



Danfoss

Sustainability report

2013

Danfoss at a glance

Danfoss is a world-leading supplier of technologies that meet the growing need for food supply, modern infrastructure, efficient energy utilization and climate-friendly solutions.

The Group is divided into two business segments: Danfoss Climate & Energy and Danfoss Power Solutions. Danfoss Climate & Energy's key expertise lies in food refrigeration, air conditioning systems, controls for electric motors, heating systems for buildings, and components for renewable energy, including solar and wind energy. Danfoss Power Solutions' key expertise is in hydraulic systems and components for powering mobile machinery used in agriculture, construction, materials handling, and specialty equipment.

Danfoss is a privately-owned company that has grown and improved its skills and expertise in energy-efficient solutions over the past 80 years. Danfoss sells its products in more than 100 countries and employs some 22,500 people worldwide.

Danfoss...

- Approximate headcount: 22,500
- Products sold in over 100 countries worldwide
- Top five markets: USA, Germany, China, Russia and Italy
- Has 59 factories in 17 countries and sales offices in 58 countries
- Headquartered in Nordborg, Denmark

Find us here:



Facebook: www.facebook.com/Danfoss



Twitter: www.twitter.com/Danfoss



Google+: <http://plus.google.com/+danfoss>



YouTube: www.youtube.com/DanfossGroup



LinkedIn (Company Page): www.linkedin.com/company/Danfoss

CONTENT

4

SUSTAINABILITY HIGHLIGHTS

5

DANFOSS LAUNCHING NEW SUSTAINABILITY STRATEGY

6

SUSTAINABILITY REPORTING AT DANFOSS

7

ORGANIZATION AND MANAGEMENT SYSTEMS

11

WORK AND ACHIEVEMENTS IN CORE AREAS

Sustainability highlights

	2009	2010	2011	2012	2013*
ENERGY CONSUMPTION AND CLIMATE					
Energy consumption (GJ)	1,804,497	1,528,642	1,366,496	1,307,880	2,296,091
Consumption of electricity (MWh)	281,678	228,421	219,340	211,794	428,997
Consumption of energy for heating (GJ)	790,456	706,326	576,872	545,422	751,702
Total CO ₂ emissions (tonnes)	153,371	133,545	127,524	126,873	251,184
From electricity	111,716	97,016	97,604	98,428	211,777
From heating	41,654	36,529	29,920	28,444	39,407
ENVIRONMENT					
Water consumption (m ³)	742,083	692,261	770,494	637,082	808,268
Industrial wastewater (m ³)	198,047	211,504	184,471	156,467	182,950
Total volume of raw materials (tonnes)	253,438	165,947	151,578	125,614	215,488
CRAN substances (tonnes)	904	1,213	1,302	1,122	1,590
Organic solvents (tonnes)	261	266	263	246	375
Total waste volume (tonnes)	55,804	25,857	22,300	18,785	36,398
PEOPLE AND ACCIDENTS					
Total employee turnover (%)	20.2	16.9	15.7	17.2	13.7
Total number of accidents	254	184	133	120	172
Total accident rate	15.5	12.8	9.4	9.2	4.7
Number of accidents, production	254	184	133	120	164
Accident rate, production	15.5	12.8	9.4	9.2	8.1
Number of accidents, white-collar employees	22	14	13	16	8
Accident rate, white-collar employees	2.7	1.3	1.3	1.5	0.5
Total number of days of absence	5,048	4,697	1,990	2,883	3,039
RESPONSIBLE SUPPLIER MANAGEMENT					
Number of suppliers in high-risk countries	665	533	905	702	799
Signed the Code of Conduct	29%	81%	53%	83%	65%
Number of suppliers in medium-risk countries	350	442	358	284	322
Signed the Code of Conduct	28%	46%	56%	68%	61%
Number of suppliers in low-risk countries	2,484	3,284	2,251	1,791	2,575
Signed the Code of Conduct	47%	46%	65%	81%	47%
SOCIAL RESPONSIBILITY					
Number of dismissals for unethical conduct	29	40	26	47	31

* Highlights include Danfoss Power Solutions and are thus not directly comparable with prior years.

Danfoss launching new sustainability strategy

More than a decade ago, Danfoss became a signatory to the UN Global Compact Initiative, which 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. This sustainability report functions as our Communication on Progress report to the UN on how our sustainability efforts have progressed.

In 2013, our efforts resulted in a new sustainability strategy for the Danfoss Group that combines existing and new sustainability initiatives. During its implementation period from 2014 to 2017, the strategy 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. We look forward to regularly reporting on the results of our sustainability efforts.

In 2013, we continued ethical conduct training for all people managers, and more than one thousand managers and other key employees completed our anti-corruption program during the year. We are currently developing compliance programs in competition law, export controls and data privacy, and our managers and key employees will be asked to complete these mandatory programs on an ongoing basis.

