Annual Report 2020

ENGINEERING TOMORROW

Danfoss

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Financial Statements

This Annual Report 2020 is published as an electronic publication only and made available at www.danfoss.com.

Danfoss has tailored the annual reporting towards the needs of our various stakeholders with three annual publications: Annual Report 2020, Sustainability Report 2020 and Corporate Governance Report 2020.

These publications constitute the total annual reporting of the Danfoss Group and can be read individually or combined, depending on interests.

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.

Accelerating energy transition

Danfoss technologies that can accelerate the energy transition are already present, proven, and ready to be scaled up.

Read more

Our strategy

Danfoss continues to invest in strengthening the core businesses and building our digital offerings and a leading position within electrification.

Read more

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CEO letter

Globally leading **technology partner**

Danfoss is more relevant than ever. We see that companies, cities and countries around the world are again starting to plan for the future and are looking for reliable, tried-and-tested technology partners.

In 2020, the COVID-19 pandemic had a significant impact, especially during the second quarter. Since day one of the pandemic, our priority has been to keep our people safe, support and service our customers, and then flex our cost to the new reality. Our people have been extraordinarily resilient, adapting to new ways of working, whether at home or at our production sites. With their extraordinary efforts, we have been able to safeguard our strategic initiatives and investments in the future. Despite the volatility and topline impact, we can again deliver a strong financial result. This demonstrates the resilience of our strategy and business model as well as the commitment and determination of the Danfoss team. Together with a record cash generation, a low debt and significant investments in the future, we are standing strong and ready for the future.

2020 was also a very transformational year. We have continued to step up investments to further strengthen our core business, building our digital and software offering, and a leading position in electrification. There were several highlights that I would like to mention. With the agreement to acquire Eaton Hydraulics, we will take a significant step forward and become one of the global leaders in mobile and industrial hydraulics. We look forward to welcoming 10,000 new colleagues to Danfoss. Furthermore, we combined the Heating and Cooling segments into the new and globally leading Climate Solutions segment, providing the broadest and most innovative portfolio of solutions for our customers to enable the green transition. Also, our electrification pipeline continued to grow significantly in 2020.

Another important highlight is our momentum in the implementation of our One ERP platform: enabling the best-in-industry Digital Customer Experience going forward. Finally, our investments in R&D increased to 4.6% and we have a historically strong innovation pipeline ready for the future.

Our customers want their partners to be innovative and need technology that works in the real world. With our new setup and significant investments in the future, Danfoss can be an even better partner to our customers going forward. The new setup also entails an increased focus on developing our regions and localizing further.

Across our business, we have a huge potential to contribute to the global and regional climate goals. This is essential to our future success and therefore we also revised our ambitious sustainability targets for Danfoss in 2020. We are committed to decarbonizing our global footprint by 2030 and have set ambitious targets, and actions, to achieve them. We will continue to report on how we continuously improve our climate footprint and will extend our robust approach to include our entire value chain by setting science-based targets during 2021.

High-performing diverse teams are our foundation and we are committed to creating an inclusive environment in the company and to continuously improving diversity, defined as various generations, genders, nationalities, backgrounds, and individual characteristics. We have set ambitious targets to improve gender diversity to 30% female leaders in 2025.

To conclude 2020, despite the many COVID-19 pandemic challenges, it was a transformational year with significant investments in the future. This will continue in 2021. I would like to sincerely thank our customers and partners for the great cooperation, and the Danfoss team for the engagement, dedication and outstanding teamwork that made everything possible.

Kim Fausing
President & CEO

"We have continued to step up investments to further strengthen our core business."

Danfoss at a glance

The **journey** has begun

We need to significantly reduce energy consumption and greenhouse-gas emissions. Danfoss is a leading supplier of sustainable energy-saving solutions that play a key role in the green transition towards lower CO_2 emissions and more electrification. Danfoss has embarked on an ambitious plan to become carbon neutral in our global operations and to transform our company cars to become all-electric latest by 2030.

Danfoss - a globally leading **technology partner** in energy efficiency and sustainable solutions

We engineer tomorrow and build a better future

1933

Long track record within **innovative** engineering

27,491

employees

3

business **segments**

Danfoss Power Solutions, Danfoss Climate Solutions, Danfoss Drives

71

production **sites** in 21 countries and **R&D sites** in 23 countries

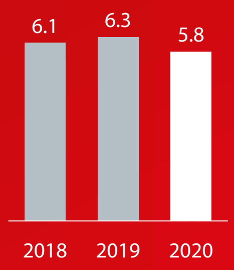
Worldwide sales

in more than **100 countries**

Financial highlights

Sales
EURbn

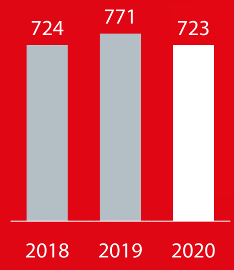
5.8



Strong recovery back to pre-COVID-19 activity levels in Q4 year-over-year. The pandemic caused a sudden drop in demand in Q2, leading to net sales in 2020 of EUR 5.8bn, 7% below previous year. Growth in power modules for electric vehicles, energy-efficient compressors for cooling, industrial refrigeration, and power conversion for wind energy.

Earnings (EBITA)
EURm

723

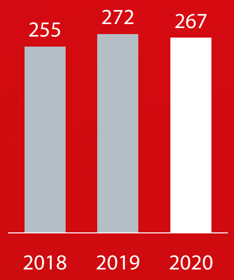


Strong profitability within range of guidance. EBITA of EUR 723m, 6% below previous year. We managed to scale our fixed expenses to the lower sales, leading to an EBITA margin of 12.4% against 12.3%. Net profit reached EUR 435m, 13% below the previous year.

Strong financial position despite the pandemic

Innovation expense
EURm

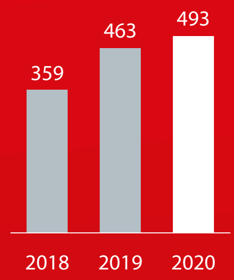
267



Continued high investments in the future. A high level of investments in R&D was maintained, focusing on digitalizing and electrifying our solutions. Innovation expense amounted to EUR 267m, 2% below previous year, but corresponding to 4.6% of sales against 4.3% last year.

Cash flow
EURm

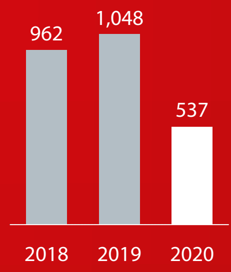
493



Record cash performance. Free operating cash flow after financial items and tax (before M&A) increased 7% to EUR 493m. Our strong cash performance provides room for future growth, strategic growth initiatives and investments in industry-leading technologies to further strengthen our core businesses and ability to win market share.

Net interest-bearing debt
EURm

537



Low debt. Net interest-bearing debt was reduced 49% to EUR 537m, leading to a net interest-bearing debt to EBITDA ratio of 0.6. Our continuous, strong financial performance including a low leverage ratio allows us to continue to expand and develop Danfoss as a global leader within our business areas.

Sustainability highlights

CO_2 - neutral global operations

-36%

CO_2 reduction since base year 2007

Electric company **vehicles**

Science Based Targets to be approved in 2021

Double energy **productivity**

+80%

Net sales almost doubled per GWh consumed energy since base year 2007

20%

Female leaders - ambitious target of 30% by 2025

25%

of Danfoss' global electricity consumption to be covered by wind in 2021.

2.0

Lost Time Injury Frequency (LTIF) - targeting 1.6

Outlook **2021**

Driving future growth and long-term sustainable value creation

In 2021, our key focus continues to be on ensuring profitable growth, while maintaining a high level of investments in our core businesses, new digital technologies and electric solutions.

Based on the current market insights, our growth projections for 2021 remain soft. Several markets remain volatile and the visibility for 2021 is low. In particular, the ongoing pandemic with partial lock-downs in many countries and political/trade conflicts are creating a high level of uncertainty globally, and could have a negative impact on market growth.

The impact of the COVID-19 pandemic is difficult to predict. Short-term business growth will be influenced by the time it takes to contain the spread, reboot economies globally and implement the recovery plans with fiscal stimuli from governments to support a green restart. The long-term effects will also be influenced by the successful execution of the green stimuli packages, creating positive momentum. Here, Danfoss is well-positioned with leading positions, application knowhow and innovative solutions.

2021 expectations
Despite the current volatility, Danfoss expects to continue to expand or maintain our market share, while maintaining or improving the profitability measured as margin versus the 2020 level, following continued investments in the development of new products and solutions.

The outlook excludes impacts from the acquisition of Eaton's hydraulics business.

Acquisition of Eaton Hydraulics
Taking into account the expected additional Eaton Hydraulics sales following the closing of the planned acquisition, Danfoss expects a significant increase in Group sales for the year 2021.

We expect that profitability will be impacted by the purchase-price allocation and the depreciation and amortization as well as related integration costs related to the acquisition of Eaton Hydraulics.

The acquisition will be fully financed with debt, as described in the Danfoss announcement as of January 21, 2020, and will result in an increase in financial expenses.

The transaction is subject to customary closing conditions and regulatory approvals. We are expecting to close end of Q1 or during Q2.

Specific key factors
Specific key factors, which could affect the Group's financial performance in 2021:

- The Group's continued strategic initiatives to accelerate profitable growth, organic as well as acquisitive, are expected to generate a positive impact on the market-share development.
- Increasing prices on raw materials and freight as well as shortage of components, caused by the pandemic, could have a negative impact on our financial results.
- Increasing prices on commodities, such as crops, metals and oil, which 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.

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.

Our Business

Danfoss has never been more **relevant**

In the light of the global mega-trends, Danfoss products and solutions have never been more relevant. As an example, Danfoss offers technologies to connect buildings and industry to the local district-heating grid to re-use heating and cooling energy.

Accelerating **energy transition**

Together with our customers, Danfoss is engineering solutions that allow the world to use energy in smarter ways.

Buildings and machinery must be digitalized and connected; the transport sector needs to be electrified; and the entire industrial sector is going through a significant energy transformation.

Here, energy efficiency is key. Energy efficiency means that we use the energy more efficiently, thereby saving energy and reducing emissions. It is a profound transformation of the way we use energy and not a question of developing new technology – as solutions already exist today and can be deployed immediately.

Danfoss offers ready-to-use energy-efficient technologies for many sectors, such as buildings, infrastructure, agriculture, and manufacturing industry. Furthermore, we offer ready-to-use cutting-edge technologies for electrification of off-highway and passenger transportation, such as wheel loaders, excavators, ferries, and cars.

All of this means that Danfoss is part of making the cities of tomorrow sustainable and building a better future.

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

What we do

Danfoss solutions enable the green transition and contribute to reaching European and global, climate and energy goals. Danfoss has truly never been more relevant than now.

Danfoss' investments and acquisitions over the past years have made Danfoss a frontrunner on strategic areas, such as complete sustainable solutions for cooling and heating in buildings, food cold chains, district heating and within electrification and digital solutions.

Fast track to highly efficient buildings

Buildings account for nearly 40% of global energy consumption and about one third of global CO_2 emissions. Consequently, buildings represent a huge opportunity for any country or community striving to lower energy expenses and reduce emissions. Intelligent, energy-efficient buildings are expected to be an important part of future energy systems. Buildings must be made smart, more intelligent and more connected to other buildings to use energy in a more efficient and sustainable way.

Danfoss offers smart, connected solutions that can significantly reduce energy consumption in buildings. One example is our technology to connect and re-use heating and cooling energy; turning supermarkets into heat suppliers to private homes. In fact, 95% of excess heat in supermarkets can be recycled by the Danfoss green heat-recovery solution. Adding the digital dimension from Danfoss Leanheat® solutions, means that Danfoss is helping to make buildings more sustainable via energy and CO_2 savings – which is also leading to lower cost on district energy and electricity.

Technology partner in energy transformation

The industrial sector is going through a significant energy transformation and accounts for about 20% of total CO_2 emissions.

One example comes from construction machinery, where Danfoss developed a new climate-friendly technology with a huge potential for fuel savings, reduced CO_2 and lower costs – just by reducing the waste heat in, for example, an excavator.

Another example is the possibility to save 8% of the total global electricity consumption while cutting industry emissions by up to 40%. This can be achieved by applying intelligent speed controls, such as Danfoss AC drives, to all electric motors. This way they will run at the required speed and will not use excessive energy.

Helping the world to become electrified

The transport sector needs to be electrified and accounts for more than 24% of global CO_2 emissions today. Currently available electrification technologies have the potential to significantly lower CO_2 emissions – if all urban areas in Europe, China and the US electrified their private and public transport, they could cover 28% of the emissions reductions needed between today's total emissions and a 1.5º Celsius scenario. Furthermore, new electric and high-efficiency cars have been identified as a cost-efficient way to reduce emissions.

Danfoss contributes to electrification, hybridization and higher efficiency of both land and sea transport. Danfoss entered game-changing partnerships with some of the strongest suppliers in the automotive industry to deliver technology to the millions of hybrid and fully electric cars we will soon see on the roads. Over the past 20 years, Danfoss has delivered technologies for hybrid and electric ferries and work boats, and this has become even more relevant today.

