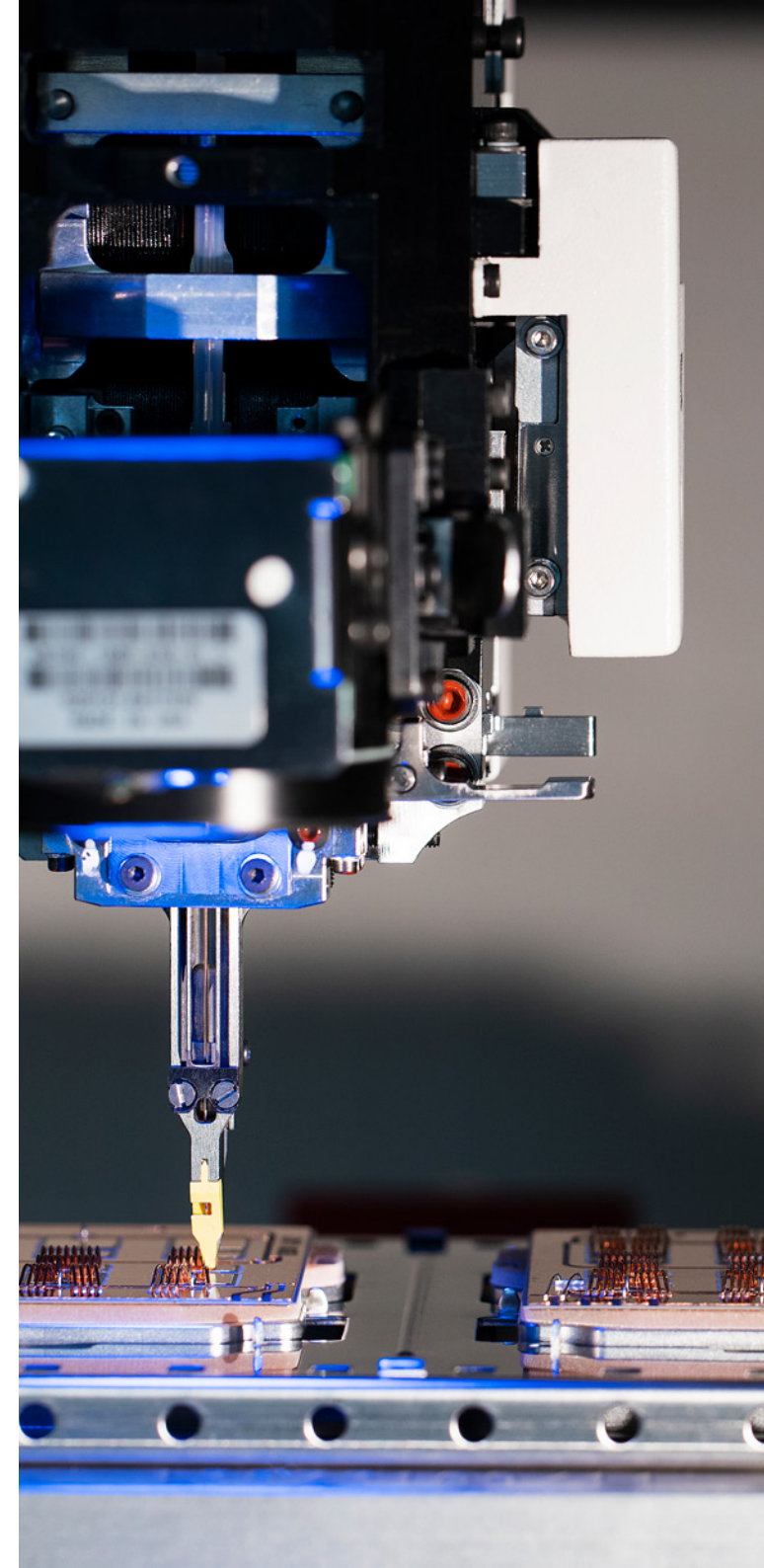
Implementing Life Cycle Assessment

LCA – Life Cycle Assessment has been integrated into our product and process development for years but the methodologies have not been fully aligned across the Group.

In 2020, Danfoss' Product Compliance Leadership Team decided to step up the implementation of a groupwide concept for EPDs – Environmental Product Declarations including tools and methodologies for performing Life Cycle Assessments on our products.

We aim to create processes and implement software solutions enabling all business units to utilize Life Cycle Assessment tools and create relevant documentation for customers.

A pilot project in Danfoss Drives Segment is expected to run in the first half of 2021, implementing the relevant tools and updating; whereafter roll-out to the other business areas is expected to commence before the end of 2021.





Circular economy in practice

With circular economy as an upcoming business driver, Danfoss Refrigeration & Air Conditioning started in March 2020 to scope the strategic fit and define what circular economy means for the business unit by taking a holistic product-life-cycle approach. Since circular economy is an umbrella term – it has been agreed to firstly define what it means, raising awareness internally, and the intention is hereafter to elevate this to the entire Danfoss Climate Solutions Segment.

Several workstreams and project ideas have been identified, and during the coming years, the plan is to work with circular product design, and internal as well as external workstreams, fully to embark on the circular-economy journey.