In 2013, Danfoss acquired the remaining shares in Sauer-Danfoss, which now forms part of the Danfoss Group under the name of Danfoss Power Solutions. The activities and achievements of Danfoss Power Solutions in the area of sustainability form part of this report.

Niels B. Christiansen
President & CEO



Sustainability reporting at Danfoss

This sustainability report has been prepared in compliance with the principles of the UN Global Compact Initiative, and it describes Danfoss' policies, goals and efforts and the results of its work with human rights, labor rights, the environment and anti-corruption. Every year, Danfoss collects data on the sustainability efforts and results of all its factories. The data are used in preparing the sustainability report and defining priorities for continued efforts. Furthermore, data on key parameters are collected on a quarterly basis for use in Danfoss' quarterly financial reports.

This report includes all companies of the Danfoss Group in which Danfoss exercises a controlling influence. Data from Danfoss Power Solutions are included in the 2013 sustainability report. From 2014 onward, data from Danfoss Power Solutions will also be integrated in the quarterly reporting. Environmental and occupational health and safety data are primarily collected through Danfoss' financial systems.

Environmental and climate data are collected from Danfoss factories with more than 20 employees and whose volumes of energy, raw materials, chemicals and waste exceed 1% of the Group's total volume. All factories, irrespective of size, will contribute information about energy consumption and occupational health and safety; companies with sales activities alone do not contribute environmental data.

Online questionnaires are used to collect data relating to human rights, labor rights, anti-corruption, local commitment and stakeholder relations from all Group factories and sales companies. Information about employee dismissals for unethical conduct is collected through the Danfoss Ethics Hotline and via an online questionnaire sent to all people managers. The data is subsequently filtered for double entries.

In addition to preparing a sustainability report, Danfoss has reported its climate activities and greenhouse gas emissions to the

Carbon Disclosure Project's Supply Chain program since 2009. The report is available at www.danfoss.com.

Danfoss' sustainability reports were verified by an external third party until 2011, and this report is prepared in accordance with the principles applying at that time. For this reason, Danfoss believes that the sustainability report still provides an accurate, true and fair view of the company's efforts.

Danfoss follows up on reported data when necessary by making inspections to check on the company's handling of environmental, social and ethical issues and to improve communication with local management about sustainability activities.

Organization and management systems

This part of the report describes the Group's management approach and management systems implemented to ensure continual enhancement of and compliance with the Group's values and guidelines in respect of sustainability.

Danfoss' sustainability strategy

Based on global megatrends, the Group's expectations in relation to future business areas, and in-depth interviews with managers and key employees at the Danfoss divisions and corporate functions, Danfoss has defined a corporate sustainability strategy to be implemented in 2014-2017.

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

Key sustainability themes

Danfoss has identified more than 100 topics that may be relevant in Danfoss' approach to sustainability. Using a systematic selection process (materiality assessment), facilitated by an external consultant, Danfoss has identified the key themes to be addressed in the Group's sustainability strategy.

The figure illustrates the key themes as determined by importance to Danfoss (impact on revenue, earnings, reputation and compliance) and importance to its stakeholders (the media/general public, customers, legislators, NGOs, employees/management and owners).

Danfoss' Executive Committee has assigned the themes indicated by squares priority as its key focus areas for 2014. Themes indicated by diamond shapes have already been initiated or are ongoing; the remaining themes will be addressed in 2015 or later.



Danfoss' new sustainability strategy rests on two pillars:

To Danfoss, being a responsible business partner is fundamental in achieving and maintaining our "license to operate."

Danfoss aims to be a leader in energy efficiency, gaining a competitive edge by offering products and solutions that address the increasing global need for efficient energy consumption and combating climate change.

The sustainability strategy was approved by the management of Danfoss in December 2013 and will be implemented from early 2014 with special focus on the following areas:

- Energy-efficient business
 - Revision of Danfoss' climate strategy and climate targets
 - Energy-saving projects in Danfoss' 15 largest factories
 - Energy-efficient transportation of products
- Products' material content and lifecycle
- Products' compliance with environmental regulations

- Occupational health and safety
 - Establishment of a global management system for environment and occupational health and safety
 - Reduction in the number of work-related accidents
- Ethical behavior

A number of ongoing activities will continue in 2014, among them the following:

- Due diligence activities in respect of human rights and anti-corruption
- Reporting on the content of conflict minerals in products
- Compliance programs (anti-corruption, competition, data privacy and export controls)

Distribution of roles and responsibilities

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

- Danfoss' Board of Directors and Executive Committee have overall responsibility and define the framework for the Company's sustainability efforts.
- Danfoss' corporate sustainability function is responsible for defining and implementing Danfoss' global strategy, corporate targets, and activities for sustainability and corporate citizenship, which also includes preparation of guidelines and instructions and coordinating activities across the organization. The function is also responsible for reporting on sustainability.
- All people managers are responsible for ensuring that their areas are aware of and comply with Danfoss' rules and guidelines. In addition, all factory managers are responsible for environmental and occupational health and safety activities at individual sites, which also include appointing people with responsibility for day-to-day environmental and health and safety tasks and to participate in knowledge and experience sharing across the Group.
- All employees are responsible for ensuring that they are aware of and comply with Danfoss' rules and guidelines. Furthermore, all employees have a duty to report any breaches of Danfoss' rules and guide-

lines they may become aware of or have reason to suspect.