You can read more about our impact on the following pages.

Supermarkets turned into heat suppliers

Best possible heat-recovery enabling lower emissions

Keeping food fresh makes the electricity meters run fast in a supermarket. However, a supermarket close to the Danfoss headquarters in Denmark has cracked the code to considerable energy savings by reusing excess heat that would otherwise be wasted.

With Danfoss Climate Solutions' heat recovery units, 95% of the excess heat from the cooling display cases and freezers is harvested and recycled to heat up the store and the domestic hot water. The refrigeration system utilizes natural refrigerants, providing high efficiency with the lowest environmental impact. Furthermore, the supermarket's surplus heat is sent out to the local district-heating network to heat up the customers' homes nearby.

Since the installation of the green heat-recovery solution from Danfoss, the supermarket has saved around 70% on district-heating costs and 37% on electricity. Moreover, this supermarket has reduced its carbon footprint by 43% covering electricity, water and heating.

Imagine if this was done in all supermarkets around the world.

95%

of excess heat in supermarkets can be recycled by Danfoss green heat recovery solutions

Play video

Watch the video and learn how a supermarket chain in Denmark installed Danfoss heat-recovery units and managed to halve its CO_2 footprint in five years:

Rethinking **energy** use

Smart climate solutions creating remarkable energy savings

We spend most of our time in buildings – working, shopping, learning, sleeping. Buildings consume a lot of energy. Today, three out of four buildings are energy inefficient. By applying viable, simple, and reliable solutions, EUR 67bn could be saved in 2030, in the EU alone. It is time to start a fast track to highly efficient, connected buildings.

With existing buildings, most of the energy is used to maintain the right temperature and air quality inside the building. Known collectively as "technical building systems", heating, cooling and ventilation systems are the main factors affecting the building's energy consumption. When these systems are not set up properly or are running efficiently, even more energy is required – leading to higher bills and increased CO_2 emissions.

The numbers are staggering:

- 30% of total EU energy consumption is used to heat and cool our buildings.
- 70% of an average household's energy bill is spent on heating and cooling.
- EUR 240bn is spent by EU citizens on space and water heating per year.

And still, 1 in 10 people in the EU struggle to heat their homes.

The best time to start is now
There are no significant obstacles preventing us from acting fast. The cost for these technologies is low and they can be easily retrofitted in buildings, while the energy and cost-saving benefits can be remarkable.

The huge improvement in energy efficiency can be realized using simple and innovative measures that have a very short payback period.

Danfoss offers space heating controls, hot-water balancing solutions, air conditioning and ventilation-control solutions just to mention a few. They are all part of a suite of solutions suitable for residential, commercial, and public buildings.

Adding the digital dimension with smart home technology that uses artificial intelligence and sensors, Danfoss can help predict the energy consumption – and lower the supply needed to meet demand. Danfoss Leanheat® software solutions monitor the temperature and humidity of every individual apartment in a residential building, saving an additional 10-20% energy consumption on top of basic solutions.

The driving force behind energy-efficiency solutions are all the benefits of rethinking our approach to building efficiency, such as energy and cost savings and lowering CO_2 emissions – and these benefits are here to be reaped by everyone: consumers, property owners, engineers and consultants, cities, municipalities, and states.

Machinery turned more **sustainable**

Leading technology partner in mobile hydraulics

An average excavator is burning 30,000 liters of fuel annually equal to the consumption of 20 family cars. With roughly 1 million excavators in operation worldwide, the global impact of reducing fuel consumption in these machines can be enormous.

With the recently launched Danfoss Digital Displacement technology, a new solution is born that can dramatically reduce fuel usage - up to 50% on an average excavator.

This step change in fuel efficiency has a direct and significant impact reducing harmful emissions. In excavators alone, Digital Displacement solutions can save 40 million tons of CO_2 – equal to the energy used by 4.6 million homes in one year.

Additionally, unlike most hybrid solutions, Digital Displacement technology can actually improve machine productivity at the same time, eliminating this painful trade-off in conventional technology.

A true game changer in the off-highway industry.

50%
fuel savings in excavators with Danfoss Digital Displacement technology

Play video

Watch the video and learn more about the Digital Displacement technology:

Helping ports to **reduce emissions**

Leading technology partner in electric shore supply

At the port of Scheveningen, Netherlands, the air is cleaner than ever thanks to a shore supply facility built with Danfoss drives.

The shore power installation enables ships to shut down their diesel generators while in harbor and instead buy sustainable power using an app. This eliminates air pollution and reduces the noise and vibrations when ship engines are idle; all while helping the port meet the lower emission targets.

On average, the more than 7,500 vessels each year in Scheveningen Harbor consume more than 100 MWh per month via the new shore power supply. At an average of one liter per three kWh, this translates to saving more than 33,000 liters of marine diesel per month. This results in substantial reductions in air pollution and CO_2.

The new shore supply system was the first in the Netherlands on this large scale, and which has this digital technology and convenience for users. The system was built using Danfoss low-harmonic drives to convert the power to the ships' grids. The system has eight power outlets, each with a communication system allowing the ship's engineer to connect and pay for power using an app.

33,000
liters of marine diesel saved per month with Danfoss technology, resulting in significantly lower emissions

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Read more on danfoss.com

Helping the world move to **sustainable** transport

Chosen as technology partner by some of the strongest suppliers in global car industry

The transport sector is responsible for roughly one quarter of global emissions, and the majority is linked to passenger vehicles in metropolitan areas with heavy traffic. To meet the climate goals set out by the Paris Agreement and curb CO_2 emissions by 28%, we need to accelerate the electrification of the global car industry.

Danfoss and ZF Friedrichshafen AG have joined forces to transform the transport sector for a sustainable future. To further enable the large-scale adoption of electric vehicles, consumers need the confidence that the car will provide the necessary range, that it is affordable, and that the right charging infrastructure is in place – preferably from a renewable energy source.

For both hybrid electric vehicles and electric vehicles, developments within automotive technology are focusing increasingly on the electrification of the drivetrain. The drivetrain is the part of the vehicle that connects the transmission to the drive axles, making sure the wheels of the car are turning.

A core component of an electrified drivetrain is the semiconductor power module. It is considered the heart of the inverter. Its purpose is to convert the AC energy from the electrical grid to DC energy, which is stored in the battery and then again to AC energy in the motor of the car in the most efficient way.

With new materials like Silicon Carbide (SiC) from Danfoss Silicon Power, the size of the inverter will shrink, while the efficiency of the power conversion will further improve, and with that extend the range of electric vehicles.

Going forward, SiC-based converters will be able to improve the efficiency of electric drivetrains by up to 7%, which results in range extension at equal battery size and thereby increased mileage of the EV at a competitive cost point.

7%

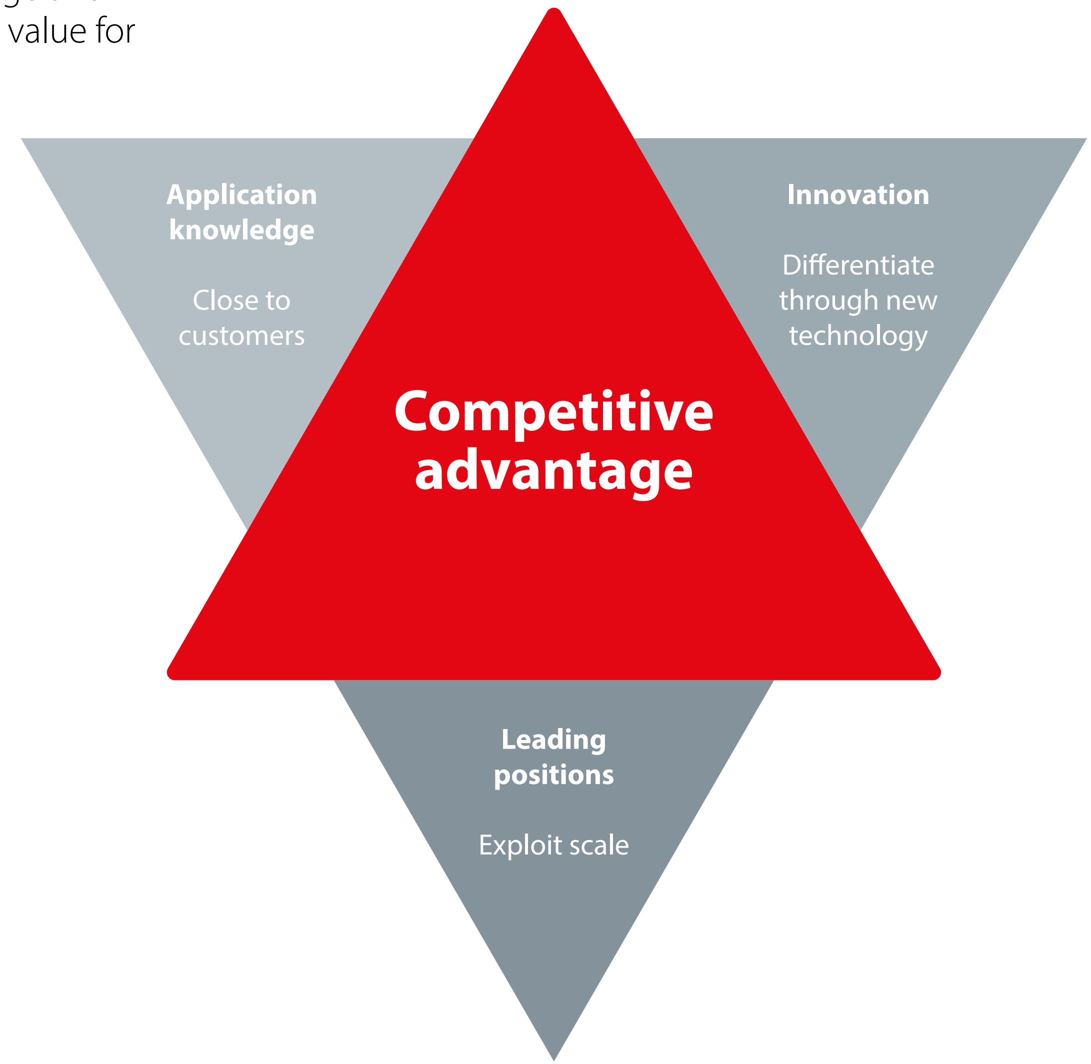
higher efficiency in electric drivetrains with Danfoss technology

Play video

Watch the video and learn how Danfoss and ZF are driving innovation to accelerate electrification and transform the transport sector into a greener, more sustainable future.

Our **business model**

Danfoss' competitive advantage builds on three core capabilities: Leading positions, Application knowledge and Innovation. These capabilities reflect how we create value for our customers across the business segments.



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 scale advantages, 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.

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

Innovation
Our mechanical, electrical and software engineering enable bold innovation and constant 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.

Our strategy – A globally leading **technology partner**

This is where the transformation starts – in the way we heat, cool, connect, and feed a growing population. Together with our customers, we help make a greener and better future a reality. Together, we are engineering tomorrow.

Going Great – Our aspiration
The center of our Going Great strategy is an ambition to drive long-term value creation for all our stakeholders: customers, employees, shareholders and partners.

Global mega-trends 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 work to meet our aspiration: engineering tomorrow and building a better future.

Our strategy has four focus areas:

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

These focus areas serve as drivers to take Danfoss to a higher performance level and remain a leading technology partner globally, within each of our core businesses.

All of this is built on Our Foundation, which is our high-performing, diverse teams that make the strategy come alive.

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

Leading Portfolio

To strengthen our leading positions, we continue to invest in the future.

Leading Portfolio is about strengthening our leading positions as number one or two globally in the respective industries of our three business segments. This is achieved through organic growth as well as acquisitions of well-performing companies or adding new cutting-edge technologies to the product portfolio.

2020 has been a transformational year for Danfoss, where we further strengthened our core with the agreement to acquire Eaton Hydraulics and by combining the Cooling and Heating segments into the new Climate Solutions segment. Furthermore, we managed to maintain strong momentum in taking the lead in digitalization and building a leading position in electrification.

Acquisition of Eaton’s hydraulics business

On January 21, 2020, Danfoss announced the agreement to acquire Eaton’s hydraulics business for a cash purchase price of USD 3.3bn (approximately EUR 3.0bn) – the biggest acquisition in the history of Danfoss.

With the acquisition of Eaton Hydraulics, Danfoss will grow by a third and add 10,000 new team members to the current 27,491. We will also add approximately EUR 2bn to the existing EUR 5.8bn annual sales. With this acquisition, Danfoss takes a considerable and transformative step towards the creation of a global leader in mobile and industrial hydraulics.

We are convinced that 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, robust distribution channels, and tremendous geographic reach.

Urbanization made more sustainable with Danfoss hydraulic solutions

Increased urbanization is leading to higher investments in infrastructure to build highways, airports and hotels in cities. Danfoss' energy-efficient hydraulics solutions for off-highway mobile vehicles, such as construction machines, ensure significant fuel savings, while increasing productivity and operator efficiency – and by adding the digital and electric dimensions to our hydraulics solutions, we are part of making the urbanization more sustainable.