Reducing emissions from use of literature

Since August 2020, a cost-down team in Danfoss India has been assessing all product manuals from Danfoss Refrigeration & Air Conditioning Controls, looking for ways to reduce the use of paper e.g. by changing paper size from A4 to A5 or printing on the packaging itself. So far, the layout of the product manuals for the SVL stop-valve product line was changed with an estimated reduction in paper use of 1.1 million sheets and cost savings of 50% annually. This is equivalent to a saving of more than 4 tons of CO₂ annually.

For industrial-refrigeration products, changing from A4 to A5 paper size will result in an estimated annual reduction of one million pages and a 44% reduction in cost. For air-conditioning products, printing the instructions on the packaging itself would result in an annual reduction of 2.3 million pages.

The efforts towards optimizing product manuals and packaging are very much in line with the EU Circular Economy Action Plan from March 2020, and calls for reduced, reusable and returnable packaging; and in doing so, providing both environmental as well as financial savings.



Sraboni Barua

Danfoss Postgraduate
Refrigeration and Air Conditioning
Controls

Sraboni Barua is a postgraduate in the innovation track. Since March 2020, she has been working in the Climate Solutions Segment identifying circular-economy opportunities.

Her interest in sustainability started in university, focusing on the energy efficiency of heating systems and Life Cycle Assessment of buildings. Therefore, when the postgraduate project came up to investigate circular-economy opportunities in the segment – she went for it.

"One of the main reasons for me to join the postgraduate program at Danfoss was its strong focus on sustainability and providing energy-efficient solutions.

It has been inspiring to see how we, as a company, have been addressing the global megatrends and standing by our sustainability commitments.

And now we're about to embark on the circular journey – I'm very excited to be a part of getting it all started and scoping the way forward," says Sraboni Barua.

Circular thinking in product packaging

In Danfoss' factory in Monterrey, Mexico, the cardboard boxes and wooden pallets used to ship products to a large customer, were thrown away by the third-party logistics firm that unpacked the products and loaded them onto a moving cart to deliver the pieces to the customer.

To avoid this waste of cardboard and wood, engineering and procurement teams in Danfoss, Mexico, have replaced the cardboard boxes and wooden pallets with reusable plastic boxes and plastic pallets, each one with capacity to accommodate 50 products and having an estimated lifetime of five years.

The project, when fully implemented, has generated a 64% cost-saving and save 44,500 cardboard boxes. This is equivalent to a saving of approximately 185 tons of CO₂.





Protecting the environment

We prevent pollution and manage the use of resources efficiently to minimize the environmental impact of our activities. We apply preventive measures and a risk-based approach to ensure continuous improvement of our environmental performance.

We have certified environmental management

To minimize the environmental impact of our operational activities, we monitor the consumption of materials, chemicals, and energy, and the generation of water and wastewater locally. We keep the target for all production companies to maintain certified environmental-management systems according to the ISO 14001 standard to manage performance and identify potential improvements. In 2020, 87% of all production companies were certified to ISO 14001. The remaining companies are exempt from the requirements.

We act with due diligence

We follow a strict due diligence procedure when dealing with the potential environmental risks associated with acquiring land and companies. This includes thorough reviews of potential acquisitions examining the site and the environmental history of the surroundings. Regional hydro-geological and geotechnical conditions are evaluated through field surveys to discover ground pollution or historical deposits.

Danfoss strives to continuously reduce the company's environmental footprint through a number of initiatives throughout the global organization. In 2020, we phased out the use of single-use plastic in e.g. our headquarters in Nordborg, Denmark, and our canteens are working to reduce the food waste. An example of this is our factory in Chennai, India, where a biogas plant has been installed to convert waste from the canteen into valuable biogas for the kitchen.

We take responsibility for Himmerk Beach pollution

In the 1950s and 1960s, an area at Himmerk Beach, close to Danfoss' headquarters in Nordborg, Denmark, was used for landfill. Thousands of cubic meters of industrial waste were deposited. It happened with the approval of the authorities and even though Danfoss bears no legal obligations towards restoring the polluted area, the company has decided to pay for investigations into how to remove the pollution.

In 2020, the clean-up of many polluted sites in Denmark were included in the Danish national budget to be paid for by the government. Danfoss wants to contribute beyond its obligations by paying our share of the cost of the clean-up.

Water consumption reduced by 12%

In 2020, the consumption of water for processes and sanitary purposes in our factories decreased by 12% from the previous year to 947,000 m³. The water consumption intensity decreased to 162 m³/EURm net sales from 170 m³/ EURm in 2019 and 191 m³/ EURm in 2018. This equals a 42% reduction since 2007. The decrease is mainly caused by reductions in consumption in our factories in China, Mexico and India.

Biodiversity

At Danfoss, we have always been strong advocates of biodiversity and are actively engaged in several green campaigns and activities to make a positive impact on the environment around and on our campuses.

Environmental protection in India

At Danfoss' site in Chennai, India, a pond on the factory premises has been cleaned and restored to serve as a reservoir for rainwater to be used for watering the lawns. The pond was filled with mud and an excess of decayed vegetation that naturally accrued over the time.

The site also ensures the recycling of treated water for irrigation and reuse in process applications to reduce the consumption of fresh water. Since 2018, the overall water consumption at the site has dropped by 40% per employee.

In India, creating awareness on environmental sustainability amongst employees and the local community is a top priority. One of the ongoing projects aims at preserving topsoil during the new campus construction. This was achieved by 25,000 m² of nurtured organic landscaping at the campus and planting more than 6,000 trees.



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

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