- In specific areas, it is the responsibility of Danfoss' corporate risk management and compliance function to follow up on compliance with guidelines and programs launched. The function is also responsible for the Danfoss Ethics Hotline, with an external company accepting and keeping records of reports on breaches of Danfoss' rules.
- Danfoss has set up an Ethics Committee to deal with violations of Danfoss' ethical guidelines and, if necessary, submit them to the Danfoss Board.
- Danfoss' internal audit function also performs unannounced inspections to ensure compliance with the ethical guidelines and legislation in special areas such as anti-corruption.

Ethical guidelines and sustainability policies

Danfoss has established rules and guidelines to supplement legislation governing how Danfoss intends to act in ethical, environmental and occupational health and safety matters. They include:

- Danfoss' policy on business conduct.
- The Danfoss Ethics Handbook, which sets out guidelines for responsible behavior which all employees and managers must observe. A revised version of the Ethics Handbook was distributed to all employees in 2013. In early 2014, the Ethics Handbook will be distributed to all employees of Danfoss Power Solutions, which came under full Danfoss ownership in 2013.
- The Danfoss Anti-Corruption Manual.
- Danfoss' manual for compliance with competition law.
- Danfoss' guidelines on risk management.
- Danfoss' guidelines on and standards for the environmental, occupational health and safety, and corporate social responsibility areas.
- Danfoss' Negative List, which describes the substances and materials that Danfoss intends not to use or to limit its use of.
- A Code of Conduct for Suppliers that defines what Danfoss requires from its suppliers in respect of the environment, occupational health and safety, labor rights, human rights and anti-corruption.
- Guidelines for supplier approval.

- Danfoss' "3x25" climate strategy.

Danfoss Power Solutions' guidelines in key areas – environment, occupational health and safety, supplier approval, ethics and anti-corruption – will be integrated with similar documents from the other Danfoss entities in 2014.

Training and compliance programs

Danfoss has developed training and compliance programs to help anchor its ethical guidelines at all levels in the Group.

• Ethics program

All managers must complete ethics training within the first month of being appointed. The training program is based on a combination of real cases, fictitious dilemmas and exercises in identifying unethical conduct. The program addresses competition, anti-corruption, equal treatment, anti-discrimination and other issues. Danfoss follows up on managers' completion of the program: failure to complete training may have consequences for the manager's employment. All managers in Danfoss Power Solutions will be required to complete the ethics program in 2014.

• Other compliance programs

The Group has active compliance programs in a number of areas. A special focus in 2013 was to strengthen the anti-corruption, export controls and ethics programs. During the year, one thousand of the Group's employees who are in contact with business partners or public authorities completed the mandatory anti-corruption training program, which ends with a test. Added to Danfoss' compliance program on competition law in 2013 was an updated global manual containing guidelines for the field. Some four thousand employees who are in contact with business partners or industry organizations have been signed up for a newly-developed e-learning program on the topic. This e-learning program is mandatory for the employees selected and ends with a test.



Query function and ethics hotline

In addition to the compliance programs, Danfoss has also had a query function called "AskUs" since the end of 2012, where the Group's employees can find answers to any questions and doubts they may have regarding ethics and compliance.

The purpose of AskUs is to minimize uncertainty among the Group's employees and prevent unintended non-compliance. In 2013, AskUs received 69 enquiries from employees seeking guidance on how best to follow ethical guidelines or compliance requirements in a specific situation.

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

Ethical behavior and human rights

Businesses risk unintentionally causing or contributing to violations of, for example, human or labor rights or adverse impacts on the environment and climate. Such violations may occur through the business' own activities or indirectly through its supply chain.

The UN has approved guidelines ("Guiding principles") for how businesses should ensure they are not complicit in human rights abuses. Among other measures, businesses must conduct a due diligence process in order to identify, remedy and prevent potential adverse human rights impacts. Danfoss completed this process in 2013 in order to ensure that Group companies are not complicit in human rights abuses, but also to build knowledge about methods so that it can later apply them to its supply chain. The results of the due diligence process are described on pages 15 of this report.