Visit danfoss.com

Have a look at cranes with brains and how Danfoss made it happen

New Climate Solutions segment

In 2020, Danfoss took another important step in strengthening our leading positions with combining the Danfoss Cooling and Danfoss Heating segments into the new Danfoss Climate Solutions segment. The segment will cover 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, datacenters, 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 a huge potential for enabling a carbon-neutral future and providing the integrated energy-efficient solutions needed to deliver on the targets in the Paris Agreement and in the EU Green Deal.

Building a 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, construction machinery, and marine vessels, is rapidly accelerating to ensure efficiency gains and lower emissions as an essential part of the green transition.

Based on this, we will continue to focus on building even stronger capabilities within electrification and to unleash the growth potential in all three business segments.

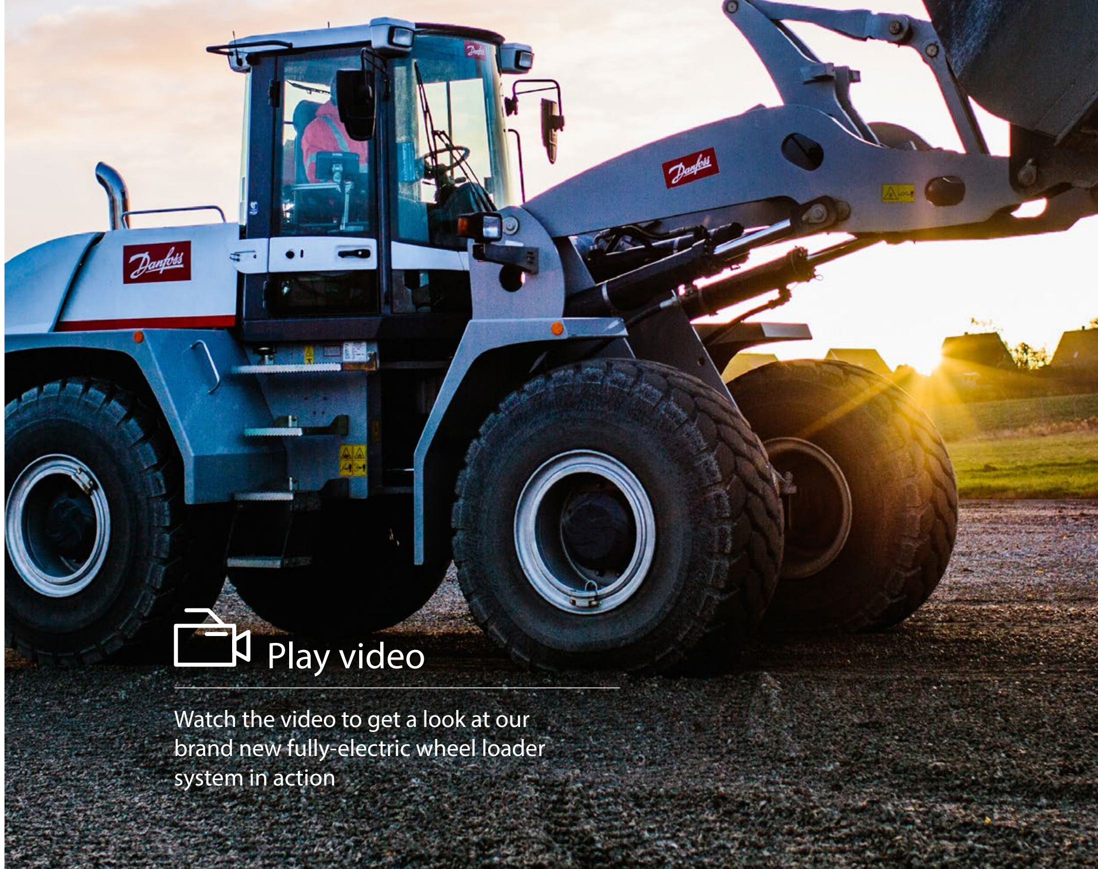
In combination with our conventional core technologies, we are well-positioned to serve our customers' increasing demands within hybrid and electric solutions.

Fully electric **wheel loader**

Danfoss' legacy in hydraulics goes back to the 1960s. We take this insight into our product development and design products that fit exactly to the requirements of OEMs (Original Equipment Manufacturers).

Our Application Development Centers demonstrate our products in real-life applications and benchmark their performance against that of our competitors.

Danfoss delivered the electrification technology to develop this fully battery-operated electric wheel loader. The system includes motor, inverter, battery charger and multi-converter from Danfoss Editron.



Play video

Watch the video to get a look at our brand new fully-electric wheel loader system in action

Customers & **Growth**

A leading partner our customers can rely on

Our three business segments have strong representation in all regions – close to our customers. Being close to customers and having a systematic approach to drive customer satisfaction is at the center of our growth agenda.

Accelerating growth in Developing Regions

We target to accelerate growth in Developing Regions (China, Russia, India, Asia-Pacific, Turkey, Middle East and Africa, and East Europe) within our current regional set-up. A new role in the Group Executive Team was created to facilitate this important growth journey.

Our developing regions are driving profitable growth based on deep market understanding, customer proximity, and insights into local delivery models.

Being close to customers enable us to react fast and to be flexible in creating and capturing the regional growth opportunities, and at the same time strengthening our efforts in key areas of our customer interaction.

Accelerating digital customer experience

For the past five years, Danfoss has been on a digital transformation journey, which has proven its importance and relevance during the COVID-19 pandemic. We have been able to stay close to customers, do business and trainings, etc. due to all the digital tools we already use in our daily operations.

We know that our digital journey drives decision speed and brings us even closer to our customers. In 2020, we kept a strong momentum in implementing the global product store at our corporate website, www.danfoss.com.

Basics in driving customer satisfaction is a strong and consistent performance in quality and delivery. We strive to be recognized as a leader in the industries and by the customers we serve. In 2020, we have launched a focused initiative to ensure significant improvements in our "on-time delivery" performance.

Danfoss **smart refrigeration solutions** keep food fresh and energy use at a minimum

What do leading food retailers such as Walmart, Tesco, Food City, and Sainsbury's, have in common? Their stores all need to keep food fresh and keep energy use at a minimum. Our Alsense™ cloud-based services with new software solutions optimize food safety and security, while lowering the CO_2 footprint.

Danfoss' Alsense™ IoT platform was launched in October 2020 and will accelerate Danfoss' efforts in providing food-retail professionals with intuitive software tools and data-driven, expert-enabled insights to optimize operational efficiency, refrigeration performance and energy efficiency.

The newest addition to the digital service portfolio is predictive maintenance, creating a "to-do" list for where our customers should focus their maintenance efforts. The Alsense™ cloud-based solution also offers great monitoring services, allowing our customers to monitor their cooling systems and get notifications if components fail.

Innovative Solutions

Danfoss continues high investments in innovation to ensure that we stay at the technology forefront and create even more value for our customers

The heart of the value we deliver to our customers is enhanced productivity, higher uptime, lower energy consumption and costs, and in many cases higher comfort and operator safety. As new technology, for instance IoT, becomes pervasive, we create significant opportunities by leveraging the latest technology to create even more value to our customers.

In all our business segments, we have been able to protect our key R&D initiatives during 2020, and we are strengthening our innovation pipeline.

In Danfoss Power Solutions, one example of a truly innovative solution is the Digital Displacement pump which delivers an unprecedented level of operating efficiency that directly reduces carbon emissions. It is common to see immediate fuel efficiency improvements of 30% or greater in many mobile applications when the full benefits of Digital Displacement are exploited. These benefits are even more impressive in electrified mobile applications. In this case, the game changer efficiency of Digital Displacement combined with the best-in-industry performance of Danfoss Editron electric motors revolutionize the design and cost of battery-powered mobile machines, a key step in accelerating the global adoption of zero-emission vehicles.

In Danfoss Climate Solutions, we are constantly developing and maintaining our products in a fast-changing world of refrigerants. One example is our line of Turbocor® compressors. While working on our new, smaller Turbocor® line extension, we have extended our existing products,

Environmentally friendly data center

A need to consolidate our own data centers, ensure future capacity and establish a showcase for Danfoss solutions was the trigger for building our own data center.

The data center has the capacity and power we need now but is also prepared for the future. It has a modern hybrid infrastructure, is super scalable and its architecture makes it easy to expand when the need arises.

From the beginning, environment, digitalization and commercial attractiveness were considered combined design targets – and not conflicting like they sometimes are in the traditional IT world.

With efficient cooling and heat recovery, we have built something truly different in the industry.

It illustrates that a green data center can be built with Danfoss components and that Danfoss is committed to becoming CO_2-neutral by 2030.

Imagine if sustainability was integrated into all data centers in the world.

adapting them to new demands. Data centers present the biggest and fastest growing market, calling for smaller cooling adjustments. Danfoss has the right components and intelligent systems, and the market is growing worldwide.

In 2020 Danfoss Drives introduced a new series of AC drives to selected customers with demanding applications. The new product series was presented under a new product brand called iC7. These products represent a new generation of AC drives which put intelligence, cyber security, and data analytics in focus. This means that the AC drives now are paving the way for some of the technologies of the future, which we have been waiting for. Such as for example uptake in Industrial Internet of Things, Industry 4.0 and eventually smart cities. In addition, the AC drives are developed for robotic assembly ensuring the highest possible production quality.

In our innovation, we also use digital technology to bring speed into R&D, for example by using simulation and 3D printing to reduce the time-to-market of new products. The number of 3D printed parts has increased significantly – from only a few hundred 4 years ago to 125,000 by the end of 2020. In Danfoss, we have now trained more than 500 employees in the use of 3D printing – and an identical number in modelling and simulation.

Zero emissions and low noise

Powered by Danfoss, a new electric ferry will be breaking the waves from September 2021. The new ferry will sail in the UNESCO World Heritage waters between the town of Esbjerg and the Fanoe island in the southern part of the North Sea, Denmark.

The future holds big potential to operate shorter routes by electric ferries.

The ferry will be propelled by two 375kW electric motors from Danfoss Editron; one in the bow and one at the stern. The two propulsion systems run independently and are controlled by AC-drives from Danfoss Drives.

Visit danfoss.com

Check out danfoss.com and see how Danfoss will help make it happen

Lean & **Agile**

Continuous improvement in supply chain performance – safety, quality, delivery and cost

To create increased competitive advantage and 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 within safety, quality, delivery, and cost.

We are building a flexible supply chain that reacts fast to the needs of the customer, leading to higher customer as well as employee satisfaction. Key is a strong IT infrastructure and smart factories across Danfoss.

Furthermore, 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 new IT platform, One ERP (Enterprise Resource Planning), in combination with the global product store at our corporate website, www.danfoss.com.

One ERP is a fundamental part of Danfoss' digital transformation and is implemented via several releases, each covering a specific part of the Danfoss organization. In 2020, two One ERP releases were finalized, now covering 35% of Group sales.

Smart factories across Danfoss

Danfoss smart factories use a lot of robots.

Human operators are supplied with components by autonomous robot vehicles and use intelligent bluetooth-connected tools, which automatically detect if an assembly process is being incorrectly performed.

The outcome is significantly higher productivity and customer satisfaction, and in many cases also improved employee safety.

Our **foundation**

Success is driven by our people. We sharpen our focus to keep momentum, safeguard our employees' wellbeing, and continuously push the boundaries of people development

Our Foundation is our high-performing diverse teams. Furthermore, 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.

While growing our business, we want to maintain agility and speed – that is why we have "Our Behaviors". Our behaviors build on our DNA, our legacy and values, providing clear direction and empowering our team members to make decisions to serve our customers and other stakeholders with speed and quality.

In 2020, we announced the acquisition of the Eaton Hydraulics business, which will add approximately 10,000 new team members. We are focused on engaging and motivating people to become part of the Danfoss family and ensure a smooth and successful integration, so we can drive our Going Great strategy together.

In 2020, under the special circumstances of COVID-19, we maintained an unwavering commitment for the health and safety of our colleagues and sharpened our focus to keep the growth momentum. The adaptable mindset of our teams as well as their resilience, innovation, and huge engagement show the strong commitment that our employees have to Danfoss. This helped us navigate the COVID-19 situation in a successful way. We thank all our employees for the strong passion they have shown.

Meet Ina, Gina and Rikke

"My interest in working for Danfoss has only increased over the years since I started. It is very clear for me that you have the opportunity to develop yourself and to expand your knowledge," says Process Deployment Lead Ina Kjær Huntley.

Meet her, Senior Director Gina Dyrvig Mentz, and Vice President Rikke Vesterbæk in the video.

They all started their careers in Danfoss' Postgraduate Program and have accelerated from there.

Play video

Watch them explain why in this video

Ensuring step-change in diversity

Danfoss has set a clear target of increasing the share of female leaders from 20% to 30% by 2025. To support our journey, we have introduced a female mentoring program, headed by CEO Kim Fausing, who is also the mentor of several female talents.

