The **greenest** **energy** is the energy we don't use

Annual Report **2021**

ENGINEERING TOMORROW

Danfoss

Leading technology partner for our customers **already today**

The science is clear

We need to act on climate change today. According to the International Energy Agency (IEA), **energy efficiency delivers more than 40% of the reduction** in energy-related emissions needed to fully achieve international climate and energy goals.

The good news is that we have the solutions already today. Danfoss engineers solutions that increase machine productivity, reduce emissions, lower energy consumption, and enable electrification.

Source: IEA, Energy Efficiency report (2020), p. 10

Contents

Creating value for our customers

Danfoss solutions that drive the green transition are available, proven, and ready to be scaled up.

Read more on page 14

Decarbonizing Danfoss

We are committed to decarbonizing our global operations by 2030 and continuing our work to make the campus at our headquarters carbon neutral in 2022.

Read more on page 37

Best financial performance ever

Customer demand for our energy-efficient solutions was very high, leading to record sales and profitability – the strongest year we've ever had.

Read more on page 62

We support:

UN GLOBAL COMPACT
COMMUNICATION ON PROGRESS

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

We welcome feedback on its contents.

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

Read more at unglobalcompact.org

Follow us here:

Integrated Annual Report

Danfoss is ready to take a big and bold step to battle climate change and help our customers decarbonize. We will integrate new and ambitious ESG targets in our Core & Clear strategy and aspire for leading positions within Decarbonization, Circularity, and Diversity and Inclusion. This step change is reflected in the annual report 2021.

With our new ESG ambitions, Danfoss is ready to take greater responsibility for the planet and for our people. ESG is short for Environment, Social, and Governance, which are central factors in measuring a company's sustainability impact and performance. By integrating sustainability in our strategy and daily practices, we want to reinforce our position as one of the leaders of the green transition.

Danfoss is building a better future with solutions available today – solutions that increase machine productivity, reduce emissions, lower energy consumption, and enable electrification. Sustainability is not an add-on to our business. Sustainability *is* our business.

For the financial year 2021, we are therefore taking the first step in our reporting by combining financial, sustainability, and corporate governance in a single publication. This gives our stakeholders a holistic view of Danfoss' business, value drivers, strategy, governance, and performance.

This Annual Report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act and meets the Danish Recommendations on Corporate Governance.

This report constitutes our reporting pursuant to the Danish Financial Statements Act, sections 99a and 99b, as well as the Communication on Progress to the UN Global Compact.

Danfoss is a family- and foundation-owned company with bonds listed on the Luxembourg Stock Exchange. Danfoss is classified as a non-listed large Class C company and is therefore not EU Taxonomy-eligible in the financial year 2021. To ensure that we are ready to report according to the EU Taxonomy in the financial year 2023, we keep raising the bar when it comes to climate change – setting science-based CO_2-reduction targets, working with suppliers to reduce their emissions, and reporting transparent and comparable sustainability data.

The Annual Report 2021 is published as an electronic publication only and made available at www.danfoss.com.

Reader's guide

Non-financial disclosure requirements as per the Danish Financial Statements Act.

In brief

Maximizing **energy efficiency** with Danfoss solutions

To break the global emissions curve, we need to optimize the way we heat and cool our buildings. The fourth tallest building in the world, Lotte World Tower in Seoul, South Korea, is a model example of a sustainable building. Danfoss drives maximize energy efficiency in the heating, ventilation, and air conditioning systems. With digitalization and connectivity, hardware is combined with data collection and Danfoss cloud connectivity solutions. These save 5,040 megawatt hours of electric energy a year, which equates to about 2,345 tons of CO_2 emissions annually.

Danfoss at a glance

Three strong business segments with leading positions

Danfoss **Power Solutions**

Danfoss **Climate Solutions**

Danfoss **Drives**

1933

Long track record within innovative engineering

Worldwide sales in more than **100 countries**

40,043

employees

95

factories

Preferred partner in **helping our customers** decarbonize

Performance highlights

Sales

EURbn

2021	7.5
2020	5.8
2019	6.3

+29%
Sales growth

Record year above expectations. Danfoss acquired Eaton's hydraulics business on August 2, adding 5 months sales of EUR 786m to the topline. The customer demand for our energy-efficient products and solutions was very strong and all Danfoss segments and regions saw growth. Despite the pandemic, organic growth was 18% against 2020.

R&D expense

EURm

2021	328
2020	267
2019	272

+23%
R&D increase

Continued high investments to fuel future growth. To be the preferred partner in delivering energy-efficient solutions and helping our customers decarbonize, the high level of investments in innovation and R&D continued. In particular, we increased the digitalization and electrification of our solutions.

Earnings (EBITA)

EURm

2021	969
2020	723
2019	771

+34%
EBITA increase

Profitability stronger than outlook. The EBITA margin reached 12.8% against 12.4% in 2020. The high demand for our products and solutions combined with managing the disruptions in the global supply chains in an inflationary environment are the main drivers of the high EBITA margin. Net profit was up 45% to EUR 631m.

Cash flow

EURm

2021	401
2020	493
2019	463

401
Cash generation

Solid cash generation from operations. Strong profitability, combined with investments in expanding production capacity to meet the growing customer demand, generated a free operating cash flow after financial items and tax (before M&A) of EUR 401m, confirming the cash generating capability of Danfoss.

Iconic water tower transforming from Eaton to Danfoss

Watch the transformation from blue to red of the water tower in Eden Prairie, Minnesota, US.

Performance highlights*

Energy intensity improvement
(MWh consumed energy per EURm net sales)

51%

lower energy intensity than in 2007.

CO_2-neutral electricity

25%

of our global electricity consumption is CO_2-neutral.

CO_2 intensity improvement
(tons CO_2 per EURm net sales)

42%

lower indexed CO_2 emissions from energy consumed in our operations since 2007.

Energy productivity improvement
(EURm net sales per GWh consumed energy)

104%

higher energy productivity than in 2007.

LTIF improvement
(Lost time injuries per million hours worked)

15%

lower Lost Time Injury Frequency than in 2020.

Women in leadership

20%

of our leaders are women.

* Performance highlights exclude Eaton's hydraulics business

Letter from CEO

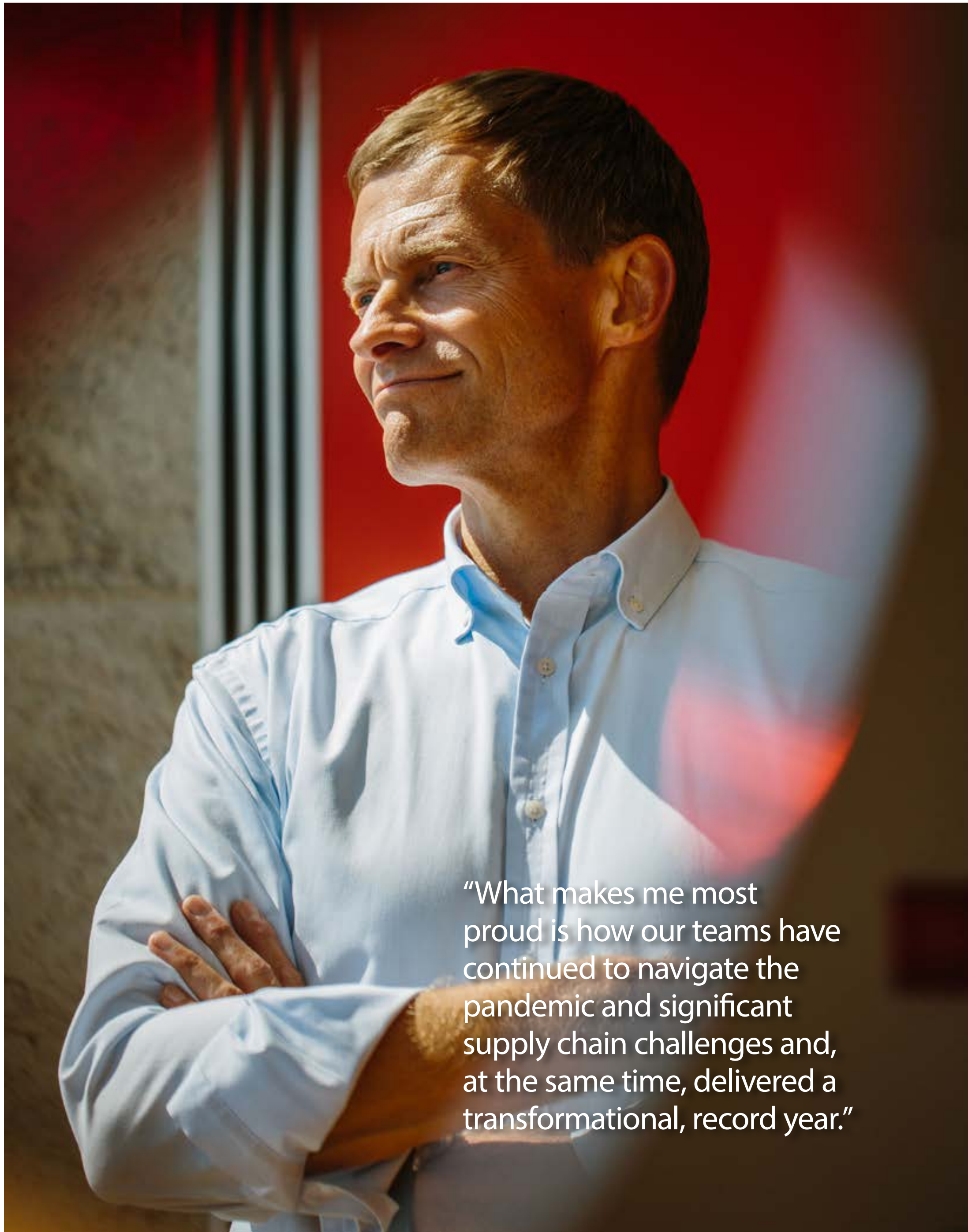
A transformational, **record year** for Danfoss

As megatrends such as urbanization, digitalization, electrification, and climate change continue to strengthen, sustainability and decarbonization are taking center stage globally. This speaks directly to our ambitions at Danfoss to be the leading technology partner for our customers in the green transition.

We have never seen better opportunities for Danfoss. Our momentum is clearly reflected in our 2021 annual results: Danfoss has delivered the best results in our history, and we are in a strong financial position.

There are several significant highlights demonstrating the transformation and our commitment to long-term growth that strengthen our core business:

- We started the year by launching Danfoss Climate Solutions. This new segment holds leading positions within sustainable and energy-efficient heating and cooling technology and solutions for buildings, cold chains, industry, and infrastructure with significant further growth potential.
- In August, we closed the acquisition of Eaton's hydraulics business. We welcomed 10,000+ new colleagues and created one of the leading and most innovative mobile and industrial hydraulics companies in the world. With this, Danfoss Power Solutions provides unmatched systems capabilities within mobile and industrial hydraulics, fluid conveyance, electrification, and software.



Letter from CEO continued

- We strengthened our position in electrification and the automotive, marine, and off- and on-highway industries, where we saw significant growth and a fast-growing pipeline. Our Danfoss Drives segment benefitted from the increasing demand for hybrid and fully electric drivetrains and marine industries.

The strong momentum is also reflected in record results for both top- and bottom-line growth, robust cash flow, and a healthy balance sheet, despite the acquisition of Eaton's hydraulics business. We saw growth across all segments and regions.

- Sales reached EUR 7.5 billion, up 29% against 2020.

- Growth was driven by very strong demand for our energy-efficient products and solutions, leading to organic growth of 18%, as well as added sales from the acquisition of Eaton's hydraulics business.

- EBITA was up 34% against 2020, leading to EBITA margin of 12.8% against 12.4% last year, despite components shortages and inflationary cost increases on raw materials and freight.

- We made record level of investments in innovation, capacity expansion, and digitalization, including One ERP, which will significantly improve how we serve our customers.

- And we reached our 2030 target of doubling the energy productivity in our factories globally – nine years ahead of time.

What makes me most proud is how our teams have continued to navigate the pandemic and significant supply chain challenges and, at the same time, delivered a transformational, record year. Unfortunately, these significant challenges affected our service to customers. Furthermore, all three business segments were impacted by inflation. We continue to do everything we can to serve our customers, and we continue our high investments in capacity expansion, innovation, and digitalization of Danfoss.

Our top priority remains the health and safety of our team. Therefore, we are proud that Lost Time Injury Frequency (LTIF) ended at a record-low level of 1.7 – demonstrating our safety-first approach. At the same time, the employee engagement score continued to rise during 2021.

In 2022, Danfoss is taking a big and bold step to put sustainability at the core of our strategy. The ambitions are clear, and our targets have been submitted and are being validated by the Science Based Targets initiative (SBTi). With the new ESG targets and ambitions, Danfoss is ready to take greater responsibility for the planet and our people. Looking towards 2030, Danfoss aspires to leading positions within Decarbonization, Circularity, and Diversity & Inclusion. You can read more about our sustainability results and ambitions in this integrated Annual Report.

In June, we have a unique opportunity to showcase our cost-effective technologies when the IEA holds its Annual Global Conference on Energy Efficiency in Sønderborg, home to Danfoss. The IEA has invited leaders from all over the world to be inspired before they revisit their Nationally Determined Contributions (NDCs) to increase climate action.

I would like to sincerely thank our customers and partners for their cooperation and the Danfoss team for their engagement, dedication, and outstanding teamwork that made everything possible.

Kim Fausing
President & CEO

"We have never seen better opportunities for Danfoss. Our momentum is clearly reflected in our 2021 annual results: Danfoss has delivered the best results in our history, and we are in a strong financial position."

Financial **highlights**

	EURm 2017	EURm 2018	EURm 2019	EURm 2020	**EURm 2021**	DKKm 2020	**DKKm 2021**
Profit and loss account							
Net sales	5,827	6,098	6,285	5,828	7,539	43,445	56,071
EBITDA before OOI/E	923	929	1,028	1,008	1,232	7,516	9,160
EBITDA	882	926	1,026	954	1,272	7,111	9,460
EBITA	714	724	771	723	969	5,394	7,205
EBIT	645	648	695	625	877	4,659	6,524
Financial items, net	-49	-45	-33	-48	-58	-359	-430
Profit before tax	596	603	662	577	819	4,300	6,094
Net profit	445	463	502	435	631	3,243	4,695
Financial ratios							
Local currency growth (%)	12	7	1	-6	31	-6	31
EBITDA before OOI/E margin (%)	15.8	15.2	16.4	17.3	16.3	17.3	16.3
EBITDA margin (%)	15.1	15.2	16.3	16.4	16.9	16.4	16.9
EBITA margin (%)	12.2	11.9	12.3	12.4	12.8	12.4	12.8
EBIT margin (%)	11.1	10.6	11.1	10.7	11.6	10.7	11.6
Balance sheet							
Total non-current assets	3,883	3,886	4,217	4,106	6,693	30,555	49,776
Total assets	5,583	5,760	6,096	6,412	9,970	47,714	74,143
Total shareholders' equity	2,569	2,654	2,933	3,184	3,951	23,691	29,379
Net interest-bearing debt	1,050	962	1,048	537	2,677	3,996	19,911

Conversion factor between DKK/EUR: Profit and loss account and cash flow statement: 0.1345 (2020: 0.1342). Balance sheet: 0.1345 (2020: 0.1344).

Key figures, financial ratios and highlighted key figures are calculated as defined in Note 27 on page 111.

	EURm 2017	EURm 2018	EURm 2019	EURm 2020	**EURm 2021**	DKKm 2020	**DKKm 2021**
Cash flow statement							
Cash flow from operating activities	742	673	789	800	838	5,967	6,230
Cash flow from investing activities	-405	-227	-407	-242	-2,794	-1,806	-20,779
Hereof:							
Acquisition of/Proceeds from disposal of property, plant and equipment	-217	-238	-252	-187	-325	-1,395	-2,420
Acquisition of/Proceeds from disposal of subsidiaries and activities	-103	88	-140	0	-2,423	-3	-18,019
Cash flow from financing activities	-373	-424	-322	-54	1,596	-406	11,871
Financial key figures							
Free operating cash flow	627	564	634	709	664	5,283	4,940
Free operating cash flow after financial items and tax	441	359	463	493	401	3,677	2,984
Free cash flow	334	443	323	497	-2,020	3,705	-15,022
Financial ratios							
Return on invested capital ROIC (%)	17.8	17.9	18.3	16.1	16.7	16.1	16.7
Return on invested capital after tax ROIC (%)	13.0	13.4	13.4	11.9	12.8	11.9	12.8
Return on equity (%)	17.3	17.0	17.0	13.1	16.6	13.1	16.6
Equity ratio (%)	46.0	46.1	48.1	49.7	39.6	49.7	39.6
Leverage ratio (%)	40.9	36.2	35.7	16.9	67.8	16.9	67.8
Net interest-bearing debt to EBITDA ratio	1.2	1.0	1.0	0.6	2.1	0.6	2.1
Dividend ratio (%) (proposed)	18.1	17.4	16.0	-	30.0	-	30.0
Dividend per 100 DKK share (proposed)	8.1	8.1	8.1	-	19.0	-	141.3

Outlook **2022**

Driving future growth and long-term, sustainable value creation

In 2022, our key focus continues to be on ensuring profitable growth, while maintaining a high level of investments in our core businesses, new digital and electric solutions, and sustainability.

Based on current market insights, our growth projections for 2022 are positive as energy efficiency, renewables, and electrification are gaining traction worldwide.

However, as the world economy makes its comeback, there is pressure on all supply chains. In particular, the global supply chain disruption, the ongoing pandemic, and political conflicts are creating a high level of volatility and uncertainty. As a result, visibility is low.

Short- as well as long-term business growth will be influenced by the successful execution of green stimulus packages, creating positive momentum worldwide. Danfoss is in a good position with leading positions, application know-how, and innovative solutions driving the green transition.

2022 expectations
Danfoss assumes a positive outlook in the market with a continued ambition to expand or maintain market share. The outlook includes a full year ownership of Eaton's hydraulics business. Sales are expected to be in the range of EUR 8.8-9.8bn for the full year. The EBITA margin is expected to be in the range of 11.4-12.9%, following continued investments in the development of new products and solutions. The expected growth and profitability performance is dependent on the development of the pandemic, the global supply chain disruptions as well as the continuation of the current strong growth rates in the world economy.

Together with our customers, Danfoss has huge potential to contribute to global and regional climate goals through the technologies and solutions we bring to market. Danfoss remains committed to decarbonizing our global operations by 2030 and improving gender diversity to 30% women leaders by 2025, while also reframing our approach to building a diverse and inclusive workforce. We will continue to invest in sustainability and improve our climate footprint by setting science-based targets and extending our robust approach to include our entire value chain.

In 2022, we remain committed to making the energy consumption at our 250,000 m^2 headquarters in Nordborg CO_2 neutral by using electricity and energy from renewable sources. Our heating demand will be covered by carbon-neutral district energy and heat pumps. We also apply our own solutions to reuse excess heat from our data center, buildings, and processes. To stretch every single watt as far as we can, we use our own solutions to maximize energy efficiency and speed up the phaseout of the remaining fossil fuels for heating.

Specific key factors
Specific key factors that could affect the Group's financial performance in 2022:

- The Group's continued strategic initiatives to accelerate profitable growth, organic as well as acquisitive, are expected to generate a positive impact on market-share development.
- Additional M&A activities.
- Increasing prices on raw materials and freight, as well as shortage of components and holdups in logistics, could have a negative impact on our financial results.
- Increasing prices on commodities, such as crops, metals, and oil, that are driving demand in the global agriculture, marine, and other heavy industry sectors, are associated with considerable volatility, leading to low visibility as well as having a direct impact on our own raw materials.
- Fluctuation in foreign exchange rates.
- The ongoing pandemic with partial lockdowns in some countries could result in a potential temporary slowdown locally due to disrupted supply chains.

Forward-looking statements
This Annual Report includes forward-looking statements on various matters, e.g., expected earnings, future expansion of market share, and future profitable growth. Such statements are subject to risks and uncertainties, because various factors, many of which are beyond Danfoss' control, may cause actual developments and results to differ materially from the expectations set out in the Annual Report. Such factors include, but are not limited to, the geopolitical environment, general economic and business conditions, changes in commodity prices impacting the demand for Danfoss' solutions and services, competition in the industrial sectors, in which the business segments are operating, fluctuations in foreign exchange rates, interest rates or our own raw material prices, changes in climate policy, legislation, regulation or standards, and uncertainty in connection with acquisitions or potential acquisitions and divestments. Unless required by law, Danfoss is under no duty and undertakes no obligation to update or revise any forward-looking statements after the publication of this Annual Report.

Energy efficiency in action

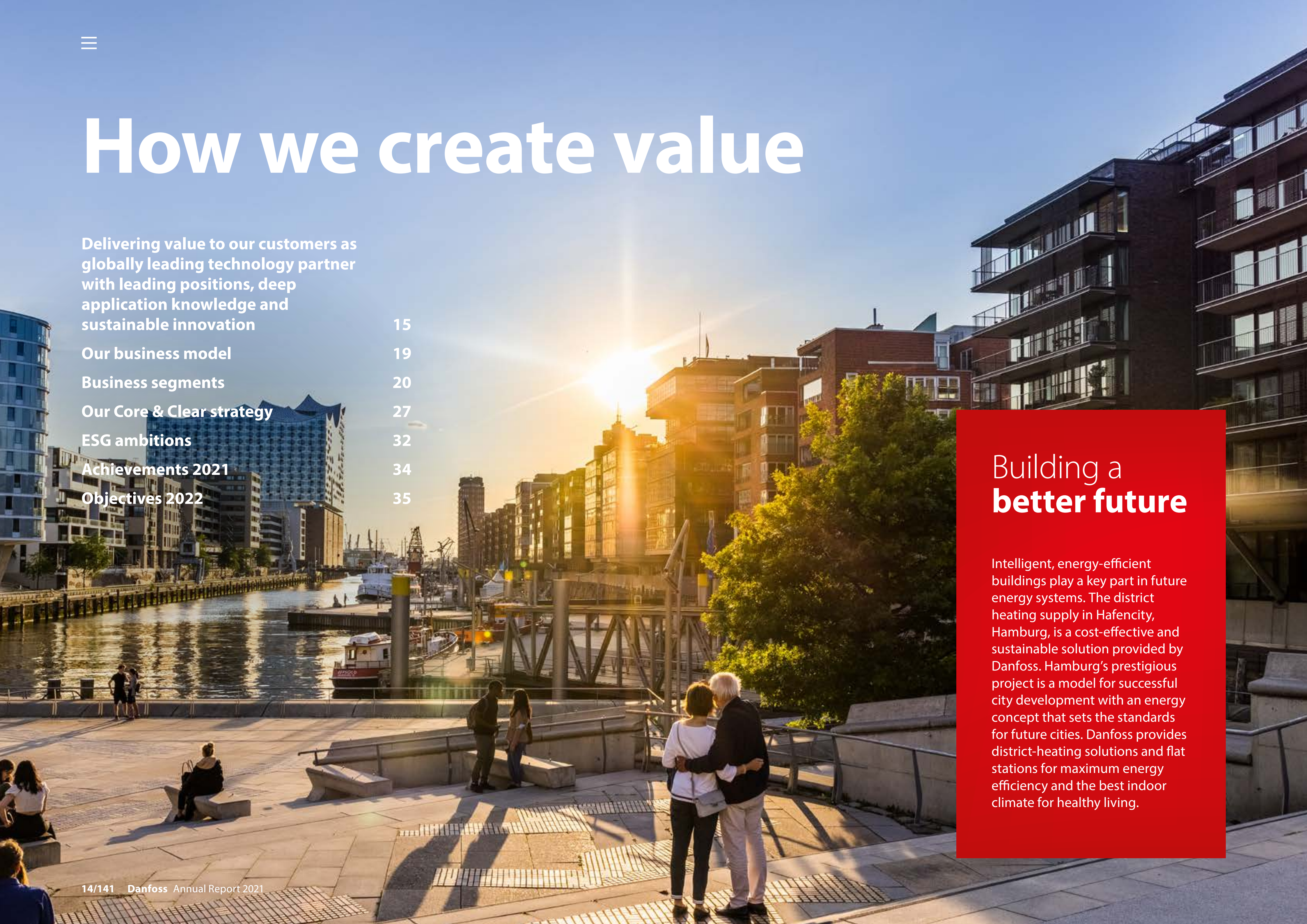
In 2022, the IEA will host its seventh annual global conference on energy efficiency – this time in the Danish city of Sønderborg, which is working towards reaching net zero before 2030.

Facts:

- On June 8-9, 2022, Sønderborg will host the IEA's annual global conference on energy efficiency.
- The Danish Ministry of Climate, Energy, and Utilities is a co-organizer of the conference, which is being held in collaboration with Danfoss, the Confederation of Danish Industry, and State of Green.
- The purpose of the conference is to bring together ministers, CEOs, and decision-makers from government, industry, and civil society to explore how international ambition on energy efficiency can be translated into faster and stronger real-world progress. It will focus on implementation over the next 5-10 years, to achieve the gains that are needed on the global path to net zero.
- With ProjectZero, Sønderborg envisions reducing its climate footprint to zero by 2029 through conversion of the energy system.

Sønderborg is home to Danfoss and our founding family. This is where it all started. In 2022, our 250,000 m^2 production and office space at the headquarters in Nordborg, near Sønderborg, will be CO_2 neutral. The city of Sønderborg will follow by 2029. The IEA conference will allow us to demonstrate the energy-efficient technologies that can and will lead the way in bringing down CO_2 emissions.

Danfoss has the energy-efficient solutions needed to meet the goals set out in the Paris Agreement. It is time to speed up and act!



How we create value

Building a **better future**

Intelligent, energy-efficient buildings play a key part in future energy systems. The district heating supply in Hafencity, Hamburg, is a cost-effective and sustainable solution provided by Danfoss. Hamburg's prestigious project is a model for successful city development with an energy concept that sets the standards for future cities. Danfoss provides district-heating solutions and flat stations for maximum energy efficiency and the best indoor climate for healthy living.

Delivering value to our customers as globally leading **technology partner** with leading positions, deep application knowledge and sustainable innovation

If we are to succeed in meeting global climate and energy goals, we must break the global emissions curve.
Danfoss engineers solutions that increase machine productivity, reduce emissions, lower energy consumption, and enable electrification.

In 2050, we expect the planet to have:

2x the economy

2bn more people

But to achieve net-zero emissions by 2050, we will also need:

8% less energy use

So, how can we make our energy power more, while using less?

Unlock energy efficiency

Source: IEA, Net Zero by 2050 – A Roadmap for the Global Energy Sector (2021), p.18

Danfoss is a preferred technology partner in industry

The industrial sector is vital to achieving and maintaining a sustainable society. Sixty percent of the sector's overall energy use is consumed by three areas: chemicals, steel, and cement (IEA, 2021). However, there is ample opportunity here to ensure energy is used only when needed. For example, if manufacturers were to install variable frequency drives where possible, the industry could save 8% of global energy use by 2040 (IEA, 2016). Additionally, if manufacturers were to install heat exchangers, they could produce more while using less – and even reuse energy by sending surplus heat back into the grid to warm our homes.

Danfoss is helping the world to become electrified

The transport sector is still reliant on fossil fuels, procuring 90% of its energy from oil (IEA, 2021).
But electrifying transport doesn't just mean switching to renewable energy; it also means increased energy efficiency. For example, gas engines waste between 64% and 75% of the energy they use converting power to movement, while the drive system of an electric vehicle reduces this loss to between 15% and 20% (US Department of Energy, 2021). With heavy machinery and passenger ferries starting to go hybrid or fully electric, electrification is helping businesses achieve their green goals while lowering total cost of ownership.

Danfoss secures the fast track to highly efficient buildings

The world is on course to build the equivalent of New York City every month for the next 40 years (UN Environment, 2017). For every new square meter built, greenhouse gases are emitted during construction and when a building is heated, cooled, or filled with white goods and devices. Today, buildings account for nearly 40% of the world's energy-related emissions (IEA, 2021). If we are to turn the tide, every square meter of new floor space needs to function using less energy. That means taking action anywhere we can. Simple measures like upgrading technical building systems can save on average 30% when heating and cooling buildings (Ecofys, 2017) – and by integrating buildings on a physical and digital level, we can go even further.

Industry case

15% energy savings with Danfoss drives

Manufacturing companies can minimize energy use and reduce emissions and operational costs by installing variable frequency drives. Low-voltage drives enhance machine processes to improve efficiency and productivity.

Leading Bavarian manufacturer Hans Weber Maschinenfabrik GmbH needed drives that could improve the efficiency of its high-precision grinding machines, while maintaining the renowned high-quality finish given to every product, metal or wood.

With limited space in the machine control cabinets, WEBER needed a small solution that could deliver a big impact. Danfoss Drives had the perfect fit.

Ensuring the optimal speed, accuracy, and stability, Danfoss low-voltage drives control different parts of the grinding machines, such as the sanding unit, position controller, vacuum table, and conveyor belt.

15% reduction in energy consumption
WEBER uses Eco Drive technology, where the Danfoss drives automatically recognize the load and regulate optimal processes and action. This enables energy savings of around 15%.

WEBER also benefits from DrivePro® Remote Expert Support, an IoT maintenance service that provides easy, fast, and secure access to all drives, supporting customers around the world.

AC drives have the potential to save:

8%

of global electricity consumption by 2040

"We have worked with Danfoss for a long time, and the cooperation has always gone well. They know their way around our products, and they know us. They understood exactly what we needed, and we received drives that were perfectly suited to our requirements. The Danfoss drives support our high-precision grinding machines, but most importantly, they enable us to reduce energy consumption and operating costs."

Stefan Fischer
Head of Electrical Design at Hans Weber

Source: IEA World Energy Outlook 2016

Transport case

Reducing emissions at sea

Danfoss is teaming up with Volvo Penta to take electrification within the marine industry to the next level.

Volvo Penta and Danfoss working together on MHO-Co's new hybrid crew transfer ships.

"I think we have the best system possible with the technology that exists today."

Mik Henriksen
CEO of MHO-Co

Danfoss' Editron division is partnering with Volvo Penta on electrification at sea, delivering the highest quality future-proof technology to our customers, helping them decarbonize.

The hybrids cut emissions by 20%
Two hybrid crew and supply ships, MHO Asgard and MHO Appollo, are operated in the UK by customer MHO-Co and wind-farm operator Ørsted and powered by Volvo Penta and Danfoss Editron.

In this case, hybrid means that the ships can be operated using only electric power from battery for a limited time or they can be operated using both battery and diesel engines.

The ships take workers and supplies to offshore windfarms in the North Sea off the Yorkshire, UK, coast – now in a more climate-friendly way.

After only a few months in operation, the ships had an impressive environmental impact, reducing fuel consumption and CO_2 emissions by roughly 20% compared to non-hybrid ships in the MHO-Co fleet.

"We are thrilled to announce this partnership. By leveraging the strengths of both our companies, we will be able to support our customers' transformation journey by providing world-leading electrified solutions."

Heléne Mellquist
President of Volvo Penta

Watch the video and learn how Volvo Penta and Danfoss Editron make an impact

https://www.youtube.com/watch?v=O9hPI5n7x30

Buildings case

Decarbonizing buildings by enhancing energy efficiency

Optimizing the way we heat and cool buildings is essential to reduce emissions and meet the Paris Agreement goals.

EDGE Amsterdam West is a new sustainable landmark in Amsterdam, Netherlands. The 47,000 m² multi-tenant office building is packed with innovative technology and provides optimal comfort and health and meets BREEAM Outstanding sustainability levels. The backbone of the building is a building management system that controls and monitors the building's mechanical and electrical equipment, including the use of IoT and artificial intelligence.

"Working together with EDGE and our partners, our calculation proved the Danfoss solution to be an economically stronger choice. Energy monitoring at climate ceiling level is an important part of achieving the highest BREEAM score."

Peter Mol
Project Manager at the installer Bosman Bedrijven B.V.

The building uses smart, innovative Danfoss climate solutions for its heating and cooling system, including Danfoss NovoCon® digital actuators that guarantee fail-free health-optimized indoor climate. Ceiling panels provide heating and cooling through an energy-efficient hydronic solution, and they're used to control the flow demand. To control room temperature, Danfoss IoT actuators provide flexibility – if the office space changes, actuators can remotely be reassigned to another space.

Digital system data provide detailed real-time insights on energy use, cost, and predictive maintenance, like malfunctions or unexpected energy loss – insights that can be detected and solved early, increasing energy efficiency and reducing emissions.

To gain the BREEAM Outstanding credits, a leading sustainability assessment method, Danfoss' Digital Hydronics NovoCon® Energy solution and temperature sensors are used for optimization of energy consumption.

Buildings and their construction account for over one-third of global energy consumption and close to **40%** of the world's energy-related emissions. Decarbonizing buildings and enhancing their energy efficiency is essential to curtail a rise in emissions and meet the Paris Agreement goals.

Our **business model**

Danfoss solutions provide real value to our customers through our application knowledge, innovation, and leading positions.

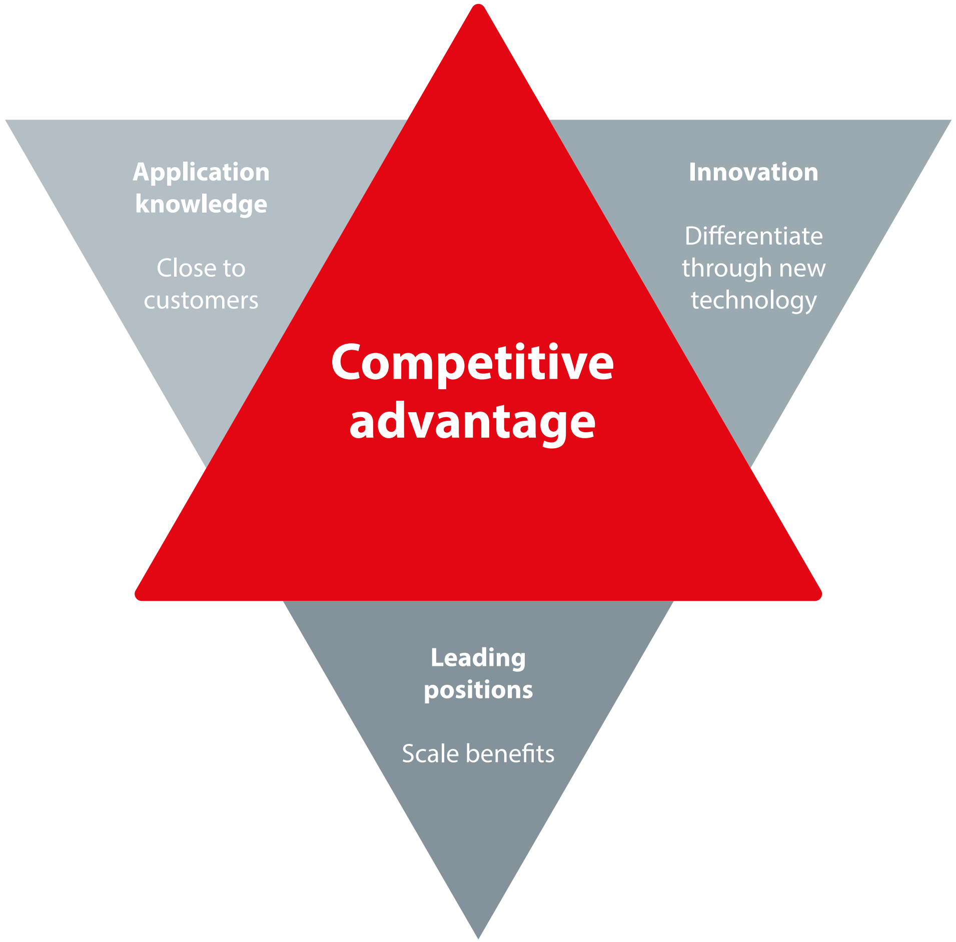
Being the preferred partner in helping our customers decarbonize requires continuously strengthening our competitive advantage.