Climate strategy

Climate change involving drought and flooding, scarcity of resources, population growth and a number of other megatrends poses huge challenges for the world, requiring long-term, targeted work and investment. Danfoss is a global leader in energy-efficient solutions that lower energy consumption and reduce CO₂ emissions and thus help meet these challenges.

For this reason, it is natural for the company to seek to reduce the climate impact of its own activities. The Group's "3x25" strategy

commits Danfoss to cutting absolute CO₂ emissions from its energy consumption, transportation of finished goods and business travel by 25% and to increasing the proportion of CO₂-neutral energy it uses by 25% by the year 2025, relative to its emissions in 2007.

In 2007, Danfoss' total CO₂ emissions were approximately 180,000 tonnes, capping Danfoss' emissions in 2025 at 135,000 tonnes.

Environmental and occupational health and safety certification

For many years, Danfoss has worked systematically to reduce the environmental impact of its operating activities, including production and transportation. One of the Group's targets is for all factories to establish and maintain environmental and occupational health and safety management systems. At 30 of the 35 factories in Danfoss Climate & Energy, environment and occupational health and safety activities are embedded in an environmental management system certified to the ISO 14001 environmental management standard. The five factories that have not been certified are small factories in Brazil, the United States and France which have been exempted from the rules.

All Danfoss Climate & Energy factories in Denmark and in Slovakia are also certified to the OHSAS 18001 Occupational Health and Safety Standard.

Danfoss Power Solutions has 17 factories, ten of which are certified to the ISO 14001 standard and nine are certified to the OHSAS 18001 or a similar standard.

Use of chemical substances

In manufacturing its products, Danfoss uses a number of chemical substances which may be harmful to humans or to the environment. Danfoss continually aims to limit the use of such chemicals: if they cannot readily be omitted or replaced, Danfoss makes sure they are utilized as efficiently as possible, and that measures are taken to protect employees and the environment.

The global Danfoss Negative List is the cornerstone of the Group's efforts to reduce the use of harmful substances in processes and to ensure that unwanted substances are used neither in production nor in the products. The List has been implemented in both Danfoss segments. It is regularly updated to include new legislation or changed requirements, and Danfoss ensures that electronic updates are available to suppliers through a subscription service.

Responsible supplier management

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

In addition to following the Code, suppliers of goods used directly in Danfoss products are subject to an audit in which they are assessed by Danfoss' own specialists or an external independent consultant if the supplier operates in a country that Danfoss believes represents a substantial risk of human rights abuses or the like.

Stakeholder relations

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

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

In the context of its new sustainability strategy, Danfoss intends to engage even more effectively with stakeholders, including customers and decision-makers.

Work and achievements in core areas

This part of the report documents work and achievements in 2013 in selected special-focus areas aimed at improving Danfoss' sustainability efforts.

Energy-efficient business

Energy consumption and CO₂ emissions

In 2013, Danfoss emitted approximately 251,000 tonnes of CO₂ as a result of its electricity and heat consumption. The sources were both direct emissions (its own plants for the generation of power and heat) and indirect emissions (purchase of power and heat from external sources). Emissions for 2013 are significantly higher than for 2012, because they also include all Danfoss Power Solutions factories, which were not included in previous sustainability reports.

In 2013, Danfoss Climate & Energy emitted 129,600 tonnes of CO₂, against 126,500 tonnes of CO₂ in 2012. The increase was attributable to the inclusion of data from Danfoss Turbocor in the United States combined with increased activity at the factories in China, whereas emissions from the other factories in the segment declined. Danfoss' electricity consumption accounted for 84% of the Group's total CO₂ emissions in 2013, corresponding to 212,000 tonnes. Heating contributed 39,000 tonnes of CO₂ emissions.

Danfoss' total energy consumption grew by 76% to 2,296 TJ due to the fact that data from Danfoss Power Solutions is now included. The consumption of electricity represented 67% of Danfoss' total energy consumption in 2013. Of the total electricity consumption, 14% came from renewable sources such as solar, water, wind and biomass, against 18% in 2012. Electricity from nuclear power plants accounted for 13% of the Group's consumption, and the rest derived from fossil sources such as coal, oil and gas.



Consumption of energy for heating grew by 37% relative to 2012 due to the inclusion of data from Danfoss Power Solutions in the report. Virtually all energy for heating came from fossil sources in 2013, with natural gas accounting for 85%.

The individual factories report annually on which sources of energy were used in producing the electricity they bought from the power companies. The 2013 figures do not represent a completely clear picture of the situation, because several of the Danfoss Power Solutions' factories did not break down their electricity consumption by source.

Danfoss' climate strategy and related targets for CO₂ emissions will be reviewed in 2014.

Global energy-saving project

In 2013, Danfoss continued its efforts to reduce energy consumption at its 15 largest factories to achieve a significant reduction of energy consumption by 2015.