We also continued to run the "GET to mentor" program, launched in 2019. The top talents partner with our Group Executive Team (GET) to be challenged and empowered in making meaningful cross-business career choices. In addition, Danfoss teamed up with INSEAD Business School to support our top talents. The program focused, among other things, on leadership in times of digitalization and innovation. In 2021, we expect to invite leaders from the top 250 positions at Danfoss to participate in the program.

We are committed to fostering an inclusive environment which our high-performing diverse teams can thrive in. In 2020, we introduced the formal role of Head of Diversity and Inclusion with the main task of driving initiatives more cohesively and supporting the organization in identifying barriers to inclusion and recommending actions and processes to help remove them.

Read more details about our targets, efforts, and progress in the Sustainability Report 2020 at danfoss.com (https://files.danfoss.com/download/CorporateCommunication/Sustainability/Danfoss-Sustainability-Report-2020.pdf).

More **female leaders**

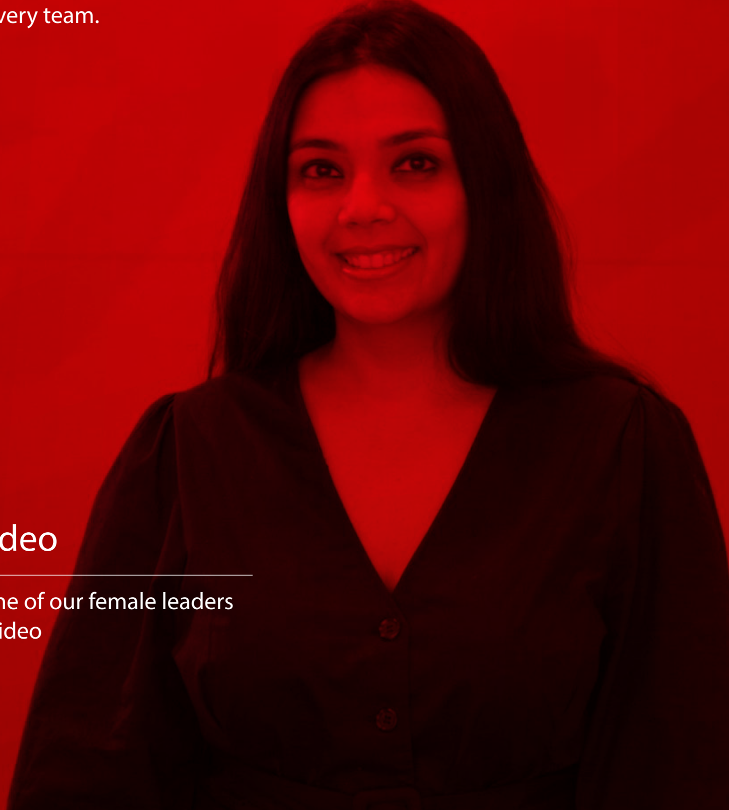
Danfoss wants more diversity. A part of this is getting more females into leadership positions.

Our target is that 25% of our leaders should be female in 2022 and 30% in 2025. A recent status showed that several of our regions are leading the way, being very close to the target.

The gender agenda is not the only area of focus in Danfoss. We are working towards a diverse representation in every team.

We define Diversity & Inclusion in terms of five dimensions: generations, gender, nationalities, various backgrounds, and individual characteristics.

Payal Shah, Head of Strategic Customer Excellence in Danfoss Drives, says: "It is not about men being better than women or women being better than men. It is about everybody being given a fair chance to reach their full potential."



Play video

Meet Payal Shah, one of our female leaders at Danfoss, in this video


Danfoss
eSteering

Financial **performance**

New – **ergonomic solution**

Technology advancements shape the way users expect to interact with machines, including those at a work site. As machines get more complex, their controls must become more intuitive and easier to use. Improving the operator experience is a small step with a big impact. Plus, it is made simple by Danfoss technologies.

2020 impacted by COVID-19

Steering through the COVID-19 pandemic, Danfoss' key priorities are to keep our people safe, continue to serve our customers and collaborate closely with our suppliers. Furthermore, we keep our people on board to the extent possible, while flexing our costs to development in the market.

Handling COVID-19
During Q1 and especially Q2 in 2020, the COVID-19 pandemic escalated rapidly with the situation varying from country to country, leading to a significant decline in sales. In the second half of 2020, we have seen recovery month by month. Q3 was better than Q2, and Q4 improved even more and was on level with the previous year.

We have actively monitored the COVID-19 development and the related risks during the year. Cost flexibility measures to safeguard profitability were implemented. Customers' credit risk as well as trade receivables and inventory development have been monitored. Overall, COVID-19 has not impacted the estimates applied in the annual accounts.

Our global operations have been functioning throughout 2020, and we have done our utmost to protect our employees across the world and to maintain world-class service to our customers.

Danfoss has set up crisis teams on Group, regional, country and site levels of the organization, tasked with limiting the risk of infection, safeguarding business continuity and ensuring that our business can continue to operate. Numerous steps have been taken to address the situation, and multiple precautionary procedures and processes are in place to handle COVID-19, while adhering to guidelines and regulations from local authorities.

Staying connected globally
The COVID-19 situation with social distancing has shown us that operating digitally is more relevant than ever. We have seen a rapid adoption of digital tools to communicate, coordinate, and serve our customers.

As a global company, we operate in many different digitally connected geographical locations, and Danfoss employees are used to working across borders on a daily basis.

In 2020, we launched Danfoss's first-ever fully digital and live event experience, "Cooling United Live", with the purpose of fostering professional development and relationships. Cooling United Live served both as a learning forum and a technology exhibition, designed specifically for heating, ventilation, air conditioning and refrigeration (HVAC-R) audiences. More than 5,500 cooling professionals signed up, and there was an opportunity to engage in local languages in post-event conversations.

Green restart
Across the world, governments are working on recovery plans to reboot the economies with green stimulus packages, and Danfoss' solutions can help in advancing energy-efficiency, electrification and infrastructure investments.

Danfoss controls COVID-fighting robot

A robot developed by the French company Shark Robotics is now fighting COVID-19.

It disinfects areas such as shipping warehouses, food plants, restaurants, and public buildings in France and other European countries.

The robot's name is Sanitizing Rhyno Protect. It disinfects up to 20,000 square meters in three hours – faster than a team of human cleaners.

The robot is controlled with a wireless Danfoss remote-control solution. We are proud to help Shark Robotics combat COVID-19.

Play video

Read full story and see the video

Financial **highlights**

	EURm 2016	EURm 2017	EURm 2018	EURm 2019	**EURm 2020**	DKKm 2019	**DKKm 2020**
Profit and loss account							
Net sales	5,271	5,827	6,098	6,285	5,828	46,926	43,445
EBITDA before OOI/E	838	923	929	1,028	1,008	7,673	7,516
EBITDA	811	882	926	1,026	954	7,663	7,111
EBITA before OOI/E	665	758	758	778	742	5,807	5,532
EBITA	646	714	724	771	723	5,757	5,394
EBIT	572	645	648	695	625	5,185	4,659
Financial items, net	-44	-49	-45	-33	-48	-243	-359
Profit before tax	529	596	603	662	577	4,942	4,300
Net profit	394	445	463	502	435	3,746	3,243
Financial ratios							
Local currency growth (%)	4	12	7	1	-6	1	-6
EBITDA before OOI/E margin (%)	15.9	15.8	15.2	16.4	17.3	16.4	17.3
EBITDA margin (%)	15.4	15.1	15.2	16.3	16.4	16.3	16.4
EBITA before OOI/E margin (%)	12.6	13.0	12.4	12.4	12.7	12.4	12.7
EBITA margin (%)	12.3	12.2	11.9	12.3	12.4	12.3	12.4
EBIT margin (%)	10.9	11.1	10.6	11.1	10.7	11.1	10.7

Key figures, financial ratios and below highlighted keyfigures are calculated as defined in Note 27 on page 104.

EBIT:
Operating profit.

EBITA:
Operating profit (EBIT) before profit from associates & joint ventures and amortization, gains and losses related to acquisitions and divestments.

EBITDA:
Operating profit (EBIT) before depreciation, amortization, impairment and profit from associates & joint ventures.

OOI/E:
Other operating income and expenses.

Conversion factor between DKK/EUR:
Profit and loss account and cash flow statement: 0.1342 (2019: 0.1339).
Balance sheet: 0.1344 (2019: 0.1338).

	EURm 2016	EURm 2017	EURm 2018	EURm 2019	**EURm 2020**	DKKm 2019	**DKKm 2020**
Balance sheet							
Total non-current assets	3,788	3,883	3,886	4,217	4,106	31,509	30,555
Total assets	5,457	5,583	5,760	6,096	6,412	45,549	47,714
Total shareholders' equity	2,325	2,569	2,654	2,933	3,184	21,917	23,691
Net interest-bearing debt	1,284	1,050	962	1,048	537	7,832	3,996
Cash flow statement							
Cash flow from operating activities	693	742	673	789	800	5,891	5,967
Cash flow from investing activities	-494	-405	-227	-407	-242	-3,039	-1,806
Acquisition of intangible assets	-32	-64	-64	-52	-44	-391	-322
Acquisition of/Proceeds from disposal of property, plant and equipment	-194	-217	-238	-252	-187	-1,879	-1,395
Acquisition of/Proceeds from disposal of subsidiaries and activities	-251	-103	88	-140	0	-1,045	-3
Acquisition(-) and sale of other investments, etc.	-17	-21	-13	37	-11	276	-86
Free operating cash flow	631	627	564	634	709	4,732	5,283
Free operating cash flow after financial items and tax	455	441	359	463	493	3,455	3,677
Free cash flow	196	334	443	323	497	2,410	3,705
Cash flow from financing activities	-175	-373	-424	-322	-54	-2,408	-406
Financial ratios							
Return on invested capital ROIC (%)	16.3	17.8	17.9	18.3	16.1	18.3	16.1
Return on invested capital after tax ROIC (%)	12.0	13.0	13.4	13.4	11.9	13.4	11.9
Return on equity (%)	17.2	17.3	17.0	17.0	13.1	17.0	13.1
Equity ratio (%)	42.6	46.0	46.1	48.1	49.7	48.1	49.7
Leverage ratio (%)	55.2	40.9	36.2	35.7	16.9	35.7	16.9
Net interest-bearing debt to EBITDA ratio	1.6	1.2	1.0	1.0	0.6	1.0	0.6
Dividend pay-out ratio (%)	17.0	18.1	17.4	16.0	-	16.0	-
Dividend per 100 DKK share	6.7	8.1	8.1	8.1	-	60.2	-

Financial **review**

Danfoss delivered a significantly better financial performance in 2020 than we expected at the turn of the first half. Sales reached EUR 5,828m, which was 6% below the previous year in local currency. As a result of the lower topline, EBITA was 6% below the prior-year level, but with an EBITA margin of 12.4% versus 12.3%. Danfoss delivered a record cash flow and reached a low level of debt.

Green, sustainable technology and solutions that save energy and reduce emissions as well as continued investments in infrastructure have gained momentum, as they translate into the strengthened global focus on climate change and green transition. This, combined with continued momentum in the global megatrends, such as electrification, digitalization and urbanization, contribute to making Danfoss technologies and solutions more relevant than ever – confirming that Danfoss' flexible business model with a diverse business portfolio shows resilience and remains our strength even in times of uncertainty.

In 2020, we have managed to protect our key strategic initiatives. To strengthen our leading positions, we continued to invest in the future, e.g. by preparing the acquisition and integration of Eaton Hydraulics; by merging the Danfoss Cooling and Danfoss Heating segments into the new Climate Solutions segment; and though our targeted efforts to accelerate future growth in our developing markets. Furthermore, we have strong momentum in building our digital offerings and a leading position in electrification. We also continue to develop our people and talent to strengthen our core businesses.

Sales

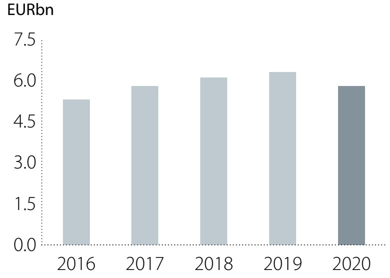
Sales were EUR 5,828m (2019: 6,285m), which was 457m below the previous year. The reported growth was -7% after a negative currency impact of -1%. Growth in local currency was -6%.

The COVID-19 pandemic created increased uncertainty and continued volatility in our global markets, especially in the first half of 2020. During the second half of the year, Danfoss saw a gradual recovery in sales, resulting in Q4 sales being at level with the previous year.

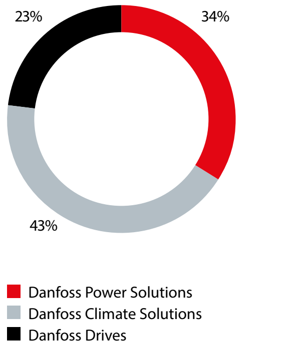
Despite the pandemic, we continued to see good growth opportunities for our technologies and solutions that play a key role in the green transition towards lower CO_2 emissions and more electrification. We continue to see growth within electrification of off-highway vehicles, electric-vehicle drivetrains, energy-effcient compressor technologies for cooling, industrial refrigeration, and solutions for renewables, such as wind and solar, for district energy and for buildings, such as floor heating.