Our capabilities within application knowledge, innovation, and leading positions reflect how we create value for our customers across our business segments.

Application knowledge
Understanding customer applications is key to differentiating and creating customer value. We invest in initiatives that enable our sales and R&D teams to turn their expertise and application understanding into performance-enhancing advantages for our customers.

Innovation
Our mechanical, electrical, and software engineering enable bold innovation and continuous improvement of our technologies, solutions, and processes in the core businesses. We innovate to differentiate and create customer value. We invest to take full advantage of innovation and take the lead within IoT, connectivity, and electric solutions.

Leading positions
In the global manufacturing industry, global reach, size, and scale matter. It is a key element in our business model that the business segments hold leading positions as either number one or two in their industries. Our shared operating model further helps to drive advantages of scale, increased customer value, and a world-class supply chain, and we share a unique business system with a strong focus on improving safety, quality, delivery, and cost.



Danfoss

Power Solutions

Sales

3.2bn

(2020: EUR 2.0bn)

EBITA

489m

(2020: EUR 329m)

EBITA margin

15.3%

(2020: 16.8%)

Segment development in 2021

Danfoss Power Solutions delivered both record sales and record profit in 2021, excluding impacts from the acquisition of Eaton's hydraulics business.

The segment delivered significantly better sales than in 2020 and well ahead of 2019, driven by the continued strong demand of the mobile hydraulics industry. In addition, the integrated hydraulics business contributed to sales growth after closing of the acquisition on August 2, 2021. All regions achieved strong growth rates.

Profitability was impacted by integration cost resulting from the large acquisition, and operationally the business experienced inflationary pressure from increasing raw material prices and freight rates as well as from spot buys of electronic components. Excluding the integration cost, the business delivered unprecedented profitability in 2021.

Strongest partner in mobile and industrial hydraulics

With the integration of Eaton's hydraulics business into Danfoss Power Solutions, the segment is well positioned to become a global leader in hydraulics and electrification. It engineers innovative products and solutions that optimize the performance of mobile and industrial equipment for our distribution partners and customers all around the globe.

It was a transformational year for Danfoss Power Solutions. In 2021, the business delivered remarkable results while integrating about 10,000 new employees. The coming together of these two strong businesses doubled the employee base and level of expertise. The segment includes more than 1,500 engineers and a sales force of nearly 2,000, along with a much larger distribution network.

The global footprint is now broader, with a manufacturing presence close to customers in all regions. That, coupled with a significantly enhanced product portfolio, allows the business to better serve its distribution partners and customers.

Globally recognized brands
In addition to its mobile hydraulics and electrification solutions, Power Solutions now offers industrial hydraulics and fluid conveyance products.

- The new Industrial division meets the hydraulic needs of stationary machines in industries such as renewable energy, manufacturing, processing, marine, and oil and gas, where customizable system solutions are required. With Vickers, a well-known brand in the market, Danfoss now offers complete system solutions for the industrial customer.
- The new fluid conveyance division provides hoses, fittings, tubing, and connectors that transport – or convey – many types of gases and liquids including hydraulic oil, beverages, air, and more. The portfolio includes brands well known around the world, such as Aeroquip, Boston, Synflex, Weatherhead, and Winner.

Stronger together
This integration also brings together the dynamic machine control experiences and application development centers that customers have appreciated from the now-integrated businesses for years. These interactive and hands-on experiences demonstrate how our solutions meet specific customer needs, no matter how complex. Our development and testing facilities around the world save customers time and money by accelerating critical time-to-market.

19,061
employees worldwide

53
factories in 19 countries

3
application development centers in the US, China, and Denmark

3
top markets: North America, Europe, and Asia

Continually investing in innovation

A new incubation division launched and focuses on creating innovative and disruptive solutions for customers. The team, which has a passion for exploration and learning, will focus on highly strategic projects with high potential to transform the industry.

While Danfoss Power Solutions has a long history of innovation, this new division fosters an entrepreneurial approach as it develops technologies for on- and off-highway vehicles as well as industrial machinery. Launching great innovations takes more than the standard approach to business. It requires specialized talent, more time, and certainly dedicated funding. Bringing acceleration projects together into a separate division drives greater focus and ensures these projects have the resources needed.

The incubation team is well versed on important megatrends such as autonomous vehicles and digitization, while keeping a clear focus on what solutions customers need most.

Danfoss Power Solutions

NEW fluid conveyance division

Convey liquids, gases, and solids for a wide variety of mobile and industrial applications.

Through the recent integration, Danfoss Power Solutions gained a large, global team of fluid conveyance experts and industry-leading capabilities. We provide critical connections in challenging applications that keep our world moving forward.

Fluid conveyance solutions move fluids from one point to another – connecting hydraulic circuits, airbrake lines for on-highway vehicles, chemical tankers to processing facilities, beverage lines to dispensers, oil rigs to the ocean floor, and so much more.

Our new fluid conveyance division provides hoses, fittings, tubing, and connectors that transport a variety of liquids and gases. The business brings a long history of strong and trusted brands, like Aeroquip, Weatherhead, Synflex, Boston, and Winner, some of which have been relied upon for more than 100 years.

Well established in traditional mobile and industrial hydraulics markets, these products are also instrumental in industries including commercial vehicle, oil and gas, agriculture, construction, and beverage – to name a few.

In addition, our fluid conveyance footprint allows us to deliver a comprehensive portfolio of engineered solutions to help our customers with everything they need to move, cool, dig, lift, power, and haul.

Fluid conveyance on the move – innovation highlight

Our innovations keep customers' businesses moving: making their products better, fueling their growth, and increasing their efficiencies. Fluid conveyance is proud to be a leader in on-highway commercial vehicles. Our reputation for quality and innovation in brake systems, air conditioning, engines, steering, and more helps our customers – and the planet – by tackling tight routing challenges, meeting or exceeding stringent emission standards, and reducing weight. As demand increases for more complex and sustainable solutions in electrification, fuel, and permeation, our fluid conveyance business is poised to continue to lead with the next generation of thermal-management coolant, hydrogen fuel, and air conditioning hoses.

Danfoss

Climate Solutions

Sales

2.9bn

(2020: EUR 2.5bn)

EBITA

511m

(2020: EUR 410m)

EBITA margin

17.8%

(2020: 16.4%)

Segment development in 2021

Danfoss Climate Solutions delivered significantly better sales than in 2020 and well ahead of 2019.

Danfoss Climate Solutions had strong momentum, fueled by the strong market demand, especially within heat pumps and cold chain technology.

Commercial compressors had strong growth, and Turbocor® oil-free compressors won the AHR 2022 Innovation Award and the Asia-Pacific Cloud and Data Award for energy efficiency, supporting growth within data centers.

All regions grew, and China showed record-high sales. However, the strong global rebound put high inflationary pressure on raw material prices and freight rates as well as electronic components availability.

Profitability was significantly ahead of 2020 and above the 2019 level.

Accelerating the **green transition**

Our innovative technologies enable the transition to a decarbonized, digital, and more sustainable tomorrow. We provide energy-efficient solutions for industry, buildings, and the entire food chain.

Our technologies and solutions support the transition to a decarbonized, digital, and more sustainable tomorrow by providing a broad portfolio of energy-efficient solutions needed to reduce food loss, improve energy performance in buildings, and make our cities cleaner.

- With our integrated and energy-efficient heating and cooling solutions, we aim to innovate best-in-class circular products and pioneer solutions for customers to enable decarbonization in an intelligent, cost-optimal way.
- As a leading provider, we support our customers as they accelerate the shift to natural refrigerants to reduce climate impact.
- We continue to develop technologies to deliver the innovative energy-efficient solutions that are needed to reduce global emissions from buildings and mitigate climate change.

We combine heating and cooling applications so waste heat from industry, data centers, and supermarkets can be recovered to heat buildings – saving energy and reducing investments in new heat generation. We also develop innovative energy-storage solutions, such as the connected supermarket and the Danfoss Smart Store.

11,235
employees worldwide

4
application development centers in the US, China, and Denmark

34
factories in 15 countries

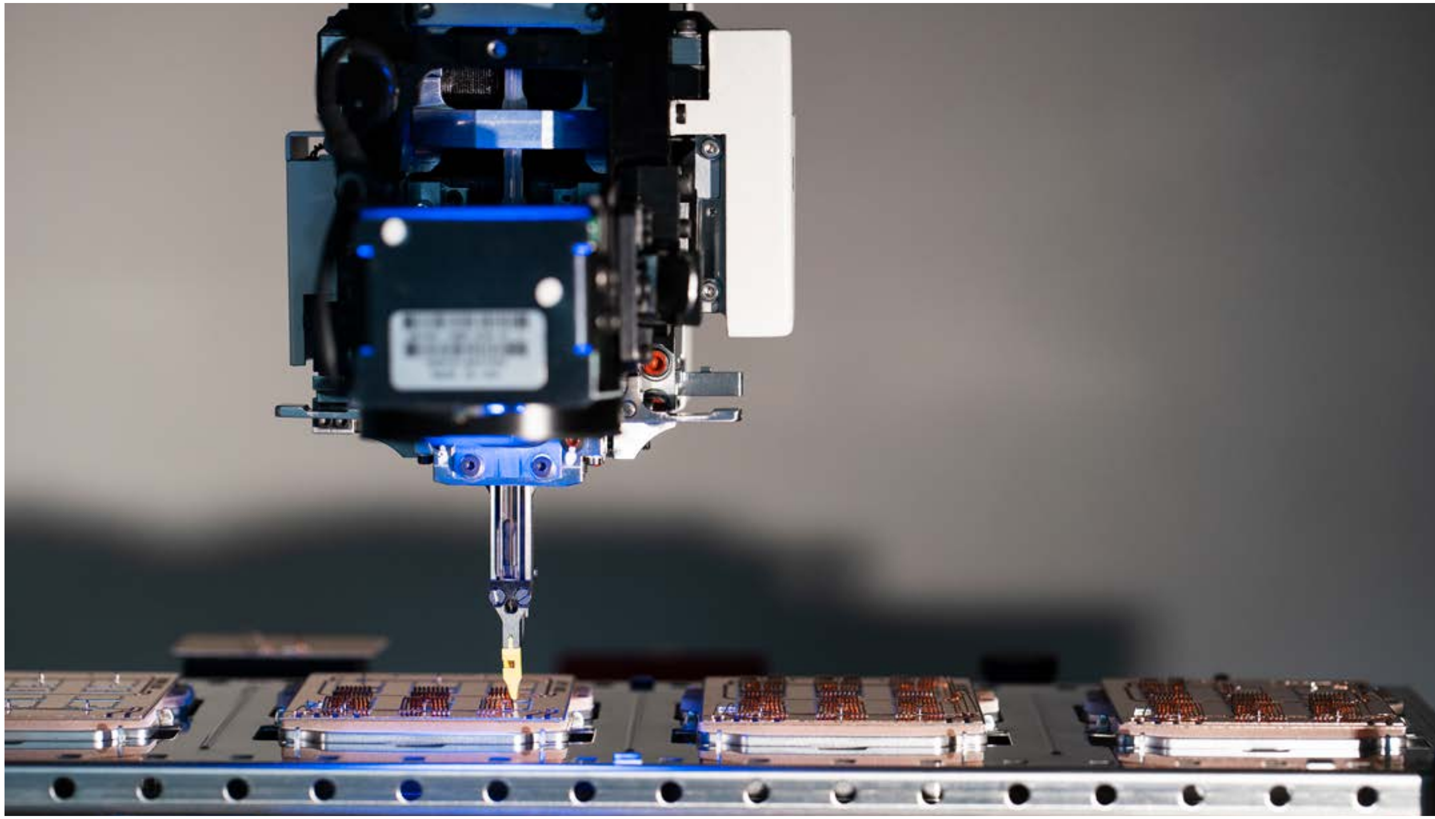
3
top markets: Europe, China, and North America

Electrification of heating kickstarts a new era of **greener district heating**

District heating plants are moving away from fossil fuels and turning to renewable energy and innovative technology, such as electric heat pumps and heat recovery, to reduce their environmental impact and ensure affordable heating. Ringsted District Heating Company – a large district-heating utility in Denmark – reduced its reliance on fossil fuels by 97% after installing an innovative heat recovery system using Geoclima heat pumps built with Danfoss Turbocor® oil-free compressor technology.

Danfoss

Drives



Sales

1.4bn

(2020: EUR 1.4bn)

EBITA

180m

(2020: EUR 186m)

EBITA margin

12.4%

(2020: 13.6%)

Segment development in 2021

Danfoss Drives delivered 6% sales growth compared with 2020 and was on par with 2019. Especially in China, Drives saw significant growth.

Customer demand was high, but the entire industry was constrained by component shortages. Drives also had to manage significant logistics disruptions, inflationary pressure on freight rates and raw materials, as well as unprecedented supply shortages, especially of microcontrollers and other electronic components.

Demand and order intake in Danfoss Silicon Power were strong, driven by the ramp-up of automotive power modules for drive trains.

We are driven by **drives**

Danfoss Drives is a global leader in electrification and variable speed control of electric motors. For more than 50 years, we have contributed globally to meeting the need for energy-efficient infrastructure, connected systems, and integrated renewable energy, with our quality, application-optimized drives, and lifecycle services.

Danfoss Drives is a global leader in electrification and variable speed control of electric motors.

The portfolio of high-quality, application-optimized VACON® and VLT® products optimize process performance, save energy, and minimize emissions. Innovative technology that tackles climate change and helps the world of tomorrow go green and become more sustainable is high on our agenda.

We have decades of industry-dedicated experience in meeting our customers' specialized challenges. We create and share solutions that deliver better process precision and superior energy efficiency for electric-motor operations, marine, and land-based electrification solutions as well as new sustainable technologies such as green hydrogen.

Danfoss Silicon Power – a technology leader in customized power modules for automotive, solar, wind, and industrial applications – is an independent business and part of the Danfoss Drives segment, enabling electrification to change our world.

The solutions are used to provide optimal operation of pumps, fans, chillers, conveyors, electric vehicles, hybrid systems, and power conversion, enabling energy storage, new renewable energy sources, and electrification solutions.

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4,582
employees worldwide

3
application development centers in China, Singapore, and the Netherlands

9
factories in 7 countries

3
top markets:
Europe, China, and North America

100% electric and close to **emission-free** – Danfoss is on board

It's super-low emissions, fully electric, and in operation. Denmark's largest domestic ferry company, Molslinjen, launched its first electric passenger ferry named Grotte, paving the way for electrification at sea and the green transformation. The E-ferry Grotte will be breaking the waves on the UNESCO World Heritage waters between the town of Esbjerg and the island of Fanø in the Southern part of the North Sea, Denmark. Grotte is operated by two electric motors from Danfoss Editron, controlled by Danfoss Drives converters – all helping our customer to achieve green goals while lowering total cost of ownership.

Imagine if this were done for all short-sea voyage ferries around the world! In Europe alone, around 900 ferries operate on shorter routes, all with a potential to electrify. Most ferries – on shorter routes – operate in the Mediterranean, followed by the North Sea and the Baltic Sea.

Our **Core & Clear** strategy

Danfoss is uniquely positioned to drive growth and be the preferred partner in helping our customers decarbonize.

Global megatrends are transforming our world, making Danfoss more relevant than ever. We have proven and reliable solutions to meet many of the climate, urbanization, and food challenges. 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. This is how we engineer tomorrow and build a better future.

"Core & Clear is our growth strategy. We are pleased that our organic growth developed well, while welcoming 10,000 new team members. On top, our engagement score continues to rise. Our success is due to the incredible commitment and engagement across the company."

Kim Fausing
Danfoss President & CEO

Core & Clear – Going Great

Our aspiration
We engineer tomorrow and build a better future

Our strategy

- Leading Portfolio
- Customers & Growth
- Innovative Solutions
- Lean & Agile

Our foundation
High-performing diverse teams

Megatrends

Danfoss technologies and solutions are more relevant than ever.

Climate change

Urbanization

Food supply

Digitalization

Electrification

Summing up our **Core & Clear strategy**

Leading portfolio	We target a global leading #1 or #2 position in all three business segments. We invest to strengthen our core businesses and build a leading position within digitalization and electrification to enable a green, carbon-neutral future.
Customers & Growth	We focus on being close to our customers and drive customer satisfaction with strong and consistent performance on quality and delivery. We focus on growth verticals to outgrow the market and provide a seamless end-to-end digital customer experience.
Innovative Solutions	We differentiate through deep application knowledge and new technology, enabling low-carbon and net-zero products. We create significant opportunities by leveraging the latest technologies to create even more value for our customers.
Lean & Agile	We aim to be recognized as a leader in operational excellence in the industries we serve. We want to be the benchmark in safety, quality, delivery, and cost. A flexible and agile supply chain and our "One ERP" IT architecture ensure we serve our customers with speed.

Key achievements 2021

2021 was a transformational year for Danfoss, and we are well on track with our key strategic initiatives. We further strengthened our core with the acquisition and integration of Eaton's hydraulics business as well as integration activities in the new Climate Solutions segment. Furthermore, we maintained strong momentum in taking the lead in digitalization and building a leading position in electrification.

Leading Portfolio

To strengthen our leading positions, we invest in the future. Danfoss has a strong position in all three business segments and continues the leading performance levels compared to our peers.

Acquisition of Eaton's hydraulics business

On August 2, 2021, Danfoss closed the acquisition of Eaton's hydraulics business for a purchase price of USD 3.3bn – the biggest acquisition in the history of Danfoss. With the acquisition, Danfoss grew by a third. We added more than 10,000 new colleagues to the Danfoss team, now totaling 40,043 employees. With this acquisition, Danfoss has created a global leader in mobile and industrial hydraulics. Our customers will benefit from combining the two businesses into a full-line hydraulics player dedicated to innovation and with a broad offering of products, unparalleled distribution channel, and tremendous geographic reach.

New Climate Solutions segment

Integrating the Danfoss Cooling and Danfoss Heating segments into the new Danfoss Climate Solutions segment has further strengthened our leading positions. The segment covers all key applications within heating and cooling. There are significant opportunities on the technology side as well as common key applications, such as heat pumps, data centers, supermarkets, and food retail solutions. Today, 40% of all energy consumption in cities is used for cooling and heating. With the increasing urbanization and global focus on the green transition, Danfoss Climate Solutions offers huge potential for enabling a carbon-neutral future and providing the integrated energy-efficient solutions needed to deliver on international climate and energy goals.

Leading position in drives and electrification

Building a leading position in drives and electrification is a key strategic priority for Danfoss and is our biggest growth potential. The development of transportation, such as hybrid and electric cars, trucks, construction machines, and marine vessels, is rapidly accelerating to ensure efficiency gains and lower emissions as an essential part of the green transition.

In 2021, Danfoss made significant progress in taking a leading position in electrification. Our order books significantly increased. We are building an electrification campus in Nanjing, China, housing our business units Danfoss Silicon Power and Danfoss Editron. Also, we are creating a new Low-Carbon Innovation Center in Edinburgh, Scotland, which will house Danfoss teams working on next-generation, climate-friendly technologies in hydraulics, digitalization, and electrification. The Low-Carbon Innovation Center will be operationally carbon-neutral, marking an important step towards our goal to be a carbon-neutral business by 2030. The Low-Carbon Innovation Center will be fully operational by the end of 2022.

Based on this, we will continue to focus on building stronger capabilities within electrification. In combination with our conventional core technologies, we are well-positioned to serve our customers' increasing demands within hybrid and electric solutions.

Customers & Growth

Being close to customers and having a systematic approach to drive customer satisfaction is at the center of our growth agenda. Danfoss is uniquely positioned for growth driven by global megatrends, such as climate change, electrification, and digitalization, as well as the economic shift towards developing regions. Our three business segments have strong representation in all regions – close to our customers.

Accelerating growth in Developing Regions
We intend to accelerate growth in Developing Regions (China; Russia; India; Asia-Pacific; Turkey, Middle East, and Africa; and East Europe). Our regions are driving profitable growth based on deep market understanding, customer proximity, and insights into local delivery models, enabling regionalized supply chains. Being close to customers allows us to respond quickly and be flexible in creating and capturing regional growth opportunities and, at the same time, strengthen our efforts in key areas of our customer interaction.

Danfoss story

Autonomous farming
One of the first self-driving machines in the specialty crop industry is proving itself among a select group of California farmers – with promising results. Danfoss supplies the digital brain making the workday easier and farm productivity higher.

Watch the digital story and video

Autonomous driving success for Danfoss https://danfoss.pageflow.io/autonomous-driving-success-for-danfoss#321080

Accelerating digital customer experience
Danfoss is on a digital transformation journey, driving decision speed and bringing us closer to our customers. Benefiting from the best practices of implementing our IT platform "One ERP" (SAP S/4HANA), we continue to address customer processes and data in our strong IT infrastructure.

Innovative Solutions

A heightened awareness and urgency to combat climate change, combined with significant government stimulus packages and exponential growth in available green capital, are driving increasing demand for Danfoss products and solutions that support environmental sustainability, energy efficiency, and a greener energy mix.

We continue our high investments in innovation and R&D to ensure that we stay at the technology forefront and create more value for our customers. In all our business segments, we are strengthening our innovation pipeline, focusing on new innovations like the IC7 platform in Danfoss Drives, Turbocor range extension in Danfoss Climate Solutions, and fully autonomous solutions in Danfoss Power Solutions.

Our own autonomy solution is based on more than 10 years of experience in providing hydraulics, control systems, and software to the mobile off-highway market. We continue to innovate and develop new capabilities for our customers' machines, providing the highest possible productivity, precision, and safety.

In our innovation, we also use digital technology to bring speed into R&D by using, for example, simulation and 3D printing to reduce the time-to-market of new products. The number of 3D printed parts has increased significantly.

During 2021, Danfoss filed 198 (2020: 136) new patent applications. During 2021, 704 (2020: 708) patents were granted to the Group. At year end, Danfoss had a total of 1,995 (2020: 1,567) patent families. The significant increase is due to the integration of Eaton's hydraulics business.

Lean & Agile

To create increased competitive advantage and execute with operational excellence, we stay focused on being lean and agile – harvesting the potential of digital technologies and fighting unnecessary complexity to be the best in the markets we serve when it comes to safety, quality, delivery, and cost.

We are building a flexible supply chain that reacts quickly to the needs of our customers. This is leading to higher customer and employee satisfaction. A strong IT infrastructure and smart factories across Danfoss are key to its success.

One ERP
We are improving the digital customer experience with better end-to-end processes between our supply chain and our customers. This is enabled by our IT platform, One ERP (Enterprise Resource Planning), that is being implemented – in combination with the global product store on our corporate website – throughout Danfoss to enable our digital transformation.

By mid-2022, Danfoss Climate Solutions and Danfoss Drives will be covered by One ERP. With initial merger activities complete, we are now focusing on One ERP in Danfoss Power Solutions.

Implementing One ERP is a team effort. The central One ERP team brings the proven methodology and guidance to the local teams. Local teams work with the central team to address local requirements and execute. One ERP core teams also collaborate with stakeholders across the segments to ensure alignment.

One ERP has proven to be an excellent development opportunity for all project members to expand knowledge on global processes and project management. One ERP works in a diverse environment that brings speed to Danfoss' digital transformation, enabling digital customer experience and supporting connected products and services.

Our foundation

2021 has been a transformational year, with our foundation of diverse, high-performing team members expanding to around 40,000 people with the acquisition of Eaton's hydraulics business.

We learned a lot this year. While we patiently worked behind the scenes and waited for the go-ahead to bring on Eaton's hydraulics business, once we had the green light, we quickly pivoted to focus on a smooth and successful transition. We planned to engage and motivate our new team members to become part of the Danfoss family while also run our businesses and meet our customers' needs. And we succeeded.

We faced global supply chain challenges head on, working directly with our suppliers to ensure our customers' needs were met. And we faced another year of the COVID-19 pandemic around the world, maintaining our unwavering commitment to the health and safety of our colleagues and sharpening our focus to keep the growth momentum.

We couldn't have done all this if it weren't for our high levels of engagement and the key that unlocks how we work, our Danfoss behaviors: Frontline Passion, Run the Business Like Your Own, and Think Danfoss. These behaviors describe how we act as employees and teams to support the Danfoss values and support Danfoss' growth journey.

Employee engagement

In 2021, we carried out our employee engagement survey three months after the acquisition of Eaton's hydraulics business to ensure our more than 10,000 new colleagues could participate. Of our 40,000 global employees, 89% participated in the survey, an exceptional participation rate.

Our overall engagement at Danfoss is high, with a score of 81, showing that employees are passionate, proud, and care about Danfoss and that they would recommend us as an employer to others. We have seen a positive increase in engagement over the last three surveys. One call-out is the significant increase in the engagement level in Danfoss Power Solutions, showing a great start with our new colleagues.

Danfoss story:

Welcome celebrations

At the beginning of August, we welcomed more than 10,000 new colleagues into Danfoss. It was important to us that our new colleagues felt part of Danfoss as quickly as possible.

We welcomed all employees from Danfoss Power Solutions and Eaton's hydraulics business to the new Danfoss Power Solutions. This was an altogether new business for us all. Colleagues received welcome gifts, and Danfoss Power Solutions management hosted virtual town halls welcoming all team members to the new Danfoss Power Solutions.

Along with virtual celebrations, President & CEO Kim Fausing and Danfoss Power Solutions leaders visited the sites of Eaton's hydraulics business – observing coronavirus safety precautions, of course – where they held town halls and management meetings, eager to meet new colleagues.


We welcome
10,000
new colleagues
STRONGE
TOGETH


Danfoss begrüßt
10.000 neue Kolleginnen und
Kollegen von Eaton Hydraulics


ONGER TOGETHER

ESG ambitions

We strive to put ourselves and our customers in the perfect position to drive sustainable transformation.

In 2019, the UN Secretary-General called on all sectors of society to mobilize for a decade of action to deal with the biggest challenges we're currently facing – climate change. Today, with more than 80 years of experience in creating solutions that help lower CO_2 emissions in sectors around the globe, Danfoss wants to be the preferred decarbonization partner for our customers. We are committed to continue investing in this goal going forward – through our leading positions, application knowledge, and innovation.

We've built a solid foundation
Sustainability has been part of the Danfoss purpose since the company was founded. Our DNA and culture have been instrumental in building our leading position across multiple industries. Over many years, we have had a sustainability program that ensured our efforts were focused on where we can make the most significant impact. The program reflected a two-fold contribution toward mitigating climate change: through our solutions that help reduce our customers' carbon footprint and through applying high standards and setting stretch targets across people, climate, and environmental agendas. Now we are ready to take even greater responsibility.

Strong actions to combat climate change
We began the "decade of action" by announcing our ambition to become carbon neutral in all our global operations by 2030 and committing to the Science Based Targets initiative (SBTi). In 2021, we took one step further towards integrating sustainability in our strategy and daily practices by developing ESG ambitions and targets. This builds on our previous work with sustainability and focuses on three areas:

Decarbonization: we will pioneer solutions for customers to enable decarbonization in an intelligent, cost-optimal manner and ensure carbon neutrality in our own operations.

Circularity: we will innovate best-in-class circular products as the default when developing, producing, sourcing, and selling to deliver new value propositions.

Diversity & inclusion: we aspire to deliver an inspiring and inclusive employee experience and create an environment of belonging.

Clear and bold ambition ahead
We've established measurable targets that are based on the SBTi to create a strong foundation for our long-term climate strategy and initiatives. We will monitor our sustainability progress like we track our financials – with solid data and a systematic approach.

Looking towards 2030, we will integrate new and ambitious ESG targets in our Core & Clear strategy and aspire for leading positions within Decarbonization, Circularity, and Diversity & Inclusion.

This work supports our commitment to address climate change and create action. With the new targets and ambitions, we can make a real impact.

Our ESG step-change initiatives

We've built a strong foundation for achieving our own targets and we have clear goals, ownership, and roadmaps for ESG. Our ambitions support three key areas where we want to make a step change.

Decarbonization

We pioneer solutions for customers to enable decarbonization

- CO_2 neutrality in Danfoss' global operations by 2030 (SBT scope 1 and 2)
- Reduction of emissions from use of Danfoss products (SBT scope 3)
- Strengthen and commercialize emissions avoided by the use of Danfoss products

Circularity

We innovate best-in-class circular products

- Establish and implement circularity assessment and framework in all segments
- Resource and waste management

Diversity & Inclusion (D&I)

We offer a leading employee experience that values and respects diversity and inclusion

- Accelerate momentum and engagement through a comprehensive, data-driven approach to D&I
- Embed D&I across the employee lifecycle, including recruitment, development, and talent management
- Launch Employee Resource Groups and establish Regional Inclusion Councils

ESG-specific supplier diagnostics and collaboration program

Integrated reporting | **Enhanced ESG ratings** | **ESG data foundation & transparency** | **Ethics & human rights** | **Health & safety** | **Product innovation, research, quality & safety** | **Regulatory compliance**

Achievements **2021**

Our impact and contribution towards mitigating climate change is two-fold – through the solutions we sell and what we do internally. As a responsible business, we apply high standards and set stretch targets across climate, people, and environmental agendas.

Topic	SDG	2021 - What we said	2021 - What we did
Climate consciousness	7, 13	• Half of Danfoss' electricity consumption to be covered by green Power Purchase Agreements (PPAs) • Prepare roadmap for decarbonizing Danfoss' heating demand • Establish science-based targets and mitigation plans and get targets approved by the Science Based Targets initiative (SBTi) • 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%	• From January 2021, 25% of Danfoss global electricity consumption was CO_2-neutral. We are making solid progress towards expanding the coverage further in 2022 • 45% of our district energy consumption is from renewables. Solid steps taken towards phasing out fossil fuels • Science-based targets baseline established. SBT targets submitted for validation by the SBTi. Approval expected mid-2022 • Transition of car fleet to EVs commencing according to plan. Emissions from company cars reduced by 15% since 2019. In 2021, 184 charging points were installed at our facilities • Energy consumption per EURm net sale reduced by 12% from previous year due to continued optimization of energy use
Resources and products	12, 13	• Roll out product chemical-compliance system and recycling administration system for electronic equipment, batteries, and packaging as part of Group ERP system • Roll out setup for Life-Cycle Assessment and Environmental Product Declaration of products	• Product chemical-compliance system rollout concluded according to plans. Rollout of recycling administration system for electronic equipment ,etc., to be implemented in 2022 • Life-Cycle Assessment and Environmental Product Declaration projects run in Climate Solutions and Drives according to plans. Further implantation to commence in 2022 as part of ESG ambition
Responsible business	3, 5, 8, 10, 16	• Continue to reduce the global Lost Time Injury Frequency (LTIF) towards 1.6 lost time injuries per million hours worked • Develop global tools for identifying and mitigating ergonomic hazards and managing safety data sheets	• LTIF was successfully reduced by 15% to 1.7 lost time injuries per million hours worked • Global tools for identifying and mitigating ergonomic hazards developed and tested. All machines assessed using the Danfoss Machine Safety Inspection Tool (DMSIT)
		• Evaluate where processes to avoid forced labor in recruitment of temporary workers are relevant and implement accordingly	• Evaluation completed through cross-functional project targeted local agreements with recruitment agencies. Workshops in all regions ensure deployment of forced labor clause in new and renewed local contracts
		• Educate our leaders on inclusive leadership and unconscious bias	• Unconscious bias training offered to our people leaders • The 2021 employee engagement survey included a more comprehensive D&I index and initial results reflect a solid foundation on which to build our D&I strategy

Objectives **2022**

2022 objectives create focus, alignment, and ensure value for our stakeholders and our business. We are ambitious so we can meet our customers' expectations, make an impact on the world, and create growth. Sustainability is a business enabler for us and strengthens our license to operate.

Topic	SDG	2022 - What we want
Decarbonization		• Continue decarbonization of our global operations in line with the ambitious science-based targets for scope 1, 2, and 3 and make the headquarters in Nordborg, Denmark, carbon neutral • Further improve energy efficiency and substitute fossil-based energy across Danfoss' locations • Engage with suppliers to reduce emissions from purchased materials and reduce CO_2 footprint of products • Establish verification methodology for emissions avoided from the use of our products and solutions
Circularity		• Develop and implement a Circularity Toolbox, Life-Cycle Assessment and Design for Recycling in our Product Development Processes • Establish take-back solutions for packaging with selected customers to lower carbon footprint and increase reuse of packaging • Establish "Reduce and reuse" platform for plastics with selected customers • Develop and deploy ESG training programs for our employees with focus on decarbonization and circularity
Diversity & Inclusion		• Recruit diverse talent by continuously improving our attraction, selection, and hiring practices • Retain diverse talent by creating an environment of belonging through communities of shared identity, experience, and interests, as well as providing resources that empower leaders and teams to foster inclusion • Increase diverse representation by optimizing our talent-management practices and digital platforms and accelerating development through impactful learning experiences, including training and mentoring

Environment

Accelerating **electrification**

More than 24% of global CO_2 emissions come from the transport sector today. Currently available electrification technologies have the potential to significantly lower that. Danfoss manufactures and delivers the world's most sophisticated hybrid and fully electric drivetrains for the on- and off-highway and marine sectors. Danfoss is part of developing the next-generation, zero-emission electric powertrain for heavy-duty vehicles, providing the high-power electric motor and high-efficiency silicon carbide inverter.

Decarbonization

We create solutions that help lower our customers' CO_2 emissions across sectors – and set the highest ambitions for our own journey towards carbon neutrality by 2030.

One of the three main areas of Danfoss' new ESG ambitions is decarbonizing Danfoss' value chain and helping our customers to achieve carbon neutrality. Energy efficiency is core to what we do, and we want to be the preferred partner in helping our customers decarbonize.

In 2021, we strengthened the focus on reducing energy consumption in our buildings and processes by setting ambitious science-based targets and launching several projects under the new ESG ambitions "Decarbonization." Focus in 2022 will be on ensuring that new or refurbished buildings are brought as close to carbon neutrality as possible, for example, by eliminating the use of fossil energy sources for heating.

The acquisition of Eaton's hydraulics business
With Danfoss' acquisition of Eaton's hydraulics business, energy consumption and thereby carbon emissions of the entire Danfoss Group will increase. Mapping all energy consumption and identifying energy saving potentials in buildings and processes will commence in 2022 as part of Danfoss' ESG project and our commitment to become carbon neutral by 2030.

Science-based targets
In 2021, Danfoss continued the journey towards our ambitious target of making our operations carbon-neutral by 2030 through our commitment to the "Business Ambition for 1.5°C." We strive to reduce our scope 1 and 2 emissions combined by at least 46% and our total scope 3 emissions by a minimum of 15% before 2030 (compared to the 2019 baseline).