In 2013, Danfoss carried out seven complete energy mapping projects and four energy evaluation projects at the largest Climate & Energy sites other than Nordborg. The first major energy-saving project was fully implemented in 2013 at Danfoss' factory in Monterrey, Mexico.

The seven energy-mapping projects carried out at factories in France, the United States, Poland, China and Slovenia showed that a total of 77 local energy-saving projects can be implemented with expected savings of:

- Electricity: 11%
- Heating: 20%
- CO₂ emissions: 6,776 tonnes

These projects will be implemented in 2014, with a maximum anticipated payback time of three years.

The four energy evaluation projects were carried out in areas with lower potential and in turn lower expected savings. The energy evaluations have resulted in minor projects being implemented at two factories.

Establishing the largest solar power plant in the Nordic region

To cut its use of fossil fuels, Danfoss installed a powerful green symbol in late 2013. In a vast field next to the corporate headquarters at Nordborg, Danfoss installed a solar power plant of a size that will generate enough

power to cover the annual consumption of 400 single-family homes. The plant, which will have a payback time of eight years, has a total capacity of 2.1 MW and is expected to produce some 2 million kWh annually.

The solar power plant will be the first thing Danfoss employees and guests see when they drive up to the headquarters at Nordborg: a powerful symbol that Danfoss, as an industrial company, leads by example in the transition to sustainable energy. The size of five or six soccer fields, this is the largest solar power plant in the Nordic region, and it consists of 9,300 solar panels that are connected to 130 Danfoss solar inverters. The inverters ensure that direct current from the solar panels is converted to alternate current that can be fed into the power grid.

The solar power plant at Nordborg is a sub-project of the Group's "Energy Savings Program." A 1 MW solar power plant is currently being built at the Group's new site in India.

Energy renovation of old buildings at Nordborg

During the past 20 years, the Danfoss factories in Nordborg have halved their energy consumption for space heating through many different energy projects. The reduction of consumption was achieved as a result of, for example, many employees having continually initiated projects that contribute to an overall reduction in the factories' consumption of electricity and heating.

Since the 1980s, Danfoss has been renovating energy systems to enable hot air from process exhausts to be reused in heat production halls. Previously, heat was emitted directly into the outside air through an exhaust system. Once the project has been completed, heat will be directed through a recovery system and recycled, which will generate savings of up to 30%.

At Nordborg, 9,400 m² of the E1 building was renovated when Danfoss Solar Inverter's production occupied the premises. Fifty-year-old ventilation systems were replaced with state-of-the-art heat recovery systems, which led to a reduction in energy consumption of more than 50%.



Optimizing freight transportation

Danfoss' products are transported from the factories to the customers by truck, ship or aircraft. All of these transportation modes produce CO₂ emissions that contribute to global warming. Reducing CO₂ emissions from the transportation of finished products forms part of Danfoss' climate strategy, and also in this area the Group aims to reduce emissions by 25% by the year 2025.

In recent years, Danfoss has focused on optimizing transport by consolidating its logistics chain, reducing the number of carriers and optimizing the degree to which we fill the vehicles. These activities have all contributed to a reduction in CO₂ emis-



sions, but no impact calculation has been made because the necessary tools were not available. Over the next few years, Danfoss will focus on calculating and reducing CO₂ emissions from freight transportation by implementing a special tool that uses modeling to calculate the impact of transition to more environmentally friendly modes of transportation.

Due to the connection between these modes, their prices (air transportation is much more expensive than road transportation) and CO₂ emissions, Danfoss expects to achieve further reductions in emissions in the years ahead. Transition from air to road transportation, for example, would reduce CO₂ emissions by as much as 90%.

Occupational health and safety

Employee safety is a key priority at Danfoss, and the Group is constantly focused on improving conditions with respect to occupational health and safety. For example, all employees and visitors at Danfoss Power Solutions' factories are required to wear protective eyewear and footwear whenever they are in a production area. A review in 2014 will determine whether similar rules should be applied throughout the rest of the Group.

Work-related accidents

Danfoss is committed to creating a safe working environment and limiting the

number of work-related accidents, which has been declining since 1999, when the accident rate exceeded 28.

Danfoss' total accident rate was 4.7 in 2013, versus 5.2 in 2012. In 2013, the accident rate among production staff was 8.1, compared with 9.2 in 2012. The rate for white-collar employees was 0.5, versus 1.5 the previous year. The accident rate is expressed as the number of accidents per one million hours worked.

Danfoss recorded 172 accidents resulting in at least one day's absence in 2013 (125 in the Climate & Energy segment and 47 in the Power Solutions segment). The injured employees were absent for a total of 3,039

days, corresponding to an average absence of 17 days per accident. Around one-fourth of the injured employees returned to work after more than 17 days of absence.

As part of the implementation of Danfoss' sustainability strategy, reducing the number of accidents and improving occupational health and safety throughout the Group will be a special focus area in 2014.