Danfoss Power Solutions and Danfoss Climate Solutions saw a gradual recovery in the second half of 2020, ending the year with Q4 in positive. Danfoss Drives also saw a growing order intake towards the end of the year. The pandemic was very present across most regions. On the positive side, China grew strongly with record sales. In Q1, China was the first country to be hit by COVID-19 but saw recovery throughout the rest of the year.

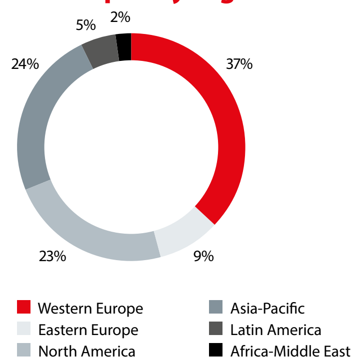
Sales



Sales split by segments



Sales split by regions



Earnings
To counter the lower sales in the first part of the year, Danfoss took fast action to lower the cost base and CAPEX spend. This included reduced discretionary spend, organizational-wide travel restrictions and salary-reduction programs. This demonstrated our flexible operating model.

Throughout the year, Danfoss has continued with strategic investments in innovation, digital transformation, and growth initiatives to fuel future growth.

EBITA amounted to EUR 723m (2019: 771m), which was 6% below the previous year, mainly due to the lower sales and one-off transaction costs related to the acquisition of Eaton Hydraulics. The EBITA margin increased to 12.4% (2019: 12.3%), mainly driven by procurement savings, continued traction in managing pricing and mix, and productivity improvements in factories. In combination, fixed expenses were adjusted to the lower sales.

Profit before tax amounted to EUR 577m (2019: 662m), leading to net profit of EUR 435m (2019: 502m), which is -13% below the previous year. The effective tax rate for 2020 was 24.6% (2019: 24.2%).

Assets and liabilities
Total assets increased 5% to EUR 6,412m (2019: 6,096m), mainly due to a strong cash position, see page 58 for more information.

Equity increased 9% to EUR 3,184m (2019: 2,933m), mainly influenced by the profits of the year. Consequently, the equity ratio, calculated as equity relative to total assets, was 49.7% (2019: 48.1%). The return on equity was 13.1% (2019: 17.0%).

Net interest-bearing debt amounted to EUR 537m (2019: 1,048m), leading to a net interest-bearing debt to EBITDA ratio of 0.6 (2019: 1.0).

The non-current interest-bearing debt maturing after more than 12 months amounted to EUR 1,103m (2019: 1,093m), corresponding to 94% (2019: 93%) of the total interest-bearing debt. At year-end, the Group had unutilized and long-term committed credit facilities of EUR 1.5bn (2019: 1.1bn) in addition to cash and cash equivalents and ordinary operating credits.

At the end of 2020, Danfoss' credit rating assigned by Standard & Poor's was "BBB/A2 with a negative outlook". See Note 11, page 78, for more information.

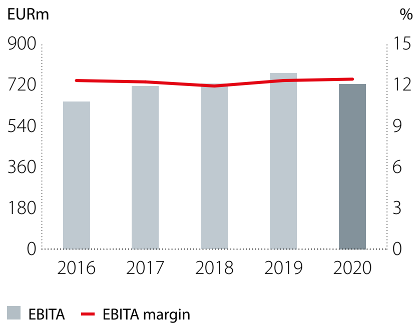
Cash flow
Ensuring a strong cash performance remains a key priority for Danfoss to finance our M&A activities, digital transformation and service interest-bearing debt.

The free operating cash flow increased 12% to EUR 709m (2019: 634m), driven by a positive operational performance and lower net working capital.

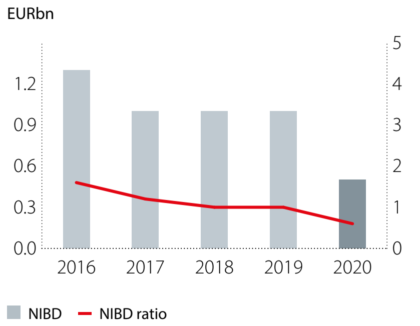
Cash flow from investing activities amounted to EUR -242m (2019: -407m), due to reduced M&A activity and lower investments in machinery and equipment. We continued a high level of investments in our digital transformation.

The free operating cash flow after financial items and tax (before M&A) increased to EUR 493m (2019: 463m). This is a record cash flow for the Group and it confirms the cash generating capability of our business model.

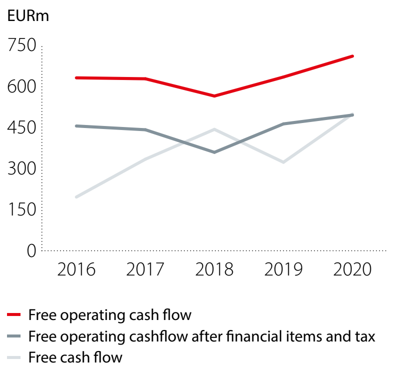
EBITA



Net interest-bearing debt (NIBD)



Cash flow



Acquisition
On January 21, 2020, Danfoss announced the agreement to acquire Eaton's hydraulics business for a cash purchase price of 3.3 billion USD (approximately 3.0 billion EUR). The transaction is subject to customary closing conditions and regulatory approvals. We are expecting to close end of Q1 or during Q2.

The acquisition will be fully financed with debt. An acquisition credit facility was established with a group of Danfoss' core banks and Danfoss intends to refinance a part of this credit facility in the debt-capital markets.

Innovation
Ensuring a high level of investments in innovation remains a key priority to drive the long-term sustainable growth for Danfoss. The innovation activities were concentrated around digitalizing and electrifying our solutions to create even more value for our customers.

The research and development expense amounted to EUR 267m (2019: 272m), corresponding to 4.6% of sales (2019: 4.3%). See Income statement on page 56.

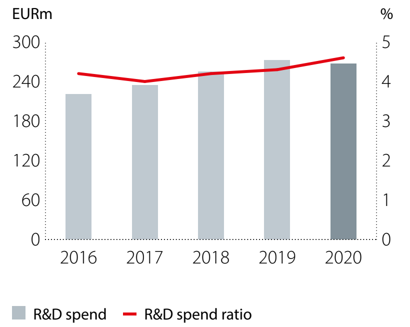
During 2020, Danfoss filed 136 (2019: 121) new patent applications. During 2020, 708 (2019: 678) patents were granted to the Group. At year end, Danfoss had a total of 1,567 (2019: 1,558) patent families.

Employees
In 2020, the number of employees was 27,491 (2019: 27,871).

Events after the balance sheet date
On January 14, 2021, Danfoss announced the acquisition of the remaining 25% ownership share in Artemis Intelligent Power Ltd (AIP). AIP is the R&D and engineering company based in Edinburgh, Scotland, specializing in hydraulic system development.

On January 27, 2021, Danfoss announced the preparation of a divestment to meet regulatory requirements concerning fair competitive levels in the market. Danfoss is required to create and divest the stand-alone business unit, White Drive Motors & Steering. The new business unit will include operations and products at three Danfoss locations in Hopkinsville, Kentucky, US.; Wroclaw, Poland; and Parchim, Germany; in addition to three product lines from Eaton Hydraulics. All together this includes approximately 800 employees. The divestment is a prerequisite to close the acquisition of Eaton Hydraulics.

Innovation



Financial **highlights, quarterly**

EURm	Q1 2019	Q2 2019	Q3 2019	Q4 2019	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	**2020**
Profit and loss account										
Net sales	1,563	1,603	1,589	1,530	6,285	1,479	1,385	1,447	1,517	5,828
EBITDA before OOI/E	241	266	282	239	1,028	215	242	279	272	1,008
EBITDA	240	272	282	232	1,026	201	223	263	267	954
EBITA before OOI/E	182	205	217	174	778	156	168	212	206	742
EBITA	181	203	219	168	771	143	166	209	205	723
EBIT	160	190	198	147	695	117	135	183	190	625
Financial items, net	-8	-9	-10	-6	-33	-20	-8	-14	-6	-48
Profit before tax	152	181	187	142	662	97	127	168	185	577
Net profit	110	132	141	119	502	71	93	123	148	435
Balance sheet										
Total non-current assets	4,056	4,088	4,235	4,217	4,217	4,230	4,184	4,107	4,106	4,106
Total assets	6,181	6,138	6,299	6,096	6,096	6,227	6,281	6,228	6,412	6,412
Total shareholders' equity	2,794	2,764	2,938	2,933	2,933	3,011	3,124	3,136	3,184	3,184
Net interest-bearing debt	1,181	1,318	1,252	1,048	1,048	1,125	971	850	537	537
Cash flow statement (YTD)										
Cash flow from operating activities	-9	115	376	789	789	4	165	349	800	800
Cash flow from investing activities	-53	-157	-324	-407	-407	-49	-98	-139	-242	-242
Acquisition of intangible assets	-12	-24	-39	-52	-52	-11	-23	-32	-44	-44
Acquisition of/Proceeds from disposal of property, plant and equipment	-36	-91	-143	-252	-252	-38	-76	-107	-187	-187
Acquisition of/Proceeds from disposal of subsidiaries and activities	-11	-45	-140	-140	-140	0	0	0	0	0
Acquisition(-) and sale of other investments, etc.	6	3	-2	37	37	0	1	0	-11	-11
Free operating cash flow	1	74	284	634	634	11	133	309	709	709
Free operating cash flow after financial items and tax	-65	-24	148	463	463	-58	33	161	493	493
Free cash flow	-75	-69	8	323	323	-57	37	165	497	497
Cash flow from financing activities	43	24	-72	-322	-322	-25	28	-9	-54	-54
Financial ratios										
Local currency growth (%)	3	0	2	-1	1	-6	-14	-7	2	-6
EBITDA before OOI/E margin (%)	15.4	16.6	17.7	15.6	16.4	14.6	17.5	19.3	17.9	17.3
EBITDA margin (%)	15.3	16.9	17.7	15.2	16.3	13.6	16.1	18.2	17.6	16.4
EBITA before OOI/E margin (%)	11.6	12.8	13.7	11.4	12.4	10.5	12.1	14.7	13.6	12.7
EBITA margin (%)	11.6	12.6	13.8	11.0	12.3	9.7	12.0	14.4	13.6	12.4
EBIT margin (%)	10.3	11.9	12.4	9.6	11.1	7.9	9.8	12.6	12.5	10.7
Equity ratio (%)	45.2	45.0	46.6	48.1	48.1	48.4	49.7	50.3	49.7	49.7
Leverage ratio (%)	42.3	47.7	42.6	35.7	35.7	37.4	31.1	27.1	16.9	16.9
Net interest-bearing debt to EBITDA ratio	1.3	1.4	1.3	1.0	1.0	1.1	1.0	0.9	0.6	0.6
Number of employees	27,704	27,918	28,130	27,871	27,871	27,792	27,539	27,376	27,491	27,491

The same definitions and explanations apply as stated on page 30.

Danfoss Power Solutions

Sales

2.0bn

(2019: EUR 2.2bn)

EBITA

329m

(2019: EUR 391)

EBITA margin

16.8%

(2019: 17.8%))

Development in 2020

Danfoss Power Solutions had sales below the previous year due to the pandemic that triggered customer restraint. Despite the pandemic, parts of the business grew strongly, e.g., Editron solutions for electrifying off-highway vehicles and eSteering. Furthermore, China saw strong growth. Overall, sales recovered strongly during the second half of 2020, ending the year in growth in Q4. To counter the lower sales, the segment reacted fast with measures to safeguard the profitability.

7,609
employees worldwide

28
factories in 13 countries

3
Application Development Centers in the USA, China and Denmark

3
top markets: North America, Europe and China

Play video

Danfoss Power Solutions Segment

Danfoss Power Solutions

Danfoss Power Solutions is a global technology leader in manufacturing and supplying of hydraulic, electronic, and electric components and solutions for on- and off-highway vehicles and equipment.

Around the world, mobile-equipment manufacturers rely on our expertise for the most innovative propulsion, control, work-function, steering and electrification solutions. In partnership with our customers, we provide high-performance components and solutions with great value for a broad range of mobile equipment applications in the agriculture, construction and road-building, material handling and specialty markets. These applications include wheel loaders, tractors, harvesters, cranes, electric and hybrid ferries, trucks and buses, and much more.

Transformational acquisition
The Eaton Hydraulics acquisition is the biggest acquisition in the history of Danfoss. We will merge two of the strongest companies in hydraulics, creating a global leader in the mobile- and industrial hydraulics markets. Together, we will have the broadest offering of products, industry-leading innovation power, robust distribution channels and tremendous geographic reach.