Danfoss submitted ambitious targets for validation by the Science Based Targets initiative (SBTi) in 2021 and expects to receive approval in the first half of 2022.

In 2021, we performed a detailed screening to map all emissions across the value chain as part of our 2019 baseline calculations and target submission process to the SBTi. The screening does not include Eaton's hydraulics business, as the SBT baseline is 2019, the year when Danfoss did not have control of Eaton's hydraulics business data.

The major contributor to our value chain emissions is the customers' use of our products. The "Use of Sold Products" emissions make up 98% of the total baseline of 67 million tons CO_2 equivalents (CO_2e). While our products help our customers reduce their footprint through energy efficiency, we recognize that energy is required for our products to operate.

In 2021, we identified levers and mitigation activities for the reduction of CO_2 emissions in our value chain. We will leverage energy efficiency, electrification, renewable energy use, and innovation to reach our targets. We want to actively shape climate action as a means of differentiation from our competitors.

At the same time, Danfoss products are best in class regarding energy efficiency, and they help mitigate greenhouse gas emissions during their use. They are designed to reduce energy consumption and energy-related carbon emissions. This way we help our customers to lower energy demand and, as a result, their carbon footprint.
In 2022, we will set up a solid methodology and start quantifying avoided emissions using Danfoss products as a part of our ESG ambition.

The relevant emission categories included in Danfoss' scope 1, 2, and 3 2019 baseline (numbers exclude Eaton's hydraulics business).

Scope 1 56kt CO_2e	Scope 2 246kt CO_2e	Scope 3 66,820kt CO_2e			
Our direct emissions: Carbon emissions produced as a direct result of our activities at our sites, such as fuel combustion and the use of our vehicles.	**Our indirect emissions:** Carbon emissions from the use of purchased electricity and heating and cooling.	**Our upstream and downstream processes:** Other emissions within our supply chain, e.g., from raw materials, business travel, and transport of goods to customers.			
Combustion of fuels	**Purchased electricity**	**Purchased goods**	**Capital goods**	**Business travel**	**Use of sold products**
Company cars	**Purchased heating**	**Upstream transport**	**Waste**	**Trans-mission of electricity**	**End-of-life treatment of sold products**
Leakage of cooling agents in factories		**Downstream transport**	**Employee commuting**		

Carbon-neutral operations
We aim to achieve our ambition by prioritizing energy efficiency in buildings and processes and by reducing our energy consumption with our own solutions.

With more than 90% of energy use emissions coming from electricity, the next step is decreasing energy consumption from electricity use. This will help us deliver on our ambition to reduce scope 1 and 2 emissions.

Since January 2021, Danfoss sources carbon-neutral electricity for all the company's locations in Denmark and Germany through a power purchase agreement. The agreement delivers 116 GWh of electricity annually, corresponding to 25% of Danfoss' total electricity consumption prior to the acquisition of Eaton's hydraulics business.

We work to source green electricity for our facilities in other regions where power purchase agreements are readily available or are expected to be within a few years. We will reduce energy demand by ensuring that no heat is wasted, but rather recovered and reused. And we aim to substitute the remaining fossil-based energy for heating with renewable energy sources.

Many of our factories do not have hydronic heating systems but base the heating on natural gas with indirect gas heaters in the air-handling units. In 2022, Danfoss Group Real Estate will assess all locations' energy consumption and prioritize refurbishment to ensure carbon neutrality in our own operations before 2030.

Energy consumption and emissions of Danfoss
In 2021, Danfoss changed the calculation methodology for energy-related emissions to be aligned with science-based targets. We moved from location-based emission factors to

Rolling out electric company cars

The electrification of our company car fleet is an important part of our goal to become carbon-neutral by 2030. Converting our car fleet to all-electric goes hand-in-hand with our business strategy, where electrification plays a key part.

In November 2021, we signed a global declaration, launched at COP26 by The Climate Group, that accelerates the transition to 100% zero-emission cars and vans. As a company that delivers solutions to the automotive industry to drive electrification, we commit to supporting the rapid acceleration to zero-emission vehicles to achieve the goals of the Paris Agreement.

In 2021, our car fleet contributed 8 kt of CO_2 emissions to our global carbon footprint. To eliminate these emissions, we are replacing fossil-fuel-based cars in our car fleet with electric vehicles, including plug-in hybrid vehicles. We now have 97 electric and hybrid company cars on the roads in 10 countries. The electric and hybrid cars are around 5% of the company's car fleet.

We are also installing charging points at our largest sites and facilitating their installation at employees' homes. In 2021, we completed the installation of 184 charging points at our facilities, 109 of which were installed in Denmark. Our reporting data is aligned with the EV100 reporting timeline and covers the period from July 2020 to June 2021.

market-based factors documenting the exact CO_2 content of the energy procured for each location rather than using a country-specific factor.

In 2021, Danfoss' total energy consumption for buildings and processes increased by 2% to 601 GWh. Danfoss' energy intensity in 2021 decreased by 12% compared to the previous year, proving that we have managed to decouple growth from energy consumption in our business.

In 2021, Danfoss emitted 236 kt of CO_2 from the company's consumption of electricity and heating, which is the same as the previous year. The sources were the generation of electricity and heat in our own facilities as well as the purchase of electricity and district heating from external sources.

Intensity and productivity performance

For several years, Danfoss has calculated energy intensity, energy productivity, and CO_2 intensity relative to our net sales. In 2016 we set ourselves a target to double our energy productivity and to halve our energy intensity by 2030 compared to the 2007 base year. In 2021 we achieved both targets – nine years ahead of time.

Energy productivity went up from 80% in 2020 to 104% improvement from the baseline year 2007. Energy intensity of Danfoss was 51% lower than in 2007. CO_2 intensity of Danfoss fell to 35 tons per EURm, equal to an overall reduction of 42% since 2007.

2/3

of our headquarter's heating demand is carbon-neutral

CO_2-neutral headquarters

All electricity and heating for buildings at our headquarters in Nordborg, Denmark, will be carbon neutral by the end of 2022. The campus is Danfoss' largest production facility and covers more than 250,000 m². Within recent years, the buildings have undergone a massive change to improve energy efficiency. Danfoss' own solutions have been instrumental every bit of the way, allowing massive energy savings. This together with other green initiatives has resulted in an 80% cut in emissions in 2021.

Our green initiatives

In 2021, we sourced 100% green electricity for the campus in Nordborg. Two-thirds of our heating demand was covered by green energy from carbon-neutral district energy, utilization of excess heat, and from heat pumps.

The district energy comes from a municipal district-heating facility next to the campus. The municipality does not buy wood or other biomass that needs to be transported over long distances, but rather sources excess straw from local farmers' fields. Furthermore, to heat our offices and production areas, we apply our own solutions to reuse excess heat from our manufacturing processes and from a data center next to the campus – in addition to installing heat pumps and electric boilers. To stretch every single watt as far as we can, we use our own digital solutions to maximize energy efficiency and speed up the complete phase-out of the last fossil fuels.

Circularity

Achieving decarbonization goals through circular solutions for our customers, Danfoss, and the world.

Committing to circularity
We strive to deliver the best circular solutions on the market, preferring to keep our products in use, if environmentally suitable, and perceiving waste as a design flaw. We are working to develop innovative circular business models with our customers and suppliers.

Our commitment to a circularity framework is reflected across all Danfoss' activities, including how we:

- Assess and improve reusing and recycling materials across the entire value chain
- Take responsibility for the entire life cycle of our product
- Design our products with sustainable end-of-life in mind

As part of the implementation of a circularity approach in Danfoss, the KPI's needed to measure and track our progress will be defined. This is expected in the first half of 2022.

Sustainable collaboration with customers
Our circularity practices go across the entire value chain. We collaborate with our customers and suppliers to develop innovative approaches and explore new opportunities. With the experience we gain, we can continuously adapt our processes and improve our circularity toolbox.

Measuring environmental impacts of our products
We have integrated life-cycle thinking into our product and process development for years, and now we've started working with the life-cycle assessment (LCA) methodology, defined as systematic analysis of potential environmental impact during a product's entire lifecycle. The process provides the foundation for developing Environmental Product Declarations (EPDs) for our products.

Environmental Product Declarations
In 2021, we implemented an organization-wide approach to EPDs, including tools, processes, and methodologies for performing life-cycle assessments on our products. We successfully ran a first pilot with a Danfoss Drives frequency converter, and now we're running a second pilot with two valves produced by Danfoss Climate Solutions. The pilots allow us to build processes along with the tools, confirming that we have the right setup, resources, and knowledge. From the experience we gain, we are better equipped to deliver on increasing requests on EPDs from customers and internal needs to use a life-cycle approach in our product development.

We recognize that EDPs give our customers straightforward information on a product's carbon footprint and environmental impact. In 2022, we will make a strong effort to deploy and build capacity to respond to increasing customer requests on this front. We're convinced this will greatly benefit our efforts towards decarbonization and circularity in helping our customers decarbonize and achieve their environmental targets.

Danfoss story

Refurbishing and renovating
– a good idea and sustainable solution
Keeping components and materials in use as long as possible helps lessen their impact on the environment and secures material efficiency. Take, for example, our refurbished high-pressure pump setup. The pumps are made of high-quality stainless steel, very heavy to move and expensive to produce. But their parts can be given a second life. When we receive a pump for renovation, we refurbish parts, replacing those that are worn out, test for full functionality, and grant a new warranty period to the customer.

The APP 53-92 high-pressure pump and iSave energy recovery device are used within the reverse osmosis process to make fresh, clean water from seawater. The pump supplies seawater to the membranes, while the energy-recovery device captures wasted hydraulic energy from the membrane reject flow. Since reverse osmosis is an energy-intensive process, our APP pump and iSave energy recovery device together offer the most energy-efficient solution for the desalination market. We offer our customers refurbished parts, or a service-exchange spare part solution to keep their operations running and increase uptime.

Safe and **sustainable products**

We focus on integrity, compliance, and transparency and ensure our products are safe and sustainable.

Product compliance is an ongoing responsibility at Danfoss and a critical enabler of customer satisfaction, growth, and sustainability. In 2021, we advanced our product compliance program to meet the needs of the changing landscape.

Enhanced monitoring capabilities
We continuously monitor requirements from our customers and regulators. Our robust product compliance program ensures transparency, quality, and safety of our products. To minimize adverse effects on the environment and society, product responsibility stretches across the supply chain, and we keep open dialogs with our suppliers to improve compliance practices throughout Danfoss.

In 2021, we further developed our monitoring capabilities for managing the ever-increasing number of regulations and standards affecting our products. This enables us to stay agile and deliver compliant products to our customers.

Improved digital-product compliance
Developments in both regulatory and customer requirements over 2021 confirmed that digitalization with rigorous product and supply chain data management is increasingly important to stay compliant and support sustainable business growth.

In previous years, we built systems to manage product-related chemical compliance and recycling administration under the extended producer responsibility schemes. In 2021, we started to roll in substance and extended producer-responsibility solutions anchored in the Danfoss One ERP platform. Once the rollout is finalized, our businesses can more quickly deliver reliable compliance information to customers and authorities, including full material declarations and recycling information for our products.

In 2022-2023, solutions will be rolled out to take Danfoss to the next level of effective product compliance data management and have one aligned solution across the whole business. This will improve our ability to stay compliant, lower risk, report to authorities, and live up to customer expectations.

Robust compliance processes and tools
We implement robust product compliance processes across the organization through Group Standards. The Danfoss Negative List is the foundation for chemicals management at Danfoss. It restricts the use of hazardous substances in products and production processes, and it must be complied with by all Danfoss suppliers, tenants, and contractors.

An important focus in 2021 was the US Environmental Protection Agency (EPA) amendment of the Toxic Substances Control Act (TSCA) with five new substances. We conducted extensive supplier campaigns to clarify the impact of these restrictions on our products, and we developed internal TSCA processes for our product compliance program. We also strengthened our process for compliance with the California Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65), aligning our scoping procedure and improving customer notification prior to purchasing products that contain listed substances.

Smart sourcing decisions
We want to make informed sourcing decisions, which is why we support the Responsible Minerals Initiative (RMI) and review whether tin, tantalum, tungsten, and gold (3TG) in our products originate from conflict-affected and high-risk regions as defined in the US Dodd-Frank Act. We collect data from 1,450 tier-one suppliers and provide conflict mineral reporting templates to our customers.

Many Danfoss products are in direct or indirect scope of the EU's Restriction of Hazardous Substances (RoHS) Directive (or similar rules elsewhere) restricting usage of hazardous substances in electrical and electronic equipment. In new product development, we strive to substitute hazardous substances and materials with more sustainable ones.

Our processes ensure compliance with European and international regulations to secure protection of human health and the environment. We conform to the EU regulation for Registration, Evaluation, Authorization and restriction of Chemicals (REACH) and the Candidate List that is updated by the European Chemical Agency (ECHA).

In 2022, our focus will be monitoring and reporting under REACH, updating our Negative List, and continuing to deliver data to the ECHA's SCIP database (Substances of Concern In articles or in complex objects (Products) established under the EU Waste Framework Directive). The SCIP database provides information on articles containing Candidate List substances available through the lifecycle of products and materials, including at the waste stage.

Social

Success is driven by **our people**

Danfoss' foundation is our high-performing, diverse teams. We strongly believe that taking care of our people and our working environment, where everyone feels engaged, respected, and excited about their work, is essential for Danfoss' growth journey.

Diversity & **Inclusion**

We strengthen the power of engaged, diverse, and high-performing global teams to accelerate our Core & Clear strategy.

Diversity & Inclusion (D&I) is a strategic imperative that attracts and retains diverse talent, drives high-performing teams, accelerates innovation, enables creative solutions, and optimizes agility in an evolving world. This is especially relevant with our expanding global footprint and our strategic intention to lead the green transition.

To help accelerate our progress on D&I, we set an ambitious target in 2019 to increase women in leadership from 20% to 30% by 2025. This stretch goal sent a clear message about our unwavering commitment to this important topic and positively influenced our talent practices and employer brand.

Externally, Danfoss has been recognized by global media outlets for our actions and ambitions.

- The Financial Times ranked Danfoss on the "FT – Diversity Leaders 2022" list. Results reflect the fields of age, gender, ethnicity, disability, LGBTQ+, and general diversity.
- Forbes listed Danfoss among "The World's Top Female-Friendly Companies." The survey recognizes companies that lead the way when it comes to supporting women inside and outside the workforce.
- Forbes named Danfoss among the "World's Best Employers 2021," acknowledging our efforts to create a great workplace.

D&I is a key element of employee engagement at Danfoss. This year's employee engagement survey included a more comprehensive D&I index through additional questions that create a benchmark we can use to measure and track employees' sentiments about D&I at Danfoss. Initial results reflect a solid foundation on which to build our D&I strategy.

We are proud of these achievements and know there is more work to be done, because we are not making the progress on gender representation that we would like to see. That's why we have prioritized diversity and inclusion within our ESG strategy and reframed our focus and approach.

At Danfoss, we aspire to foster an inspiring and inclusive workplace that unleashes the full potential of our people and empowers them to thrive in a purpose-driven career. We are committed to delivering an engaging employee experience that values and respects all aspects of diversity and creates an environment of belonging.

This approach addresses multiple dimensions of diversity, equity, and inclusion across the entire employee experience, including recruitment, retention, development, and representation across all levels, functions, and teams.

Here are some of the initiatives we'll focus on in 2022:

- Recruit diverse talent by continuously improving our attraction, selection, and hiring practices
- Retain diverse talent by creating an environment of belonging through communities of shared identity, experience, and interests, as well as providing resources that empower leaders and teams to foster inclusion
- Increase diverse representation by optimizing our talent-management practices and digital platforms and accelerating development through impactful learning experiences, including training and mentoring

D&I definitions

Diversity: The dimensions of difference that make individuals unique from one another

Inclusion: The extent to which you feel valued, respected, and encouraged to fully participate as your authentic self

Equity: Treating everyone fairly while striving to identify and eliminate inequities and barriers

Belonging: The experience of being fully accepted for your authentic self and feeling valued as a member of a community in which you are empowered to thrive

What does diversity mean to you? "Diversity is so much more than age, ethnicity, or gender. I value the diverse backgrounds and characteristics our colleagues bring to Danfoss because I know diversity drives innovation."

Eric Alström
President, Danfoss Power Solutions

Danfoss story

Danfoss Postgraduate Program
Our employee engagement survey also reinforces our commitment to equal opportunities to career growth. A key focus of our D&I strategy is providing career pathways for diverse talent, including those who are entering, or re-entering, the workforce.

One example of how we're working with people joining the workforce to have a purpose-driven career at Danfoss is the Danfoss Postgraduate Program, which offers recent master's graduates an opportunity for professional growth and opens the door to an international career.

Postgraduates in the two-year program work on four strategic projects, and at least one of them is an international assignment. Admission is highly competitive, with upwards of 4,500 candidates for 20 spots per intake year. Candidates are keenly interested in Danfoss' commitment to sustainability as well as our company culture, showing that our employer brand is well known around the world.

We currently have 27 postgraduates at Danfoss, representing 21 nationalities and a near-50/50 gender split.

The program is a mutual success for our postgraduates and for Danfoss. Business segment leaders propose interesting, significant business challenges postgraduates can work on. And at the end of the two-year program, postgraduates are offered a full-time role with Danfoss.

Danfoss is very proud of the Postgraduate Program and sees it as a strategic advantage. It began in 1974 and has produced countless Danfoss leaders, including two current Group Executive Team members – Jesper V. Christensen, CFO, and Lars Tveen, President, Developing Regions. The program signals to the world that we care about talent development and know that fresh graduates can contribute and make a difference at Danfoss early in their careers.

Nearly 90% of postgraduate alumni are still with Danfoss five years after completing the program.

A **safe** place to work

Safety is a core value for Danfoss. We strive to create a safe working environment and continuously improve the health and well-being of our colleagues across our global organization.

1.7

of LTIF in 2021 compared to 2.0 in 2020

45%

decrease in days lost due to serious injuries compared to 2020

Successfully reducing Lost Time Injuries
In 2021, we continued improving our Lost Time Injury Frequency (LTIF) performance. LTIF was reduced to 1.7 compared to 2.0 in 2020. 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 77 Lost Time Injuries were experienced in 2021 compared to 85 the previous year.
In 2021, we experienced an increase in our Medical Treatment Injuries (MTI), which we define as injuries requiring medical treatment beyond first aid. We recorded 61 MTI compared to 47 in 2020. The increase is due to a better reporting process where more incidents are correctly recorded. Our Total Recordable Injury Frequency (TRIF), combining the number of Lost Time Injuries and Medical Treatment Injuries, ended at 3.0, which is on par with 2020 results.

Overall, the severity of injuries in 2021 was reduced to 776 days lost compared to 1,404 in 2020. The Lost Day Rate (LDR) – the number of days of absence per million hours worked – was 17, a reduction compared to 33 the previous year. Danfoss experienced no employee or contractor fatalities in 2021.

While it is encouraging that we reduced serious injuries resulting in lost time, the plateau we are on in relation to Total Recordable Injuries indicates there is more work to do to protect employees and prevent incidents.

Preventing machine accidents
In 2020, we launched a machine safety inspection tool to help employees to better identify and manage potential hazards and risks related to machine operation. While risk assessment is a fundamental requirement for all machines, experience shows that hazards and risks are not always fully understood, identified, or corrected. With a minimum amount of training, the tool guides employees to assess basic machine safety principles surrounding the machine, from sharp edges and corners to emergency stops and safety barriers.

We successfully assessed close to 10,000 machines in 2021.

Using this tool taught us many lessons. For example, the tool identified the need to strengthen control of energy stored in the machine that can be accidentally released when performing repair or maintenance on machines.

Improving ergonomics
Ergonomic assessments are a standard part of risk assessments carried out during Workplace Assessments or Job Hazard Analysis. Various improvement methods, such as the use of lifting devices, robots and autonomous material movers, support our ongoing efforts to reduce ergonomic exposures. As our work environments continue to change, we assess the introduction of new risk exposures related to the movement of heavy products, manual handling of parts, and a high-pace work activity that contribute to musculoskeletal disorders.

During 2021, we continued to introduce an ergonomic assessment tool that helps identify ergonomic hazards and necessary improvement options. The tool can be used through a mobile phone app involving the user recording a standard work cycle. The recording is then analyzed by software that highlights body posture and movements that put the body in potential risk of musculoskeletal disorders. The tool makes the assessment in a matter of minutes and instantly points to movements and postures that need to be changed.

During 2021, we piloted the tool at three Danfoss Power Solutions manufacturing sites. The plan is to expand the roll out of the tool to other manufacturing sites in 2022.

Danfoss story

"Safety First" role models
We set high safety expectations that apply at Danfoss workplaces, and it is hard to overestimate the importance for leaders to act as role models for safety. That is why in 2021 we created a safety program to further strengthen leadership involvement.

Safety leadership training was rolled out globally to all sites to support Danfoss leaders in communicating a consistent "Safety First" message across the organization. This training provides guidance to leaders about how to be role models for safe behavior and recommendations on how to engage employees in safety conversations and activities.

Focusing leaders' attention on being a role model for safety sends a clear signal that safety comes first. The training has become an integrated part of onboarding new leaders at Danfoss.

Governance

Danfoss is co-organizing the **IEA conference**

To ensure an effective green transition, we need to become better at using energy more efficiently. The IEA will, for the seventh time, open its international conference on energy efficiency. This time it will be held in Sønderborg, Denmark, near the Danfoss headquarters on June 8-9, 2022. Danfoss is very proud to co-organize the event, and we look forward to showcasing our green solutions and the concrete potential of energy efficiency in action.

Strong focus on **ethics and human rights**

Danfoss respects international human rights declarations and implements policies and procedures to ensure that proper working conditions and social and environmental considerations are core elements of the company's behaviors.

Comprehensive ethical guidelines
Danfoss welcomes the growing international focus on areas such as export control, data privacy, and human rights. We believe businesses and society at large must take an active part in the fight against corruption, human rights abuse, and modern slavery. Because of this, we implemented comprehensive compliance programs with mandatory training to minimize the risk of non-compliance.

The programs define clear ownership, policies, operational procedures, and recurring training and awareness activities. Furthermore, we have implemented control mechanisms to minimize the risk of rule violations.

Since the Danfoss Ethics Handbook was first issued in 2008, it has been regularly updated to reflect the latest legislation, guidelines, and stakeholder expectations. Respect for human rights is also reflected in the updated Ethics training launched in 2021 and mandatory for all managers in Danfoss. Ethics training was implemented in legacy Eaton Hydraulics as part of the onboarding activities of our new colleagues.

Our whistleblower function
Danfoss Ethics Hotline serves as our whistleblower function. It is hosted by an external operator, ensuring that employees and external stakeholders can anonymously report violations of legislation or internal ethics guidelines without risk of retaliation. In 2021, 74 reports were received. Corrective actions have been taken for all substantiated allegations, ranging from stopping inexpedient behavior to termination of employment. Additionally, Danfoss' employees can use the "AskEthics" helpline to ask for guidance on ethics and compliance.

Eliminating all forms of corruption
To prevent Danfoss from being involved in any kind of corruption or bribery, we ask third parties that do business on our behalf to sign an Anti-Corruption clause as part of the contractual agreement with the business partner.
For our employees, the Danfoss Anti-Corruption Manual requires compliance with all applicable laws and regulations on bribery and corruption, including – but not limited to – the US Foreign Corrupt Practices Act, the UK Bribery Act 2010 and other applicable national anti-bribery statutes and regulations. All employees are required to comply with our anti-corruption manual, and employees who have contact with business partners (primarily in sales and procurement) are additionally required to take mandatory training on anti-corruption facilitated by Danfoss Group Compliance.

Our work with human rights due diligence
We conform to the United Nations Guiding Principles on Business and Human Rights (UNGP), guidelines that require companies to prevent, address, and remedy human rights abuses committed in business operations. Danfoss has exercised due diligence in regions with the highest risk of human rights violations: China, India, Russia, Latin America, Turkey, and the Middle East. Our due diligence identified

salient human rights, meaning those rights we could affect most severely, and we have responded with how we mitigate those risks. Information on Danfoss' human rights due diligence process and salient rights can be found on the company's website: https://www.danfoss.com/en/about-danfoss/company/sustainability/ethics-and-human-rights/.

In 2021, we focused our due diligence efforts on support functions like procurement and real estate, as these functions support the regions with building projects and facility management services. Furthermore, we took the first steps towards extending our understanding of the human rights impacts within our sales organization.

In 2020, the Danish Institute of Human Rights published a "Corporate Human Rights Benchmark" showing how Danish companies comply with the UNGP. Even though Danfoss ranked number four among the benchmarked companies, "Access to grievance" was noted as an area for improvement. At Danfoss, the Ethics Hotline serves as our grievance mechanism. In 2021, we conducted a gap analysis against the requirements in the UNGP and made necessary adjustments that give clearer access for external parties and describe a process for handling human rights complaints.

In 2021, Danfoss received one human rights-related complaint from an external party relating to two business partners. One became a sanctioned party causing the business relationship to be terminated immediately. Danfoss is further investigating the other business partner.

Dismissals due to unethical behavior
Since 2004, Danfoss has tracked employee terminations due to unethical or illegal behavior. In 2021, 28 employees left Danfoss due to unethical behavior, compared to 24 in 2020 and 32 in 2019. The figure includes dismissals and voluntary resignations connected with ethical issues. The main reasons for the dismissals have been fraudulent behavior, conflicts of interest, disloyal behavior, or other violations of company policies. There are dismissals that were handled by Danfoss' Ethics Hotline, while some were handled directly by the local management.

Mitigating modern slavery
Several countries have issued regulations to avoid modern slavery, comprising all forms of forced or bonded labor. Danfoss addresses forced labor in our supply chain and in our factories, where outsourced functions like cleaning and construction come with increased risk of forced labor.

Research shows that sectors with many low- or unskilled workers and relatively low wages are exposed to forced labor. The sector with the highest risk of forced labor is recruitment, as various forms of fees and cost to workers can lead to debt bondage and other types of forced labor. Blue-collar temporary workers and migrants are vulnerable to these forms of practices.

To avoid this, we analyzed a large number of contracts with recruitment agencies and identified an area of improvement. Danfoss has a standard process for frame agreements in which Danfoss' Code of Conduct addresses forced labor issues. Sometimes local contracts are used, created by local recruitment agencies, which do not address modern slavery issues. To avoid forced labor in recruitment, we rolled out a process to ensure that our standard process is followed, or alternatively, a forced labor clause will be inserted in all future local contracts. This has been deployed in all regions.

We source responsibly
Danfoss has more than 3,500 suppliers of direct materials used in products and 14,000 suppliers of indirect materials and services like cleaning and catering, excluding Eaton's hydraulics business. All suppliers must adhere to the Danfoss Code of Conduct. All new direct suppliers in high-risk countries are subject to internal audits and self-assessment questionnaires prior to third-party audits. This is a precondition for being approved as a new supplier.

As with any acquisition, aligning procurement practices with new suppliers is a focus area. In 2021, this involved working with our combined (Danfoss and Eaton's hydraulics business) supplier list to consolidate and develop long-term, strategic relationships with key suppliers around the world. This work will continue into 2022.

Conducting audits for better results
In 2021, Danfoss conducted nearly as many on-site audits in high-risk countries as usual, supplemented with virtual audits. The results revealed that three suppliers did not meet the requirement of paying the minimum wage, six suppliers had issues with excessive working days, two suppliers were not providing correct payment for overtime work, and one supplier did not meet the standard for employing young workers. All issues were experienced in high-risk countries:

- Not paying minimum wage: two suppliers remediated immediately while one refused. The latter will not have more business with Danfoss until remedied.
- Excessive working days (i.e., not having one day off in seven days for a long period of time): all six suppliers agreed to remedy the situation; four of them remedied immediately.
- Not paying for overtime work: one supplier agreed to remedy the situation immediately, while the other was not willing. This supplier will not have more business with Danfoss.
- Young workers must not work at night: the supplier who did not meet this requirement has immediately remedied the situation. Furthermore, the supplier remedied an unreasonable clause in young workers' employment contracts.

In all cases in which suppliers agreed to remedy, a follow-up audit will take place.

Ethics and human rights going forward
Our efforts to support human rights and avoid bribery and corruption will continue in years to come with the same high ambitions as for 2021.

Our **policies**

Our policies on business conduct ensure that our efforts are systematic, supported by documented procedures, and governed by strong accountability and responsibility for action.

Danfoss' Policy on Business Conduct
Danfoss policies on business conduct provide the link between our aspiration, our Core & Clear strategy and how we conduct business at Danfoss.

The document includes:

Environment, Health and Safety Policy
We provide a safe and healthy workplace, prevent negative impacts of work, prevent pollution, and manage resources efficiently. We protect the health and safety of our employees and other stakeholders and minimize the environmental impact of our activities.

Health & Wellbeing Policy
We promote wellbeing through health initiatives, maintain motivated employees, and reduce absence. We care about the health and wellbeing of our employees to ensure a strong workforce and high-performing teams.

People Policy
We work together to exceed customer expectations and achieve excellent performance. We continue to learn and value expertise, curiosity, and ambition. We trust people and give them freedom to act, providing an environment where people are treated fairly.

Quality Policy
We support customers in achieving their business goals through committed leadership and highly skilled, competent staff. We drive effective and aligned processes and prevent failures while being recognized for excellence in quality.

Human Rights Policy
We respect human rights and ensure proper working conditions. We comply with the UN Guiding Principles on Business and Human Rights, monitor our impact on human rights, and mitigate where relevant.

Ethics and Compliance Policy
We are a trustworthy and reliable business driving profitable growth in a decent, ethical manner. We apply high standards and act with due diligence to address ethical dilemmas. We educate our employees to act as responsible ambassadors, respecting other people and cultures.

Sustainability Policy
We participate in the UN Global Compact, support the Sustainable Development Goals and engage with stakeholders to promote sustainable development, implementing decisions and actions with dignity and fairness. Sustainability is a fundamental element of our business conduct.

Product Compliance Policy
We drive our compliance program with defined roles and responsibilities, continually monitoring requirements from customers and regulators to make safe and sustainable products that proactively meet compliance obligations to customers and regulators.

Risk Management Policy
We manage risks and opportunities effectively to ensure that we remain a sustainable business. We maintain efficient risk management as a prerequisite for running our business and act rapidly and flexibly when conditions change. We identify, assess, treat, and monitor risks at all managerial levels.

Information Security Policy
We protect our information and assets against deliberate and accidental threats by applying security-by-design and security-by-default when developing our products and services. We operate controls to ensure the confidentiality, integrity, and availability of our information and assets.

Communication and Reputation Policy
We conduct open and honest communication with all our stakeholders to retain, expand and defend Danfoss' reputation as a trustworthy and responsible company. We communicate clearly and transparently with all stakeholders, showing authenticity and thought leadership.

More information about our policies and management practices can be found on our webpage.

Risk management and compliance

We manage risks and opportunities effectively to drive profitable growth in increasingly complex business environments.

Danfoss takes a systematic and comprehensive approach to managing risk. Maintaining efficient risk management is a foundation as well as a prerequisite for running a profitable business and for acting in a rapid and flexible way when conditions change.

Risk governance
Overall, the Board of Directors performs risk oversight, and the Audit Committee assesses the effectiveness of the risk management process. The Group Executive Team is responsible for executing risk management, ensuring that policies and processes are effective at all relevant levels. Responsibility for the day-to-day risk management activities lies with the respective business segments and Group functions.

Risk overview
Like its industry peers, Danfoss is exposed to risks. While no single risk can threaten the existence of Danfoss – both in the current and future outlook – the following external risk conditions apply:

- Global market conditions, including a continued stronger focus on energy efficiency, sustainability, and infrastructure
- The five global megatrends that affect Danfoss, our technologies, and the way we do business
- Fair and equal access to markets
- Global economic growth
- Developments in key markets and cyclical industries
- Customer relations and reputation, including our ability to build business on trust and integrity
- Competitive strength and innovation, including the ability to support customers in providing efficient solutions, high product quality, and attractive cost levels
- Financial sustainability, including our ability to fund new growth and innovation

The Group Executive Team has a special focus on two additional risks, which are currently very important. These two specific risk areas are described in the overview, which does not include financial risks. Financial risks are described in Note 7.

Specific risk areas

	Pandemics	Preparation and integration of new acquisitions
Risk	The risk that a pandemic, such as COVID-19, creates global volatility and uncertainty that could affect Danfoss employees' health and safety as well as Danfoss' supply chain and markets.	Risks associated with the ongoing integration of the newly acquired Eaton's hydraulics business.
Mitigation	Danfoss set up crisis teams at Group, regional, country, and site levels of the organization, tasked with managing the risk of infection, safeguarding business continuity, and ensuring that our business can continue to operate. We follow local rules and guidelines to support the safety of our employees. Regular meetings help us learn from each other and adapt to the changing reality. Segments are in close contact with customers and suppliers.	The integration of the business is underway, using a structured approach to minimize any disruption to the business and our customers and maximize the benefits.

Internal control and risk management systems
Danfoss' consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements as set out in the Danish Financial Statements Act.

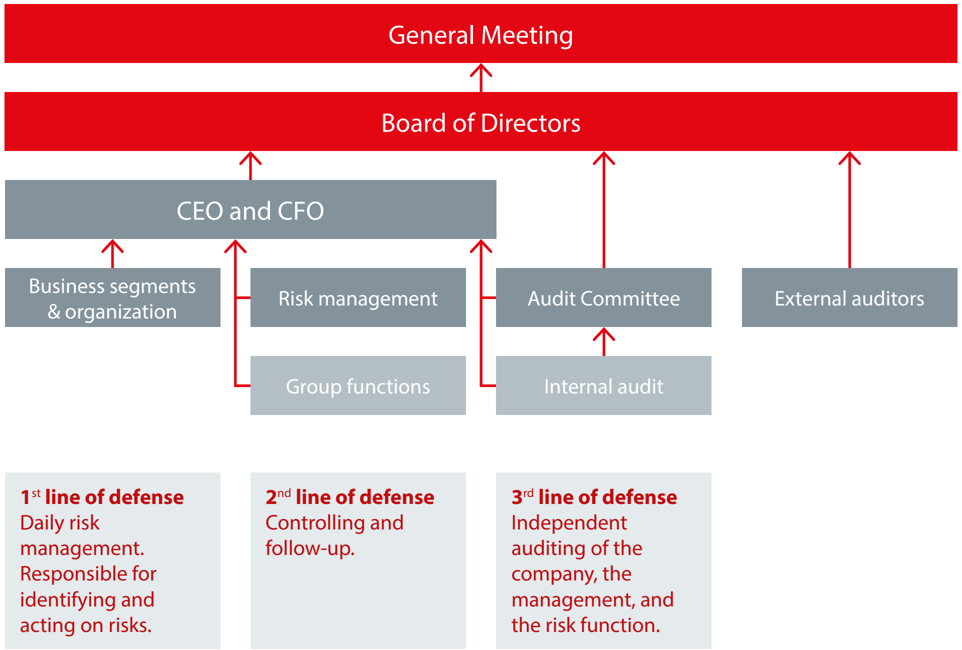
Danfoss has set up internal control and risk-management systems to ensure that its financial reporting complies with the above-mentioned rules, containing the following categories:

- Control environment
- Risk assessment
- Control structure
- Information and communication
- Monitoring

Control environment
The most significant policies and procedures related to financial reporting include: Accounting and Controls Manual (containing accounting policies, methods, and requirements on key internal controls), the Treasury Manual, the Tax Policy, the IT Security Policy, and the Ethics Handbook. The purpose of the control activities is to prevent, detect, and correct any errors or irregularities, as well as ensure that applied estimates are reasonable under the circumstances. In order to ensure efficient controls, Danfoss applies three lines of defense, as shown in the overview.