The environment

Water and wastewater

In 2013, consumption of water for processes and sanitary purposes grew to 808,000 m³ from 637,000 m³ in the preceding year. The increase was attributable to the inclusion of Danfoss Power Solutions. Danfoss Climate & Energy's consumption was down 5% from 2012.

The discharge of industrial wastewater also increased. In 2013, wastewater amounted to 182,950 m³, versus 156,000 m³ in 2012.

Raw and auxiliary materials

Consumption of raw materials used in Danfoss' finished products is shown in the table below. The figures reflect the fact that Danfoss is still a business in the metal processing industry: three-quarters of all the materials used are metals. The use of steel, in particular, grew dramatically as a result of the inclusion of data from Danfoss Power Solutions.

Raw materials (tonnes)	2013	2012
Metals	160,736	80,142
Plastics and rubber	6,815	5,461
Electronics	21,803	22,630
Packaging	19,540	12,548
Other raw materials	6,595	4,833
Total	215,489	125,614

Auxiliary materials (tonnes)	2013	2012
Cutting fluids	870	248
Cleaning agents in processes	525	231
Total	1,395	479

Waste

Waste volumes have doubled since the inclusion of Danfoss Power Solutions data in the calculations. This is mainly due to a considerable volume of metal for recycling, since Danfoss Power Solutions is a metal processing business to a higher degree than Danfoss' other sites.

Waste (tonnes)	2013	2012
Chemical waste	5,668	1,959
Waste for landfills	2,373	762
Waste for incineration	21,173	10,446
Metals for recycling	1,547	988
Cardboard/paper for recycling	2,551	2,048
Plastics for recycling	675	589
Electronics for recycling	726	328
Other waste	1,685	1,666
Total	36,398	18,785

Chemical substances

Danfoss uses a number of chemical substances in manufacturing its products. These chemicals can be harmful to humans or to the environment, and Danfoss constantly seeks to limit their use. If the chemicals cannot be omitted or replaced, Danfoss ensures that they are utilized as efficiently as possible and that measures are taken to protect employees and the environment.

Chemical substances (tonnes)	2013	2012
CRAN substances	1,590	1,123
Toxic substances	222	36
Greenhouse gases	120	116
Environmentally dangerous substances	415	143
Chlorinated oils	107	7
Organic solvents	375	247

The amount of CRAN substances (carcinogenic, allergenic or harmful to the reproductive system or to the nervous system) increased by 41% relative to 2012. One-third of this rise was attributable to increased consumption by Danfoss Climate & Energy's

facility in Mexico while the consumption in the remaining Climate & Energy facilities dropped by 6%. The significant increase in the consumption of chlorinated oils was due to Danfoss Power Solutions' consumption of 100 tonnes in 2013.

The Danfoss Negative List is the cornerstone of the Group's efforts to reduce the use of harmful substances in its processes and ensure that unwanted substances are used neither in production nor in the products. The Negative List is regularly updated to include new legislation or changed requirements. To keep both internal and external stakeholders updated on changes, Danfoss has set up a subscription service which offers interested parties updates on the Negative List. At December 31, 2013, approximately 20% of the suppliers of goods used in Danfoss products had subscribed to this service. Measures will be taken to encourage the majority of the suppliers to subscribe to the service.

Environmental impact of products

Conflict minerals

In 2010, the US Congress passed the Dodd-Frank Act, which requires listed US companies, starting in 2014, to report to the authorities if they use gold, tin, tantalum or tungsten stemming from the Democratic Republic of the Congo or neighboring countries. Materials that may be contained in components of Danfoss' products that are sourced from the Group's suppliers. The materials are primarily contained in electronics components, but also in some alloys.

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

In 2013, more than 400 of Danfoss suppliers of electronics or electromechanical components were asked to specify the origins of conflict minerals. Such information may determine whether the materials originate from so-called "conflict-free" smelters; a prerequisite for a product or a business

being deemed "conflict-free." Often, there is a long way from the mines to the businesses that use components containing, for example, gold or tin, and the process of obtaining the required information from all suppliers can take several months.

At December 31, 2013, about 25% of Danfoss' suppliers had responded to Danfoss' enquiry. This has led to the identification of more than 300 of the smelting plants that process raw ore from the mines into metals to be used in the manufacture of components.

Ethical behavior

In 2013, Danfoss updated its guidelines for ethical behavior, which are compiled in the Danfoss Ethics Handbook. The updates were based on the experience gained from the use of the ethical guidelines. The updated Ethics Handbook was distributed to all employees at the beginning of the year and will be distributed to all Danfoss Power Solutions employees in 2014.

All people managers have attended ethics training and have taken a test via the "Danfoss Learning" e-learning platform. New people managers must complete ethics training and testing within the first month of being appointed or promoted.