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

- Hydrostatic pumps and motors
- Hydraulic and electro-hydraulic proportional valves
- Electronic components and software
- Electric motors, converters and energy storage
- Orbital motors
- Gear pumps and motors
- Steering solutions
- Autonomous solutions
- Position sensors and controls
- Remote control solutions
- Integrated circuit solutions
- PLUS+1® software platform
- Digital service tools
- Electric drivetrains including gear box
- Fuel-cell compressor systems
- Digital Displacement pumps

Providing power to transform the world in an energy-efficient and sustainable way
Our application knowhow together with innovation strength and global footprint create a strong and reliable technology partner for our customers. Through our applications expertise, we enable our customers to improve efficiency and productivity of their machines, increase critical up-time of their equipment, shorten the time-to-market development cycles and therefore enable our customers to better serve their end customers.

Disruptive new technology launched

Digital Displacement
Danfoss has released the world's first Digital Displacement product to the market, a key milestone in disrupting how mobile and stationary machines are designed and controlled. The advanced digital control system and novel core pump design deliver a step change in energy savings and controllability relative to conventional products. In mobile construction equipment, for example, these benefits translate directly into new-to-world levels of productivity and fuel savings, up to 50% in some applications. These game changing benefits have quickly been recognized by several of our global OEM customers as truly revolutionary in the field of hydraulics.

Danfoss

Climate Solutions

Sales
2.5bn
(2019: EUR 2.6bn)

EBITA
410m
(2019: EUR 400m)

EBITA margin
16.4%
(2019: 15.3%)

Development in 2020

Danfoss Climate Solutions had sales below the previous year, due to different growth dynamics across the business and regions, and customers postponing their purchasing of heating, air conditioning and refrigeration equipment and solutions due to the pandemic. Climate Solutions had a strong Q1 followed by a challenging Q2 and then saw a strong rebound in the second half of 2020 with parts of the business developing against the negative trend. In 2020, sales grew in China, and parts of Europe were back in growth in Q4. Profitability was better than the previous year.

10,530
employees worldwide

34
factories in 15 countries

4
Application Development Centers in USA, China, India and Denmark

3
top markets: Europe, China and North America

Play video

This is where the transformation of our food supply starts.

Danfoss Climate Solutions

As a market leader within cooling and heating, Danfoss Climate Solutions delivers sustainable and energy-efficient solutions for industry, the built environment, and the entire food chain.

Our technologies and solutions support the transition to a decarbonized economy by providing the energy-efficient solutions needed to reduce food loss and make our cities cleaner.

We have an unmatched value proposition for our customers and partners:

- Strong portfolio with leading positions as number 1 or 2 in the markets for our advanced components, solutions and services
- Integrated energy-efficient heating and cooling solutions with proven and unmatched experience in climate technologies and a broad product portfolio available today
- Global reach and presence in all relevant distribution channels. Danfoss Cooling and Danfoss Heating have joined forces into one strong segment focusing on the green agenda: Danfoss Climate Solutions. We will continue to develop our technologies to deliver the innovative energy-efficient solutions which are needed to reduce global emissions from buildings and mitigate climate change.

Products and solutions

- Compressors, including the pioneering oil-free Turbocor®
- Condensing units
- Valves, controllers, and complete electronic systems
- Digital cloud solutions, such as Alsense™, Prosa IoT, Turbocor Cloud Service
- Sensor technologies
- High-pressure pumps
- Heat exchangers
- Radiator thermostats & smart heating solutions
- Electric heating and hydronic underfloor heating
- Hydronic balancing and controls including digital actuators
- District-energy controls, heat meters, substations, and sofware services
- Burner components

We combine heating and cooling applications to ensure excess heat from industry, data centers and supermarkets is recovered to heat buildings to save energy and less investments in new heat generation is needed. We also develop innovative energy storage solutions, such as the connected supermarket and the Danfoss Smart Store.

A new front runner in **smart heating solutions** in 2020

Danfoss Ally™ smart home heating
Our new Danfoss Ally™ App allows users to control, schedule, and monitor home heating – from anywhere and at any time. The Danfoss Ally™ is cloud based and offers full control of radiator and hydronic floor heating from anywhere. With everything in control, users enjoy secure convenience and a perfect indoor climate.

Danfoss
Drives

Sales
1.4bn
(2019: EUR 1.5bn)

EBITA
186m
(2019: EUR 188m)

EBITA margin
13.8%
(2019: 12.8%)

Development in 2020

Danfoss Drives had sales below the previous year. Danfoss Drives was driving growth in China and most regions were recovering during the second half of the year. Despite the pandemic, Danfoss Silicon Power grew strongly, driven by strong sales to renewables, such as wind and solar, and the start of module deliveries for electric-vehicle drivetrains. Towards the end of the year, Danfoss Silicon Power even recorded a new all-time sales record. In 2020, profitability was better than the previous year.

4,438
employees worldwide

10
factories in 7 countries

3
Application Development Centers in China, Singapore and the Netherlands

3
top markets: Europe, China and North America

Play video

We are driven by drives

Danfoss Drives

Danfoss Drives is a global leader in variable speed control, having the world's largest installed base of AC drives.

The portfolio of high-quality, application-optimized VACON® and VLT® products maximizes process performance, saves energy and minimizes emissions. Innovating technology, which tackles climate change and helps the world of tomorrow go green and become more sustainable is high on our agenda.

With decades of industry-dedicated experience in meeting the customers' specialized challenges, we create and share solutions, which deliver better process precision and superior energy efficiency for electric-motor operations and power-management solutions.

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.

Products and solutions
AC drives enable optimal speed control and power management:

- Low- and medium-voltage AC drives as well as motion drives
- Stacks and power modules
- Digital tools and services, such as DrivePro® and MyDrive®

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

Chosen technology partner for **the world's most climate-friendly ferry** in 2020

Best energy efficiency and lowest emissions possible
The super-low emissions and noise-free car and passenger ferry, *Aurora Botnia*, will be completed in spring 2021 to cruise between Vaasa, Finland, and Umeå, Sweden. It will be the world's most climate-friendly ferry in its class. The ferry's propulsion-control systems as well as the air-conditioning, cooling and pumping systems use iC7 as well as VACON® 100 drives and converters. The drives onboard the vessel will control all electric motors and grid-related functionality. This will provide the best energy efficiency and lowest emissions possible.

Governance

Brand-new **moves**

Narrow spaces are no longer an issue with MultiAxis-Steer™. Unleash the full maneuverability with electrohydraulic all-wheel steering from Danfoss, for increased productivity and improved operator comfort.

Risk management and compliance

We manage risks and opportunities effectively to grow and stay profitable in increasingly complex business environments.

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

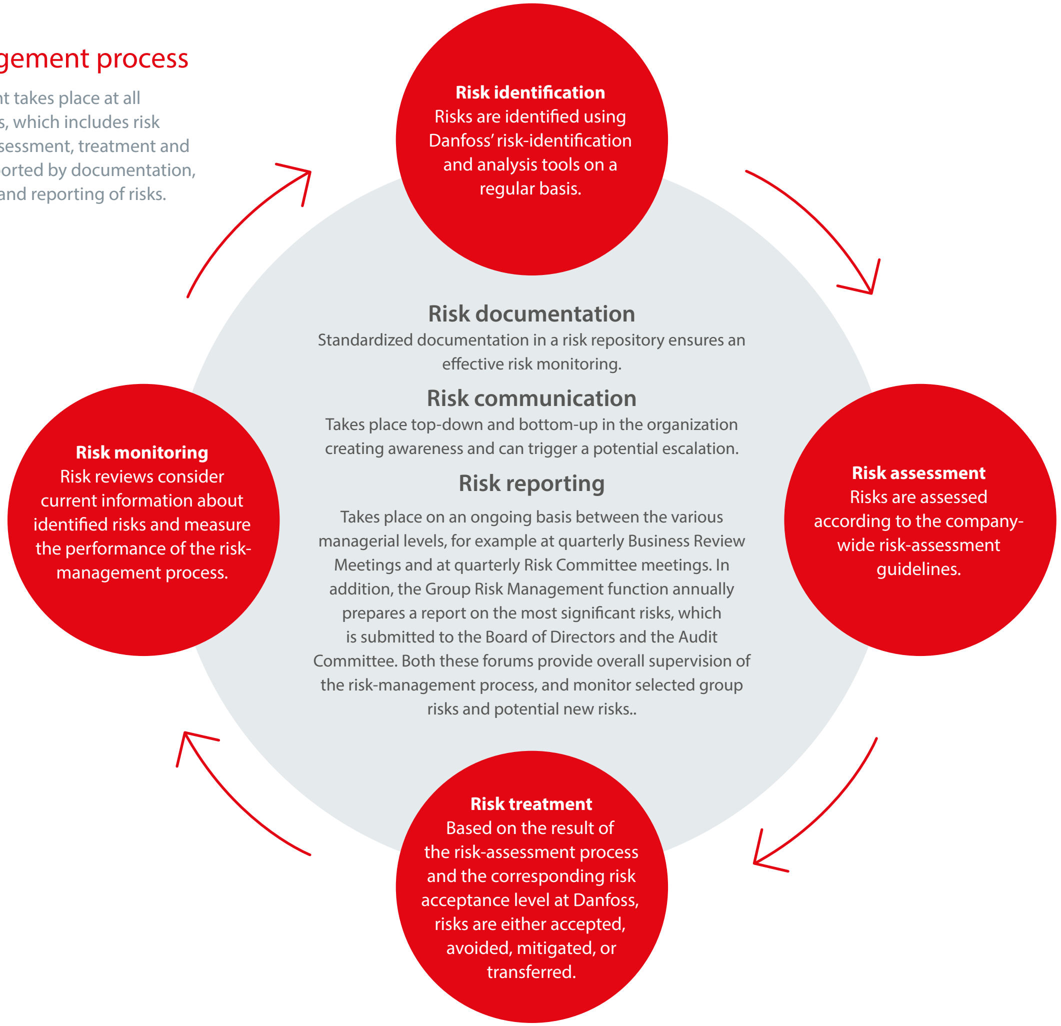
Risk governance
Overall, the Board of Directors performs risk oversight and the Audit Committee assesses the effectiveness of the Risk management process. The Group Executive Team is responsible for executing risk management, ensuring that policies and processes are effective at all relevant levels.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

Compliance
We support transparent business practice and recognize our responsibility as a global organization. Working together with governments, NGOs, and other global enterprises, Danfoss actively participates in creating a level and fair playing field. To walk the talk and minimize the risk of non-compliance, we have developed and implemented compliance programs in many areas.

Compliance programs
Danfoss has compliance programs in the following areas: Anti-Corruption, Business Ethics, Data Privacy, Export Control and Fair Competition. Our systemized compliance programs contain clear ownership, policy setting, operational procedures as well as recurring training and awareness activities.

Risk management process

Risk management takes place at all managerial levels, which includes risk identification, assessment, treatment and monitoring supported by documentation, communication and reporting of risks.



In 2020, Danfoss updated its compliance trainings in the areas of Anti-Corruption, Business Ethics and Fair Competition to reflect recent developments in legislation and best-practice approaches.

We maintain a high focus on data-privacy processes and compliance with data privacy regulation. Based on the Danfoss Binding Corporate Rules, approved by the Danish data-protection authorities, we follow a Data Privacy Handbook, conduct and participate in trainings, 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. Finally, we have defined and implemented rules and guidance to support anti-moneylaundering legislation and trained employees, respectively.

Compliance hotlines
Our Ethics Hotline is our whistleblower hotline that enables employees and business partners to anonymously report any concern they might have concerning internal standards and legislation. The Ethics Hotline is also serves as channel for data-privacy complaints. In 2020, a total number of 43 reports were managed by the Ethics Hotline. Corrective actions, including disciplinary action, were taken for the allegations, and none of the reports have had a material impact on Danfoss.

Risk overview
Like its industry peers, Danfoss is exposed to risks. No single risk can threaten the existence of Danfoss – now or in the future – rather, the following external conditions generally apply:

- Global market conditions, including a sustained 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 due to their nature. These two specific risks are described in the overview below, which does not include financial risks. Financial risks are described in Note 15, page 84-89.

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 acquisition of Eaton Hydraulics, including receiving the regulatory approvals as well as the successful integration of the newly acquired business.
Mitigation	Danfoss has set up crisis teams on Group, regional, country and site levels of the organization, tasked with limiting the risk of infection, safeguarding business continuity and ensuring that our business can continue to operate. The link to Danfoss regions through our regional presidents ensures that measures taken are in agreement with local health authorities and supporting the safety of Danfoss employees. Continuous meetings ensure learning from each other and adapting to the changing reality, supporting the new normal with homeworking if possible and virtual meetings etc. Segments are in close contact with customers and suppliers.	Danfoss has set up a legal team to prepare the work needed to obtain the regulatory approvals. The subsequent integration of the business is being prepared. We are applying a structured approach to minimize any disruption to the business and our customers.

For a description of the internal controls and risk-management structure in relation to financial reporting, reference is made to the statutory report on corporate governance, cf. Article 107b of the Danish Financial Statements Act.

Corporate **governance**

This is a summary of Danfoss' annual statutory report on corporate governance, which serves as our legally required reporting on governance and internal controls, cf. section 107b of the Danish Financial Statements Act.

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

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 sets out the general direction for the company by approving strategies and targets, and the Group Executive Team develops and executes the strategy and handles the day-to-day management.

