



Modern Slavery Act Statement 2018

- including California Transparency in Supply Chains Act

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Danfoss

Danfoss Modern Slavery Act statement, including California Transparency in Supply Chains Act

This document forms Danfoss' Modern Slavery Act Statement pursuant to section 54 of the UK Modern Slavery Act 2015. It also covers the California Transparency in Supply Chains Act. The document has been approved by Danfoss' Board of Directors.

Background

The International Labor Organization (ILO), estimates that 25 million people live and work under conditions, which can be characterized as modern slavery. This includes forced, debt-bonded and involuntary work, and work performed under threat of penalty. Examples of forced labor are withholding a passport, recruitment fees which hold workers in debt bondage or excessive working hours for a minimal pay – sometimes paid infrequently or with a heavy delay.

It is important to Danfoss to generate our results in an ethical manner. Our company name must always be associated with respect for human rights, proper working conditions and social and environmental considerations. This statement provides an overview of Danfoss' policies, guidelines and processes related to eliminating the practices of modern slavery.



Kim Fausing
President & CEO

About Danfoss

Danfoss dates back to 1933 when the company was founded by Mads Clausen.

Today, the company holds market-leading positions, employs 28,000 and serves customers in more than 100 countries.

Danfoss continues to be privately held by the founding family via the Bitten and Mads Clausen foundation.

Danfoss engineers advanced technologies that helps ensure the supply of fresh food and optimal comfort in homes and offices, while meeting the need for energy-efficient infrastructure, connected systems and integrated renewable energy.

The company's solutions are used in areas such as refrigeration, air conditioning, heating, motor control and mobile machinery.

The Group consists of four business segments: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating.

Business segments

Danfoss Power Solutions

7,625

employees worldwide



25

factories in 12 countries



Products and solutions

Engineered hydraulic, electric and electronic components optimized for total machine management:

- Hydrostatic pumps and motors
- Electronic components and software
- Orbital motors
- Steering solutions
- Hydraulic and electro-hydraulic proportional valves
- Electric motors, converters and storage

The solutions are part of applications such as tractors, harvesters, road graders, cranes and vessels, helping to move, lift, push and pull.

Customers and industries

- Original equipment manufacturers (OEMs)
- Distributors

Operating within agricultural, construction, road building, marine and specialty markets.

Danfoss Cooling

6,179

employees worldwide



15

factories in 10 countries



Products and solutions

Cooling solutions are energy efficient and minimize the impact of cooling on global warming:

- Compressors and condensing units
- Valves and electronic controllers
- Sensors
- High-pressure pumps
- Heat exchangers

The solutions are part of applications such as chillers, rooftop air-conditioning systems and cold-storage solutions used in residential and commercial buildings.

Customers and industries

- Original equipment manufacturers (OEMs)
- Distributors and contractors
- Installers and end-users

Operating within food retail, air conditioning and industrial and commercial refrigeration.

Danfoss Drives

4,645

employees worldwide



11

factories in 7 countries



Products and solutions

AC drives enable optimal process and speed control of electric motors:

- Low- and medium-voltage AC drives
- Stacks and power modules

The solutions are used to provide optimal operation of pumps, fans, chillers, conveyors, electric vehicles, hybrid systems and power conversion.

Customers and industries

- Original equipment manufacturers (OEMs)
- Distributors and system integrators
- Installers and end-users

Operating within machine manufacturing, water treatment, food & beverage, heating, ventilation and air-conditioning (HVAC) systems, marine & offshore, automotive and renewable energy generation.

Danfoss Heating

4,898

employees worldwide



24

factories in 11 countries



Products and solutions

Advanced components, solutions and service for:

- Heating and cooling systems
- Radiator valves and thermostats
- Floor heating and heat pumps
- Heat cost allocators
- Heat exchangers

The solutions are used in buildings such as single or multi-family houses, office buildings and in district heating networks.

Customers and industries

- Original equipment manufacturers (OEMs)
- Distributors and designers
- Installers and end-users

Operating within heating, ventilation and air-conditioning (HVAC) systems, hydronic balancing and district energy.

Control environment

Legislation provides the overall framework for the Group's governance, but corporate governance determines how the business is managed within this framework. The Group structure determines a clear distribution of management responsibilities. These well-defined principles drive the interaction between the Group's management, the owners, and other stakeholders.

Danfoss has a two-tier management system consisting of the Board of Directors and the Group Executive Team, including the CEO and CFO. The Board of Directors sets the general direction for the company by approving strategies and targets, and the Group Executive Team develops and executes the strategy and handles the day-to-day management.