Ethics cases

A total of 31 employees left Danfoss Climate & Energy in 2013 due to unethical conduct, compared with 47 in 2012 and 26 in 2011. The 2013 figure includes both dismissals and voluntary resignations connected with ethical issues.

The 31 dismissals in 2013 can be divided into the following categories: theft and unethical handling of company resources (5), attempted bribery (2), fraudulent travel expense settlements, forging of documents or attempted embezzlement (9), conflicts of interest (1), industrial espionage/theft of data (1), abuse of alcohol or drugs (2), violent behavior, harassment or discrimination (6), violation of company policies (1), manipulation of time reporting (2) and other causes (2).

The number of dismissals for unethical behavior was calculated on the basis of

information from the Ethics Hotline and a questionnaire sent to all 2,250 human resource managers. A total of 89% of the managers responded to the questionnaire.

It will also be possible for Danfoss Power Solutions employees to use the Ethics Hotline starting in 2014. All people managers at Danfoss Power Solutions will be asked to provide information on dismissals for unethical behavior in 2014.

Mapping of potential human rights abuses

In 2014, Danfoss carried out a due diligence process in all its companies in the Climate & Energy segment in order to identify any risks associated with the Company's activities. The due diligence process was carried out in the form of an extensive questionnaire on human rights and labor rights which was sent to all Group companies. The response rate was 95, and the companies that were not covered by the survey employ a total of 83 employees, the majority of whom are based in Denmark.

According to the responses, Danfoss' policies to counter abuse of human rights and labor rights are generally complied with.

Potential abuse was identified in a few areas, and remedial action has been taken. One of the areas in which potential abuse was identified concerns discrimination: two companies were ordered to change their practice to prevent any further risk of discrimination in relation to recruiting new staff.

Moreover, Danfoss intends to revise the contracts made through Danfoss' Global Services in order to ensure that recruitment agencies are required to observe Danfoss' strict guidelines on discrimination and the protection of privacy when new employees are recruited.

A third area involving a risk of human rights abuse is when some companies introduce limited salary deductions locally as a form of disciplinary punishment. This applies to countries in which written warnings have a limited effect and where a certain behavior by employees can endanger other employees, for example in connection with occupational health and safety. A total of four companies have procedures for situations that

may trigger a salary deduction, and these procedures will be carefully reviewed and, if necessary, amended in order to ensure that fundamental human rights are respected. A process to identify any potential risks in relation to human rights abuse at Danfoss Power Solutions will be carried out in 2014.

Employees

Diversity

Danfoss sees a diverse workforce as an asset giving competitive advantage and sparking increased creativity and innovation. Danfoss specifically addresses diversity in its recruitment policy. When recruiting to fill vacant positions, including managerial positions, the aim is to identify at least three qualified candidates that between them reflect diversity e.g. in terms of culture, nationality, gender or age. If two or more candidates are equally qualified, Danfoss will consider workforce and workplace diversity in the final selection process.

As part of its diversity efforts, Danfoss works determinedly on increasing the percentage of female managers throughout the Group. The overall Group target is to increase the percentage of female managers to 20% by 2015 against 18% in 2013 in order to ensure that the manager segment better mirror the diverse composition of the workforce which had 29% female employees in 2013.

Employee engagement and development

Employee engagement remains a strong focus within Danfoss. The Employee Survey in 2013 reflected a high level of engagement with improvements over 2011 and in comparison with other high performing global manufacturing companies. The surveys showed progress in relation to a number of parameters, including, for example, performance management and the assessment of the management skills of immediate superiors. The higher level of engagement is reflected in the percentage of employees leaving Danfoss on their own initiative, which remains at 5.7% on a global scale.

Total employee turnover fell from 15.0% in 2012 to 13.7% in 2013. At December 31, 2013, the Danfoss Group counted 22,463 employees, compared with 23,092 in 2012, corresponding to a 2.7% decrease, mainly

attributable to the Group's ongoing adaptation to global market conditions.

Responsible supplier management

Danfoss works systematically to enhance standards in its supply chain. Sustained strong focus in 2013 was on suppliers of goods used in Danfoss' production processes or directly in the products and on ensuring that previously audited suppliers resolve any issues identified in a satisfactory manner. New suppliers and suppliers that relocate are also audited.

Danfoss continually adapts its purchasing organization and its supplier management tools. As a result, the purchasing organization was expanded to cover the entire Group including Danfoss Power Solutions effective from July 2013.

In order to ensure that Danfoss' supply chain efforts prioritize areas where the Company has the most influence, Danfoss has adapted its risk assessment model that forms the basis of the measures at the individual supplier. The risk assessment includes the supplier's place of production, meaning that suppliers in areas posing the greatest risk of non-compliance are given the highest priority. The model also emphasizes preferred suppliers rather than, as previously, the value of purchases made from each supplier, which ensures that focus is centered on the suppliers that will continue to make supplies to Danfoss.