Risk assessment
On an ongoing basis, the CEO, CFO, and the Audit Committee evaluate the risks considered to have a potential impact on the Group's financial reporting. Quarterly, such evaluations are performed during business review meetings between the CEO and CFO and each segment. The risks are treated according to their potential impact and likelihood. At least once a year, the CEO, CFO, and the Audit Committee perform a general assessment of the risks related to the financial reporting, including the risk of fraud, mitigating measures, and the assessment of internal controls.

Risk-management structure and control environment



Control structure
Danfoss' Corporate Standards describe the requirements that apply to accounting systems. These standards are revised and improved as and when considered necessary. Danfoss subsidiaries report financial information for use in the Annual Report and in interim announcements in a shared reporting environment. The reporting by the subsidiaries is checked on an ongoing basis, and procedures have been set up to ensure that any errors or inadequacies in the data reported are communicated to and corrected by the subsidiaries in a timely way. Danfoss' standards related to accounting and controls have been prepared in order to enable uniform and reliable reporting, which uphold the quality of the Group's financial statements. The Group Finance function supervises and verifies to ensure that the reports comply with these corporate standards. Furthermore, the internal audit function performs random assessments of the reporting as well as of the controlling process to minimize the risk of fraud and misreporting.

Information and communication
Group standards, policies, procedures, and guidelines are available for all employees on the Group's intranet. All changes to legislation and regulations are communicated to all who are responsible for reporting, in a timely way by using email or meetings.

Monitoring
The segments monitor the transactions from a business perspective, whereas the corporate functions monitor the transactions from a Group perspective. Danfoss' Corporate Finance function performs a series of controls over the

subsidiaries' financial reporting, e.g., finance and tax reporting matters. On a monthly basis, issues identified in the most recent monthly financial report are reported. Additionally, the Internal Audit function performs a series of audits on selected subsidiaries in order to verify compliance with Danfoss' standards, policies, procedures, and internal controls, including IT general controls. Monthly, the audit issues identified are reported to the Group Executive Team.

Data privacy
We maintain a high focus on data privacy processes and compliance with data privacy regulations.

Based on updated Danfoss Binding Corporate Rules, approved by the Danish data protection authorities, we follow a Data Privacy Handbook, conduct and participate in training, and follow other requirements of data privacy legislations. Furthermore, the organization keeps its focus on Export Control, including sanctions, countries, business partners, and product reviews.

Data ethics
Danfoss is in the process of transforming from traditional business operations into a more digital business. This shift is accelerated by the gathering, storage, analysis and use of vast quantities of data. While this represents opportunities, it also comes with challenges and ethical dilemmas. Danfoss targets consistency across the organization and applies the same ethical values and guidelines to processing data while keeping local context in mind.

Danfoss respects the right to privacy, whether it is the privacy of our employees, our business partners, or the people using our products. Danfoss has taken security measures to protect personal data. For that reason, Danfoss has implemented a set of Binding Corporate Rules, introducing a global standard of data protection requirements to be complied with by all Danfoss entities, regardless of location. The Binding Corporate Rules have been approved by the leading European data protection agency for Danfoss and establish the foundation for Danfoss' processing of personal data.

Data exploration and data modelling help us understand stakeholder needs better and provide insights to improve service, reduce risks, and improve operational processes.

Danfoss' overall approach to using data is transparency, and we handle it with care. Danfoss takes full responsibility for the data we process, and we do not monetize individuals' data.

Personal data is processed only to pursue a legitimate purpose, and generally we will only do so if:

- Consent to such processing has been provided; or
- The processing is necessary for the performance of a contract; or
- The processing is necessary for compliance with a legal obligation that we are subject to; or
- The processing is necessary for the purposes of the legitimate interests pursued by us or by a third party and such processing is not considered to be harmful to the individual.

We will protect access to individuals' data, and we will comply with all regulations that protect individuals' data in the countries in which we operate. In relation to our employees, Danfoss generally refrains from performance monitoring and conducts monitoring only in an extraordinary situation that requires restricted access as well as in accordance with current legislation.

When confronted with an ethical dilemma, our employees are encouraged to reach out to Group Compliance to minimize uncertainty and prevent unintended noncompliance when making managerial or business decisions. Furthermore, stakeholders are welcome to contact the Group Data Protection Office for guidance or to report concerns.

Where Danfoss uses Artificial Intelligence (AI) or automated decision making, Danfoss ensures that stakeholders are informed in line with our legal obligations and that appropriate security measures are implemented.

Furthermore, AI or automated decision making will only take place if the decision is:

- Necessary for entering into, or performance of, a contract; or
- Authorized by Union or Member State law to which Danfoss is subject and which also lays down suitable measures to safeguard individuals' rights and freedoms and legitimate interests; or
- Based on consent.

Special personal data that reveals racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, genetic data, biometric data, or data concerning health or revealing a person's sex life or sexual orientation will in no event be subject to AI or automated decision making. An exception is if individuals have provided their explicit consent or the processing is necessary for reasons of substantial public interest or applicable law.

Corporate **governance**

The Board of Directors remains committed to good corporate governance practices and to following the Danish Recommendations on Corporate Governance.

Legislation provides the overall framework for the governance in Danfoss, and corporate governance determines how the business is managed within this framework. The Group structure determines a clear distribution of management responsibilities and supports corporate values. These principles drive the interaction between the Group's management, the owners, and other stakeholders. The articles of association and a comprehensive set of internal management and control procedures also form part of corporate governance within Danfoss.

As its code of corporate governance, Danfoss follows the recommendations on good corporate governance, as set out by the Committee on Corporate Governance in Denmark, which are available on corporategovernance.dk. Danfoss complies with the recommendations. The statement is available at: https://www.danfoss.com/en/about-danfoss/company/financial-information/corporate-governance/

Management structure
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 approves the overall strategies and targets of Danfoss, appoints and supervises the CEO and CFO, and defines the guidelines for the CEO and CFO on the day-to-day operation of Danfoss. Having the overall responsibility for the company's activities, it is important that Danfoss has a dynamic and professional Board of Directors, whose members possess the knowledge and experience necessary to ensure the Group's long-term performance. The aggregate competencies of the members of the Board of Directors are regularly assessed to ensure consistency with the Group's requirements. The entire Board of Directors performs the function of the Audit, Nomination, and Remuneration Committee.

The Board of Directors consists of eight members and four employee-elected members. Shareholder-elected members are elected for the term until the following year's Annual General Meeting and may be re-elected. Six of the eight shareholder-elected members are independent. The Board of Directors appoints a Chair and one or two Vice Chairs from among its members. Pursuant to Danish legislation, employee representatives serve on the Board for four years and may be re-elected. The most recent employee election took place in early 2022 and the newly elected employee representatives will join the Board of Directors at the Annual General Meeting 2022.

The Board of Directors meets at least five times a year and holds extraordinary meetings when required. At least one meeting each year includes a site visit to one of the Group's locations around the world. All members of the Board of Directors are expected to participate in the meetings. Matters discussed at Board meetings are decided by simple majority, and, if needed, the Chair has the casting vote. The CEO and CFO normally attend the meetings of the Board of Directors, unless the Board of Directors is reviewing matters pertaining to the CEO and CFO. The distribution of tasks between the Board of Directors, CEO and CFO is set out in the rules of procedure.

Gender composition of the Board of Directors
The Danish Financial Statements Act (FSA) requires that corporate entities of a certain size and type report on the gender composition in management.

Danfoss aims for a gender composition in the Group's Board of Directors that reflects that of the rest of the Group and has a target of having at least one female member of the Board of Directors, who is elected at the Annual General Meeting (AGM). Danfoss remains committed to the target and met it again in 2021.

In 2021, the Board of Directors had twelve members, of which nine were male and three were female, one AGM-elected and two employee-elected. Furthermore, the Board of Directors consists of people with diverse backgrounds, professional skills, nationalities, and ages.

Gender composition targets like that of the Board of Directors have been implemented in the relevant subsidiaries of a certain size and type. Danfoss meets the gender composition target for the Board of Directors of Danfoss Power Solutions ApS, but not of Danfoss Power Electronics A/S (Danfoss Drives), Danfoss International A/S and Sondex A/S, as the composition of the boards did not change during the year. However, Danfoss Drives has a female board member elected by the employees. In these relevant subsidiaries, the gender composition target for the Board of Directors is expected to be met in 2022.

Audit Committee
The Chair of the Audit Committee conducts regular meetings with the corporate functions and internal audit outside Board meetings. The committee's activities and tasks are set out in its rules of procedure. Four meetings were held in 2021.

The main objectives of the Audit Committee are to:

- Monitor the financial reporting process (reliable reporting)
- Supervise the efficiency of the company's internal control system and risk management systems
- Monitor the statutory audit of the financial statements
- Monitor and verify the auditors' independence, including the provision of additional services to the company
- Monitor the external auditors' competencies and findings
- Make recommendations to the Board regarding the appointment of auditors

Internal audit
Danfoss has an internal audit function to carry out independent internal checks. The internal audit function provides independent and objective audits to ensure:

- The Group has a comprehensive set of internal management and control procedures and processes, as well as segregation of duties and functions. This also includes the Group's IT systems.
- The Group follows good administrative practice. The internal audit function performed a series of audits of selected Group companies in 2021. No matters of material importance to the Group's overall risk management and control management and control environment were detected.

Group Executive Team
The Group Executive Team is Danfoss' top management team and consists of the CEO, CFO, the Presidents of the three business segments and the President of Developing Regions. The GET holds formal meetings regularly and focuses on strong ownership, execution of strategy and performance and handling the day-to-day responsibility for the Group's operations.

Shareholders with more than 5% of share capital

Shareholder	Shares	Votes
Bitten & Mads Clausen's Foundation, Nordborg, Denmark, and its subsidiaries	48%	86%
Clausen Controls A/S, Sønderborg, Denmark	26%	5%
Henrik Mads Clausen, Lake Forest, USA	11%	2%

The CEO and CFO are the company's registered officers and signatories with the Danish Business Authority. They are appointed by the Board of Directors and are accountable for the management of the Danfoss Group towards the Board of Directors. According to the rules of procedure, the CEO and CFO are responsible for Group-related governance activities, such as Board of Directors meetings, business reviews, legal matters, and other formal governance topics.

Shareholders
At the end of 2021, Danfoss had 2,453 registered shareholders. Approximately three in four shareholders were resident in Denmark.

Share capital
Danfoss' share capital amounts to EUR 134m or DKK 997m and is divided into two share classes: Class A shares accounting for EUR 57m or DKK 425m and Class B shares accounting for EUR 78m or DKK 572m. A-shares entitle holders to ten votes for every DKK 100 nominal value of shares held and B-shares entitle holders to one vote for every DKK 100 nominal value of shares held. See more information in Note 16, page 95. Class A shareholders have a pre-emption right to A-shares in the event of share capital increases. Apart from this, no shares carry special rights. Bitten & Mads Clausen's Foundation and the Clausen family hold all issued A-shares and several B-shares corresponding to 99.87% of the votes.

Share price
The price of Danfoss shares is set once a year, based on a valuation prepared by Danske Markets immediately before the AGM is held. The calculation of the share price is based on the financial performance of Danfoss, the Group's expectations for the upcoming year, its ability to meet expectations, the financial development of several comparable companies and their expectations for the future, as well as general developments in the stock market. In 2021, the price was set at DKK 10,717 per share against DKK 7,072 per share the previous year.

Annual General Meeting
Danfoss' Annual General Meeting will be held virtually from the company's registered office, on March 25, 2022. The Board of Directors will recommend that a dividend of 30.0% of the Group's net profit be paid for 2021, corresponding to EUR 19.0 or DKK 141.3 per DKK 100 share.

Board of **Directors**

From left: Sandra Nørgaard Bertelsen, Jürgen Reinert, Jørgen M. Clausen, Per Falholt, Mads-Peter Clausen, Connie Hedegaard, Jens Bjerg Sørensen, Lars Grau, Mika Vehviläinen
Sitting from left: Marianne Godballe, William Ervin Hoover Jr., Jens Peter Rosendahl Nielsen

Danfoss Power Solutions Controls division in Nordborg, Denmark. The building was renovated according to Danfoss ' new workplace concept "future ways of working." Danfoss invested in new production machines and an optimal framework for new thinking, collaboration, and knowledge sharing across teams. The name "Nexus" represents a series of connections linking two or more things together in a solution. In an application system, control products link pump, motors, and steering units together in the system solution – the nexus.

Board of **Directors**

Jørgen M. Clausen
Chair

Born: September 1948
Appointed: 2009

Special competencies:
Professional experience managing a Danish-based global company and from other board memberships.

Board positions:
Member: Fonden Universe Science Park; miniBOOSTER Hydraulics A/S.

Owner: SaltPower ApS.

Jens Bjerg Sørensen
Vice Chair

Born: June 1957
Appointed 2020
Independent

Special competencies:
Strong experience within strategy, M&A, portfolio management and business administration. Strong knowledge of management in a global group and the work in a listed company.

Board positions:
Chair: Alba Ejendomme A/S; BioMar Group A/S; Borg Automotive A/S; F. Salling Holding A/S; F. Salling Invest A/S; GPV International A/S; HydraSpecma A/S; Købmand Herman Sallings Fond; A. Kirk A/S.

Vice chair: Salling Group A/S; Fibertex Nonwovens A/S; Fibertex Personal Care A/S.

Member: Per Aarsleff Holding A/S; Købmand Herman Sallings Mindefond; Aida A/S; Ejendomsselskabet FMJ A/S; F.M.J. A/S; Bitten & Mads Clausens Fond.

Mads-Peter Clausen

Born: July 1976
Appointed: 2014

Special competencies:
International experience from managerial management positions and strong strategic, organizational, and communication skills. Extensive knowledge of business administration, engineering, and board work.

Board positions:
Chair: miniBOOSTER A/S.

Per Falholt

Born: September 1958
Appointed: 2017
Independent

Special competencies:
Professional experience from Research & Development, product innovation and development of new biotechnologies for products, applications and processes as well as start-up companies.

Board positions:
Chair: Fonden Universe Science Park; DHI Foundation; Curasight A/S.

Member: Cytovac A/S; Applied Biomemetics; Co-Ro A/S; Lactobio; LIFE foundation; Bactolife.

Connie Hedegaard

Born: September 1960
Appointed: 2016
Independent

Special competencies:
Professional experience as Minister and EU Commissioner with extensive knowledge of climate, environmental and energy challenges on an international level. Expert on global sustainable development and green transition.

Board positions:
Chair: KR Foundation; the green think tank, CONCITO; OECD's Round Table on Sustainable Development; Aarhus University.

Member: NORDEX; Volkswagen's Sustainability Board; Cadeler.

William Ervin Hoover Jr.
Chair of Audit Committee

Born: December 1949
Appointed: 2007

Special competencies:
Professional experience with supply chain, performance transformation, organizational changes and mergers and acquisitions.

Board positions:
Chair: ReD Associates Holding A/S, Denmark.

Member: Specialist People Foundation.

Board of **Directors**

Jürgen Reinert

Born: January 1968
Appointed: 2015
Independent

Special competencies:
International experience with executive management and business administration as well as strong strategic, organizational, and communication skills. Expert within electrical engineering (drives, electric vehicles, renewable energy) and science, and extensive knowledge from other board positions.

Board positions:
Member: KraftPowercon Sweden AB.

Mika Vehviläinen

Born: February 1961
Appointed: 2018
Independent

Special competencies:
Professional experience with performance transformation, organizational changes, mergers and acquisitions, and Internet of Things (IoT).

Sandra Nørgaard Bertelsen

Born: August 1982
Appointed: 2014

Special competencies:
Employee-elected member of the Board of Directors.

Marianne Godballe

Born: June 1984
Appointed: 2018

Special competencies:
Employee-elected member of the Board of Directors.

Board positions:
Chair: "TL-klubben," South Denmark, Danfoss A/S.

Member: Danfoss Employee Foundation in Denmark; Deputy President, Junior Chamber International in Denmark; Junior Chamber International Denmark Foundation.

Lars Grau

Born: July 1963
Appointed: 2014

Special competencies:
Employee-elected member of the Board of Directors.

Board positions:
Member: Danish El Federal in South Jutland.

Jens Peter Rosendahl Nielsen

Born: January 1957
Appointed: 2006

Special competencies:
Employee-elected member of the Board of Directors.

Board positions:
Chair: Danfoss Employee Foundation in Denmark.

Member: Metal Kolding; LO-Kolding.

Succession in the founder's family

As announced on March 26, 2021, Danfoss A/S and Bitten & Mads Clausen's Foundation will implement a well-planned generational succession of the representatives of its family ownership in 2022. Following decades of passionate contribution to Danfoss and the Foundation, Jørgen Mads Clausen at Danfoss A/S and Peter Mads Clausen at Bitten & Mads Clausen's Foundation will pass the baton to the next generation of the family.

This change highlights the Clausen family's historic ties and affiliation with Danfoss A/S and Bitten & Mads Clausen's Foundation – which celebrated its 50th anniversary in 2021 – and it ensures continued stability of the operations of Danfoss and the Foundation. The Clausen family is deeply committed to continuing the close and trusting cooperation with the executive boards and senior management of both Danfoss and the Foundation.

The timing of this change is important as Danfoss is establishing a strong position in the global competitive landscape, and – actively supported by the Foundation – is investing heavily to ensure future growth and development.

The Foundation and family ownership of Danfoss A/S is fundamental to ensuring long-term success – and in fulfilling the enormous potential – of Danfoss, especially in a world where climate change is an inevitable challenge.

Peter Mads Clausen
and Jørgen Mads Clausen

Family representation

Mads Clausen, who is the son of Anette and Jørgen Mads Clausen, will be up for election as new board member of the Board of Directors at Danfoss A/S at the Annual General Meeting 2022. He will continue as a member of the Board of Directors of Bitten & Mads Clausen's Foundation, which he joined in 2015.

In 2022, **Mads-Peter Clausen,** who is the son of Anne-Dorthe and Peter Mads Clausen, will be up for election as new board member of Bitten & Mads Clausen's Foundation. He will be up for re-election for the Board of Directors at Danfoss A/S, which he has been a member of since 2014.

Jens Martin Skibsted, son of Bente Skibsted (the daughter of Danfoss founder Mads Clausen), will be up for re-election for the Board of Directors of Bitten & Mads Clausen's Foundation, which he became a member of in 2012.

The ownership structure, as well as the strategic direction of Danfoss A/S and Bitten & Mads Clausen's Foundation, continues unchanged.

Passing the baton

Both Jørgen Mads Clausen and Peter Mads Clausen are proud to have the generational succession in place and to be able to ensure the necessary stability in both the Foundation and Danfoss for the next generation. They are very satisfied with Danfoss' positive development and are delighted that the third generation of the Clausen family is showing its loyalty to Danfoss and the Foundation by accepting greater responsibility in the future.

Jørgen Mads Clausen and Peter Mads Clausen will continue to support both Danfoss and the Foundation going forward with their insights and with their well-demonstrated commitment.

The final setup, including the distribution of roles on the boards of directors of Danfoss A/S and Bitten & Mads Clausen's Foundation, will be determined in 2022 after the Annual General Meeting and the Annual Meeting respectively.

Group **Executive Team**

Eric Alström, Vesa Laisi, Kim Fausing, Jesper V. Christensen, Jürgen Fischer and Lars Tveen getting a Climate Solutions product presentation at the newly built, sustainable Campus Kolding, Denmark. Danfoss' new and contemporary workplace concept encourages collaboration and knowledge-sharing across business segments, functions, and teams.

Group **Executive Team**

Kim Fausing
President & CEO

Born August 1964
Joined Danfoss in 2007
Registered officer with the Danish Business Authority since 2008.

Board positions:
Chair:
Climate Partnership between Government and Industry for the manufacturing industry in Denmark.

Vice Chair:
SMA Solar Technology AG.

Member:
Hilti AG;
LafargeHolcim Ltd.

Jesper V. Christensen
Executive Vice President & CFO

Born November 1969
Joined Danfoss in 1993
Registered officer with the Danish Business Authority since 2013.

Board positions:
Vice Chair:
Manufacturing Industry in Denmark.

Member:
Confederation of Danish Industries;
Danish Crown A/S.

Eric Alström
Segment President, Danfoss Power Solutions

Born April 1966
Joined Danfoss in 2012

Board positions:
Vice Chair:
Hempel A/S.

Member:
MSx Advisory Board of Stanford Graduate School of Business.

Jürgen Fischer
Segment President, Danfoss Climate Solutions

Born December 1963
Joined Danfoss in 2008

Board positions:
Chair:
Steering Board of EPEE - the European Partnership for Energy and the Environment.

Member:
Advisory Board of TÜV SÜD.

Vesa Laisi
Segment President, Danfoss Drives

Born June 1957
Joined Danfoss in 2014

Board positions:
Member:
Kempower Plc.

Advisor:
Wirepas Ltd.

Lars Tveen
Segment President, Danfoss Developing Regions

Born June 1963
Joined Danfoss in 1989

Board positions:
Chair:
Project Zero Foundation.

Member:
P4G - Partnering for Green Growth and the Global Goals 2030;
SKAKO A/S;
The Energy Industry in Denmark;
Synergi in Denmark;
Grøn Energi in Denmark.

Financial **Statements**

30% more efficient cooling with Danfoss technologies

As we digitize our societies, we increase demand for a specific type of building: data centers. By 2025, data centers will consume 1/5 of the world's power supply, making it vital to create data center sustainability and cut CO_2 emissions.

Chillers and heat pumps featuring Danfoss Turbocor® technology can cool data centers up to 30% more efficiently than traditional compressors. Danfoss also has innovative solutions for heat recovery. Excess heat generated by server equipment and discharged to the atmosphere can be recycled and used in heating applications. Recycling like this represents a massive opportunity.

Financial **review**

Danfoss delivered a very strong financial performance which was better than expected. Sales increased 29% to EUR 7,539m. This was driven by strong demand, leading to organic growth of 18%, and the acquisition of Eaton's hydraulics business. The higher topline generated strong profitability. EBITA increased 34% to EUR 969m, leading to an EBITA margin of 12.8%. The high EBITA was delivered by managing the global supply chain disruptions. Danfoss continued to drive a solid cash flow, allowing a high level of investments in innovation and production capacity. Despite taking on new debt to acquire Eaton's hydraulics business, the net debt to EBITDA ratio ended the year at 2.1.

Sales
2021 was a historically strong year for Danfoss with significant organic and inorganic growth. This puts us on a sound growth trajectory, also in comparison to 2019, pre-COVID-19.

Sales increased to EUR 7,539m (2020: 5,828m), which was EUR 1,711m above 2020. The reported growth was 29% after a negative currency impact of 2%. Organic growth was 18%. As of August 2, Eaton's hydraulics business was included in the consolidated numbers adding sales of EUR 786m in 2021. Organic growth to 2019 was 11%, demonstrating that we are well ahead of pre-COVID-19 sales levels.

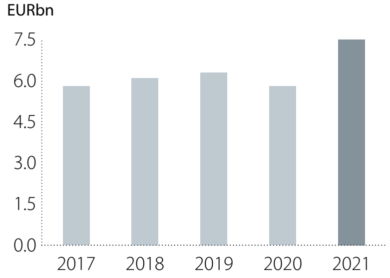
All three business segments grew compared to 2020. Compared over 2019, Danfoss Power Solutions and Danfoss Climate Solutions were well ahead and Danfoss Drives on par.

Compared to 2020, Danfoss delivered strong growth in all regions, led by Latin America, Asia-Pacific, Africa-Middle East, and North America.

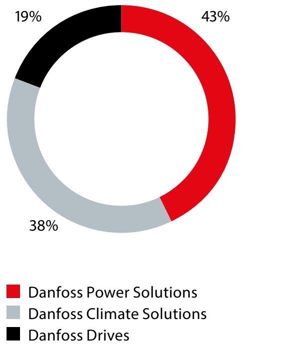
We continued to see strong demand for our technologies and solutions that are driving the green transition towards lower CO_2 emissions and more electrification, e.g., within infrastructure, food, commercial and residential buildings, and renewables. Examples are controls, electric-vehicle drivetrains, energy-efficient compressor technologies for cooling, industrial refrigeration, heat pumps, floor heating, and variable speed drives for wind and solar.

2021 was characterized by the increased activity levels in the world economy leading to supply chain disruption due to components shortages, turbulence in transport, significantly increasing freight cost, and higher raw material prices. Danfoss acted early to mitigate through partnering with suppliers to ensure the highest supply priority, re-designs using alternative components approved by customers, price increases, and even more focus on adapting our planning and working closely with our customers to minimize impact and improve lead times and deliveries.

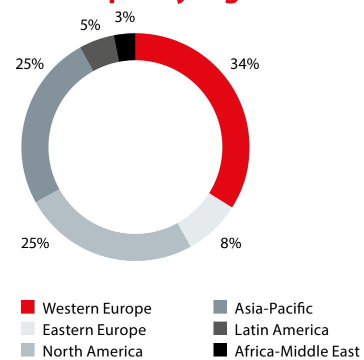
Sales



Sales split by segments



Sales split by regions



Earnings
After continued high levels of strategic investments in innovation, production capacity, digital transformation, and regional initiatives to fuel future growth, the operating profit before acquisition-related amortization (EBITA) increased 34% to EUR 969m (2020: 723m). The EBITA margin reached 12.8% (2020: 12.4%).

The strong earnings were driven by the higher topline and continued traction in managing procurement savings, productivity improvements in the factories, as well as customer pricing and mix. To a large extent, this countered the inflationary pressure from increasing raw material prices, freight cost, and spot buys related to the challenging supply situation.

Operating profit (EBIT) increased 40% to EUR 877m (2020: 625m), leading to an EBIT margin of 11.6% (2020: 10.7%). EBIT was positively impacted by the gain from the divestment of White Drive Motors & Steering, but negatively impacted by integration cost related to the acquisition of Eaton's hydraulics business.

Net profit reached EUR 631m (2019: 435m), 45% higher than the previous year. The effective tax rate for 2021 was 23.0% (2020: 24.6%).

Innovation
Danfoss continues to invest in innovation across the business segments to improve the performance of our products and solutions and be the preferred partner in helping our customers decarbonize. The research and development expense increased 23% to EUR 328m (2020: 267m), corresponding to 4.4% of sales (2020: 4.6%).

Assets and liabilities
To secure the long-term funding of the acquisition of Eaton's hydraulics business, Danfoss completed a successful bond issuance on April 21, 2021. Danfoss raised EUR 1.9bn, and the remaining funding of the cash purchase price of 3.3 billion USD was made up of bank financing already in place and cash at hand. See page 97 for more information.

Later in the year, our cash planning furthermore enabled the early repayment of the EUR 500 million bond notes issued in 2014 to fund the acquisition of the Finnish AC drives manufacturer Vacon. The bonds were redeemed on November 23, 2021, three months ahead of time. Following this, Danfoss no longer has listed bonds on the Irish stock exchange but continues to have bonds on the stock exchange in Luxembourg. See page 97 for more information.

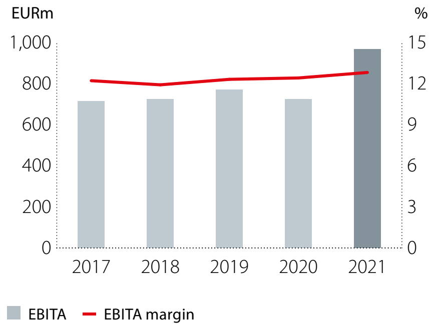
Total assets increased 55% to EUR 9,970m (2020: 6,412m), mainly due to the acquisition of Eaton's hydraulics business. Equity increased 24% to EUR 3,951m (2020: 3,184m), predominantly influenced by the profits. Furthermore, at the Annual General Meeting held on March 26, 2021, it was decided that no dividends would be paid, due to the uncertainty created by the pandemic. The equity ratio, calculated as equity relative to total assets, was 39.6% (2020: 49.7%). The return on equity was 16.6% (2020: 13.1%).

Net interest-bearing debt amounted to EUR 2,677m (2020: 537m), leading to a net interest-bearing debt to EBITDA ratio of 2.1 (2020: 0.6). The net interest-bearing debt was positively impacted by no dividend payout and negatively impacted by the bond issuance related to the acquisition of Eaton's hydraulics business.

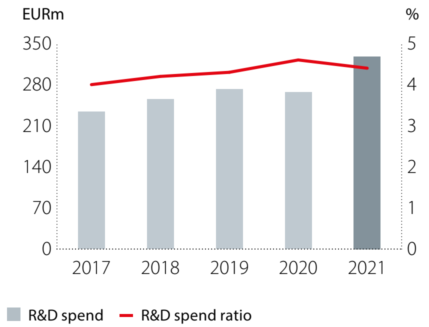
The non-current interest-bearing debt maturing after more than 12 months amounted to EUR 2,708m (2020: 1,103m), corresponding to 92% (2020: 94%) of the total interest-bearing debt. At year-end, the Group had unutilized and long-term committed credit facilities of EUR 986m (2020: 1.5bn) in addition to cash and cash equivalents and ordinary operating credits.

At the end of 2021, Danfoss' credit rating assigned by Standard & Poor's was "BBB/A2 with a stable outlook." See Note 16, page 95, for more information.

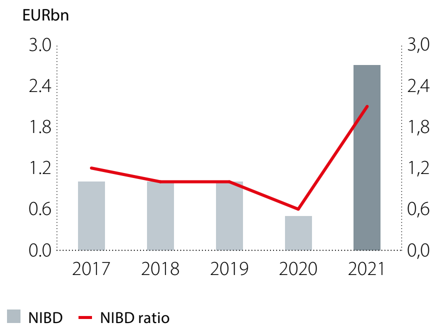
EBITA



Innovation



Net interest-bearing debt (NIBD)



Cash flow
Securing a solid cash performance remains a priority for Danfoss to finance our M&A activities, strategic growth initiatives and repay interest-bearing debt.

The free operating cash flow after financial items and tax (before M&A) amounted to EUR 401m (2020: 493m), confirming the cash generating capability of Danfoss.

The cash flow from operating activities increased to EUR 838m (2020: 800m), driven by a positive operational performance and negatively impacted by a higher level of investments in innovation and capacity as well as additional trade working capital due to the growth in activity levels.

Cash flow from investing activities amounted to EUR -2,794m (2020: -242m), driven by M&A activities, investments in production capacity and our digital transformation.

The cash flow from financing activities increased to EUR 1,596m (2020: -54m), impacted by the bond issuance related to the acquisition of Eaton's hydraulics business.

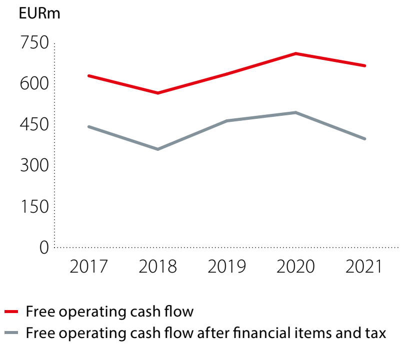
Acquisition
As announced on August 2, 2021, Danfoss closed its USD 3.3bn acquisition of Eaton's hydraulics business. With this move, the Danfoss Group grew by a third and established itself as a global leader in mobile and industrial hydraulics. See Note 12, page 90, for more information.

Divestiture
On January 27, 2021, Danfoss announced the preparation of a necessary divestiture to meet regulatory requirements as a prerequisite to close the acquisition of Eaton's hydraulics business. On June 1, Danfoss entered into an agreement to sell the White Drive Motors & Steering business unit to Interpump Group S.p.A. in Italy. The transaction was officially closed on October 1, 2021. See Note 12, page 91, for more information.

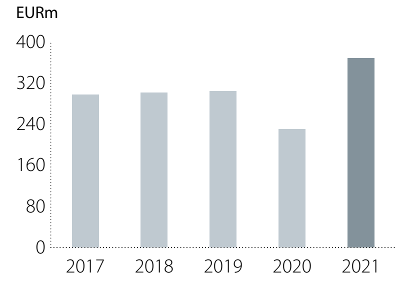
Employees
The number of employees increased significantly to 40,043 following the integration of new colleagues from Eaton's hydraulics business, adding more than 10,000 employees to the group. In 2020, Danfoss had 27,491 employees.

Events after the balance sheet date
We are not aware of any events after the balance sheet date of December 31, 2021, which could be expected to have a material impact on the Group's financial position.

Cash flow



Net investments in fixed assets excluding M&A



Group accounts and notes

2-3 years payback time for energy savings features

Energy management in supermarkets is crucial to success and profitability. In the US, utilities often offer incentives to reduce electricity consumption. With Danfoss Smart Store solutions, we provide case controls, digital monitoring, sustainable refrigeration, and more. Additionally with heat recovery technology, we can capture and recycle heat given off from refrigeration systems to supply heat and hot water for the store. In markets that have established modern district energy systems, such as Northern Europe, the excess heat can be distributed to nearby homes and buildings – turning supermarkets into heat suppliers.