The Board of Directors

The Board of Directors consists of eight members and four employee-elected members. Shareholder-elected members of the Board of Directors are elected for the term until the following year's AGM. 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 2018.

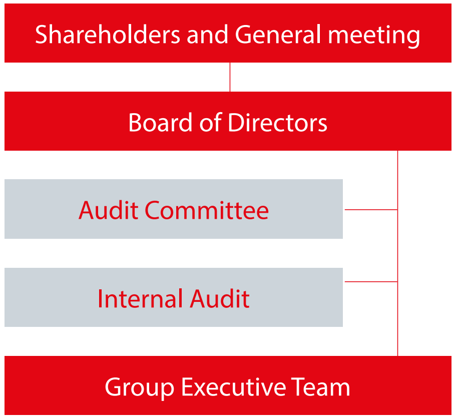
The Board of Directors has the overall responsibility for the company's activities and appoints a Chairman and one or two Vice Chairmen from among its members.

The Board of Directors meets at least five times a year and holds extraordinary meetings, when required. All members of the Board of Directors are expected to participate in the meetings. The aggregate competencies of the members of the Board of Directors are regularly assessed to ensure consistency with the Group's requirements.

Audit Committee

The entire Board of Directors performs the function of the Audit Committee. The Chairman 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 2020.

Governance model



Internal audit
Danfoss has an internal audit function to carry out independent internal checks. Conclusions are presented directly to the Audit Committee or its Chairman. 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 to selected Group companies in 2020. No matters of material importance to the Group's overall risk management and control management and control environment were detected.

Bond program
In 2014, Danfoss filed a Euro Medium Term Note Program on the Irish Stock Exchange, and consequently, Danfoss is a Class D company with listed bonds. Danfoss complies with the rules set out in section 107b, subsection 1, no. 6, of the Danish Financial Statements Act applicable to companies with listed bonds, including the exceptions regarding issuers of bonds above EUR 100,000.

Shareholders
At the end of 2020, Danfoss had 2505 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 11, page 78, and Note 25, page 97.

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 2020, the price was set at DKK 7,072 per share.

Annual General Meeting
Danfoss' Annual General Meeting will be held at the Company's registered office, on March 26, 2021. The Board of Directors will recommend that no dividend be paid for 2020.

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 at 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 met this target in 2020 and is considering the target for 2021 and onwards.

In 2020, 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, nationality, and age.

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 Power Electronics A/S 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 2021.

For a detailed description of Danfoss' position on the recommendations issued by the Committee on Corporate Governance, reference is made to the Statutory Report on Corporate Governance 2020, which is available at danfoss.com > About Danfoss > Corporate governance

(https://www.danfoss.com/en/about-danfoss/company/financials/corporate-governance/)

Visit danfoss.com

Shareholders with more than 5% of share capital

Shareholder	Shares	Votes
Bitten & Mads Clausen's Foundation, Nordborg, Denmark, and its subsidiaries	48.08%	86.14%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.47%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.31%

Board of **Directors**

Jørgen M. Clausen
Chairman of the Board of Directors

Born: 1948
Nationality: Danish
Appointed: 2009

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

Other current positions:
- Member of the Board of Directors in Fonden Universe Science Park; and miniBOOSTER Hydraulics A/S.
- Owner of SaltPower ApS.

Jens Bjerg Sørensen
Vice Chairman of the Board of Directors

Born: 1957
Nationality: Danish
Appointed: 2020
Considered 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.

Other current positions:
- Chief Executive Officer (CEO) in the listed company Aktieselskabet Schouw & Co.; Jens Bjerg Sørensen, Datterholding 1 ApS; and Jens Bjerg Sørensen Holding ApS.
- Chairman of the Board of Directors in Alba Ejendomme A/S; BioMar Group A/S; Borg Automotive A/S F. Salling Holding A/S and F. Salling Invest A/S; GPV International A/S; HydraSpecma A/S; Købmand Herman Sallings Fond; and A. Kirk A/S.
- Vice Chairman of the Board of Directors in Salling Group A/S; Fibertex Nonwovens A/S and Fibertex Personal Care A/S.
- Member of the Board of Directors in Per Aarsleff Holding A/S; Købmand Herman Sallings Mindefond; Aida A/S; Ejendomsselskabet FMJ A/S; F.M.J. A/S; and Bitten & Mads Clausens Fond

Mads-Peter Clausen
Member of the Board of Directors

Born: 1976
Nationality: Danish
Appointed: 2014

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

Other current positions:
- Senior Director, Oil Free Solutions, Danfoss A/S.
- Chairman of the Board of miniBOOSTER Hydraulics A/S.

Per Falholt
Member of the Board of Directors

Born: 1958
Nationality: Danish
Appointed: 2017
Considered 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.

Other current positions:
- Chairman of the Board of Directors, Universe Science Park; and DHI Foundation.
- Board member in Cytovac A/S; Applied Biomemetics; Co-Ro A/S; Lactobio; and LIFE foundation.
- CSO and co-founder of 21stBIO.

Board of **Directors**

Connie Hedegaard
Member of the Board of Directors

Born: 1960
Nationality: Danish
Appointed: 2016
Considered independent

Special competencies:
Extensive knowledge of climate, environmental and energy challenges on an international level. Expert on global sustainable development and green transition.

Other current positions:
- Chairman of the Board of Directors in KR Foundation; the green think-tank CONCITO; OECD's Round Table on Sustainable Development; Berlingske Media (part of de Persgroup); and Aarhus University.
- Member of the Board of Directors in NORDEX; Cadeler; and Volkswagen's Sustainability Board.

William Ervin Hoover Jr.
Member of the Board of Directors and Chairman of the Audit Committee

Born: 1949
Nationality: American
Appointed: 2007
Considered independent

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

Other current positions:
- Chairman of the Board of Directors in ReD Associates Holding A/S.
- Member of the Board of Directors in Specialist People Foundation and Neopost A/S.

Jürgen Reinert
Member of the Board of Directors

Born: 1968
Nationality: German
Appointed: 2015
Considered independent

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

Other current positions:
- Chief Executive Officer (CEO) in SMA Technology AG.
- Member of the Board of Kraftelektronik AB.

Mika Vehviläinen
Member of the Board of Directors

Born: 1961
Nationality: Finnish
Appointed: 2018
Considered independent

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

Other current positions:
- President and Chief Executive Officer (CEO) in Cargotec.

Board of **Directors**

Sandra Nørgaard Bertelsen
Member of the Board of Directors

Born: 1982
Nationality: Danish
Appointed: 2014

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

Other current positions:
- HR Director, HR Operations North Europe, Danfoss A/S.

Marianne Godballe
Member of the Board of Directors

Born: 1984
Nationality: Danish
Appointed: 2018

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

Other current positions:
- Senior Design Technician and shop steward, Danfoss A/S, Industrial Automation.
- Member of the Board of Danfoss Employee Foundation.
- Chairman of "TL-klubben", Danfoss A/S, South Denmark.
- Secretary General, Junior Chamber International Denmark.

Lars Grau
Member of the Board of Directors

Born: 1963
Nationality: Danish
Appointed: 2014

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

Other current positions:
- Shop Steward and skilled worker at Danfoss A/S.
- Member of the Board of Danish El Federal in South Jutland, Denmark.

Jens Peter Rosendahl Nielsen
Member of the Board of Directors

Born: 1957
Nationality: Danish
Appointed: 2006

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

Other current positions:
- Senior Shop Steward and skilled worker at Danfoss Kolding.
- Chairman of the Board of Danfoss Employee Foundation.
- Member of the Board of Metal Kolding and LO-Kolding.

Group **Executive Team**

Kim Fausing
President & CEO

Born: 1964. Employed at Danfoss since 2007.

Registered officer with the Danish Business Authority since 2008.

Board activities:
- Chairman of the Climate Partnership between Government and Industry for the manufacturing industry in Denmark.
- Deputy Chairman in SMA Solar Technology AG, Germany.
- Board member in Hilti AG, Liechtenstein; and LafargeHolcim Ltd., Switzerland.

Jesper V. Christensen
Executive Vice President & CFO

Born: 1969. Employed at Danfoss since 1993.

Registered officer with the Danish Business Authority since 2013.

Board activities:
- Deputy Chairman in the Manufacturing Industry, Denmark.
- Board member in the Confederation of Danish Industries, Denmark.
- Board member in Danish Crown A/S, Denmark.

Eric Alström
Segment President, Danfoss Power Solutions

Born: 1966. Employed at Danfoss since 2012.

Board activities:
- Deputy Chairman in Hempel A/S, Denmark.
- Stanford Graduate School of Business, MSx Advisory Board.

Jürgen Fischer
Segment President, Danfoss Climate Solutions

Born: 1963. Employed at Danfoss since 2008.

Board activities:
- Chairman of the Steering Board of EPEE - the European Partnership for Energy and the Environment.
- TÜV SÜD Germany, Advisory Board.

Vesa Laisi
Segment President, Danfoss Drives

Born: 1957. Employed at Danfoss since 2014.

Board activities:
- Board member in Wirepas.

Lars Tveen
President, Danfoss Developing Regions

Born: 1963. Employed at Danfoss since 1989.

Board activities:
- Chairman Project Zero-Foundation, Denmark (local initiative to achieve carbon neutrality by 2029), Denmark.
- Board member P4G, Partnering for Green Growth and the Global Goals 2030.
- Board member in SKAKO A/S, Denmark.
- Board member in The Energy Industry (an association under the Confederation of Danish Industries), Denmark.
- Board member in Synergi, Denmark.
- Board member in Green Energy (Grøn Energi), Denmark.

Financial **Statements**

The world's largest solar hot water system

The solar heating plant in the Danish town Silkeborg is designed to produce 80,000 MWh of heat annually, and at the same time reduce annual CO_2 emissions by 15,700 tonnes. 16 Danfoss VLT® AQUA drives and four Danfoss SONDEX® heat exchangers help ensure that the sun-heat reaches radiators and hot water showers across town – with minimal heat loss.

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, 2020.

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, 2020, of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2020.

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 4, 2021

CEO and CFO

Kim Fausing

Jesper V. Christensen

Board of Directors

Jørgen M. Clausen, Chairman

Jens Bjerg Sørensen, Vice Chairman

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

Our 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, 2020, 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, 2020, in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited
The Consolidated Financial Statements and Parent Company Financial Statements of Danfoss A/S for the financial year January 1 to December 31, 2020, pp 56-108 and 111-136 comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes, including basis for preparation and accounting policies for the Group as well as general accounting policies for the Parent Company. Collectively referred to as the "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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed auditors of Danfoss A/S on April 25, 2014, for the financial year 2014. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 7 years including the financial year January 1 to December 31, 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for 2020. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of intangible assets Intangible assets might be impaired due to changes in the global economic situation, including impact from COVID-19, and changes in the Group's strategy. We focused on this area, as the determination of whether or not an impairment charge for intangible assets is necessary, involves significant estimates and judgments made by Management, including especially: • estimation of future cash flows and the key assumptions underlying Management's expectations; • long-term growth rates; and • discount rates applied in discounting future cash flows. Refer to Notes 7, 20 and 28 in the Consolidated Financial Statements	We inspected the process of identifying impairment indicators and the process for impairment testing at the cash-generating unit level. We assessed the methodology, data and assumptions used in the Group's impairment model. In addition, we obtained impairment tests prepared by Management and evaluated the reasonableness of estimates and judgments made by Management in preparing these. Special focus was given to the key assumption driving the future cash flows, including net revenue growth, cost development, efficiency improvements, capital expenditure and working capital as well as the discount rates and long-term growth rates applied also taking into account COVID-19.
Uncertain tax positions The Group operates in a complex multinational tax environment where transfer pricing methods can be challenged by the tax authorities in the different countries. As a result, the Group is engaged in tax disputes with domestic and foreign tax authorities on an ongoing basis. We focused on this area as the valuation of tax assets and liabilities is associated with judgment and significant estimation uncertainty. Refer to Notes 6, 13, 16 and 28 in the Consolidated Financial Statements.	We evaluated relevant controls regarding completeness of records of uncertain tax positions and Management's procedure for estimating the valuation of tax assets and liabilities relating to tax disputes. In understanding and evaluating Management's judgments, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgmental positions taken in tax returns, and current estimates and developments in the tax environment. We evaluated the Group's model, data and assumptions used for valuation of tax assets and liabilities.

Statement on Management's Review
Management is responsible for Management's Review, pp 3-49 and 110.

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 in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by 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 Statements 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 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 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 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 or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public-interest benefits of such communication.

Aarhus, March 4, 2021

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Mads Melgaard
State Authorised Public Accountant
mne34354

Group accounts and notes

The future is **electric**

Danfoss solutions accelerate electrification of transportation, making hybrid and purely electric vehicles a natural and sustainable choice for everyone.