Further details about the company's governance structure, risk management and organizational structure is available in the Annual Report, the Statutory Report and on the company's website <http://www.danfoss.com>.

Our Commitment and policies

Danfoss is committed to respecting the internationally recognized human rights and core labor standards and since 2002, we have been a member of the UN Global Compact.

Danfoss has an overall policy on business conduct as well as company guidelines on specific areas.

Danfoss' Ethics Handbook stipulates internal rules and requirements regarding ethics, human rights (including labor rights), anti-corruption, etc.

The Ethics Handbook is distributed to all employees and is supported by compliance manuals and online training programs, e.g. within ethics, anti-corruption and data privacy.

Furthermore, Danfoss' Code of Conduct for suppliers reflects modern slavery regulation:

"Danfoss does not permit forced or involuntary labor, which includes slavery, human trafficking or any other forms of involuntary work.

Danfoss' suppliers must not use or benefit from forced labor at the supplier. This includes forced prison work, work on a forced contract, slavery and other forms of work which are done against one's will or choice.

The supplier or any entity supplying labor to the supplier must not charge fees for recruiting personnel or withhold any part of any personnel's salary, benefits, property or documents in order to force personnel to continue working for the company.

All personnel must have the right to leave the workplace after completing the standard workday and be free to terminate their employment with reasonable notice."

Due diligence

Danfoss is committed to complying with the UN Guiding Principles for Human Rights, which entails that we must carry out a human rights due diligence process where potential human rights impacts are identified, assessed, prioritized and mitigated. We consider “modern slavery” and forced labor as being part of the human rights due diligence process.

Danfoss’ human rights due diligence process is based on a regional, risk-based approach that ensures local ownership to handling of human rights issues.

This is achieved through an active engagement of the regional management, both in appointing experienced managers and employees for the human rights due diligence project and in approving the action plans for mitigating potential impacts on human rights. The regions with BRIC countries have been the first in line to conduct the human rights due diligence process. The countries in scope are mainly the ones where we have factories.

So far, the following Danfoss regions have been covered: Eastern Europe (Poland, Slovakia and Romania), China/APAC (China and Korea), India, Russia and Latin America (Brazil and Mexico). Turkey/Middle-east (Turkey and Arab Emirates) will be covered by the process in 2019.



Danfoss’ due diligence process follows the cycle outlined above. This is based on the due diligence measures outlined by OECD Learnings from each of the regional roll-outs are implemented in the policies and processes.

Human Rights issues are often complex and need to be translated into a business context. To gain a deeper understanding of the issues most relevant to Danfoss, our processes initially focused on our own factories.

Based on the learnings from the processes so far, outsourced facility management services like cleaning and construction have been included from 2018.

Danfoss is an active member of a Nordic Business & Human Rights Network where companies get insights on the ongoing development of the human rights agenda. Here they have the opportunity to share their experiences and challenge themselves on policies, processes and methods for embedding human rights considerations in the companies. The network is chaired by the Danish Institute of Human Rights.

Companies are expected to report which of the human rights are most salient to them; meaning which of the rights can be most severely impacted by the operations of the company.

An overview of the most salient human rights relevant to Danfoss can be found at <http://danfoss.com/sustainabilityreporting>.

Forced labor is one of the salient rights, meaning it is one of the areas where we must pay special attention to avoiding negative impacts.

Responsible supplier handling

Danfoss sources its materials and components for products from 3,500 suppliers in 48 countries. 75% of all suppliers are in Denmark, China, USA, Germany, Italy, Sweden, Finland, France and Poland.

All new suppliers must sign Danfoss' Code of Conduct for Suppliers. The Code of Conduct defines the Group's environmental and social requirements (including human rights requirements) for its suppliers. To prioritize, the highest priority is given to suppliers in geographical areas which pose the greatest risk of non-compliance.

The main scope of our responsible supplier management is 1st tier suppliers, but if there is a suspicion of malpractice by 2nd tier suppliers, these are included in the third-party audits.

Danfoss' Code of Conduct risk matrix and audits

Danfoss works systematically with risk assessment and supplier management using our Code of Conduct Risk Matrix.

All suppliers are rated according to risk (high-risk countries and low-risk countries) and spend. All suppliers in high-risk countries are subject to third party audits, except in cases where the spend is very low. In these cases, the suppliers must conduct a Code of Conduct self-assessment, which is evaluated by Danfoss. 90% of suppliers of materials and components for products comply with these requirements.