Financial Statements – Group

Group accounts and notes

Income statement and statement of comprehensive income

Income statement

January 1 to December 31

EURm	Note	2020	2021
Net sales	2	5,828	7,539
Cost of sales	3	-3,845	-5,087
Gross profit		**1,983**	**2,452**
Research and development costs	3	-267	-328
Selling and distribution costs	3	-773	-970
Administrative expenses	3	-270	-319
Operating profit excluding other operating income and expenses		**673**	**835**
Other operating income and expenses	3	-54	40
Share of profit from associates and joint ventures after tax	8	6	2
Operating profit (EBIT)		**625**	**877**
Financial income	15	2	5
Financial expenses	15	-50	-63
Profit before tax		**577**	**819**
Tax on profit	20	-142	-188
Net profit		**435**	**631**
Attributable to:			
Shareholders of Danfoss A/S		389	575
Minority interests		46	56
		435	**631**

Statement of comprehensive income

January 1 to December 31

EURm	Note	2020	2021
Net profit		**435**	**631**
Other comprehensive income			
Actuarial gain/loss (-) on pension and healthcare plans	19	-14	28
Tax on actuarial gain/loss on pension and healthcare plans	21	4	-7
Items that cannot be reclassified to income statement		**-10**	**21**
Foreign exchange adjustments on translation of foreign currency into EUR		-156	105
Recycling of foreign exchange adjustments on disposal of foreign companies			2
Fair value adjustment of hedging instruments:			
Hedging of interest rates (Interest rates and cross currency swaps)			22
Hedging of net investments in subsidiaries		3	
Hedging of future cash flows		-56	12
Hedging transfered to inventory		1	-4
Tax on hedging instruments		4	-1
Items that will be reclassified to income statement		**-204**	**136**
Other comprehensive income after tax		**-214**	**157**
Total comprehensive income		**221**	**788**
Attributable to:			
Shareholders of Danfoss A/S		181	728
Minority interests		40	60
		221	**788**

Group accounts and notes

Statement of **financial position**

Statement of financial position

As of December 31

EURm	Note	2020	2021
Non-current assets			
Intangible assets	9	2,313	4,241
Property, plant and equipment	10	1,404	2,056
Investments in associates and joint ventures	8	283	283
Pension benefit plan assets	19	4	18
Non-current receivables		10	22
Deferred tax assets	21	92	73
Total non-current assets		**4,106**	**6,693**
Current assets			
Inventories	4	703	1,401
Trade receivables	5	863	1,394
Receivable corporation tax	22	23	34
Derivative financial instruments (positive fair value)	17		2
Other receivables		106	197
Receivables		992	1,627
Cash and cash equivalents	17	611	249
Total current assets		**2,306**	**3,277**
Total assets		**6,412**	**9,970**

EURm	Note	2020	2021
Shareholders' equity			
Equity, shareholders in Danfoss A/S	16	3,084	3,848
Minority interests		100	103
Total shareholders' equity		**3,184**	**3,951**
Liabilities			
Provisions	14	113	79
Deferred tax liabilities	21	199	165
Pension and healthcare benefit plan obligations	19	153	203
Borrowings	17	1,103	2,708
Derivative financial instruments (negative fair value)	17	1	81
Other non-current debt		98	96
Non-current liabilities		**1,667**	**3,332**
Provisions	14	52	91
Borrowings	17	68	236
Trade payables		774	1,417
Debt to associates and joint ventures		4	4
Corporation tax	22	61	96
Derivative financial instruments (negative fair value)	17	61	18
Other debt	6	541	825
Current liabilities		**1,561**	**2,687**
Total liabilities		**3,228**	**6,019**
Total liabilities and shareholders' equity		**6,412**	**9,970**

Group accounts and notes

Statement of **cash flows**

Statement of cash flows

January 1 to December 31

EURm	Note	2020	2021
Profit before tax		577	819
Adjustments for non-cash transactions	23	372	385
Change in working capital	7	52	-97
Interest received		2	5
Interest paid		-34	-67
Dividends received			2
Income tax paid	22	-169	-209
Cash flow operating activities		**800**	**838**
Acquisition of intangible assets		-44	-43
Acquisition of property, plant and equipment		-201	-339
Proceeds from sale of property, plant and equipment		14	14
Acquisition of subsidiaries and activities	12		-2,664
Proceeds from disposal of subsidiaries and activities	12		241
Change in financial receivables	13	-15	-5
Proceeds from sale of other investments	13	4	2
Cash flow from investing activities		**-242**	**-2,794**
Cash repayment of interest-bearing debt	18	-92	-658
Cash proceeds from interest-bearing debt	18	8	2,309
Purchase of treasury shares		-2	-2
Sale of treasury shares		70	2
Proceeds from minority interests			1
Dividends to minority interests		-38	-56
Cash flow from financing activities		**-54**	**1,596**
Net change in cash and cash equivalents		**504**	**-360**
Cash and cash equivalents as of January 1		110	611
Foreign exchange adjustment of cash and cash equivalents		-3	-2
Cash and cash equivalents as of December 31		**611**	**249**

Statement of **changes in equity**

Statement of changes in equity

EURm

	Share capital	Share premium	Hedging reserves	Currency translation	Reserve own shares	Other reserves	Reserves	Proposed dividends	Equity, shareholders in Danfoss A/S	Minority interest	Total equity
Balance as of January 1, 2020	**134**	**10**	-2	42	-377	2,948	**2,611**	**80**	**2,835**	**98**	**2,933**
Net profit						389	**389**		**389**	**46**	**435**
Foreign exchange adjustments of foreign companies				-150			**-150**		**-150**	**-6**	**-156**
Fair value adjustment of hedging instruments			-52				**-52**		**-52**		**-52**
Actuarial gain/loss (-) on pension and healthcare plans						-14	**-14**		**-14**		**-14**
Tax on other comprehensive income			4			4	**8**		**8**		**8**
Total other comprehensive income			-48	-150		-10	**-208**		**-208**	**-6**	**-214**
Total comprehensive income for the period			-48	-150		379	**181**		**181**	**40**	**221**
Dividends to shareholders						80	**80**	**-80**		**-38**	**-38**
Purchase of treasury shares					-2		**-2**		**-2**		**-2**
Sale of treasury shares					70		**70**		**70**		**70**
Total transactions with owners					68	80	**148**	**-80**	**68**	**-38**	**30**
Balance as of December 31, 2020	**134**	**10**	-50	-108	-309	3,407	**2,940**		**3,084**	**100**	**3,184**
Net profit						386	**386**	**189**	**575**	**56**	**631**
Foreign exchange adjustments of foreign companies			-4	107			**103**		**103**	**4**	**107**
Fair value adjustment of hedging instruments			30				**30**		**30**		**30**
Actuarial gain/loss (-) on pension and healthcare plans						28	**28**		**28**		**28**
Tax on other comprehensive income			-1			-7	**-8**		**-8**		**-8**
Total other comprehensive income			25	107		21	**153**		**153**	**4**	**157**
Total comprehensive income for the period			25	107		407	**539**	**189**	**728**	**60**	**788**
Dividends to shareholders										**-56**	**-56**
Hedging transferred to Goodwill (Acquisition of companies)			34				**34**		**34**		**34**
Purchase of treasury shares					-2		**-2**		**-2**		**-2**
Sale of treasury shares					2		**2**		**2**		**2**
Purchase of minority interests						2	**2**		**2**	**-2**	
Capital increase										**1**	**1**
Total transactions with owners			34			2	**36**		**36**	**-57**	**-21**
Balance as of December 31, 2021	**134**	**10**	9	-1	-309	3,816	**3,515**	**189**	**3,848**	**103**	**3,951**

Notes

Note 1 Basis of preparation

Introduction

Danfoss A/S is a company domiciled in Denmark. The Annual Report for the period January 1 - December 31, 2021, comprises the Consolidated Financial Statements of Danfoss A/S and its subsidiaries (the Group).

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial statements Act. With effect on November 23, 2021, the Group repaid the corporate bonds listed on the Euronext Dublin Stock Exchange and is from that date no longer classified as an EU-PIE entity and has consequently moved from a Class D to a Class C (large) entity under the Danish Financial Statements Act. However, the Group has decided to continue to prepare Consolidated Financial Statements in accordance with IFRS as adopted by the EU and additional requirements of the Danish Financial statements Act.

Basis of measurement

The Annual Report is presented in EUR, rounded to the nearest million unless otherwise indicated. The functional currency of the Parent Company is DKK.

The Annual Report has been prepared on the basis of the historical-cost convention except for the following assets and liabilities, which are measured at fair value: financial instruments measured at fair value, derivatives, contingent considerations from business combinations as well as pension and healthcare obligations. Non-current assets and disposal groups held for sale are measured at the lower carrying amount before the reclassification and fair value less costs to sell.

Changes in accounting policies

Danfoss A/S has implemented the standards and interpretations that have taken effect for 2021. None of those standards and interpretations have material effect on recognition and measurement in 2021, nor are they expected to have a material effect on Danfoss A/S in the future.

Critical accounting estimates and assesments

In preparing the Consolidated Financial Statements, Management makes various accounting estimates that affect the reported amounts and disclosures in the Financial Statements and notes to the statements. The estimates used are based on Management assumptions, which are assessed to be reliable, but which are inherently subject to uncertainty. Accordingly, Danfoss is subject to risks and uncertainties, which may cause actual results to differ from these estimates.

Estimates which are significant for the preparation of the Financial Statements are listed below:

- Investments in associates and joint ventures (Note 8)
- Goodwill and measurement of intangible assets (Note 9 and Note 12)
- Assessment of depreciation, amortization and impairment of non-current assets (Note 9 and Note 10)
- Deferred tax assets (Note 21)
- Measurement of pension and healthcare obligations (Note 19)

Additional description of estimates made are described in the relevant notes.

Impact of COVID-19

Danfoss has actively monitored the COVID-19 development and the related risks during the year. Credit risk of customers, trade receivables and inventory development has been monitored.

New financial reporting regulations

A number of issued, but not yet effective, standards and interpretations have been published which have not been adopted early by Danfoss A/S in the preparation of the 2021 Annual Report.

The Group has assessed these standards and interpretations and conclude they are not expected to have a material impact on the Group.

- Amendments to IFRS 4 "Insurance Contracts - deferral of IFRS 9".
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2

In 2021, IFRIC issued an agenda decision on configuration and customization costs in a cloud computing arrangement (Software as a Service). The Group has assessed this interpretation and concluded that it did not have a material impact on the Group in 2021 or previous years.

Group accounts and notes

Notes

Note 2 Segment reporting

EURm					**2020**
Business segments	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Drives	Other areas	**Group**
Income statement					
Net sales	1,956	2,491	1,352	29	5,828
Depreciation/amortization/impairment	60	53	25	132	270
EBITA	329	410	186	-202	723
Acquisition-related amortization	41	8	21		70
Share of profit from Ass./JV. after tax *)					6
Operating profit (EBIT)					625
Financial Items					-48
Profit before tax					577
Total assets **)	1,362	1,616	1,666	1,768	6,412
Net investments, excluding M&A	59	65	34	73	231
Total liabilities **)	262	332	186	2,448	3,228
Number of employees	7,609	10,530	4,438	4,914	27,491

*) Share of profit from associates and joint ventures after tax.

**) Corporate and shared functions' assets and liabilities, cash and cash equivalents, interest-bearing debt and deferred tax liabilities/assets have been included in the column "Other areas".

EURm					**2021**
Business segments	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Drives	Other areas	**Group**
Income statement					
Net sales	3,209	2,864	1,436	30	7,539
Depreciation/amortization/impairment	86	51	30	147	314
EBITA	489	511	180	-211	969
Acquisition-related amortization	57	8	20	-2	83
Share of profit from Ass./JV. after tax *)					2
Operating profit (EBIT)					877
Financial Items					-58
Profit before tax					819
Total assets **)	4,649	1,918	1,771	1,632	9,970
Net investments, excluding M&A	137	98	45	88	368
Total liabilities **)	705	478	237	4,599	6,019
Number of employees	19,061	11,235	4,582	5,165	40,043

For further information on the business segments, see page 20, 23 and 25.

Group accounts and notes

Notes

Note 2 Segment reporting (continued)

EURm 2020

Geographical segments	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	Group
Net sales	2,166	516	1,403	1,332	267	144	5,828
Total non-current assets *)	2,783	140	298	747	26	20	4,014

EURm 2021

Geographical segments	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	Group
Net sales	2,562	594	1,896	1,914	364	209	7,539
Total non-current assets *)	3,078	173	564	2,628	102	75	6,620

Sales in Denmark amount to EUR 253m (2020: 248m) and non-current assets amount to EUR 1,294m (2020: 1,004m). Sales in North America mainly relate to the US, which represent EUR 1,781m (2020: 1,256m) and non-current assets amount to EUR 2,628m (2020: 747m). China is part of the Asia Pacific region and sales amount to EUR 1,155m (2020: 871m) and non-current assets amount to EUR 328m (2020: 231m).

*) Deferred tax assets are not included.

EURm	2020	2021
Specification of other areas - EBITA		
Corporate and shared functions and projects, not allocated *)	-184	-197
Other	-18	-14
EBITA	-202	-211
Specification of other areas - Assets		
Cash, current & non-current tax receivables	726	356
Other receivables	82	181
Corporate and shared functions, not allocated tangible, and intangible fixed assets *)	953	1,069
Other	7	26
Total assets	1,768	1,632
Specification of other areas - Liabilities		
Interest-bearing debt, current & non-current tax liabilities	1,432	3,206
Other debt	665	985
Pension and healthcare plans	153	203
Corporate and shared functions and projects, not allocated *)	195	200
Other	3	5
Total liabilities	2,448	4,599

*) Corporate and shared functions and projects, not allocated, are primarily corporate projects, administrative expenses, and assets and liabilities.

Notes

Note 2 Segment reporting (continued)

Accounting Policy

Segment information
The segment information applies to the internal management reporting and is prepared according to the Group's accounting policies. Segment performance is primarily measured by EBITA. Segment income, expenses, assets and liabilities comprise those items which can be allocated on a reliable basis. Items that are not allocated primarily include income and expenses incurred by corporate functions, deferred tax (assets and liabilities), receivable and payable tax, other receivables and payables, cash and interest-bearing liabilities.

Non-current segment assets are those non-current assets which are used directly for segment operations, including intangible assets and property, plant and equipment as well as investments in associates and joint ventures. The majority of the Group's buildings are recognized under Other areas in the segment reporting, as buildings are managed and operated by a real-estate unit. The segments are instead charged with rent/lease expenses for the use of these assets.

Current assets are those current assets which are used directly for segment operations, including inventories and trade receivables.

Segment liabilities comprise both non-current and current liabilities derived from segment operations, including trade payables and warranty obligations as well as other provisions.

Lease payments are recognized under segment expenses. Capitalized lease assets and lease liabilities, and related depreciations and interest are recognized in Other areas. Relevant adjustments are made in Other areas to eliminate for lease payments in segments. Trade between segments takes place on market terms or on a cost-recovery basis.

Net sales from contracts with customers
The Group is selling products and services in areas such as refrigeration, air conditioning, heating, motor control, and off-highway machinery. Net sales of products for resale and finished goods are recognized in the income statement when control of the products has been transferred to the customer. Control is transferred when the products are delivered, which occurs when the Group has objective evidence that all criteria for transfer of risk have been satisfied. Sales are only recognized to the extent that it is highly probable that a significant reversal will not occur. Products are often sold with retrospective volume discounts.

Net sales are recognized at the fair value of the consideration agreed, excluding VAT, duties and discounts in relation to the sale. Accumulated experience is used to estimate variable considerations (expected value method).

The validity of assumptions and estimates are reassessed at each reporting date. Because of historical accurate estimates, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur.

Related service income is recognized in the income statement as the services are rendered. Accordingly, the recognized sale corresponds to the sales value of the work performed during the year. This is determined based on the actual costs incurred relative to the total expected costs. The sale of services is recognized in the income statement when the aggregated income and expenses of the service contract can be reliably measured, and it is probable that the Group will receive the financial benefits, including payments.

The Group's standard payment terms is 30 days, net from the date of invoice or current month +15 days. However, there may be country-specific deviations from the standard payment terms. The Group does not expect to have any contracts where the period between the transfer of the promised products or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. A receivable is recognized when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognized as a provision.

Group accounts and notes

Notes

Note 3 Expenses and other operating income

EURm	2020	2021
A. Personnel expenses		
Salaries and wages	1,379	1,725
Severance payments	28	11
Social security	132	164
Pension cost - defined contribution plans	76	100
Pension cost - defined benefit plans excl. gains from reductions and redemptions *)	4	6
	1,619	2,006
Average number of employees	27,539	32,932
Total number of employees as of end of the year	27,491	40,043

*) Expenses for defined benefit plans are described in Note 19 Pension and healthcare obligations.

EURm	2020	2021
Remuneration to the Group Executive Team and the Board of Directors:		
Salaries	5	5
Pension costs	2	2
Bonuses, short-term	6	8
Bonuses, long-term	7	16
Group Executive Team	20	31
Board of Directors' fee	1	1
Total remuneration	21	32

Bonuses, short-term are paid based on meeting annual targets for selected financial ratios and sales growth. Bonuses, long-term are paid based on value creation over multiple years.

Total remuneration for registered and former registered members of the Group Executive Team amounts to EUR 20m (2020: 12m).
A presentation of the Group Executive Team is available on page 61.

EURm	2020	2021
B. Depreciation/amortization and impairment losses		
Classification by nature:		
Amortization of intangible assets	106	136
Depreciation of property, plant and equipment	227	261
Impairment on tangible assets	2	
Depreciation/amortization and impairment losses	335	397
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	79	103
Selling and distribution costs	22	28
Administrative expenses	5	5
Intangible assets	106	136
Classification of depreciation/impairment of tangible assets by functions:		
Cost of sales	186	220
Selling and distribution costs	28	28
Administrative expenses	15	13
Tangible assets	229	261

Notes

Note 3 Expenses and other operating income (continued)

EURm	2020	2021
C. Other operating income and expenses		
Gain on disposal of activities		48
Gain from disposal of property, plant and equipment	2	12
Government grants	9	10
Other	13	13
Other operating income	24	83
Loss on disposal of intangible fixed assets		-1
Loss on disposal of property, plant and equipment	-6	-2
Restructuring costs	-28	-11
Other	-44	-29
Other operating expenses	-78	-43
Other operating income and expenses	-54	40

Restructuring costs in both years mainly relate to terminations in Denmark, China, Germany and USA.

The Group has received government grants of EUR 10m in total. This is among other items related to investment incentives, support for research and development programs.

In 2020 the Group received grants of EUR 35m in total, related to the above as well as Covid 19 compensation. The government grants are mainly deducted from the related expenses in the functions; Cost of sales, Selling and distribution costs, and Administrative expenses.

EURm	2020	2021
D. Fees to auditors appointed at the annual general meeting		
Audit fee	3	4
Other assurance engagements fee	0	0
Tax and VAT advice	0	0
Other fees	1	1
Total fee to Group Auditor	4	5

Accounting Policy

Cost of sales
Cost of sales comprises costs incurred in generating the year's net sales. Such costs include cost of sales or manufacturing costs, including direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases, and depreciation.

Research and development costs
Research and development costs include costs that do not qualify for capitalization, including costs like wages and salaries and consumables.

Selling and distribution costs
Selling and distribution costs comprise costs related to distribution of products sold during the year and sales staff, advertising and exhibition expenses etc., including depreciation. Furthermore, provisions for bad debt are included.

Administrative expenses
Administrative expenses comprise expenses in relation to administrative staff, management, office premises, office expenses etc., including depreciation.

Group accounts and notes

Notes

Note 3 Expenses and other operating income (continued)

Other operating income and expenses

Other operating income and expenses comprise items secondary to the principal activities of the Group, including gains/losses on disposal of non-current assets and companies, impairment losses, employee-termination expenses and government grants. Government grants related to income are recognized at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants that compensate the Group for expenses incurred are deducted at related expenses. Government grants related to purchase of property, plant and equipment are deducted at the carrying amount of the asset.

Note 4 Inventories

EURm	2020	**2021**
Raw materials and consumables	337	748
Work in progress	75	161
Finished goods and goods for resale	291	492
Inventories	703	1,401
Write-downs of inventories	66	89

Accounting Policy

Inventories are measured at cost. Where the estimated selling price less any costs of completion and selling (net realizable value) is lower than cost, inventories are written down to this lower value. Cost is calculated on the basis of the weighted average method or the FIFO method. The cost of work in progress and finished goods comprises the cost of raw materials and consumables, conversion costs and other costs directly or indirectly attributable to the goods. Indirect production overheads comprise maintenance and depreciation of production facilities and plant as well as administration and management of factories.

Group accounts and notes

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Note 5 Trade receivables

EURm	2020	2021
Not overdue at the reporting date	836	1,327
Overdue less than 30 days	13	32
Overdue from 30 to 90 days	15	29
Overdue more than 90 days	20	37
Trade receivables before provision for bad debts	884	1,425
Provision for bad debts as of December 31	-21	-31
Net carrying amount	863	1,394
Provision for bad debts as of January 1	-25	-21
Foreign exchange adjustments in foreign companies	2	
Additions through acquisition of subsidiaries		-7
Accrual of new provisions	-3	-6
Reversal of provisions accrued	3	1
Realized loss	2	2
Provision for bad debts as of December 31	-21	-31

Out of the EUR 31m write-down, EUR 21m relates to receivables which are more than 180 days overdue. The carrying amount of trade receivables is estimated to represent their fair value as well as the maximum credit risk.

Trade receivables are distributed across a large number of customers and geographical areas. The geographical distribution does not differ significantly from the split of net sales according to Note 2 Segment reporting. Historically, the Group has only had limited losses on bad debts.

Accounting Policy

Receivables are measured at amortized cost. Receivables are written down for bad-debt losses based on the simplified approach to providing for expected credit losses, which requires expected lifetime losses to be recognized from initial recognition of receivables. Impairment losses are calculated as the difference between the carrying amount and present value of expected cash flows, including the expected realizable value of any collateral provided. The discount rate is the effective interest rate used at the time of initial recognition of the receivable.

Note 6 Other debt

EURm	2020	2021
Accrued salaries and wages	319	408
Accrued expenses and sundry creditors	222	417
Other debt	541	825

Note 7 Change in working capital

EURm	2020	2021
Change in inventories	-7	-307
Change in receivables	-13	-319
Change in trade payables and other debt	72	529
Change in working capital	52	-97

Notes

Note 8 Investments in associates and joint ventures

EURm			2020
	Investments in associates and joint ventures	Other investments	**Total**
Cost as of January 1	349	19	368
Additions		2	2
Disposals	-24	-1	-25
Cost as of December 31	325	20	345
Adjustments as of January 1	-69	-16	-85
Foreign exchange adjustments in foreign companies	-2		-2
Net profit/value adjustment	6		6
Disposal / Transfer	19		19
Adjustments as of December 31	-46	-16	-62
Carrying amount as of December 31	279	4	283

EURm			**2021**
	Investments in associates and joint ventures	Other investments	**Total**
Cost as of January 1	325	20	345
Cost as of December 31	325	20	345
Adjustments as of January 1	-46	-16	-62
Net profit/value adjustment	2		2
Dividends	-2		-2
Adjustments as of December 31	-46	-16	-62
Carrying amount as of December 31	279	4	283

Impairment test
Where indicators for impairment were present at the end of 2021, impairment tests were performed on the recovered amount of "Investments in associates and joint ventures". Main indicators are loss-giving activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the recoverable amount of cash flows from associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2020.

Further information on associates and joint ventures is provided in Note 17 Financial risks and instruments and Note 25 Related parties.

Notes

Note 8 Investments in associates and joint ventures (continued)

Material associates and joint ventures
Summarized information for associates and joint ventures, which are material to Danfoss, has been amended to reflect adjustments made for differences in the accounting policy. The financial information is stated below at full value, not according to Danfoss' proportionate ownership interests. As SMA Solar Technology AG is a listed company, the stated financial information below is based on publicly available information.

SMA Solar Technology AG	2020	2021
Place of business	Germany	Germany
Share of ownership	20%	20%
Summarized profit and loss statement, EURm *)		
Revenue	1,027	980 - 1,030
EBITDA	72	20 - 30
Net income	28	N/A
Summarized Balance Sheet, EURm (Q3 numbers)		
Non-current assets	307	327
Current assets	679	709
Non-current liabilities	259	271
Current liabilities	305	318
Equity	422	447
Other information, EURm		
Group share of equity as of December 31	83	80

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2021, was EUR 1,300m (2020: 1,900m).

*) Provisional numbers for 2020. 2021 numbers as of guidance from SMA Solar Technology AG from January 2022.

In addition to the interests in associates and joint ventures disclosed above, Danfoss also has interests in a number of individually immaterial associates and joint ventures.

EURm **2020**

Immaterial associates and joint ventures	Associates	Joint Ventures	Total
Danfoss' proportionate share of:			
Profit or loss		2	2
Total comprehensive income		2	2
Carrying amount as of December 31		10	10

Reconciliation of carrying amount	Associates	Joint Ventures	Total
Group share of equity of material Ass/JV.	82		82
Goodwill concerning material Ass/JV.	187		187
Carrying amount of immaterial Ass/JV.		10	10
Total carrying amount as of December 31 of associates and joint ventures	269	10	279

Group accounts and notes

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Note 8 Investments in associates and joint ventures (continued)

EURm **2021**

Immaterial associates and joint ventures	Associates	Joint Ventures	**Total**
Danfoss' proportionate share of:			
Profit or loss		2	2
Total comprehensive income		2	2
Carrying amount as of December 31		12	12

Reconciliation of carrying amount	Associates	Joint Ventures	**Total**
Group share of equity of material Ass/JV.	80		80
Goodwill concerning material Ass/JV.	187		187
Carrying amount of immaterial Ass/JV.		12	12
Total carrying amount as of December 31 of associates and joint ventures	267	12	279

For further information on associates and joint ventures, please see Note 28 Group companies.

Accounting Policy

Investments in associates and joint ventures
Investments in associates and joint ventures are measured in the Consolidated Financial Statements according to the equity method at the proportionate share of the enterprises including additional value from acquisitions, goodwill and deduction or addition of proportionate shares of unrealized intra-group profits and losses. Investments in associates and joint ventures are tested for impairment, when evidence of impairment exists.

Share of profit from investments in associates and joint ventures
The proportionate share of the results of associates and joint ventures after tax is recognized in the consolidated income statement after elimination of the proportionate share of intra-group profits/losses and less goodwill impairment.

Critical accounting estimates

Impairment of associates and joint ventures
Danfoss performs impairment tests concerning investments in associates and joint ventures whenever indicators for impairment are present.

Due to the nature of the operations of the investments, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty.

Group accounts and notes

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Note 9 Intangible assets

EURm

	Goodwill	Internally developed software	Brand	Technology	Customer relations	Patents, trademarks and other rights	Development costs	**Total Other**	**Total**
Cost as of January 1, 2020	1,830	389	151	705	403	59	52	1,759	3,589
Foreign exchange adjustments in foreign companies	-42	-4	-7	-24	-14	-1		-50	-92
Additions through acquisition of subsidiaries	-2								-2
Transfers		2		6	-6	-1		1	1
Additions		44						44	44
Disposals		-39				-9	-2	-50	-50
Cost as of December 31, 2020	1,786	392	144	687	383	48	50	1,704	3,490
Amortization and impairment losses as of January 1	154	195	13	426	285	38	52	1,009	1,163
Foreign exchange adjustments in foreign companies	-7	-2	-1	-19	-12	-1		-35	-42
Amortization		34	3	47	19	3		106	106
Disposals		-39				-9	-2	-50	-50
Amortization and impairment losses as of December 31, 2020	147	188	15	454	292	31	50	1,030	1,177
Carrying amount as of December 31, 2020	1,639	204	129	233	91	17		674	2,313
Cost as of January 1, 2021	1,786	392	144	687	383	48	50	1,704	3,490
Foreign exchange adjustments in foreign companies	88	3	15	26	25		1	70	158
Additions through acquisition of subsidiaries	1,145	11	48	289	481			829	1,974
Transfers		6				-4		2	2
Additions		42				1		43	43
Disposals		-31			-13	-6	-8	-58	-58
Disposals through sale of subsidiaries	-58	-2		-30	-29			-61	-119
Cost as of December 31, 2021	2,961	421	207	972	847	39	43	2,529	5,490
Amortization and impairment losses as of January 1, 2021	147	188	15	454	292	31	50	1,030	1,177
Foreign exchange adjustments in foreign companies	6	3	1	19	9		1	33	39
Transfers		5				-3		2	2
Amortization		49	6	54	24	3		136	136
Disposals		-30			-13	-6	-8	-57	-57
Disposals through sale of subsidiaries	-8	-1		-21	-18			-40	-48
Amortization and impairment losses as of December 31, 2021	145	214	22	506	294	25	43	1,104	1,249
Carrying amount as of December 31, 2021	2,816	207	185	466	553	14		1,425	4,241

Of the "Internally developed software", approximately 50% relates to the One ERP program.
Additions/disposals through acquisitions/sales of subsidiaries are mainly due to Eaton Hydraulics acquisition and White Drives disposal and are further described in Note 12 Acquisition and sales of subsidiaries and activities.

Notes

Note 9 Intangible assets (continued)

EURm

Impairment tests
At the end of 2021, impairment tests were performed on the carrying amount of goodwill and brand (assets with indefinite useful lives). The impairment tests were performed on business segments representing the base level of cash generating units (CGUs) to which the carrying amount of goodwill and brand can be allocated with reasonable accuracy. The basis for determining the recoverable amount is value-in-use for all cash-generating units.

Acquired activities and companies are integrated as quickly as possible into the respective business segments for optimum synergy. One consequence is that, soon after, it will not be possible to allocate the carrying amount of goodwill to the acquired companies and activities with reasonable accuracy, and thus it will no longer be possible to perform impairment tests on these individual acquisitions. As part of the impairment test, the net present value of the estimated net cash flow from the CGUs is compared to the carrying amount of the net assets. As acquisitions in Danfoss are made on the basis of 10-year projections, the expected cash flow is calculated on the basis of estimates for the years 2022-2031. The estimates are prepared and approved by the Management in the respective CGUs and Group Management. The primary variables are sales, EBITA, working capital and investments.

The most significant goodwill allocations have been described below.

	2020				2021			
	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Drives	Other	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Drives	Other
Goodwill as of December 31	323	544	770	2	1,479	564	770	3
Brand with indefinite useful life as of December 31	126				132			

The Danfoss Power Solutions brand with a carrying amount EUR 132m (2020: 126m) is not amoritized, but is tested annually for impairment. Global megatrends and industry recognition as one of the market leaders support that the brand will generate cash inflow for the Group for an indefinite period.

The weighted average growth rate until 2031 is based on past performance/Management expectation of market development etc. and is estimated to be 2-6% (2020: 3-6%) for the business segments, which is at or above the general market development. The growth in net sales is driven by continuous high investments in innovation and market development. The expected average EBITA margins used in the impairment tests are in general kept at a stable level, taking past performance and initiatives in the business segments into consideration.

The EBITA and working capital as a percentage of sales are expected to remain unchanged during the terminal period. Investments are assumed to be at the same level as the depreciations. These assumptions are unchanged compared to the impairment tests performed in 2020. The net cash flow during the terminal period from 2030 and onwards is estimated at a 2% annual growth, which is assumed to be at or below the expected growth in the markets addressed by Danfoss. The discount rates are set under consideration of a market-based cost of equity and cost of debt, and are 9-10% (2020: 10-11%) before tax for all segments.

Management does not assess that a reasonable change in the fundamental assumptions used in the impairment tests will result in recoverable amounts lower than the carrying amounts. The same conclusion was made for 2020.

Notes

Note 9 Intangible assets (continued)

EURm

Danfoss Power Solutions
The goodwill allocated to Danfoss Power Solutions derives primarily from Eaton Hydraulics in 2021, the acquisition of the additional 38.2% of the share capital in Sauer-Danfoss Inc. (USA) in 2008, Visedo Oy (Finland) in 2017, UQM Technologies Inc. (USA) in 2019. At the end of 2021, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to EUR 1,041m (2020: 262m), or approximately 86% (2020: 58%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2033 and 2036, respectively.

Danfoss Climate Solutions
The goodwill allocated to Danfoss Climate Solutions derives primarily from the acquisitions of DEVI Group (Denmark) in 2003, Scroll Technologies (USA) in 2006, Danfoss Turbocor Compressors (USA) in 2012, and Sondex Holding A/S (Denmark) in 2016. At the end of 2021, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 56m (2020: 63m), or approximately 5% (2020: 14%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2032 and 2030, respectively.

Danfoss Drives
The goodwill allocated to Danfoss Drives segment derives primarily from the acquisition of Vacon (Finland) in December 2014. At the end of 2021, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 108m (2020: 128m), or approximately 9% (2020: 28%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2026 and 2029, respectively.

Other intangible assets
At the end of 2021, Danfoss had software in progress amounting to EUR 43m (2020: 49m). Capitalized software in progress is mainly developed internally.

In 2021, the Group performed impairment tests on the carrying amount of software in progress. The actual expenses and achieved milestones have been evaluated according to the approved project and business plans. This led to no impairment of current software assets (2020: 0m).

Accounting Policy
Goodwill
Goodwill is initially recognized in the balance sheet at cost and allocated to cash-generating units as described under "Business combinations".
Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

Development projects, software, patents and licenses
Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or utilization opportunity within the company is demonstrated, and where the company intends to produce, market or use the project, are recognized as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net selling price can cover cost of sales, selling and distribution costs and administrative expenses and development costs. Other development costs are recognized in the income statement when incurred.
Recognized development projects are measured at cost less accumulated amortization and impairment. Cost includes direct and indirect expenses, including salaries and borrowing costs incurred from specific and general borrowing directly pertaining to the development of development projects.
Completed development projects, including software, are generally amortized on a straight-line basis over 4 to 8 years. Development projects in progress are not amortized, but annually tested for impairment.
Patents and licenses are measured at cost less accumulated amortization and impairment. Patents are amortized on a straight-line basis over the patent period and licenses are amortized over the shorter of the contract period and the useful life. Patent and contract periods are normally 5-10 years.

Notes

Note 9 Intangible assets (continued)

EURm

Other intangible assets
Other intangible assets, including intangible assets acquired in a business combination, which typically comprise technology and customer relations, are amortized on a straight-line basis over the expected useful life, which is typically a period of 10 to 20 years.
Intangible assets, including trademarks, with indefinite useful lives are not amortized, but are tested annually for impairment.
Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less costs to sell and the carrying amount at the selling date. Gains or losses are recognized in the income statement under "Other operating income and expenses".

Impairment of intangible assets
Goodwill and intangible assets with indefinite useful lives are tested annually for impairment, initially before the end of the acquisition year. Similarly, development projects in progress are subject to an annual impairment test. The carrying amount of other non-current assets is tested annually for evidence of impairment. When there is evidence that assets may be impaired, an impairment test is performed. Impairment is tested by calculating the recoverable amount. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. The value in use is determined as the present value of expected future cash flows from the asset or the cash-generating unit (CGU). If the fair value or value in use cannot be determined on individual assets, the recoverable amount is determined as the fair value of expected future cash flows from activities or the cash-generating unit (CGU) to which the asset belongs.

Impairment losses are recognized in the income statement if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.
Impairment of assets is reversed to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortization, had the asset not been impaired. However, impairment of goodwill is never reversed.

Critical accounting estimates
Impairment of goodwill
In performing the annual impairment test of goodwill, an assessment is made as to whether the individual units of the enterprise (cash-generating units) to which goodwill relates, will be able to generate sufficient positive, net cash flows to support the value of goodwill and other net assets of the unit.

Due to the nature of the Group's operations, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty due to changes in the global economic situation and changes in the strategy of the Group. This uncertainty is reflected in the chosen discount rate.

Useful life and residual value of non-current assets
Non-current assets are measured at cost less accumulated amortization, depreciation and impairment. Amortization and depreciation is made on a straight-line basis over the useful lives of the assets, taking into account the asset's residual value. Expected useful lives and residual values are determined based on historical experience and expectations of the future use of the non-current assets. The expectations for future use and residual values may not be met, which may lead to a future reassessment of useful lives and residual values and a need for impairment write-downs or the incurrence of gain or losses on the disposal of the non-current assets.

Group accounts and notes

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Note 10 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of January 1, 2020	1,106	1,703	309	218	3,336
Foreign exchange adjustments in foreign companies	-34	-43	-6	-5	-88
Transfers	29	101	11	-142	-1
Additions	79	48	36	129	292
Disposals	-22	-54	-43		-119
Cost as of December 31, 2020	1,158	1,755	307	200	3,420
Depreciation and impairment losses as of January 1, 2020	485	1,260	182		1,927
Foreign exchange adjustments in foreign companies	-12	-26	-5		-43
Transfers	1	-5	4		
Depreciation	69	116	42		227
Impairment	2				2
Disposals	-7	-50	-40		-97
Depreciation and impairment losses as of December 31, 2020	538	1,295	183		2,016
Carrying amount as of December 31, 2020	620	460	124	200	1,404
Cost as of January 1, 2021	1,158	1,755	307	200	3,420
Foreign exchange adjustments in foreign companies	32	58	5	6	101
Additions through acquisition of subsidiaries	249	275	23		547
Transfers	24	116	9	-151	-2
Additions	77	76	22	219	394
Disposals	-46	-47	-27		-120
Disposals through sale of subsidiaries	-36	-94	-1	-11	-142
Cost as of December 31, 2021	1,458	2,139	338	263	4,198
Depreciation and impairment losses as of January 1, 2021	538	1,295	183		2,016
Foreign exchange adjustments in foreign companies	10	36	3		49
Transfers		-3	1		-2
Depreciation	79	140	42		261
Disposals	-40	-45	-24		-109
Disposals through sale of subsidiaries	-9	-64			-73
Depreciation and impairment losses as of December 31, 2021	578	1,359	205		2,142
Carrying amount as of December 31, 2021	880	780	133	263	2,056

Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 12 Acquisition and sale of subsidiaries and activities.