To ensure that all of Danfoss' employees in contact with suppliers are familiar with Danfoss' Code of Conduct and the division of responsibilities in this area, Danfoss' Code of Conduct Competence Center conducts training on an ongoing basis. The training is divided into multiple modules, primarily in the form of e-learning. In 2013, 99 employees completed the training, and from the beginning of 2014, focus will be on training the employees at Danfoss Power Solutions. In 2013, a total of 809 Danfoss suppliers signed the Code of Conduct, and 134 audits were conducted to verify supplier compliance with the guidelines, of which 44 were first-time audits and 90 follow-up audits. Follow-up audits were generally made to follow up on matters such as inadequate safety precautions, including lack of

emergency exits and fire extinguishing equipment, lack of personal protection equipment, incorrect handling and storage of hazardous chemicals and discharge of waste water.

Community engagement

Danfoss supports a number of initiatives in the local communities in which the company has factories or sales offices. The company is an active partner in the local community through sponsorships, involvement in trade organizations and groups, and through participation in social work.

An example is the renovation of a local elementary school in Panrutti, which is a village two-thirds of which form part of Danfoss' new campus in India. The place was previously a sad sight: leaking roofs, missing or broken windows, inadequate water supply from a worn-out water tank and broken cement flooring from the 1960s made it a daily challenge to feed 65 children with nourishing food for less than half a dollar a day.

This has all changed. As part of a CSR survey in the local area, Danfoss India decided to make a difference to these educational institutions. The entire school site was renovated thanks to Danfoss India's CSR program called "Joy of Giving."

Danfoss renovated and expanded the school and the kindergarten using local labor and established a vegetable garden where ten different vegetables are grown, which helps ensure that the children eat healthy and nutritious food.

A new kitchen, a 1,000-liter water tank, intact roofing and new flooring have provided the children and staff with a completely new environment at the school.

The Fabrikant Mads Clausen Foundation

The Fabrikant Mads Clausen Foundation was established by the founder of Danfoss in 1960. The purpose of the Foundation is to provide support to charitable projects in Denmark and abroad. Initially, support was primarily provided in the local community near the factory in Nordborg. However, in line with the expansion and globalization



of Danfoss, the support area has increased, and today it also includes some of Danfoss' other locations in Denmark and abroad. The Foundation provides financial support for training, research, sports, the arts, culture and various charitable organizations. In 2013, the Fabrikant Mads Clausen Foundation distributed DKK 11.7m to 386 recipients, among them a large number of organizations and institutions in Danfoss' local community, including schools and universities, hospitals, sports clubs, scout groups, pensioners' associations, institutions for the disabled, and museums, choirs and orchestras. Support was also given to many national patients' associations and relief organizations.

Several large donations of DKK 100,000 or more were made in 2013. The money went to cancer research, equipment for sports clubs, humanitarian aid and various cultural projects.



to the mill Havnbjerg Mølle at Nordborg, Denmark, which underwent major renovation, including replacement of its thatched roof, in 2013.

The Danfoss Employee Foundation

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

In 2013, the foundation considered about 300 applications. Many of these applications concerned poor financial situations caused by divorce or dissolved relationships. In 2013, many employees also applied for help in connection with church confirmation of their children, stays at boarding schools and Christmas. The foundation also provided financial support for vacations to the benefit of many families with children.

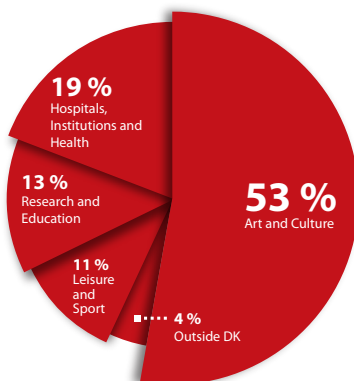
The foundation granted total financial support of approximately DKK 2.9m in 2013. The Employee Foundation's legal aid system, which ensures that legal assistance is available to all employees, handled approximately 200 requests.

Die Heiliggeistkirche, a church in Flensburg, Germany, received DKK 100,000 for cleaning its walls and frescos. The church, which recently revealed a bronze sculpture and new stained-glass windows depicting biblical motifs by Danish artist Bjørn Nørgaard, is the main church of the Danish parishes in South Schleswig in the northernmost part of Germany, close to the Danfoss headquarters.

In the summer of 2013, the State of Oklahoma in the United States experienced its worst tornado in history, which claimed several lives and caused massive destruction. Immediately after the disaster, the Fabrikant Mads Clausen Foundation donated USD 20,000, or DKK 115,000, to the American Red Cross for the relief work in the area.

The biggest grant, DKK 4.2m, was given

Donations, Fabrikant Mads Clausens Foundation



Donations, Danfoss Employee Foundation