Announced audits

All audits are announced with an audit window of 1-2 weeks to ensure that management representatives are present and available during the audit.

Internal accountability

Danfoss has internal processes in place to ensure that in case a supplier fails to meet the requirements of our Code of Conduct, remediation will take place. Danfoss also has access to a database that tracks global suppliers in terms of malpractices e.g. in the environmental or social field.

We have implemented processes to ensure that in case of e.g. a report of forced labor at one of Danfoss' suppliers, an external third-party audit will be carried out at the supplier.

Actual findings from supplier audits relating to labor rights and human rights.

In 2018, Danfoss has experienced one incident where a potential new supplier did not meet the requirement for paying at least the minimum wages, and an incident at another supplier who failed to pay the minimum wage during an employee's trial period.

Not meeting the standards for minimum wages is critical because minimum wages might not always be sufficient to live on.

Action plans have been made and the issue has been remediated at the existing supplier, while the potential new supplier will not be given any business before the issue is solved.

Risk identification and risk assessment - beyond suppliers of materials for products

At Danfoss, risk management is a continuous process of risk identification, risk assessment, risk treatment and risk monitoring. Risk identification concerning Modern Slavery: Research shows that industries with low-or unskilled workers like e.g. cleaning, catering, construction, clothing and transport are risk areas when it comes to forced labor.

Moreover, recruitment is a high-risk area of forced labor due to the fees that can be applied in the recruitment process. Especially, in transnational recruitment fees are often applied at many levels and can lead to debt bondage.

To ensure a more detailed risk assessment and gain more understanding of the situation at these categories of suppliers, Danfoss has decided to conduct audits in 2019 at suppliers in each of the categories cleaning, catering, construction, clothing, recruitment and transport. The audits will be carried out by a third party.

Certification

Danfoss regularly evaluates the situation concerning certification of suppliers and purchased products in regarding to anti-trafficking guidelines. At present, Danfoss has not implemented a process for certification of compliance with the California Transparency in Supply Chains Act.

Effectiveness review

Danfoss is considering the implementation of performance indicators to measure against when doing effectiveness reviews. So far, Danfoss has not carried out an effectiveness review of the company's approaches to minimizing or eliminating Modern Slavery practices throughout our business activities.

In addition, it is stated in Danfoss' Ethics Handbook that recruitment agencies must adhere to our company guidelines (including not applying fees in hiring) and this is specifically checked during Danfoss' Human Rights due diligence process.

Training

Danfoss' Code of Conduct Competence Center conducts basic training of employees responsible for the suppliers to ensure that they are familiar with Danfoss' Code of Conduct and the roles and responsibilities within the area.

The training consists of multiple modules, primarily on Skype or face-to-face training. All category managers (managers with commercial responsibility) are trained more extensively in Danfoss Code of Conduct and UN Global Compact.

All new suppliers are introduced to Danfoss Code of Conduct and UN Global Compact.

Conflict minerals handling

Danfoss supports the efforts of governments and organizations to end violence and atrocities in conflict-affected areas. Danfoss is therefore committed to source its materials and components from companies that also share our values regarding human rights, ethics and environmental responsibility.

We have established internal processes to determine whether our products are Conflict-Free to ensure that our procurement of materials and components does not contribute to human rights violations in conflict areas.

We identify potential sourcing risks affecting our products and proactively require all minerals in our supply chain to be conflict-free. We exercise due diligence regarding the origin and chain of custody of the 3TGs (Tin, Tungsten, Tantalum and Gold) contained in products in our supply chain that we manufacture or contract to manufacture.

We furthermore encourage our suppliers to responsibly source 3TGs through smelters and refiners that have been verified as DRC conflict-free through the Responsible Minerals Assurance Process (RMAP), formerly the Conflict-Free Smelter Program (CFSP), or a similar framework.

Finally, we support and adhere to national and international standards and guidelines for responsible supply chains of 3TG minerals like the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Verification

We have engaged Assent Compliance to perform due-diligence and verify compliance on this issue.

Access to remedy

It is an integral part of a human rights due diligence process that rightsholders have access to remedy; examples of rightsholders are employees, communities and our supply chain. Given the nature of our company, our production processes and the scope of our due diligence process, the primary rightsholders who are impacted, are our employees – including employees in outsourced functions.

Danfoss uses its Ethics Hotline, as a grievance mechanism. The Ethics Hotline is available for our business partners and employees and enables them to anonymously report any concern they may have regarding internal standards, legislation, ethical behavior and human rights. Reports are investigated and for substantiated allegations remedy actions are taken.

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