Notes

Note 10 Property, plant and equipment (continued)

EURm

	Land and buildings	Plant and machinery	Equipment	**Total**
The right-of use assets included in property, plant and equipment are presented below.				
Carrying amount related to right-of-use assets as of January 1, 2020	142	3	39	184
Foreign exchange adjustments in foreign companies	-3			-3
Additions	61	2	28	91
Depreciation	-33	-2	-25	-60
Disposals	-3		-1	-4
Carrying amount related to right-of-use assets as of December 31, 2020	164	3	41	208
Carrying amount related to right-of-use assets as of January 1, 2021	164	3	41	208
Additions through acquisition of subsidiaries	69		8	77
Additions	40		15	55
Depreciation	-42	-1	-24	-67
Disposals	-5		-2	-7
Disposals through sale of subsidiaries	-13			-13
Carrying amount related to right-of-use assets as of December 31, 2021	213	2	38	253

Further information on leases is provided in Note 11 Leases.

Accounting Policy

Land and buildings, plant and machinery and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price, expenses for materials, components, sub-suppliers, direct salary expenses, borrowing costs incurred from specific and general borrowing, which directly pertain to the construction of the individual asset and for self-produced assets as well as indirect construction costs. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as seperate items, and depreciated separately.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognized in the carrying amount of the asset, if it is probable that the costs will result in future economic benefits. All costs incurred for ordinary repairs and maintenance are recognized in the income statement as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives, which are as follows:

Buildings and building components	10-30 years
Plant and machinery	4-8 years
Equipment	2-6 years

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Note 10 Property, plant and equipment (continued)

EURm

Property, plant and equipment
The depreciable amount of an asset is determined based on the residual value of the asset less any impairment charges. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount of the asset, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates. Depreciation is recognized in the income statement under “Costs of sale”, “Selling and distribution costs” or “Administrative expenses”.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the selling price less costs to sell and the carrying amount at the selling date. Gains or losses are recognized in the income statement under ‘Other operating income and expenses’.
The cost of leased assets capitalized is recognized at the lease commencement date at the present value of the future lease payments. For the calculation of the net present value, the incremental borrowing rate is used as discount rate. They are depreciated and amortized like other property, plant and equipment. Leased assets with low value or lease term less than 12 months are expensed over the lease period on a straight-line basis.

Impairment of property, plant and equipment
The carrying amount of property, plant and equipment is tested annually for evidence of impairment. When there is evidence that assets may be impaired, an impairment test is performed. Impairment is tested by calculating the recoverable amount. The recoverable amount is the higher of an asset’s fair value less expected costs to sell and its value in use. The value in use is determined as the present value of expected future cash flows from the asset or the cash-generating unit (CGU). If the fair value or value in use cannot be determined on individual assets, the recoverable amount is determined as the fair value of expected future cash flows from activities or the cash-generating unit (CGU) to which the asset belongs.

Impairment losses are recognized in the income statement if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.
Impairment of assets is reversed to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset’s new carrying amount does not exceed the carrying amount of the asset after depreciation, had the asset not been impaired.

Critical accounting estimates
Useful life and residual value of non-current assets
Non-current assets are measured at cost less accumulated amortization, depreciation and impairment. Amortization and depreciation is made on a straight-line basis over the useful lives of the assets, taking into account the asset’s residual value. Expected useful lives and residual values are determined based on historical experience and expectations of the future use of the non-current assets. The expectations for future use and residual values may not be met, which may lead to a future reassessment of useful lives and residual values and a need for impairment write-downs or the incurrence of gain or losses on the disposal of the non-current assets.

Group accounts and notes

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Note 11 Leases

Lessee

Lease liabilities are presented in borrowings of the Statement of Financial Position as follows:

EURm	2020	2021
Current	49	83
Non-current	170	185

The Group mainly leases buildings and cars. Lease payments are generally fixed. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the Statement of Financial Position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to property, plant and equipment, see Note 10 Property, plant and equipment. Each lease contract generally restricts the use of the right-of-use assets to the Group. Some lease contracts contain an option to extend the lease period or terminate the lease before the lease term. Management assesses whether or not it is reasonably certain that the option will be exercised after considering all relevant facts and circumstances.

The Group has decided not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. The expenses related to payments not included in the measurement of the lease liability are below EUR 8m (2020: 8m).

At December 31, 2021, the Group had committed to leases not yet commenced. The total future cash outflows for leases that had not yet commenced are EUR 56m (2020: 57m), which are mainly for buildings.

Total cash outflow for leases for the financial year ended December 31, 2021 was EUR 70m (2020: 65m).

Further information on lease payment, interest expense on lease liabilities, additions, depreciation charge, carrying amount of right-of-use assets and maturity analysis of lease liabilities, is provided in Note 18 Change in liabilities arising from financing activities, Note 15 Financial income and expenses, Note 10 Property, plant and equipment and Note 17 Financial risks and instruments.

Note 12 Acquisition and sale of subsidiaries and activities

EURbn								2021
Company/activity:		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid/received
Eaton hydraulics business	Acquisition	US	August	100%	1.5	11,000	2.7
White Drive Motors & Steering	Disposal		September	100%	0.2	900	0.3

*) Net sales in the financial year prior to the acquisition or sale.

2020 acquisitions and disposals:

The Group neither acquired nor sold any subsidiaries or activities in 2020. Revaluation of Purchase Price Allocation for the previous year has been done and is included in the statement below.

2021 acquisitions and disposals:

On August 2, 2021, Danfoss acquired Eaton's hydraulics business. A business that provides products for customers in markets such as agriculture, construction, as well as in industrial market segments with a global presence for both sales and manufacturing. The business has been incorporated into the existing Danfoss segment, Danfoss Power Solutions. Eaton's hydraulics business was acquired at around EUR 2.7bn on a cash and debt free basis.

The strengthened Danfoss Power Solutions will have a broad selection of mobile and industrial hydraulics products and solutions available on the market, with a full line offering including fluid conveyance systems. The company's distribution channels have also been significantly widened, while its local application support and geographical reach have increased considerably.

The acquisition has been included in the consolidated financial statements from August 2, 2021. From the acquisition date to December 31, 2021, Eaton's hydraulics business contributed with a revenue of EUR 786m and a profit before tax of EUR -93m. Net profit is significantly impacted by consumption of inventory step-up, integration costs and amortizations on PPA intangibles assets related to the opening balance sheet.

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Note 12 Acquisition and sale of subsidiaries and activities (cont.)

If the acquisition had occurred on January 1, 2021, the impact on the Group's revenue would have been additional EUR 1.1bn. The profit before tax contributed to the Group would have been additional EUR 64m. Acquisition related transaction costs are EUR 12m and have been included in Other Operating Expenses in the consolidated income statement. Integration costs are ongoing and amount to EUR 38m, impacting EBIT negatively.
The preliminary purchase price allocation (PPA) accounting has total goodwill of EUR 1.1bn. Goodwill arising from the acquisition is attributable to the value of employees, know-how and synergies expected from combining the operations of the Danfoss Group and the acquired business. A large part of the goodwill and PPA Intangible's assets recognized is expected to be deductible for income tax purposes. The final calculation will take place within 12 months from the acquisition date.

On 1 October 2021 Danfoss disposed White Drive Motors & Steering. This was a standalone business unit within the Danfoss business segment, Danfoss Power Solutions. The business unit was established in February 2021 and prepared for sale as a necessary step to get the regulatory approvals needed to close the acquisition of Eaton's hydraulics business.
The White Drive Motors & Steering business unit includes operations and products at three Danfoss locations in Hopkinsville, Kentucky (US), Wroclaw, Poland; and Parchim, (Germany) as well as two product lines from the newly acquired Eaton hydraulics business.
In 2021, divestments of the discontinued businesses have resulted in recognition of a net gain of EUR 46m in the consolidated income statement under Other Operating Income.

The divestment has been excluded from the consolidated financial statements as of 1 October 2021.
The gain on the disposal is included in other operating income, cf. Note 3. The impact of the disposal on the Group's Net Sales development from 2020 to 2021 is less than -1%.

EURm	2020	**2021**	2020	**2021**
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible assets, except goodwill		-829		21
Property, plant and equipment		-547		69
Other non-current assets, including deferred tax assets	-2	-11		2
Inventories		-382		30
Receivables *)		-328		30
Cash and cash equivalents		-60		9
Interest-bearing debts		93		-13
Provisions, including deferred tax liabilities		124		-5
Trade and other payables		355		-38
Net assets acquired	-2	-1,585		105
Goodwill/profit on disposal	2	-1,145		98
Net assets, including goodwill(-)/profit on disposal		-2,730		203
Cash and cash equivalents		60		-8
Consideration, net of cash		-2,670		195
Change in short-term payables/receivables/provisions		6		46
Net cash paid(-)/received		-2,664		241

*) Receivables in acquisitions includes provision for bad debt of EUR 8m (2020: 0m).

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Note 12 Acquisition and sale of subsidiaries and activities (cont.)

Accounting Policy

Business combinations

Newly acquired or established companies are recognized in the Consolidated Financial Statements from the acquisition date, and divested companies are recognized in the consolidated income statement until the time of divestment. Comparative figures are not restated for newly acquired companies. Unless divested companies are classified as discontinued operations, comparative figures are not restated. When the Danfoss Group takes over control of acquired companies, the purchase method is applied. This means that the identifiable assets and liabilities, including contingent liabilities, of the acquired companies are stated at fair value at the acquisition date. Identifiable intangible assets are recognized if they can be separated, or arise, from a contractual right. The tax effect of revaluations is recognized. The time of takeover is the day when the Danfoss Group de facto obtains control of the acquired company.

The consideration for a business comprises the fair value of the consideration agreed upon, in the form of assets transferred, liabilities assumed, and equity instruments issued. If part of the consideration is contingent on future events or in compliance with agreed conditions, that part of the consideration is recognized at fair value at the acquisition date. Costs attributable to business combinations are recognized directly in the income statement when incurred. When a business is taken over in more than one transaction (step acquisition), previously acquired investments are revalued at fair value at the acquisition date, and value adjustments are recognized in the income statement under other operating income or other operating expenses. Management estimates the fair value of the total investment acquired immediately on completion of the step acquisition. Fair value is measured at the cost of the total investment acquired.

If uncertainty exists at the acquisition date concerning the identification or measurement of acquired assets, liabilities or contingent liabilities, initial recognition is made at provisional fair values. If it subsequently becomes apparent that the fair value of identifiable assets and liabilities, including contingent liabilities, differs from the assumed fair value at the acquisition date, the calculation is adjusted retroactively, including goodwill, until 12 months following the acquisition. The effect of the adjustments is recognized in the opening equity and comparative figures are restated, if material. Subsequently, goodwill is not adjusted. Changes in estimates of contingent consideration are recognized directly in the income statement.

Any excess of the cost over the fair value of the identifiable assets and liabilities, including contingent liabilities, is recognized as goodwill under intangible assets. Goodwill is not amortized but is subject to annual impairment tests. The initial impairment test is carried out before the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which form the basis for subsequent impairment tests. Identification of cash-generating units is based on the Group's cash flow, in accordance with the structure in the internal financial reporting. Such cash flow does not always follow the legal structure of the Group. Goodwill and fair value adjustments related to the acquisition of a foreign unit with a functional currency other than the Danfoss Group's presentation currency are treated as assets and liabilities belonging to the foreign unit and converted to the functional currency of the foreign unit at the exchange rate on the transaction day. Gain or loss on disposal of subsidiaries, associates or joint ventures, are stated as the difference between the sales amount or the disposal amount and the carrying amount of net assets, including goodwill at the date of disposal, less disposal costs.

Minority interests

On initial recognition, minority interests are measured either at fair value or at their proportionate share of the fair value of the acquired company's identifiable assets, liabilities and contingent liabilities. In the case of the former, goodwill is recognized in respect of the minority interests' ownership share in the acquired company, whereas in the latter case, goodwill is not recognized as a part of minority interests. The measurement of minority interests is determined for each transaction and stated in the notes under the description of acquired companies.

Group accounts and notes

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Note 13 Acquisition / Sale of other investments

EURm	2020	**2021**
Sale of shares and other securities	5	2
Purchase of shares and other securities	-1	
Increase/decrease in lending	-15	-5
	-11	-3

Note 14 Provisions

EURm

Provisions for warranty comprise expected costs arising during the warranty period of the Group's products. Employee-related provisions mainly consist of certain employee expenses, including jubilee costs. Other mainly comprises expenses for restructuring and severance payments. Provisions have been discounted to net present value, if the values are significant.

					2021
	Warranty	Contingent consideration	Employee-related	Other	**Total**
Provisions as of January 1	45	48	43	29	165
Foreign exchange adjustments in foreign companies	1		3		4
Additions through acquisition of subsidiaries and activities	6			19	25
Transferred to borrowings		-48			-48
Provisions used	-24		-4	-6	-34
Reversal of unused provisions	-14		-2	-1	-17
Additional provisions recognized *)	28		12	36	76
Disposals through sale of subsidiaries				-1	-1
Provisions as of December 31	42		52	76	170

*) Increase in other provisions is related to divestment of subsidiaries.

					2021
Estimated maturity of above provisions:	Warranty	Contingent consideration	Employee-related	Other	**Total**
Within 1 year	26		7	58	91
Between 1 and 5 years	16		25	16	57
After more than 5 years			20	2	22
Provisions as of December 31	42		52	76	170

Notes

Note 14 Provisions (continued)

Accounting Policy
A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event in the financial year or previous years, and it is probable that the settlement of the obligation may lead to an outflow of the Group's financial resources, which can be reliably measured at the balance sheet date.

The amount recognized as a provision is Management's best estimate of the expenses required to settle the obligation. In measuring provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability. For the measurement, a pre-tax discount factor is used, which reflects the current market interest rate level and the specific risks related to the liability. Changes in present values for the financial year are recognized under financial expenses.

Warranty provisions are recognized as the underlying goods and services are sold, based on warranty costs incurred in the financial year and in previous years.

Provisions for restructuring and employee-termination costs are made when the Group has agreed on a detailed and formal plan, and the Group has started implementing the plan or has announced the plan to the persons affected. Restructuring provisions do not include costs for the ongoing operations during the restructuring phase.

Other long-term employee benefits are recognized based on an actuarial calculation. However, actuarial gains and losses are recognized in the income statement immediately. Other long-term employee benefits include jubilee benefits.

Note 15 Financial income and expenses

EURm	2020	**2021**
Financial income		
Interest from banks, etc.	2	5
Financial income	2	5
Interest on financial assets measured at amortized cost.	2	5
Financial expenses		
Interest to banks etc.	-27	-52
Calculated interest on defined benefit plans	-2	-3
Interest expense for leasing arrangements	-8	-7
Foreign exchange losses, net	-13	-1
Financial expenses	-50	-63
Interest on financial liabilities measured at amortized cost	-35	-59

A fair-value hedge impact of EUR 5m (2020: 14m) is included in Foreign exchange losses, net.
Further information on leases is provided in Note 11 Leases.

Accounting Policy
Financial income and expenses comprise interest income and expenses, realized and unrealized gains and losses on securities that are valued through the income statement, debt and transactions denominated in foreign currencies, amortization of financial assets and liabilities and surcharges and refunds under the Tax Prepayment Scheme etc. Also included is the interest element of leases and gains and losses on derivative financial instruments, which are not designated as hedging arrangements.

Borrowing costs incurred in relation to general borrowing activities or loans, which relate directly to the purchase, construction or development of qualifying assets, are allocated to the cost of such assets.

Notes

Note 16 Share capital

Shareholders holding more than 5% of the shares or 5% of the votes

	Shares	Votes
The Bitten & Mads Clausen's Foundation, Nordborg, Denmark	48%	86%
Clausen Controls A/S, Sønderborg, Denmark	26%	5%
Henrik Mads Clausen, Lake Forest, USA	11%	2%

Distribution of shares	A shares		B shares		Total	
	Number	DKKm	Number	DKKm	Number	DKKm
Balance as of January 1, 2020	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2020	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2021	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0

Class A shares entitle the holder to ten votes for each share, while Class B shares entitle the holder to one vote for each share. The holders of Class A shares also have pre-emptive rights to Class A shares in the event of any increases in share capital. Otherwise, no shares have special rights. Resolutions regarding amendments to the Articles of Association or Danfoss A/S' dissolution require at least two-thirds of the votes cast as well as two-thirds of the voting share capital represented at the Annual General Meeting to be adopted. The share capital is fully paid in. All shares have a nominal value of DKK 100.

Dividend per share	2020		2021	
	DKK	EUR	DKK	EUR
Proposed dividend per 100 DKK share	0	0	141.3	19.0
Dividend from last year paid per 100 DKK share	0	0	0	0

No dividend was paid for 2020.

Development in the Group's holding of treasury shares (No. of B-shares of 100 DKK)

	2020	2021
Holding as of January 1	412,122	340,398
Acquired in the year	2,512	1,189
Sold to The Bitten & Mads Clausen's Foundation	-74,236	-1,434
Holding as of December 31	340,398	340,153

The shareholders' meeting of Danfoss A/S has authorized Danfoss A/S to buy back up to 10% of Danfoss A/S' share capital. The total cost in 2021 for acquiring own shares amounts to EUR 2m (2020: 2m). The total selling price in 2021 for selling own shares amounts to EUR 2m (2020: 70m). The Group's holding of treasury shares represents 3.4% (2020: 3.4%) of the Group's share capital.

Capital structure

The capital structure of Danfoss is intended to ensure sufficient financial flexibility and stability over the cycle for the company to reach its strategic goals. It is the policy of the Group to have a "BBB credit rating", and the Group aims for financial metrics that are commensurate with such credit rating over the cycle. Danfoss is currently rated "BBB with a stable outlook" by Standard and Poor's. End of 2021 the net-interest-bearing debt to EBITDA ratio was 2.1 (2020: 0.6) on a reported basis. Danfoss aims to use the free operating cash flow after financial items and tax for debt servicing, business development and shareholder distribution.

Notes

Note 17 Financial risks and instruments

Financial risks

Danfoss's profitability, cash flow and balance sheet are exposed to financial market risk as a consequence of the Group's multinational business profile. The risk factors include currency, credit, interest rate, liquidity and commodity risks. The Group's risk-management activities focus on risk mitigation, with particular emphasis on protecting the Group's cash flows and profitability in local currency.

The risk-management activity of the Group is governed by the Treasury Policy, which is approved and reviewed annually by the Board of Directors. Group Treasury is the function responsible for executing the Treasury Policy and managing the Group's financial market risks in accordance with it. In general, the aim of Group Treasury's risk-management activities is to mitigate risk and reduce the volatility of the Group's cash flows and earnings in local currency and not to engage in speculative transactions that increase the financial risk of the Group.

Currency risk

Currency exposure consists of three elements:
1. Transaction risk: This covers both the fair value risk, i.e. the risk related to assets and liabilities denominated in foreign currency, and the cash flow risk, i.e. the risk related to future cash flows in foreign currency. Both risk types have direct cash flow and earnings impact and therefore are the primary focus of Danfoss' currency hedging strategy. The hedging policy is to cover all fair value risk and all significant future cash flow risk for a 12-month period on a rolling and layered basis. The policy for future cash flow hedge for 2021 follows a Cash Flow at Risk approach in combination with the hedge ratios below:

Cash flow risk, five largest exposures: Minimum hedge 60%
Other significant cash flow exposures: Minimum hedge 30%

The policy for balance sheet risk has been unchanged and the hedge ratio was 100% in both 2021 and 2020.

2. Translation risk: This is the risk that the P&L and Equity of Danfoss are impacted adversely by currency movements when consolidating the financials and is generally not hedged. However, it is partly mitigated by keeping an appropriate capital structure in the subsidiaries of the Group in terms of equity and debt in local currency, and by drawing the Group's financing facilities in foreign currency to match the assets of the Group.

3. Economic risk: This risk is not in scope for financial risk management. Economic risk is dealt with strategically by keeping an appropriate balance between the geographical footprint of end markets and sourcing markets.

Nominal position of significant currencies

EURm				2020				2021
	EUR	USD	GBP	**Total**	EUR	USD	GBP	**Total**
Receivables and payables	-117	15	-6	-108	-75	10	-5	-70
Cash and loans 1)	89	-142		-53	-180	22	59	-99
Derivative financial instruments for hedging of fair value 2)	31	124	6	161	263	-31	-55	177
Derivative financial instruments for hedging of future cash flow 3)	-1,136	747	-27	-416	-231	-130	-30	-391
Sensitivity								
Probable increase in exchange rate	1%	10%	10%		1%	10%	10%	
Hypothetical impact on profit and loss for the year	0	0	0	0	0	0	0	0
Hypothetical impact on equity	-17	75	-3	55	-3	-13	-3	-19

A decrease in exchange rates as stated would have had the opposite effect on the profit and equity. The sensitivities are based on recognized financial assets and liabilities at December 31 and include impact from derivatives.

1) Besides the loans included, loans of EUR 101m (2020: 614m) are used for hedging of net investments. The impact on the Group's equity is EUR 0.2m (2020: 2.6m).
2) Financial instrument for hedging of fair value also includes the exposure related to inventories in countries applying foreign currency price lists.
3) 2020 includes the cash flow hedge related to the acquisition of Eaton Hydraulics, USD/EUR 1.000m.

Cross currency swaps and related interest swaps are not included in the above but are described below in the section "Derivative contracts related to the bond issuance".

Credit risk

The Group's credit risks primarily apply to trade receivables and bank deposits (i.e. counterparty risk). It is Danfoss' policy to minimize the risk of losses from credit risk. The counterparty risks towards banks and towards other financial partners are managed by only using solid regional and global financial partners with a credit rating of minimum "A-" or better, according to Standard & Poor's credit rating metric.

Notes

Note 17 Financial risks and instruments (continued)

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit-risk characteristics and the days past due. For the expected credit loss recognized, refer to Note 5 Trade receivables. The carrying amount of trade receivables is estimated to represent their fair value as well as the maximum credit risk.

Interest-rate risk
The Group's interest-rate risk derives primarily from interest-bearing debt, cash funds and pension obligations. The Group makes use of both fixed and floating-rate loans, as well as interest-rate derivatives, to manage this risk. As per Danfoss' Treasury Policy, the interest-rate risk on its debt portfolio should not exceed a maximum of 0.25% of Group annual revenue in case of a 1% point parallel shift in interest rates across the interest rate curve.

All things being equal, an increase in the interest rate of 1% point compared to the interest rate level on the balance sheet date would impact on the profit with EUR 5m, while equity would be impacted by a gain of EUR 55m, mainly related to USD interest rate hedge.
For interest rate risk on pension obligations, refer to Note 19 Pensions and healthcare obligations.

Liquidity risk
It is Danfoss' policy to maintain a robust capital structure and to aim for a capital and financing structure that is compatible with a BBB credit rating, a liquidity reserve of minimum EUR 0.6bn, in terms of accessible cash, and non-terminable credit facilities with an average maturity profile of at least 3 years.

At the end of 2021, Danfoss' credit rating from Standard and Poor's was "BBB with a stable outlook" and the liquidity reserve equaled EUR 1.2bn (2020: 2.1bn). In addition to this, Danfoss had significant amounts of short-term credit lines. The Group considers the liquidity reserve to be adequate in relation to current plans and the market conditions in general.

The average maturity profile on non-terminable credit facilities was 4.7 years at the end of 2021.
The Danfoss Group's loan agreements contain no financial covenants.

The Group's debt categories and maturities

EURm	2020					2021				
			Maturity					Maturity		
	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	883	906	30	626	250	2,568	2,637	162	1,259	1,216
Mortgage debt	69	74		1	73	69	74	1	1	72
Contingent considerations						39	39	2	37	
Lease liabilities	219	247	56	139	52	268	291	88	154	49
Trade payables	774	774	774			1,417	1,417	1,417		
Debt to ass./ JV.	4	4	4			4	4	4		
Derivative financial liabilities	62	62	61		1	99	99	18	38	43
	2,011	2,067	925	766	376	4,464	4,561	1,692	1,489	1,380

*) Maturity is evenly spread over the period.
Further information on lease is provided in Note 11 Leases.

Danfoss has issued three EUR Bonds in total EUR 1.9bn as part of the financing related to the acquisition of the Eaton Hydraulics business. The EUR Bond EUR 500m with maturity February 2022 has been repaid in November 2021 by exercising the option to prepay ahead of maturity.

The maturity analysis is based on all non-discounted cash flows, including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flows from derivative financial instruments are presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements. The Group generally accepts that vendors sell off their receivables arising from the sales to the Group to a third party. Danfoss has established a supply-chain financing program where vendors can sell off their receivables from Danfoss at attractive terms, but at the bank's sole discretion. Danfoss is not directly or indirectly a party to these agreements. End of December, the Group is aware of EUR 37m (2020: 37m) of trade payables that are part of such agreements.

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Note 17 Financial risks and instruments (continued)

Financial instruments by category

EURm	2020 Carrying amount	2020 Fair value	2021 Carrying amount	2021 Fair value
Financial assets:				
Investments in associates and joint ventures	279	390	279	272
Financial assets measured at equity method	279	390	279	272
Other investments **)	4	4	4	4
Financial assets measured at fair value via the income statement	4	4	4	4
Derivative financial instruments for the hedging of the fair value of recognized assets *)	0	0	1	1
Derivative financial instruments for the hedging of future assets cash flows 1)	0	0	39	39
Financial assets used as hedging instruments	0	0	40	40
Trade receivables	863	863	1,394	1,394
Other receivables	106	106	197	197
Cash and cash equivalents	611	611	249	249
Loans, receivables, cash and cash equivalents measured at amortized cost	1,580	1,580	1,840	1,840
Financial liabilities:				
Contingent consideration measured at fair value via the income statement **)	48	48	39	39
Interest-bearing debt	1,171	1,193	2,905	2,967
Trade payables and other debt	1,417	1,417	2,342	2,342
Financial liabilities measured at amortized cost	2,588	2,610	5,247	5,309

Financial instruments by category

EURm	2020 Carrying amount	2020 Fair value	2021 Carrying amount	2021 Fair value
Financial liabilities:				
Derivative financial instruments for the hedging of the fair value of recognized liabilities *)	4	4	107	107
Derivative financial instruments for the hedging of future cash flows	58	58	30	30
Financial liabilities used as hedging instruments	62	62	137	137

Financial assets and liabilities measured at fair value are measured on a recurring basis and categorized into the following levels of the fair value hierarchy:

Level 1: Observable market prices for identical instruments.
Level 2 *): Hedging instruments are not traded on an active market based on quoted prices are measured using valuation techniques, where all significant inputs are based on observable market data such as exchange rates and swap curves.
Level 3 **): Valuation techniques primarily based on unobservable prices.

The fair value of the interest-bearing debt is recognized as the present value of expected future installment and interest payments. The discount rate applied is the Group's current borrowing rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied in 2021 remain unchanged compared to 2020.

1) Out of EURm 39, the 38 is offset in derivative financial instuments under liabilities in statement of financial position (2020 EURm 0).

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Note 17 Financial risks and instruments (continued)

Derivates as of December 31 for the Group

EURm	2020 Notional amount	2020 Net fair value	2020 Gain/Loss(-) recognized in income statement	2021 Notional amount	2021 Net fair value	2021 Gain/Loss(-) recognized in income statement
USD	857	-59	-2	-138	-4	
EUR	-27			-1,007	-13	-3
Other currencies	144	-1	-2	-96	-3	-2
Forward exchange contracts		-60	-4		-20	-5
Interest rate swaps	877	-1		-1,125	22	-15
Cross currency hedge		-1	-1	1,425	-99	-83
Derivatives end of year		-62	-5		-97	-103

Fair value hedge
The Group mainly use forward exchange contracts to hedge currency risks arising from assets and liabilities denominated in foreign currency in the balance sheet. All derivates are due within 1 year. Fair value adjustment recognized in financial items in the income statement amounted to EUR -5m (2020: -4m).
Refer to below section "Derivative contracts related to the bond issuance" for fair value hedges related to cross currency swaps.

Cash flow hedge
The Group use forward exchange contracts to hedge currency risks regarding expected future cash flows that meet the criteria for cash flow hedging. At the end of 2021, unrealized gain/loss(-) on derivatives on hedging of foreign currency risk recognized in equity amounted to EUR -15m (2020: -57M). The main reason for the 2020 impact is the hedging of part of the acquisition price of Eaton Hydraulics. For the open foreign exchange contracts, used for USD cash flow hedges, at the end of 2021, the weighted average hedge rate for USD/DKK is 6.3184 (2020: 6.4793).
Refer to below section "Derivative contracts related to the bond issuance" for Cash flow hedge related to interest rate swaps.

Derivative contracts related to the bond issuance
To obtain a balanced currency risk profile on the outstanding debt, part of the bonds issuance is swapped into USD via cross currency swaps, while a significant part of the interest rate risk is hedged via interest rate swaps. The maturity of these contracts follow the maturity of the bonds loans. Refer also to the table The Group's debt categories and maturities.

Due to the economic relationship between the exposure and the hedges, it is expected to be highly effective.

Commodity risk
Movements in commodity prices can affect the Group's earnings and cash flow. It is Danfoss' policy to ensure that significant commodity risks are covered for a period of minimum 6 months and maximum 18 months, preferably by fixed price agreements with the suppliers or alternatively by financial hedging.

Danfoss has not undertaken financial hedging of commodities in 2021 or 2020.

Notes

Note 17 Financial risks and instruments (continued)

Accounting Policy

Financial assets
Securities are measured at fair value through the income statement.

Financial liabilities, other than derivatives
Financial liabilities are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost. Amortized cost implies the recognition of a constant effective interest rate to maturity. Amortized cost is calculated as initial cost less any principal repayments and plus or minus the cumulative amortization of any difference between cost and nominal amount. Any capitalized residual obligation on leases is recognized in the balance sheet as a liability. The interest element of the lease payment is expensed in the income statement under financial items.

Derivative financial instruments
Derivative financial instruments, such as forward exchange contracts or options and commodity contracts, are recognized and measured at fair value. Positive and negative fair values of derivative financial instruments are shown as separate items in the balance sheet. Set-off of positive and negative values is only made when the Company has the right and the intention to settle several financial instruments net. Provided that the documentation requirements etc. are met, hedge accounting is applied to the instruments. In connection with hedging of future sales and purchase transactions (cash flows), changes in the fair value of instruments qualifying for hedge accounting are recognized in the statement of comprehensive income under the hedging reserve until the hedged transaction occurs in the balance sheet. At this point, gains or losses relating to such hedging transactions are transferred from the statement of comprehensive income and are recognized in the same item as the hedged transaction. If the instruments do not qualify for hedge accounting, changes in market value are recognized directly in the income statement under financial items.

Note 18 Change in liabilities arising from financing activities

EURm	Short-term borrowings	Long-term borrowings	**Total**
Carrying amount as of January 1, 2020	76	1,093	1,169
Cash flows:			
Cash repayment	-26	-5	-31
Lease payments	-61		-61
Cash proceeds	8		8
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	23	64	87
Reclassification	50	-50	
Other	-2	1	-1
Carrying amount as of December 31, 2020	68	1,103	1,171
Cash flows:			
Cash repayment	-90	-504	-594
Lease payments	-64		-64
Cash proceeds	153	2,156	2,309
Non-cash transactions:			
Acquisitions of subsidiaries	35	46	81
Acquisitions and disposal of lease liabilities	23	23	46
Reclassification	117	-117	
Other	-6	1	-5
Carrying amount as of December 31, 2021	236	2,708	2,944

Lease payments are the principal portion of lease liabilities and are presented under cash flows from financing activities in the Statement of Cash Flows.

The Group's other change in liabilities arising from financing activities in 2021 mainly consists of Cash repayments and cash proceeds.
Other includes the reclassification in 2021 of contingent consideration from provisions to borrowings.

Further information on lease is provided in Note 11 Leases.

Group accounts and notes

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Note 19 Pensions and healthcare obligations

EURm

In most countries, Danfoss offers defined contribution plans, which are fully funded. However, a few of the foreign subsidiaries have obligations concerning defined-benefit plans which are unfunded or only partly funded.

In 2021 Danfoss acquired Eaton Hydraulics business and in this respect certain pension plans were taken over. The largest plan is located in Germany.

It is the Group's policy that pension and healthcare plans within the Group should, generally, be arranged as defined-contribution plans. However, in countries like the USA, the UK and Germany, there is a tradition for defined-benefit plans. The geographical split of defined-benefit plans is as follows:

	2020		2021	
	Gross liability	Net Liability	Gross liability	Net Liability
Germany	26%	65%	29%	72%
USA	38%	26%	35%	19%
UK	33%	-3%	30%	-9%
Other	3%	12%	6%	18%
Total	100%	100%	100%	100%

The pension plans are based on the individual employee´s salary and years of service in the company. The plans have varying requirements for risk diversification and for matching assets strategies. The majority of the liabilities are either due to deferred members and pensioners, or they are linked to minimum-return guarantees. However, some of the defined-benefit plans in the UK and the USA are still linked to final salary for a closed, limited group of less than 300 (2020: 200) active employees. The increase since 2020 is caused by acquisitions in 2021. Danfoss is working on minimizing the defined-benefit risk by integrated risk management and by changing the nature of existing plans.

All material defined-benefit plans have been computed by independent actuaries.

The Group's defined-benefit plan obligations

EURm	2020	2021
Present value of defined-benefit plan obligations	559	634
Fair value of plan assets	-410	-449
	149	185
Defined-benefit plan obligations are presented in the statement of financial position as follows:		
Pension benefit plan assets	4	18
Pension and healthcare plan obligations	153	203
	149	185

Plans with a surplus have been recognized on the basis that future economic benefits are available to the Group in the form of a reduction in future contributions or a cash refund.

Development in the present value of defined-benefit plan obligations

EURm	2020	2021
Provision as of January 1	550	559
Foreign exchange adjustments in foreign companies	-29	27
Additions through acquisition of subsidiaries and activities		72
Pension costs for the year	4	6
Calculated interest on plan liabilities	11	10
Actuarial gains(-)/losses from changes in demographic assumptions	-2	1
Actuarial gains(-)/losses from changes in financial assumptions	48	-18
Plan participants' contribution liabilities	1	1
Disbursed benefits from the Group	-5	-5
Disbursed benefits from plan assets	-19	-19
Provision as of December 31	559	634

Notes

Note 19 Pensions and healthcare obligations (continued)

Development in the fair value of plan assets

EURm	2020	2021
Plan assets as of January 1	406	410
Foreign exchange adjustments in foreign companies	-26	27
Additions through acquisition of subsidiaries and activities		3
Calculated interest on plan assets	9	7
Plan participants' contribution asset	1	1
Return for the year on plan assets, excluding calculated interest	32	12
Payments by the Group	7	7
Disbursed benefits	-19	-19
Net transfer from provisions		1
Plan assets as of December 31	410	449

A few countries may require that the liability is funded, but this is not the case in most countries. Defined-benefit plans that are unfunded are mainly related to pension plans in Germany and the healthcare plan in the USA. Unfunded plans amount to approximately EUR 95m (2020: 72m).

Expenses relating to pension and healthcare obligations

EURm	2020	2021
Pension costs for the year	4	6
Calculated interest on liabilities	11	10
Calculated interest on assets	-9	-7
Expensed in the income statement	6	9
Pension costs distributed by function:		
Pension cost stated under cost of sales	1	2
Pension cost stated under selling and distribution costs		1
Pension cost stated under administrative expenses	3	4
Interest concerning pension and healthcare obligations posted under financial items	2	2
	6	9

Estimated maturity of provisions

EURm	2020	2021
Within 1 year	25	24
Between 1 and 5 years	100	101
After more than 5 years	434	509
	559	634

Pension plan assets are specified as follows:

EURm	2020		2021	
Shares and similar securities	140	34%	138	31%
Listed corporate bonds	138	34%	153	34%
Bonds	65	16%	83	19%
Other	67	16%	75	16%
	410	100%	449	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 31% (2020: 34%) of the funds are invested in shares, which have historically been subject to value fluctuations.

Significant assumptions for calculation of pension and healthcare obligations and related costs

	2020		2021	
	Range	Weighted average	Range	Weighted average
Discount rate	-0.3-2.3%	1.7%	1.0-2.7%	2.1%
Estimated future salary increase	1.2-4.3%	3.5%	1.8-4.7%	3.7%

	2020		2021	
	Male Range	Female Range	Male Range	Female Range
Life expectancy for a pensioner retiring at the end of the reporting period	84-87	86-89	85-87	87-89
Life expectancy for a pensioner retiring 20 years after the end of the reporting period	86-90	88-90	87-89	88-90

Notes

Note 19 Pensions and healthcare obligations (continued)

The estimated return on defined-benefit plan assets is based on external actuarial calculations and determined according to the composition of the assets and considering the general expectations with regard to economic developments. The Group expects to pay in EUR 11m to defined-benefit plans in 2022 (2021: 10m).

SENSITIVITY ANALYSIS

EURm	2020	**2021**
Reported defined-benefit plan obligations	559	634
Impact of increase in discount rate of a 0.5 percentage point	-42	-42
Impact of decrease in discount rate of a 0.5 percentage point	+47	+45
Impact of increase in future salary increase of a 0.5 percentage point	+3	+8
Impact of decrease in future salary increase of a 0.5 percentage point	-3	-8
Impact of increase in average life expectancy of 1 year	+21	+21
Impact of decrease in average life expectancy of 1 year	-21	-21

Accounting Policy
The Group has entered into pension schemes and similar arrangements with the majority of the Group's employees. In addition, the Group has healthcare plans contributing with payment for medical expenses for certain employee groups in the USA after their retirement. Contributions to defined-contribution plans, where the Group currently pays fixed pension payments to independent pension funds, are recognized in the income statement in the period to which they relate, and any contributions outstanding are recognized in the balance sheet as other debt. For defined-benefit pension and healthcare plans, the Group is under obligation to pay a specific benefit upon retirement (e.g. a fixed amount or a percentage of the exit salary).

For these plans, an annual actuarial calculation (Projected Unit Credit method) is made of the present value of future benefits under the defined-benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension and healthcare obligations. Pension and healthcare costs for the year are recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in assets and liabilities, and realized amounts determined at year-end constitutes actuarial gains or losses and is recognized directly in other comprehensive income. If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognized as past service costs. Past service costs are recognized immediately, provided that the benefits have already vested. If the benefits have not vested, the past service costs are expensed in the income statement over the period in which the changed benefits vest.

If a pension or healthcare plan constitutes a net asset, the asset is only recognized if it offsets future refunds from the plan or will lead to reduced future payments to the plan

Critical accounting estimates
The Group has established defined-benefit plans with certain employees at some of the Group's foreign companies. The plans place the Group under an obligation to pay a certain benefit in connection with retirement (e.g. in the form of a fixed amount at retirement or a share of the employee's exit salary). The pension obligations are determined by discounting the pension obligations at the present value. The present value is determined on the basis of assumptions about the future development in economic variables such as interest rates, inflation, mortality and disability probabilities, which are subject to some degree of uncertainty. External actuaries are used for the measurement of all significant defined-benefit plans.

Group accounts and notes

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Note 20 Tax on profit

EURm	2020	2021
Current tax expense	-175	-239
Change in deferred tax	30	48
Adjustments concerning previous years	3	3
Tax on profit (income statement)	-142	-188
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Adjustment of tax in foreign subsidiaries calculated at 22.0%	1.7%	1.7%
Tax exempt income/non-deductible expenses	-1.0%	-2.5%
Income from associates and joint ventures after tax	-0.2%	-0.1%
Adjustment of net tax assets	0.7%	0.5%
Other taxes	1.9%	1.8%
Adjustments concerning previous years	-0.5%	-0.4%
Effective tax rate	24.6%	23.0%

EURm	2020	2021
Tax on profit (income statement)	-142	-188
Tax on fair-value adjustment of hedging instruments (other comprehensive income)	4	-1
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	4	-7
Total taxes	-134	-196

Accounting Policy
Current and deferred taxes for the year are recognized in the income statement, except for tax related to transactions recognized in the statement of comprehensive income or directly in equity. Surcharges, premiums and refunds relating to tax payments are recognized in financial income and expenses.

Note 21 Deferred tax

Changes in deferred taxes

EURm	2020	2021
Deferred taxes as of January 1 (net) *)	-144	-107
Foreign exchange adjustment in foreign companies	1	
Additions through acquisition of subsidiaries		-25
Adjustments concerning previous years	2	
Disposals through sale of subsidiaries		2
Deferred tax recognized in the income statement	30	48
Deferred tax recognized in other comprehensive income	4	-10
Deferred taxes as of December 31 (net) *)	-107	-92

*) Liability (-)

Specification of deferred taxes

EURm	2020	2021
	Deferred tax asset	Deferred tax asset
Intangible assets	4	2
Property, plant and equipment and financial assets	48	47
Current assets	22	23
Debt and provisions	156	150
Tax loss carry-forwards	41	50
Non-capitalized tax assets regarding tax losses	-36	-43
	235	229
Set-off within the same legal entities and jurisdiction	-143	-156
Deferred tax assets	92	73

Group accounts and notes

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Note 21 Deferred tax (continued)

Specification of deferred taxes

EURm	2020	2021
	Deferred tax liability	Deferred tax liability
Intangible assets	131	165
Property, plant and equipment and financial assets	123	114
Current assets	10	11
Debt and provisions	73	26
Deferred tax regarding Danish joint taxation	5	5
	342	321
Set-off within the same legal entities and jurisdiction	-143	-156
Deferred tax liabilities	199	165

The tax asset related to tax-loss carry-forwards of EUR 7m net (2020: 5m) is largely related to companies that have suffered tax losses within the last three financial years. Based on business plans and expected future taxable income in the respective companies, it is the Management's opinion that the net tax-loss carry-forwards will be utilized in the future. Of the tax-loss carry-forwards recognized, 99% (2020: 100%) can still be utilized after 3 years or later.

The tax value of unrecognized tax assets related to tax-loss carry-forwards amounts to EUR 43m (2020: 36m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized. 13% of the amount (2020: 2%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 82% (2020: 83%).

Of the deferred tax liability of EUR 165m (2020: 199m), EUR 5m (2020: 5m) can be attributed to taxes relating to joint taxation with foreign subsidiaries in previous years. The Group has deferred tax liabilities concerning temporary differences in foreign subsidiaries, associates and joint ventures of EUR 21m (2020: 8m). The liabilities are not recognized, because the Group decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

Accounting Policy

Deferred tax liabilities and deferred tax assets are measured according to the balance sheet liability method, which means that all temporary differences between the carrying amount and the tax base of not deductible for tax purposes. Assets and liabilities are recognized in the balance sheet as deferred tax liabilities and deferred tax assets, respectively. Exceptions are any tax incurred by selling shares in subsidiaries and which the Group can identify as being a tax liability and tax relating to goodwill, which is not deductible for tax purposes. Deferred tax assets are recognized at the expected value of their utilization; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Adjustment is made for deferred tax resulting from elimination of unrealized intra-Group profits and losses. Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to be crystallizd as current tax. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized.

Critical accounting estimates

Measurement of recognized tax assets and liabilities

Deferred taxes, including the tax value of tax-loss carryforwards, are recognized at their expected value. The assessment of deferred tax assets regarding tax-loss carryforwards is based on the expected future taxable income of the respective units and the expiration date of the losses.

In the course of conducting business globally, transfer-pricing disputes with tax authorities may occur and Management judgment is applied to assess the possible outcome of such disputes. The most probable outcome is used as the measurement method. Management believes that the provisions made for uncertain tax positions is adequate. However, the actual obligation may deviate and is dependent on the results of the litigation and settlement with the relevant tax authorities.

Uncertain tax positions are recognized if it is probable that the uncertain tax position will affect the enterprise's future tax payments or refunds. Uncertain tax positions are measured so as to better reflect the receivable/liability and the related uncertainty.

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Note 22 Corporation tax

EURm	2020	2021
Corporation tax payable/receivable (-) as of January 1	38	38
Foreign exchange adjustment in foreign companies	-1	1
Additions through aquisition of subsidiaries		-1
Paid during the year	-169	-209
Adjustments concerning previous years	-1	-3
Disposals through sale of subsidiaries		-1
Current tax expenses in income statement	175	239
Current tax expenses in other comprehensive income	-4	-2
Corporation tax payable/receivable (-) as of December 31	38	62
The above corporation tax is recorded as follows:		
Assets	23	34
Liabilities	61	96
	38	62

Accounting Policy

Companies belonging to Danfoss A/S are generally liable to pay tax in the countries where they are domiciled. The current tax includes both Danish and foreign income taxes. Current tax payable and receivable are recognized in the balance sheet as tax computed on the taxable income for the year, adjusted for tax paid under the tax prepayment scheme.

Critical accounting estimates

In the course of conducting business globally, transfer-pricing disputes with tax authorities may occur and Management judgment is applied to assess the possible outcome of such disputes. The most probable outcome is used as the measurement method. Management believes that the provisions made for uncertain tax positions not yet settled with local authorities is adequate. However, the actual obligation may deviate and is dependent on the results of the litigation and settlement with the relevant tax authorities.

Uncertain tax positions are recognized if it is probable that the uncertain tax position will affect the enterprise's future tax payments or refunds. Uncertain tax positions are measured so as to better reflect the receivable/liability and the related uncertainty.

Note 23 Adjustment for non-cash transactions

EURm	2020	2021
Depreciation/amortization and impairment	335	397
Gain(-)/loss on disposal of tangible assets and business activities	4	-58
Share of profit from associates and joint ventures after tax	-6	-2
Financial income	-2	-5
Financial expenses	50	63
Other	-9	-10
Adjustment for non-cash transactions	372	385

Depreciation/amortization and impairment includes depreciation on leased right-of-use assets. Further information on depreciation charge and lease payment is provided in Note 10 Property, plant and equipment and Note 18 Change in liabilities arising from financing activities.

The Group's other adjustments for non-cash transactions mainly consist of provisions, derivatives and defined-benefit plans.

Notes

Note 24 Contingent liabilities, assets and securities

Securities

EURm	2020	2021
Carrying amount of land and buildings pledged as security for bank loans and mortgages	126	115
Leasing assets pledged as security for leasing commitments	208	253
Carrying amount of interest-bearing liabilities with security in assets	289	337

In connection with disposal of subsidiaries, ordinary guarantees and warranties have been issued. These guarantees and warranties are considered to have no impact on the Group's financial position beyond what has been stated in the Annual Report.

Contingent liabilities
The Danfoss Group is party to a small number of disputes, lawsuits and legal actions, including tax disputes. It is the view of the Management that the outcome of these legal actions will have no other significant impact on the Danfoss Group financial position beyond what has been recognized and stated in the Annual Report.

Contractual obligations

EURm	2020	2021
Service contract commitment other than leases	72	123
Inventories	144	194
Property, plant and equipment	48	108
Purchase commitments	264	425

Note 25 Related parties

Danfoss A/S' related parties comprise the Bitten & Mads Clausen's Foundation and other shareholders with significant ownership interests, cf. Note 16 Share capital, as well as subsidiaries, associates, joint ventures, the Board of Directors and the Group Executive Team. Further, related parties comprise companies in which the above mentioned persons have controlling interest, joint controlling interests, or significant influence.

Bitten & Mads Clausen's foundation, other shareholders and other related companies
The Bitten & Mads Clausen's Foundation, which holds 48% of the shares in Danfoss A/S and controls 86% of the voting power, has the controlling influence.

In the financial year, a limited number of transactions have taken place between the Bitten & Mads Clausen's Foundation, its other subsidiaries and certain shareholders of the Clausen family. The transactions comprise service and financial transactions, and they have been made according to the arm's length principle, or on a cost-covering basis. The total payment to the Danfoss Group does not exceed EUR 3.3m (2020: 3.3m). In the financial year, the Bitten & Mads Clausen's Foundation purchased shares in Danfoss A/S at a value of EUR 2m from to the company (2020: 70m). The Bitten & Mads Clausen's Foundation has agreed to utilize its first right to buy back the Danfoss A/S shares that relate to employee share programs, when these shares will be offered for sale. End of December 2021, these shares constitute around 1% of the share capital in Danfoss A/S.

Board of directors and group executive team
In the financial year, no transactions took place with the Board of Directors and Group Executive Team other than the transactions as a result of conditions of employment. The companies in which Mads-Peter Clausen and Jørgen M. Clausen have significant ownership interests have sold goods and services of less than EUR 0.7m (2020: 0.7m) to the Danfoss Group. All transactions were performed on an arm's length basis.

For further information about the salaries of the Board and Group Executive Team, see Note 3 Expenses and other operating income, section A. Personnel expenses.

Group accounts and notes

Notes

Note 25 Related parties (continued)

Transactions with associates and joint ventures

EURm	2020	2021
Sales of goods and services	40	3
Purchases of goods and services	16	17

Transactions besides the above transactions with joint ventures and associates are described in Note 8 Investments in associates and joint ventures, Note 15 Financial income and expenses and Note 17 Financial risks and instruments.

Note 26 Events after the balance sheet date

Subsequent to December 31, 2021 there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the Annual report.

Group accounts and notes

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Note 27 General accounting policies

The general accounting policies set out below have been consistently applied in respect of the financial year and the comparative figures.

Consolidated Financial Statements

The Consolidated Financial Statements comprise the Parent Company, Danfoss A/S and subsidiaries in which Danfoss A/S directly or indirectly holds more than 50% of the voting rights, or otherwise controls the company's financial and operating policies with a view to obtaining a yield or other benefits from its activities. Companies in which the Group has between 20% and 50% of the voting rights and exercises a significant influence, but does not control, are considered associates or joint ventures when the joint-venture conditions of IFRS 11 are met. When assessing whether Danfoss A/S exercises control or significant influence or joint control, potential voting rights, which can be utilized at the balance sheet date are taken into account.

The Consolidated Financial Statements are prepared by aggregating the Financial Statements of the Parent Company and the individual subsidiaries, which have all been prepared in accordance with the accounting policies of Danfoss A/S.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of the identifiable net assets and recognized contingent liabilities at the acquisition date. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realized, and unrealized, profits and losses on transactions between the consolidated companies are eliminated. Unrealized losses are eliminated in the same way as unrealized profits, provided that no impairment has occurred.

In the Consolidated Financial Statements, the items of subsidiaries are recognized in full. The minority interests' proportionate share of the profit/loss for the year is recognized as part of the Group's profit/loss for the year and as a separate share of the Group's equity.

The companies included in the Group are disclosed in the section "Group Companies".

Foreign currency translation

For each of the reporting enterprises in the Group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting enterprise operates.

Transactions denominated in currencies other than the functional currency are considered transactions denominated in foreign currencies. On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Currency gains and losses arising on translation are recognized in the income statement under financial items. Non-monetary assets and liabilities denominated in foreign currencies are recognized at the foreign exchange rates at the transaction date.

On recognition in the Consolidated Financial Statements of companies with a functional currency other than EUR, the income statements are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date.

An average exchange rate for each month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized directly in equity under a separate translation reserve. The foreign exchange adjustment is allocated between the equity of the Parent Company and of the minority shareholders.

Foreign exchange adjustments of balances which are considered part of the total net investment in companies with a different functional currency than EUR are recognized directly in the equity under a separate reserve for foreign exchange adjustments. Likewise, foreign exchange gains or losses are recognized in the Consolidated Financial Statements (directly in the equity under a separate reserve for foreign exchange adjustments) concerning the part of loans and derivative financial instruments which has been allocated for currency hedging of net investments made in these companies, and which effectively protects against similar currency rate gains or losses on net investments in the company.

On disposal of wholly owned foreign units, the foreign exchange adjustments which have been accumulated in equity via other comprehensive income, and which can be ascribed to the unit, are reclassified from "Translation reserve" to the income statement, together with any gains or losses from the disposal.

On disposal of partially owned foreign subsidiaries, the part of the translation reserve related to minority interests is not recognized in the income statement.

Repayments of balances which are considered part of the net investment are not considered a partial disposal of the subsidiary.

Notes

Note 27 General accounting policies (Continued)

Equity

Share capital

The share capital comprises the nominal portion of the amounts paid in accordance with the subscription for shares. Share capital can only be released according to the rules relating to capital reduction.

Share premium

Share premium comprises amounts not included in the nominal share capital, which have been paid by the shareholders in connection with capital increases, and gains and losses from the sale of treasury shares. The reserve is part of the company's free reserves.

Reserve for proposed dividends

Dividends are recognized as a liability at the date when they are adopted at the Annual General Meeting. Proposed dividends for the financial year are included in equity under proposed dividends.

Hedging reserve

In connection with hedging of future sales and purchase transactions (cash flows), changes in the fair value of instruments qualifying for hedge accounting (documentation etc.) are recognized in the statement of comprehensive income under hedging reserve, until the hedged transaction is transferred to inventories. The recognized changes in the fair value are recognized in the hedging reserve under equity.

Currency translation reserve

Foreign exchange differences arising on the translation of the opening balance of equity of foreign companies at the exchange rates at the balance sheet date, and on translation of income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized directly in a separate translation reserve in the statement of comprehensive income under the item "Foreign exchange adjustments of foreign companies".

Foreign exchange adjustments of non-current balances with foreign subsidiaries and associates which are considered additions to or deductions from the subsidiaries' equity, as well as foreign exchange adjustments of hedging transactions for the purpose of hedging the Group's net investments in subsidiaries, are also recognized directly in the consolidated statement of comprehensive income. The translation reserve in the equity comprises the Parent Company shareholders' share of the foreign exchange adjustments. On complete or partial disposal of a foreign entity or on repayment of balances which constitute part of the net investment in the foreign entity, the share of the cumulative amount of the exchange differences recognized in other comprehensive income relating to that foreign entity is recognized in the income statement when the gain or loss on disposal is recognized.

Reserve for own shares

The reserve for own shares comprises the acquisition cost for the company's portfolio of treasury shares. The dividend from treasury shares is recognized directly in the retained earnings in equity. Gains and losses from the sale of treasury shares are recognized in share premium.

Statement of cash flows

The statement of cash flows shows the cash flows from operating, investing and financing activities for the year, and cash equivalents at the beginning and the end of the year. The cash-flow effect of acquisitions and disposals of companies is shown separately under cash flows from investing activities.

Cash flows relating to acquired companies are recognized in the statement of cash flows at the acquisition date, and cash flows relating to divested companies are included until the disposal date.

Cash flows from operating activities

Cash flows from operating activities are calculated according to the indirect method on the basis of profit before tax/profit before tax from continuing operations and adjusted for non-cash operating items, changes in working capital, paid financial items, received dividend and paid corporation taxes.

Cash flows from investing activities

Cash flows from investing activities comprise payment in connection with the acquisition and disposal of companies and activities, intangible assets and property, plant and equipment as well as securities classified as investing activities. Acquisitions of assets under leases capitalized are treated as non-cash transactions.

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the share capital, the raising and repayment of long-term and short-term bank debt, lease payment, acquisition of minority interests, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise bank account deposits, cash balances and highly liquid investments with short-term maturity and which are exposed to insignificant risk of change in value.

Notes

Note 27 General accounting policies (Continued)

Financial measures
In the Annual Report, Danfoss presents certain financial measures of the Group's financial performance, financial position and cash flows that are not defined according to IFRS. These non-IFRS financial measures may not be defined and calculated by other companies using the same method and may not be comparable.

The non-IFRS financial measures are calculated in the following manner:

Organic growth
Sales growth adjusted for exchange rate translation and M&A effects.

EBITA
Profit before interest, taxes, profit from associates & joint ventures and amortization, gains and losses related to acquisitions and divestments

The following table shows the reconciliation of EBITA with operating profit (EBIT), the most direct comparable IFRS financial measure:

EBITA	EURm 2019	EURm 2020	EURm 2021
Operating profit (EBIT)	695	625	877
Share of profit from associates and joint ventures	4	-6	-2
Amortizations:			
Brand	3	3	6
Technology	46	47	54
Customer relations	30	19	24
Gains/losses and costs related to acquisitions and divestments	-7	35	10
EBITA	**771**	**723**	**969**

EBITDA margin
Operating profit (EBIT) before depreciation, amortization, impairment and profit from associates & joint ventures /net sales

EBITDA margin excluding other operating income, etc.
Operating profit (EBIT) before depreciation, amortization, impairment and other operating income and expenses, and profit from associates & joint ventures /net sales

EBITA margin excluding other operating income, etc.
Operating profit (EBIT) before acquisition-related amortization, other operating income and expenses, and profit from associates & joint ventures /net sales

EBITA margin
EBITA /net sales

EBIT margin
Operating profit (EBIT)/net sales

Return on Invested Capital (ROIC)
Operating profit (EBIT)/average invested capital

Invested Capital
Net interest-bearing debt added to shareholders' equity

Return on Invested Capital (ROIC) after tax
EBIT after tax/average invested capital excluding tax

Invested capital excluding tax
Net interest-bearing debt and tax balance sheet items (net) added to shareholders' equity

Group accounts and notes

Notes

Note 27 General accounting policies (Continued)

EBIT after tax
Operating profit (EBIT) reduced with tax on profit

Return on equity
Net profit after minority interests' share/average equity excluding minority interests

Equity ratio
Equity/total assets

Leverage ratio
Interest-bearing debt/equity at year-end

Net interest-bearing debt to EBITDA ratio
Interest-bearing debt less interest-bearing assets/EBITDA

Dividend ratio (%) (proposed)
Total proposed dividends distributed to shareholders/net profit

Dividend ratio per share (proposed)
Total proposed dividends distributed to shareholders/total shares

Free operating cash flow
Cash flow from operating and investing activities before acquisition of subsidiaries, proceeds from disposal of subsidiaries and acquisitions/sales of other investments, financial items, taxes, but including lease payments (IFRS16).

Free operating cash flow after financial items and tax
Cash flow from operating and investing activities before acquisition of subsidiaries, proceeds from disposal of subsidiaries and acquisitions/sales of other investments but including lease payments (IFRS16).

The following table shows the reconciliation of free operating cash flow after financial items and tax with cash generated from operating activities, the most direct comparable IFRS financial measure:

Free operating cash flow after financial items and tax	EURm 2019	EURm 2020	EURm 2021
Cash flow from operating activities	789	800	838
Cash flow from investing activities	-407	-242	-2,794
Acquisition of subsidiaries	140		+2,664
Proceeds from sales of subsidiaries			-241
Acquisition of other investments			
Proceeds from sale of other investments		-4	-2
Lease payments	-59	-61	-64
Free operating cash flow after financial items and tax	**463**	**493**	**401**

Free cash flow
Cash flow from operating and investing activities including lease payments (IFRS16).

Group accounts and notes

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Note 28 Group companies

Per December 31, 2021
The companies are owned 100% by Danfoss unless otherwise stated after the company name.

Danfoss A/S, Nordborg, Denmark (Parent Company)

- Subsidiary
- Associate or joint venture

EUROPE

Austria
- Danfoss Gesellschaft m.b.H.

Belgium
- Danfoss N.V./S.A.
- Danfoss Power Solutions BVBA
- Hydro-Gear Europe BVBA

Bulgaria
- Danfoss EOOD

Croatia
- Danfoss d.o.o.

Czech Republic
- Danfoss s.r.o.
- Danfoss Power Solutions II s.r.o

Denmark
- Danfoss Compressors Holding A/S
- Danfoss Distribution Services A/S
- Danfoss Distribution II A/S
- Danfoss Fire Safety A/S
- Danfoss International A/S
- Danfoss IXA A/S – 73%
- Danfoss Power Electronics A/S
- Danfoss Power Solutions ApS
- Danfoss Power Solutions Holding ApS
- Danfoss Power Solutions Holding II ApS
- Danfoss Power Solutions II Technology A/S
- Danfoss Redan A/S
- Gemina Termix Production A/S
- Issab Holding ApS
- Sondex A/S
- Sondex Holding A/S

Estonia
- Danfoss AS

Finland
- Danfoss Editron Oy
- Danfoss Power Solutions Oy Ab
- Oy Danfoss Ab
- Leanheat Oy
- Sondex Tapiro Oy Ab
- Vacon Oy

France
- Danfoss Commercial Compressors S.A.
- Danfoss Power Solutions S.AS.
- Danfoss Power Solutions II S.A.S.
- Danfoss S.a.r.l.

Germany
- Danfoss Esslingen GmbH
- Danfoss GmbH
- Danfoss Power Solutions GmbH & Co. OHG
- Danfoss Power Solutions Holding GmbH
- Danfoss Power Solutions Informatic GmbH
- Danfoss Power Solutions Parchim GmbH
- Danfoss Power Solutions II GmbH
- Danfoss Sensors GmbH
- Danfoss Silicon Power GmbH
- Danfoss Werk Offenbach GmbH
- SMA Solar Technology AG -20%
- Sondex Deutschland GmbH

Great Britain
- Artemis Intelligent Power Ltd.
- Danfoss Limited
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions II Ltd.
- Danfoss Scotland Limited
- Senstronics Holding Ltd.– 50% (joint venture)
- Senstronics Limited

Hungary
- Danfoss Kft.

Iceland
- Danfoss hf.

Italy
- Danfoss Power Solutions S.r.l.
- Danfoss S.r.l.
- Danfoss Distribution Services S.r.l.
- Eaton Fluid Power S.r.l.

Kazakhstan
- Danfoss LLP

Latvia
- Danfoss SIA

Lithuania
- Danfoss UAB

The Netherlands
- Advitronic Engineering B.V.
- Danfoss B.V.
- Danfoss Editron B.V.
- Danfoss Finance I B.V.
- Danfoss Finance II B.V.
- Danfoss Power Solutions B.V.
- Danfoss Power Solutions II B.V.
- Sondex B.V.
- Sondex Holding Netherlands B.V.

Norway
- Danfoss AS
- Danfoss Power Solutions AS

Group accounts and notes

Notes

Note 28 Group companies (Continued)

Poland
- Danfoss Poland Sp. z.o.o.
- Danfoss Saginomiya Sp. z.o.o. – 50% (joint venture)
- Elektronica S.A. – 50% (joint venture)
- Sondex Braze Sp. z.o.o.
- Sondex Poland Sp. z.o.o.
- Sondex Sp. z.o.o.

Romania
- Danfoss S.R.L.
- S.C. Sondex Production S.R.L.

Russia
- AO Ridan
- Danfoss LLC

Serbia
- Danfoss d.o.o.

Slovakia
- Danfoss Power Solutions a.s.
- Danfoss spol. s.r.o.

Slovenia
- Danfoss Trata d.o.o.

Spain
- Danfoss S.A.
- Danfoss Power Solutions Telecontrol, S.L.U.
- Danfoss Power Solutions S.A.

Sweden
- Danfoss AB
- Danfoss Power Solutions AB
- EP Technology AB
- Ohmia Retail Sweden AB – 33.33%

Switzerland
- Danfoss AG

Ukraine
- Danfoss T.o.v.

AFRICA – MIDDLE EAST

Turkey
- DAF Enerji Sanayi Ve Ticaret Anonim Sirketi
- Danfoss Otomasyon ve Urunleri Tic Ltd.
- Polimer Kauçuk Sanayi ve Pazarlama A. Ş.

United Arab Emirates
- Danfoss FZCO – 95%
- Gulf Sondex FZCO

South Africa
- Danfoss (Pty) Ltd.
- Eaton Hydraulics (Pty.) Ltd.
- Sondex South Africa Pty. Ltd. – 80%

NORTH AMERICA

Canada
- Aeroquip-Vickers Canada Company
- Danfoss Inc.

USA
- Daikin-Sauer-Danfoss America LLC – 45%
- Danfoss LLC
- Danfoss Power Solutions Inc.
- Danfoss Silicon Power LLC
- Danfoss Power Solutions II, LLC
- Danfoss Power Solutions (US) Company
- Danfoss Power Solutions Work Function, LLC
- Hydro-Gear Inc. – 60%
- Hydro-Gear Limited Partnership– 60%
- Hydro-Gear of Indiana, LLC
- Sondex Equipment Holding, LLC
- Sondex Properties, Inc.
- White Hydraulics, Inc.

LATIN AMERICA

Argentina
- Danfoss S.A.

Brazil
- Aeroquip do Brasil Ltda.
- Danfoss do Brasil Indústria e Comércio Ltda.
- Danfoss Power Solutions Comércio Electrohidráulica Ltda.

Chile
- Danfoss Industrias Ltda.
- Danfoss Power Solutions II SpA

Colombia
- Danfoss S.A.

Mexico
- Danfoss Industries S.A. de C.V.
- Danfoss Power Solutions II S.A. de C.V.
- Danfoss Power Solutions III S.A. de C.V.
- Danfoss Power Solutions IV S.A. de C.V.
- Eaton Controls, S. de R.L. de C.V.

ASIA-PACIFIC

Australia
- Danfoss (Australia) Pty. Ltd.
- Danfoss Power Solutions Pty. Ltd.
- Danfoss Power Solutions II Pty. Ltd.
- Sondex Australia Pty. Ltd.
- Sondex Engineering Pty. Ltd.

P. R. of China
- Danfoss (Anshan) Controls Co. Ltd.
- Danfoss (Tianjin) Limited
- Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd.
- Danfoss (Jiaxing) Plate Heat Exchanger Co., Ltd.
- Danfoss Power Solutions (Jiangsu) Co., Ltd.
- Danfoss Power Solutions Trading (Shanghai) Co., Ltd.
- Danfoss Power Solutions (Zhejiang) Co., Ltd.
- Danfoss (Tianjin) Fire Safety Co., Ltd.
- Danfoss Shanghai Hydrostatic Transmission Co. Ltd.– 60%
- Danfoss Power Solutions (Nanjing) Co., Ltd.
- Danfoss Power Solutions (Jining) Co., Ltd.
- Danfoss (Shanghai) Investment Co., Ltd.
- Danfoss Power Electronics (Nanjing) Co., Ltd
- Eaton Industrial Clutches and Brakes (Shanghai) Co., Ltd.

Group accounts and notes

Notes

Note 28 Group companies (Continued)

- Eaton Hydraulics (Ningbo) Co., Ltd.
- Eaton Hydraulics (Luzhou) Co., Ltd.
- Eaton Fluid Power (Shanghai) Co., Ltd.
- Sondex Plate Heat Exchanger (Taicang) Co. Ltd.
- Vacon (China) Drives Co. Ltd.
- Zheijang Holip Electronic Technology Co. Ltd.

Hong Kong
- Danfoss Industries Limited
- Vickers Systems Limited
- UQM Technologies Asia Ltd.

India
- Danfoss Industries Pvt. Ltd.
- Danfoss Power Solutions India Pvt. Ltd.
- Danfoss Technologies Pvt. Ltd.
- Danfoss Fluid Power Pvt. Ltd.
- Eaton Fluid Power Limited (97.6%)
- Sondex Heat Exchangers India Pvt. Ltd.

Indonesia
- PT Danfoss Indonesia

Iran
- Danfoss Pars Private Joint Stock Company - in liquidation

Japan
- Daikin-Sauer-Danfoss Ltd. - 45%
- Danfoss Power Solutions Ltd.
- Eaton Industries (Japan) Ltd.

Malaysia
- Danfoss Malaysia Sdn. Bhd.
- Danfoss Power Solutions II Sdn. Bhd.
- Sondex Heat Exchangers Malaysia Sdn. Bhd.

Philippines
- Danfoss Philippines, Inc.

Singapore
- Danfoss Singapore Pte. Ltd.
- Danfoss Power Solutions Pte. Ltd.
- Danfoss Power Solutions II Pte. Ltd.

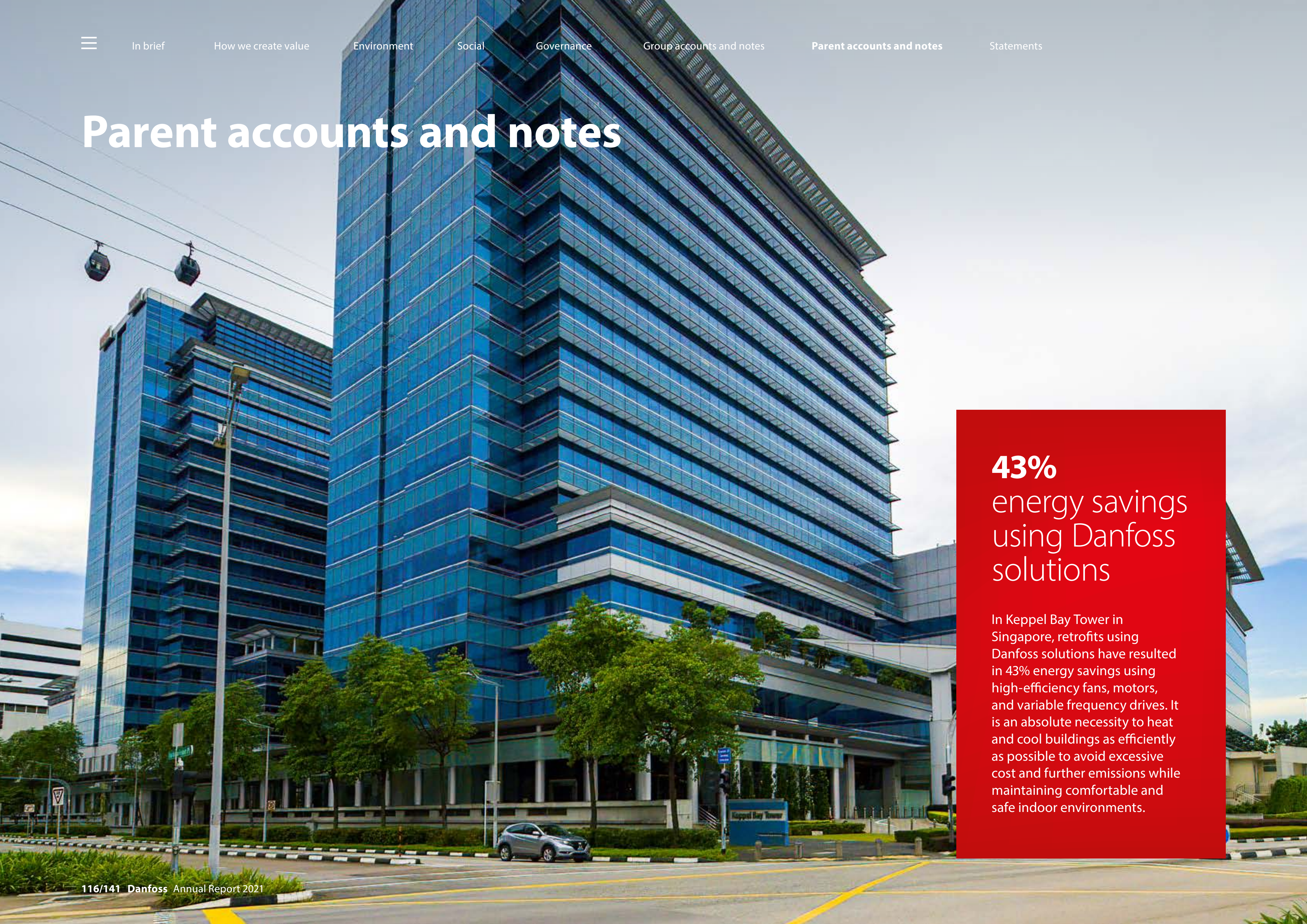
South Korea
- Danfoss Korea Ltd.
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions 2 Ltd.

Taiwan
- Danfoss Co. Ltd.

Thailand
- Danfoss (Thailand) Co. Ltd.

New Zealand
- Danfoss (New Zealand) Ltd.
- Danfoss Power Solutions II Ltd.

Parent accounts and notes



43%
energy savings using Danfoss solutions

In Keppel Bay Tower in Singapore, retrofits using Danfoss solutions have resulted in 43% energy savings using high-efficiency fans, motors, and variable frequency drives. It is an absolute necessity to heat and cool buildings as efficiently as possible to avoid excessive cost and further emissions while maintaining comfortable and safe indoor environments.

Management's **review** for Danfoss A/S

(Part of Management's Review)

Danfoss A/S is the Parent Company of the Danfoss Group. In addition to holding the shares of most of the other Danfoss Group companies, an important function of the company is to fund the Group's activities.

The Company also constitutes the corporate framework for many of Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. Danfoss A/S had 2,646 employees at the end of 2021.

The profit before other operating income and expenses was EUR 87m (2020: 101m). The company's operating profit was EUR 96m (2020: 86m).

Financial income and expenses increased to a net income of EUR 171m against a net expense of EUR 15m in 2020, mainly due to an increase in received dividends, impact of foreign exchange contracts and decreased impairment of subsidiaries.

The profit after tax in 2021 was EUR 240m (2020: 53m).

Equity was EUR 3,272m at the end of 2021 (2020: EUR 3,030m). The increase was mainly attributable to recognition of the profit for the year.

Danfoss A/S expects net sales for 2022 to be on level with the 2021 figures, and the company expects to report a profit in 2022.

Financial Statements – Parent

Parent accounts and notes

Income statement and comprehensive income

Income statement

January 1 to December 31

EURm	Note	2020	2021
Net sales	1	1.224	1.335
Cost of sales	1	-952	-1.059
Gross profit		**272**	**276**
Research and development costs	1	-37	-45
Selling and distribution costs	1	-83	-90
Administrative expenses	1	-51	-54
Operating profit excluding other operating income and expenses		**101**	**87**
Other operating income and expenses	1	-15	9
Operating profit (EBIT)		**86**	**96**
Financial income	6	127	227
Financial expenses	6	-142	-56
Profit before tax		**71**	**267**
Tax on profit	9	-18	-27
Net profit		**53**	**240**
Attributable to:			
Proposed dividends reserve			189
Other reserves		53	51
		53	**240**

Statement of comprehensive income

January 1 to December 31

EURm	2020	2021
Net profit	**53**	**240**
Other comprehensive income		
Foreign exchange adjustments on translation of DKK into EUR	13	2
Items that will be reclassified to income statement	**13**	**2**
Other comprehensive income after tax	**13**	**2**
Total comprehensive income	**66**	**242**

Parent accounts and notes

Statement of **financial position**

Statement of financial position

As of December 31

EURm	Note	2020	2021
Non-current assets			
Intangible assets	3	249	243
Property, plant and equipment	4	286	264
Investments	2	3.840	4.296
Total non-current assets		**4.375**	**4.803**
Current assets			
Inventories		100	107
Trade receivables external		38	52
Trade receivables from subsidiaries		90	156
Short-term loans to subsidiaries		275	548
Receivable corporation tax	11	5	8
Other receivables		17	46
Receivables		425	810
Cash and cash equivalents	7	554	205
Total current assets		**1.079**	**1.122**
Total assets		**5.454**	**5.925**

EURm	Note	2020	2021
Shareholders' equity		**3.030**	**3.272**
Non-current liabilities			
Provisions		41	9
Deferred tax liabilities	10	37	44
Pension and healthcare benefit plan obligations		2	
Borrowings	7	946	402
Borrowings from subsidiaries		102	564
Other non-current debt		39	41
Total non-current liabilities		**1.167**	**1.060**
Current liabilities			
Provisions		23	9
Borrowings	7	16	12
Trade payables		153	199
Trade payables to subsidiaries		13	34
Borrowings from subsidiaries		880	1.217
Debt to associates and joint ventures		4	3
Derivative financial instruments (negative fair value)	7	60	8
Other debt		108	111
Total current liabilities		**1.257**	**1.593**
Total liabilities		**2.424**	**2.653**
Total liabilities and shareholders' equity		**5.454**	**5.925**

Parent accounts and notes

Statement of **cash flows**

Statement of cash flows

January 1 to December 31

EURm	Note	2020	2021
Profit before tax		71	267
Adjustments for non-cash transactions	12	101	-157
Change in working capital		-7	-45
Interest received		26	31
Interest paid		-21	-35
Dividends received		92	164
Paid tax	11	-26	-23
Cash flow operating activities		**236**	**202**
Acquisition of intangible assets		-37	-35
Acquisition of property, plant and equipment		-37	-27
Proceeds from sale of property, plant and equipment			31
Acquisition of subsidiaries and capital increase		-34	-295
Proceeds from disposal of subsidiaries		2	3
Cash repayment of (-)/cash proceeds from loans to subsidiaries		26	-455
Cash flow from investing activities		**-80**	**-778**
Cash repayment of interest-bearing debt	8	-24	-571
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		270	798
Purchase of treasury shares		-2	-2
Sale of treasury shares		70	2
Cash flow from financing activities		**314**	**227**
Net change in cash and cash equivalents		**470**	**-349**
Cash and cash equivalents as of January 1		83	554
Foreign exchange adjustment of cash and cash equivalents		1	
Cash and cash equivalents as of December 31		**554**	**205**

Parent accounts and notes

Statement of **changes in equity**

Statement of changes in equity

EURm

	Share capital	Share premium	Hedging reserves	Reserve own shares	Reserve for capitalized development projects	Other reserves	Reserves	Proposed dividends	Total equity
Balance as of January 1, 2020	**134**	**10**		-376	130	2.918	**2.672**	**80**	**2.896**
Net profit						53	**53**		**53**
Software-development costs					7	-7			
Currency-translation adjustments				-1	1	13	**13**		**13**
Total other comprehensive income				-1	1	13	**13**		**13**
Total comprehensive income for the period				-1	8	59	**66**		**66**
Dividends to shareholders						80	**80**	**-80**	
Purchase of treasury shares				-2			**-2**		**-2**
Sale treasury shares				70			**70**		**70**
Total transactions with owners				68		80	**148**	**-80**	**68**
Balance as of December 31, 2020	**134**	**10**		-309	138	3.057	**2.886**		**3.030**
Net profit						51	**51**	**189**	**240**
Software-development costs					-5	5			
Currency-translation adjustments						2	**2**		**2**
Total other comprehensive income						2	**2**		**2**
Total comprehensive income for the period					-5	58	**53**	**189**	**242**
Purchase of treasury shares				-2			**-2**		**-2**
Sale of treasury shares				2			**2**		**2**
Total transactions with owners									
Balance as of December 31, 2021	**134**	**10**		-309	133	3.115	**2.939**	**189**	**3.272**

For further information on Equity and Share capital, see Statement of changes in equity and Note 16 Share capital, in Group section.

Parent accounts and notes

Notes

Note 1 Net Sales, expenses and other operating income

EURm	2020	2021
A. Net sales		
Sale of goods	1.047	1.144
Sale of services to Group members	177	191
	1.224	1.335

Sales of services to Group members mainly includes services sold in relation to Group functions.

EURm	2020	2021
B. Personnel expenses		
Salaries and wages	238	256
Severance payments	9	5
Social security	8	9
Pension cost - defined contribution plans	20	21
	275	291
Average number of employees	2.810	2.677
Total number of employees as of end of the year	2.752	2.646
Remuneration to Group Executive Team and Board of Directors:		
Salaries	4	4
Pension costs	1	2
Bonuses, short term	5	7
Bonuses, long term	6	14
Group Executive Team	16	27
Board of Director's fee	1	1
Total remuneration	17	28

Total remuneration for registered members of Executive Management amounts to EUR 20m (2020: 12m).
Bonuses, short term are paid based on meeting annual targets for selected financial ratios and sales growth.
Bonuses, long term are paid based on value creation over multiple years.

EURm	2020	2021
C. Depreciation/amortisation and impairment losses		
Classification by nature:		
Amortization of intangible assets	29	41
Depreciation of property, plant and equipment	39	40
Depreciation/amortization and impairment losses	68	81
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	27	39
Selling and distribution costs	2	2
Intangible assets	29	41
Classification of depreciation/impairment of tangible assets by functions:		
Cost of sales	25	30
Administrative expenses	14	10
Tangible assets	39	40

Parent accounts and notes

Notes

Note 1 Net Sales, expenses and other operating income

EURm	2020	2021
D. Other operating income and expenses		
Other gains related to acquisitions/disposals	5	4
Gain on disposal of property, plant and equipment		19
Other	4	2
Other operating income	9	25
Loss on disposal of property, plant and equipment	-1	
Restructuring costs	-9	-5
Other	-14	-11
Other operating expenses	-24	-16
Other operating income and expenses	-15	9

Danfoss A/S has received government grants of EUR 0m (2020: 13m) in total, which is related to COVID-19 compensation. The governments grants are deducted from the related expenses in the functions; Cost of sales, Selling and Distribution costs and Administrative expenses.

EURm	2020	2021
E. Fees to auditors appointed at the Annual General Meeting		
Audit fee	1	1
Other assurance engagements fee	0	0
Tax and VAT advice	0	0
Other fees	1	1
Total fee to Group Auditor	2	2

Note 2 Investments

EURm 2020	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**Total**
Costs as of January 1	2.677	369	314	19	3.379
Foreign exchange adjustments, etc.	10		1		11
Additions	34	578		2	614
Disposals	-11			-1	-12
Costs as of December 31	2.710	947	315	20	3.992
Adjustments as of January 1	-78		-4	-16	-98
Reversed impairment			1		1
Impairment for the year	-65				-65
Disposal	10				10
Adjustments as of December 31	-133		-3	-16	-152
Carrying amount as of December 31	2.577	947	312	4	3.840

Additions for 2020 to "Investments in subsidiaries" is mainly related to capital injection in Danfoss (Shanghai) Investment Co., Ltd.

Impairment losses for 2020 on "Investments in subsidiaries" of EUR 65m mainly relates to Sondex Holding A/S and Danfoss District Heating SRL. For Sondex Holding A/S the impairment is caused by a lower valuation of the entity due to large dividend payments in recent years. Danfoss District Heating SRL is under liquidation. Impairment losses/reversed impairment are reported as financial expenses/financial income.

Parent accounts and notes

Notes

Note 2 Investments (continued)

EURm	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**2021** **Total**
Costs as of January 1	2.710	947	315	20	3.992
Foreign exchange adjustments, etc.	1				1
Additions	295	177	1		473
Disposals	-15				-15
Costs as of December 31	2.991	1.124	316	20	4.451
Adjustments as of January 1	-133		-3	-16	-152
Reversed impairment	2		3		5
Impairment for the year	-20				-20
Disposal	12				12
Adjustments as of December 31	-139			-16	-155
Carrying amount as of December 31	2.852	1.124	316	4	4.296

Additions for the year to "Investments in subsidiaries" is mainly related to investment in Danfoss B.V., Polimer Kauçuk Sanayi ve Pazarlama A. S. and Eaton Industries (Japan) Ltd.

Impairment losses for the year on "Investments in subsidiaries" of EUR 20m mainly relates to Danfoss Power Solutions AS (Norway). The impairment is caused by a lower valuation of the entity due to dividend payments and lower earnings during recent years.
Impairment losses/reversed impairment are reported as financial expenses/financial income.

Impairment tests
Where indicators for impairment were present at the end of 2021, impairment tests were performed on the carrying amount of "Investments in subsidiaries, associates and joint ventures". Main indicators are loss-giving activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the valuation of the subsidiaries, associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2020.

Further information on subsidiaries, associates and joint ventures is provided in Note 6 Financial income and expenses, Note 7 Financial risks and instruments, and Note 14 Related parties.

Parent accounts and notes

Notes

Note 3 Intangible assets

EURm

	Goodwill	Internally developed software	Patents, trademarks and other rights	Development costs	Total Other	Total
Cost as of January 1, 2020	67	261	32	11	304	371
Foreign exchange adjustments		1			1	1
Additions		37			37	37
Disposals		-15	-6	-1	-22	-22
Cost as of December 31, 2020	67	284	26	10	320	387
Amortization and impairment losses as of January 1, 2020		94	26	11	131	131
Amortization		28	1		29	29
Disposals		-15	-6	-1	-22	-22
Amortization and impairment losses as of December 31, 2020		107	21	10	138	138
Carrying amount as of December 31, 2020	67	177	5		182	249
Cost as of January 1, 2021	67	284	26	10	320	387
Additions		33	2		35	35
Disposals		-26	-2	-8	-36	-36
Cost as of December 31, 2021	67	291	26	2	319	386
Amortization and impairment losses as of January 1, 2021		107	21	10	138	138
Amortization		39	2		41	41
Disposals		-26	-2	-8	-36	-36
Amortization and impairment losses as of December 31, 2021		120	21	2	143	143
Carrying amount as of December 31, 2021	67	171	5		176	243

Of the "internally developed software" approximately 60% relates to the One ERP Program.

Impairment tests

Goodwill in Danfoss A/S of EUR 67m (2020: 67m) is mainly a consequence of Danfoss A/S having merged with other Danish subsidiaries, in particular the merger with DEVI A/S in 2010.
At the end of 2021, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were perfomed on Danfoss A/S representing the base level of cash-generating units (CGUs), to which the carrying amount of goodwill can be allocated with reasonable accuracy. The impairment test method is similar to the impairment test performed at Group level described in Note 9 Intangible assets in the Danfoss Group accounts.

Management does not assess that a reasonable change in the fundamental assumptions used in the impairment tests will result in a recoverable amount lower than the carrying amount. The same conclusion was made for 2020.

Parent accounts and notes

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Note 4 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of January 1, 2020	294	319	127	44	784
Foreign exchange adjustments	1	1	1		3
Transfers	12	8	3	-23	
Additions	4	3	12	28	47
Disposals	-3	-5	-25		-33
Cost as of December 31, 2020	308	326	118	49	801
Depreciation and impairment losses as of January 1, 2020	181	274	52		507
Foreign exchange adjustments		1			1
Depreciation	12	11	16		39
Disposals	-2	-5	-25		-32
Depreciation and impairment losses as of December 31, 2020	191	281	43		515
Carrying amount as of December 31, 2020	117	45	75	49	286
Cost as of January 1, 2021	308	326	118	49	801
Transfers	14	15		-29	
Additions	1	3	2	23	29
Disposals	-34	-58	-4		-96
Cost as of December 31, 2021	289	286	116	43	734
Depreciation and impairment losses as of January 1, 2021	191	281	43		515
Transfers	1		-1		
Depreciation	12	12	16		40
Disposals	-34	-47	-4		-85
Depreciation and impairment losses as of December 31, 2021	170	246	54		470
Carrying amount as of December 31, 2021	119	40	62	43	264

Notes

Note 4 Property, plant and equipment (continued)

The right-of-use assets included in property, plant and equipment are presented below.

EURm

	Land and buildings	Equipment	**Total**
Carrying amount related to right-of-use assets as of January 1, 2020	6	20	26
Additions		9	9
Depreciation	-1	-10	-11
Carrying amount related to right-of-use assets as of December 31, 2020	5	19	24
Carrying amount related to right-of-use assets as of January 1, 2021	5	19	24
Additions		1	1
Depreciation	-1	-8	-9
Carrying amount related to right-of-use assets as of December 31, 2021	4	12	16

Further information on leases is provided in Note 5 Leases.

Parent accounts and notes

Notes

Note 5 Leases

Lessee

Lease liabilities are included as borrowings in the statement of financial position as follows:

EURm	2020	2021
Current	9	8
Non-current	15	8

Danfoss A/S mainly leases buildings and cars. Lease payments are generally fixed. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the Statement of Financial Position as a right-of-use asset and a lease liability. Danfoss A/S classifies its right-of-use assets in a consistent manner to property, plant and equipment, see Note 4. Each lease contract generally restricts the use of the right-of-use asset to Danfoss A/S. Some lease contracts contain an option to extend the lease period or terminate the lease before the lease term. Management assesses whether or not it is reasonably certain that the option will be exercised after considering all relevant facts and circumstances.

Danfoss A/S has decided not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. The expenses related to payments not included in the measurement of the lease liability are below EUR 5m.

Total cash outflow for leases for the financial year ending December 31, 2021, was EUR 9m (2020: 11m).

Further information on lease payments, interest expense on lease liabilities, additions, depreciation charge, carrying amount of right-of-use assets and maturity analysis of lease liabilities is provided in Note 6 Financial income and expenses, Note 4 Property, plant and equipment, Note 7 Financial risks and instruments and Note 8 Change in liabilities arising from financing activities.

Note 6 Financial income and expenses

EURm	2020	2021
Financial income		
Dividend from subsidiaries and associates/joint ventures	92	164
Interest from subsidiaries	32	35
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	1	5
Foreign exchange gains, net		22
Interest from banks, etc.	2	1
Financial income	127	227
Interest on financial assets measured at amortized cost	34	36

The impact of derivatives/foreign exchange contracts of EUR 27m is included in Foreign exchange gain, net. (2020: -65m included in Foreign exchange losses, net).

EURm	2020	2021
Financial expenses		
Interest to banks, etc.	-22	-26
Foreign exchange losses, net	-45	
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-65	-20
Interest to subsidiaries	-6	-5
Impairment/loss on loans	-3	-5
Interest expense for leasing arrangements	-1	
Financial expenses	-142	-56
Interest on financial liabilities measured at amortized cost	-28	-31

Further information on leases is provided in Note 5 Leases.

Parent accounts and notes

Notes

Note 7 Financial risks and instruments

Financial instruments

Below are relevant financial instrument specifications regarding Danfoss A/S. A description of financial risks can be found in the Group section, see Note 17 Financial risks and instruments, to which reference is made.

Danfoss A/S' debt categories and maturities

EURm	2020					2021				
			Maturity					Maturity		
	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	869	893	17	626	250	299	309	4	305	
Mortgage debt	69	74		1	73	69	73		1	72
Contingent consideration						29	29	3	26	
Borrowings from subsidiaries	982	982	880	102		1.781	1.781	1.217	564	
Finance lease liabilities	24	25	10	15		17	17	9	8	
Trade payables	153	153	153			199	199	199		
Trade payables to subsidiaries	13	13	13			34	34	34		
Debt to ass./ JV.	4	4	4			3	3	3		
Derivative financial liabilities	60					8				
	2.174	2.144	1.077	744	323	2.439	2.445	1.469	904	72

*) Maturity is evenly spread over the period.
Further information on leases is provided in Note 5 Leases.

The maturity analysis is based on all non-discounted cash flow, including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flow from derivative financial instruments is presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements.

Financial instruments by category

EURm	2020		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investments in associates and joint ventures	312	398	316	272
Financial assets measured at equity method	312	398	316	272
Other investment **)	4	4	4	4
Financial assets measured at fair value in the income statement	4	4	4	4
Trade receivables	38	38	52	52
Trade receivables from subsidiaries	90	90	156	156
Short-term loans to subsidiaries	275	275	548	548
Other receivables	17	17	46	46
Cash and cash equivalents	554	554	205	205
Loans, receivables, cash and cash equivalents measured at amortized cost	974	974	1.007	1.007
Financial liabilities:				
Contingent consideration measured at fair value via the income statement **)	34	34	29	29
Interest-bearing debt *)	962	984	385	443
Debt to subsidiaries	13	13	34	34
Borrowing from subsidiaries	982	982	1.781	1.781
Trade payables and other debt	304	304	354	354
Financial liabilities measured at amortized cost	2.261	2.283	2.554	2.612
Financial liabilities measured at fair value in the income statement *)	60	60	8	8

Parent accounts and notes

Notes

Note 7 Financial risks and instruments (continued)

Financial assets and liabilities measured at fair value are measured on a recurring basis and categorized into the following levels of the fair value hierarchy:
Level 1: Observable market prices for identical instruments.
Level 2 *): Derivatives that are not traded on an active market based on quoted prices are measured using valuation techniques, where all significant inputs are based on observable market data such as exchange rates and swap curves.
Level 3 **): Valuation techniques primarily based on unobservable prices.

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap prices and exchange rates. The market value of the interest-bearing debt is recognized at the present value of expected future instalment and interest payments. The discount rate applied was the Group's current borrowing rate on loans for corresponding terms. The short-term floating-rate bank debt is stated at the par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2020.

Derivates as of December 31 for Danfoss A/S

EURm	2020			2021		
	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement
USD	898	-59	-59	-159	-4	-4
EUR	-27			-1.046		
Other currencies	144	-1	-1	-98	-4	-4
Forward exchange contracts		-60	-60		-8	-8
Derivatives end of year		-60	-60		-8	-8

Note 8 Change in liabilities arising from financing activities

EURm	Short-term borrowings	Long-term borrowings	**Total**
Carrying amount as of January 1, 2020	16	959	975
Cash flows:			
Cash repayment	-17		-17
Lease payments	-7		-7
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	4	6	10
Reclassification	20	-20	
Other		1	1
Carrying amount as of December 31, 2020	16	946	962
Cash flows:			
Cash repayment	-63	-501	-564
Lease payments	-7		-7
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	1	1	2
Reclassification	69	-69	
Other	-4	25	21
Carrying amount as of December 31, 2021	12	402	414

Lease payments are the principal portion of lease liabilities and are presented under cash flows from financing activities in the Statement of Cash Flow.
Other includes the reclassification in 2021 of contingent consideration from provisions to borrowings.

Further information on leases is provided in Note 5 Leases.

Parent accounts and notes

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Note 9 Tax on profit

EURm	2020	2021
Current tax expense	-17	-26
Change in deferred tax	-1	-3
Adjustments concerning previous years		2
Tax on profit (income statement)	-18	-27
Tax on profit is defined as:		
Tax on profit before tax	22,0%	22,0%
Tax-exempt income/non-deductible expenses	29,0%	0,8%
Dividends exempt of tax	-28,7%	-13,5%
Other taxes	2,0%	1,6%
Adjustments concerning previous years	0,4%	-0,6%
Effective tax rate	24,7%	10,3%

EURm	2020	2021
Tax on profit (income statement)	-18	-27
Total taxes	-18	-27

Note 10 Deferred tax

Changes in deferred taxes

EURm	2020	2021
Deferred taxes as of January 1 (net) *)	-38	-37
Adjustments concerning previous years	2	-4
Deferred tax recognized in the income statement	-1	-3
Deferred taxes as of December 31 (net) *)	-37	-44

*) Liability (-)

Specification of deferred taxes

EURm	2020	2021
	Deferred tax asset	Deferred tax asset
Property, plant and equipment and financial assets	10	6
Current assets	1	
Liabilities	16	13
	27	19
Set-off within the same legal entities and jurisdiction	-27	-19
Deferred tax assets	0	0
	Deferred tax liability	Deferred tax liability
Intangible assets	31	31
Property, plant and equipment and financial assets	13	11
Current assets		2
Liabilities	15	14
Deferred tax regarding Danish joint taxation	5	5
	64	63
Set-off within the same legal entities and jurisdiction	-27	-19
Deferred tax liabilities	37	44

Parent accounts and notes

Notes

Note 10 Deferred tax (continued)

Of the deferred tax liability of EUR 44m (2020: 37m), EUR 5m (2020: 5m) can be attributed to tax relating to joint taxation with foreign subsidiaries in previous years. Danfoss A/S has deferred tax liabilities concerning temporary differences in foreign subsidiaries and associates and joint ventures of EUR 18m (2020: 6m). The liabilities are not recognized, because Danfoss A/S decides on their utilization and it is likely that the liabilities will not be recognized in the forseeable future.

Note 11 Corporation tax

EURm	2020	2021
Corporation tax payable/receivable (-) as of January 1	2	-5
Paid during the year	-26	-23
Adjustments concerning previous years	2	-6
Current tax expenses in income statement	17	26
Corporation tax payable/receivable (-) as of December 31	-5	-8
The above corporation tax is recorded as follows:		
Assets	5	8
	-5	-8

Note 12 Adjustment for non-cash transactions

EURm	2020	2021
Depreciation/amortization and impairment	68	81
Gain(-)/loss on disposal of tangible assets and business activities		-19
Financial income	-127	-227
Financial expenses	142	56
Other, including provisions	18	-48
Adjustment for non-cash transactions	101	-157

Depreciation/amortization and impairment includes depreciation on leased right-of-use assets. Further information on depreciation charge and lease payments is provided in Note 4 Property, plant and equipment and Note 8 Change in liabilities arising from financing activities.

Parent accounts and notes

Notes

Note 13 Contingent liabilities, assets and securities

Securities

EURm	2020	2021
Carrying amount of land and buildings pledged as security for bank loans and mortgages	111	115
Leasing assets pledged as security for leasing commitments	24	16
Carrying amount of interest-bearing liabilities with security in assets	93	85

In connection with disposal of subsidiaries, ordinary guarantees and warranties have been issued. These guarantees and warranties are considered to have no impact on Danfoss A/S' financial position beyond what has been stated in the Annual Report.

Contingent liabilities

Danfoss A/S is party to a small number of disputes, lawsuits and legal actions, including tax disputes. It is the view of the Management that the outcome of these legal actions will have no other significant impact on Danfoss A/S' financial position beyond what has been recognized and stated in the Annual Report.

Contractual obligations

EURm	2020	2021
Service contract commitment other than leases	61	61
Inventories	32	41
Property, plant and equipment	27	4
Purchase commitments	120	106

Note 14 Related parties

For more information about related parties, see Note 25 Related parties, in Group section.

Transactions with associates and joint ventures

EURm	2020	2021
Purchases of goods and services	19	20

Transactions besides the above transactions with joint ventures and associates are described in Note 6 Financial income and expenses, Note 2 Investments and Note 7 Financial risks and instruments.

Transactions between Danfoss A/S and the subsidiaries

EURm	2020	2021
Sales of goods and services	1.196	1.315
Purchases of goods and services	452	534
Disposal of intangible assets and property, plant and equipment		40

Transactions besides the above transactions with joint ventures and associates are described in Note 6 Financial income and expenses, Note 2 Investments and Note 7 Financial risks and instruments.

Note 15 Events after the balance sheet date

Subsequent to December 31, 2021, there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the Annual Report.

Parent accounts and notes

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Note 16 General accounting policies for Danfoss A/S

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2021, comprises the Financial Statements of Danfoss A/S.

The Financial Statements of Danfoss A/S have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for listed companies. Unless otherwise indicated, the Annual Report is presented in EUR rounded to the nearest million.

Besides the following section, the accounting policies for Danfoss A/S are the same as for the Danfoss Group. Please refer to Note 27 in the Consolidated Financial Statements for the Danfoss Group. The impact of new accounting standards, as described in Note 1 in the Consolidated Financial Statements for the Danfoss Group are also assessed as immaterial to Danfoss A/S.

Investments in subsidiaries, associates and joint ventures
In Danfoss A/S' Financial Statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is performed. If the recoverable amount is lower than cost, investments are written down to this lower value. Impairments are recognized in Danfoss A/S' income statement under financial expenses. Reversal of impairments are recognized under financial income.

Dividends from investments in subsidiaries, associates and joint ventures are recognized in Danfoss A/S' income statement under financial income in the year, when the dividends are declared.

Corporation tax and deferred tax
Danfoss A/S is jointly taxed with its Danish subsidiaries and sister companies. Current tax and deferred tax is allocated between the jointly taxed companies. The jointly taxed companies are taxed under the tax prepayment scheme.

Reserve for capitalized development projects
Danfoss A/S has established a non-distributable reserve in equity regarding capitalized development projects. This reserve will be reversed as the development projects have effect on the income statements. The amount is presented net of deferred tax.

Note 17 Significant accounting estimates for Danfoss A/S

Significant accounting estimates for Danfoss A/S concern investments in subsidiaries, associates and joint ventures.

In Danfoss A/S' Financial Statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is performed. If the recoverable amount is lower than cost, investments are written down to this lower value.

Due to the nature of the operations of the investments, estimates of expected cash flows have to be made many years into the future, which will be subject to some degree of uncertainty. The investments in subsidiaries, associates and joint ventures are described in more detail in Note 2 Investments.

Statements

Helping the world move to **sustainable** transport

Danfoss solutions accelerate electrification of transportation, making hybrid and purely electric vehicles a natural and sustainable choice for everyone. The more e-mobility solutions we employ, the greater the reduction in CO_2 and other greenhouse gases.

Management's statement

The Board of Directors and the CEO and CFO have today considered and adopted the Annual Report of Danfoss A/S for the financial year January 1 – December 31, 2021.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at December 31, 2021, of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2021.

In our opinion, the Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Nordborg, March 2, 2022

CEO and CFO

Kim Fausing

Jesper V. Christensen

Board of Directors

Jørgen M. Clausen, Chair

Jens Bjerg Sørensen, Vice Chair

Mads-Peter Clausen

Per Falholt

Connie Hedegaard

William Erwin Hoover Jr.

Jürgen Reinert

Mika Vehviläinen

Sandra Nørgaard Bertelsen

Marianne Godballe

Lars Grau

Jens Peter Rosendahl Nielsen

Independent **Auditor's Report**

To the shareholders of Danfoss A/S

Opinion
In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at December 31, 2021 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year January 1 to December 31, 2021 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Danfoss A/S for the financial year January 1 - December 31, 2021, pp. 67-115 and 118-135, which comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ("financial statements").

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review
Management is responsible for Management's Review, pp. 1-65 and 117.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements
Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

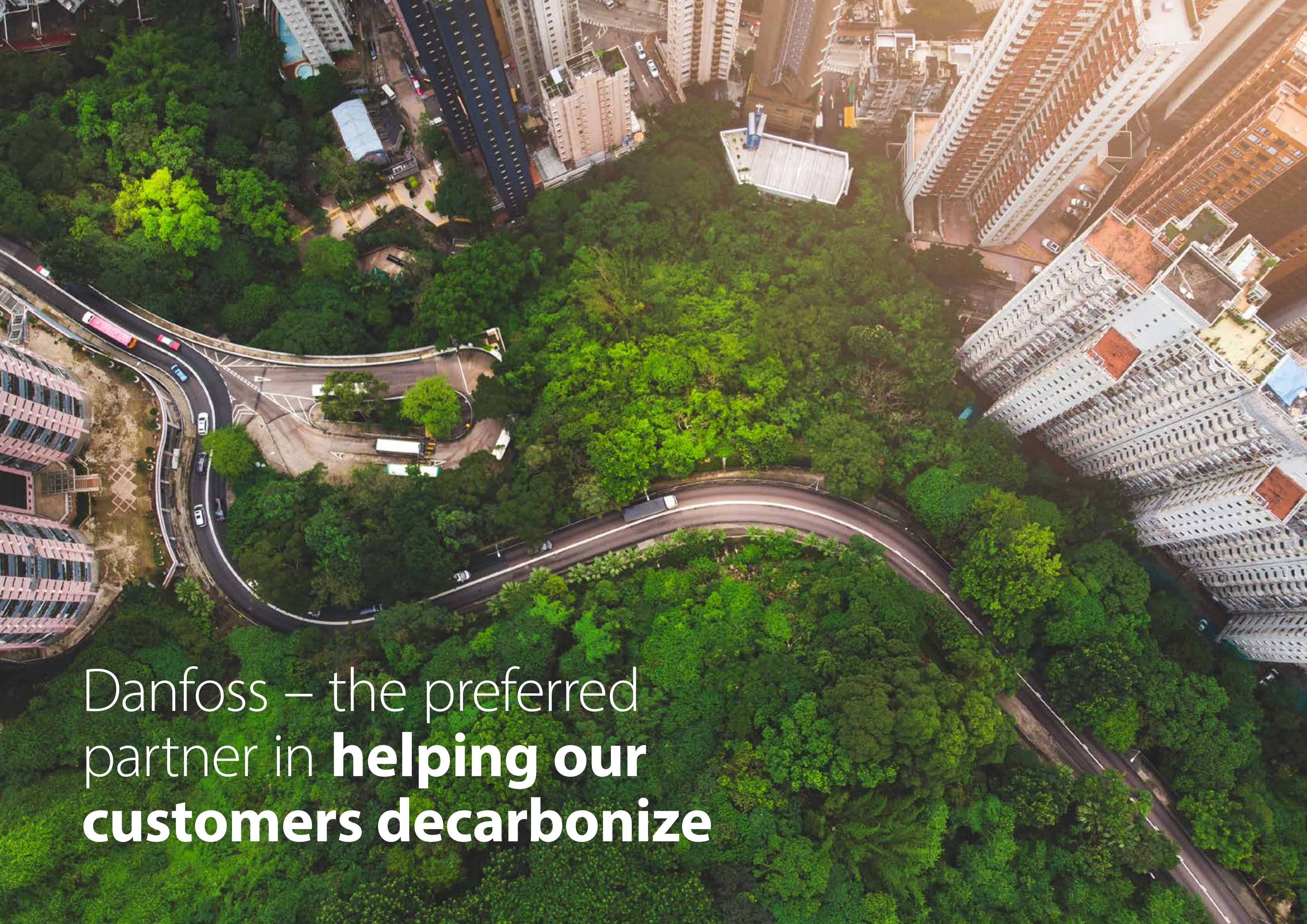
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, March 2, 2022

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Lars Baungaard
State Authorised Public Accountant
mne23331

Mads Melgaard
State Authorised Public Accountant
mne34354



Danfoss – the preferred partner in **helping our customers decarbonize**

ENGINEERING
TOMORROW

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

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Contact address:
Danfoss A/S
Nordborgvej 81
6430 Nordborg
Denmark
Tel.: +45 7488 2222
CVR no. 20165715 (registration number with the Danish Business Authority)
Email: danfoss@danfoss.com