Income statement

January 1 to December 31

EURm	Note	2019	2020
Net sales	1	6,285	5,828
Cost of sales	2	-4,173	-3,845
GROSS PROFIT		**2,112**	**1,983**
Research and development costs	2	-272	-267
Selling and distribution costs	2	-864	-773
Administrative expenses	2	-275	-270
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**701**	**673**
Other operating income and expenses	2	-2	-54
Share of profit from associates and joint ventures after tax	3	-4	6
OPERATING PROFIT (EBIT)		**695**	**625**
Financial income	4	4	2
Financial expenses	5	-37	-50
PROFIT BEFORE TAX		**662**	**577**
Tax on profit	6	-160	-142
NET PROFIT		**502**	**435**
Attributable to:			
Shareholders in Danfoss A/S		455	389
Minority interests		47	46
		502	**435**

Statement of comprehensive income

January 1 to December 31

EURm	Note	2019	2020
NET PROFIT		**502**	**435**
OTHER COMPREHENSIVE INCOME			
Actuarial gain/loss (-) on pension and healthcare plans	14	-39	-14
Tax on actuarial gain/loss on pension and healthcare plans	13	8	4
Items that cannot be reclassified to income statement		**-31**	**-10**
Foreign exchange adjustments on translation of foreign currency into EUR		29	-156
Fair value adjustment of hedging instruments:			
Hedging of net investments in subsidiaries			3
Hedging of future cash flows		13	-56
Hedging transfered to inventory		-10	1
Tax on hedging instruments		-1	4
Items that can be reclassified to income statement		**31**	**-204**
OTHER COMPREHENSIVE INCOME AFTER TAX		**0**	**-214**
TOTAL COMPREHENSIVE INCOME		**502**	**221**
Attributable to:			
Shareholders of Danfoss A/S		453	181
Minority interests		49	40
		502	**221**

Statement of financial position

As of December 31

EURm ASSETS	Note	2019	2020
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	7	**2,426**	**2,313**
PROPERTY, PLANT AND EQUIPMENT	8	**1,409**	**1,404**
Investments in associates and joint ventures	3	283	283
Pension benefit plan assets	14	11	4
Non-current receivables		7	10
Deferred tax assets	13	81	92
OTHER NON-CURRENT ASSETS		**382**	**389**
TOTAL NON-CURRENT ASSETS		**4,217**	**4,106**
CURRENT ASSETS			
INVENTORIES	9	**742**	**703**
Trade receivables	10	893	863
Receivable corporation tax	16	30	23
Other receivables		104	106
RECEIVABLES		**1,027**	**992**
CASH AND CASH EQUIVALENTS	15	**110**	**611**
TOTAL CURRENT ASSETS		**1,879**	**2,306**
TOTAL ASSETS		**6,096**	**6,412**

Statement of financial position

As of December 31

EURm **LIABILITIES AND SHAREHOLDERS' EQUITY**	Note	2019	2020
SHAREHOLDERS' EQUITY			
Equity, shareholders in Danfoss A/S	11	2,835	3,084
Minority interests		98	100
TOTAL SHAREHOLDERS' EQUITY		**2,933**	**3,184**
LIABILITIES			
Provisions	12	112	113
Deferred tax liabilities	13	225	199
Pension and healthcare benefit plan obligations	14	155	153
Borrowings	15	1,093	1,103
Derivative financial instruments (negative fair value)	16		1
Other non-current debt		53	98
NON-CURRENT LIABILITIES		**1,638**	**1,667**
Provisions	12	46	52
Borrowings	15	76	68
Trade payables		820	774
Debt to associates and joint ventures		3	4
Corporation tax	16	68	61
Derivative financial instruments (negative fair value)	15	3	61
Other debt	17	509	541
CURRENT LIABILITIES		**1,525**	**1,561**
TOTAL LIABILITIES		**3,163**	**3,228**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,096**	**6,412**

Statement of cash flows

January 1 to December 31

EURm	Note	2019	2020
Profit before tax		662	577
Adjustments for non-cash transactions	18	334	372
Change in working capital	19	-43	52
Interest received		4	2
Interest paid		-29	-34
Dividends received		1	
Paid tax	16	-140	-169
CASH FLOW FROM OPERATING ACTIVITIES		**789**	**800**
Acquisition of intangible assets		-52	-44
Acquisition of property, plant and equipment		-258	-201
Proceeds from sale of property, plant and equipment		6	14
Acquisition of subsidiaries	20	-140	
Change in financial receivables	21	37	-15
Proceeds from sale of other investments	21		4
CASH FLOW FROM INVESTING ACTIVITIES		**-407**	**-242**
Cash repayment of interest-bearing debt	22	-1,086	-92
Cash proceeds from interest-bearing debt	22	984	8
Purchase of treasury shares		-60	-2
Sale of treasury shares			70
Proceeds from minority interests		1	
Dividends to shareholders in Danfoss A/S		-78	
Dividends to minority interests		-83	-38
CASH FLOW FROM FINANCING ACTIVITIES		**-322**	**-54**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**60**	**504**
Cash and cash equivalents as of January 1		50	110
Foreign exchange adjustment of cash and cash equivalents			-3
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**110**	**611**

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, 2019	**134**	**10**	-4	15	-317	2,602	**2,296**	**80**	**2,520**	**129**	**2,649**
Net profit						375	**375**	**80**	**455**	**47**	**502**
Foreign exchange adjustments of foreign companies				27			**27**		**27**	**2**	**29**
Fair value adjustment of hedging instruments			3				**3**		**3**		**3**
Actuarial gain/loss (-) on pension and healthcare plans						-39	**-39**		**-39**		**-39**
Tax on other comprehensive income			-1			8	**7**		**7**		**7**
Total other comprehensive income			2	27		-31	**-2**		**-2**	**2**	**0**
Total comprehensive income for the period			2	27		344	**373**	**80**	**453**	**49**	**502**
Dividends to shareholders						2	**2**	**-80**	**-78**	**-83**	**-161**
Additions through acquisition of subsidiaries										**2**	**2**
Purchase of treasury shares					-60		**-60**		**-60**		**-60**
Capital increase										**1**	**1**
Total transactions with owners					-60	2	**-58**	**-80**	**-138**	**-80**	**-218**
BALANCE AS OF DECEMBER 31, 2019	**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**

The Bitten & Mads Clausen's Foundation has agreed to use its first right to buy back Danfoss A/S shares from certain minority shareholders in Danfoss A/S. The agreement has no impact on the Group's equity as the contribution from the Foundation offset a similar liability. Further information can be found in note 25 Related Parties.

Notes

Note 1 Segment reporting

EURm

BUSINESS SEGMENTS	Danfoss Power Solutions 2019	Danfoss Climate Solutions 2019	Danfoss Drives 2019	Other areas 2019	GROUP 2019	Danfoss Power Solutions 2020	Danfoss Climate Solutions 2020	Danfoss Drives 2020	Other areas 2020	GROUP 2020
INCOME STATEMENT										
Net sales	2,197	2,611	1,456	21	6,285	1,956	2,491	1,352	29	5,828
Depreciation/amortization/impairment	52	46	25	126	249	60	53	25	132	270
EBITA	391	400	188	-208	771	329	410	186	-202	723
Acquisition-related amortization	48	10	21		79	41	8	21		70
Share of profit from associates and joint ventures after tax					-4					6
Operating profit (EBIT)					695					625
Financial Items					-33					-48
Profit before tax					662					577
STATEMENT OF FINANCIAL POSITION										
Total assets *)	1,481	1,664	1,699	1,252	6,096	1,362	1,616	1,666	1,768	6,412
Net investments, excluding M&A	101	67	38	98	304	59	65	34	73	231
Total liabilities *)	274	318	212	2,359	3,163	262	332	186	2,448	3,228
OTHER INFORMATION										
Number of employees	7,826	10,792	4,504	4,749	27,871	7,609	10,530	4,438	4,914	27,491

In 2020, Danfoss combined the Danfoss Cooling and Danfoss Heating segments into the new Danfoss Climate Solutions segment. The segment information for 2019 has been restated to reflect this change.
For further information on the business segments see page 20 and 35-40.

GEOGRAPHICAL SEGMENTS	Western Europe 2019	Eastern Europe 2019	Asia Pacific 2019	North America 2019	Latin America 2019	Africa - Middle East 2019	GROUP 2019	Western Europe 2020	Eastern Europe 2020	Asia Pacific 2020	North America 2020	Latin America 2020	Africa - Middle East 2020	GROUP 2020
Net sales	2,326	523	1,406	1,573	302	155	6,285	2,166	516	1,403	1,332	267	144	5,828
Total non-current assets **)	2,767	144	320	855	29	21	4,136	2,783	140	298	747	26	20	4,014

Sales in Denmark amounts to EUR 248m (2019: 232m) and non-current assets amount to EUR 1,004m (2019: 943m). Sales in North America mainly relate to the US and represent EUR 1,256m (2019: 1,481m) and non-current assets amount to EUR 747m (2019: 855m). China is part of the Asia Pacific region and sales amount to EUR 871m (2019: 803m) and non-current assets amount to EUR 231m (2019: 243m).
*) Central functions' assets and liabilities, cash and cash equivalents, interest-bearing debt and deferred tax liabilities/assets have been included in the column "Other areas".
**) Deferred tax assets are not included.

Note 1 Segment reporting (continued)

EURm

SPECIFICATION OF OTHER AREAS - EBITA

	2019	2020
Corporate and shared functions and projects, not allocated *)	-193	-184
Other	-15	-18
EBITA	-208	-202

SPECIFICATION OF OTHER AREAS - ASSETS

	2019	2020
Cash, current & non-current tax receivables	221	726
Other receivables	93	82
Corporate and shared functions, not allocated tangible, and intangible fixed assets	896	909
Corporate and shared functions and projects, not allocated *)	30	44
Other	12	7
Total assets	1,252	1,768

SPECIFICATION OF OTHER AREAS - LIABILITIES

	2019	2020
Interest-bearing debt, current & non-current tax liabilities	1,463	1,432
Other debt	560	665
Pension and healthcare plans	155	153
Corporate and shared functions and projects, not allocated *)	173	195
Other	8	3
Total liabilities	2,359	2,448

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

Note 2 Expenses and other operating income

EURm

A. PERSONNEL EXPENSES

	2019	2020
Salaries and wages	1,424	1,379
Severance payments	13	28
Social security	126	132
Pension cost - defined contribution plans	85	76
Pension cost - defined benefit plans excluding gains from reductions and redemptions *)	3	4
Gains from reductions and redemptions	-1	
	1,650	1,619
Average number of employees	27,905	27,539
Total number of employees as of end of the year	27,871	27,491

*) Expenses for defined benefit plans are described in Note 14 Pension and healthcare obligations.

	2019	2020
Remuneration to the Group Executive Team and the Board of Directors:		
Salaries	5	5
Pension costs	1	2
Bonuses	10	13
Group Executive Team	16	20
Board of Directors' fee	1	1
Total remuneration	17	21

Bonuses are influenced by results of 2020 as well as results of prior years.
Total remuneration for registered members of the Group Executive Team amounts to EUR 12m (2019: 10m). A presentation of the Group Executive Team is available on page 49.

Note 2 Expenses and other operating income (continued)

EURm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2019	2020
Classification by nature:		
Amortization of intangible assets	109	106
Depreciation of property, plant and equipment	218	227
Impairment on tangible assets	1	2
Depreciation/amortization and impairment losses	328	335
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	72	79
Selling and distribution costs	31	22
Administrative expenses	6	5
	109	106
Classification of depreciation/impairment of property, plant and equipment assets by functions:		
Cost of sales	174	186
Selling and distribution costs	31	28
Administrative expenses	14	15
Property, plant and equipment	219	229

C. OTHER OPERATING INCOME AND EXPENSES

	2019	2020
Gain from value adjustment on step-acquisition of company	9	
Gain from disposal of property, plant and equipment	2	2
Government grants	10	9
Reversal of restructuring costs	1	
Other	9	13
Other operating income	31	24
Loss on disposal of property, plant and equipment	-1	-6
Restructuring costs	-14	-28
Other	-18	-44
Other operating expenses	-33	-78
Other operating income and expenses	-2	-54

Restructuring costs in both years mainly relate to terminations in Denmark, Germany and USA. Other include EUR 37m one-off transaction costs related to the acquisition of Eaton Hydraulics.

The Group has received government grants of EUR 35m (2019: 10m) in total. This is among other items, related to investment incentives, support to research and development programs and 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.

Note 2 Expenses and other operating income (continued)

EURm

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2019	2020
Audit fee	3	3
Other assurance engagements fee	0	0
Tax and VAT advice	1	0
Other fees	1	1
Total fee to Group Auditor	5	4

Fees for services other than the statutory audit of the Financial Statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PricewaterhouseCoopers Denmark) amounted to EUR 1.0 m (2019: 1.0m). Services other than the statutory audit of the Financial Statements comprise services relating to due diligence and agreed-upon procedures, transfer pricing, tax audits as well as accounting advice.

Note 3 Investments in associates and joint ventures

EURm

			2019			**2020**
	Investments in associates and joint ventures	Other investments	**TOTAL**	Investments in associates and joint ventures	Other investments	**TOTAL**
Cost as of January 1	353	19	372	349	19	368
Additions					2	2
Disposals	-4		-4	-24	-1	-25
Cost as of December 31	349	19	368	325	20	345
Adjustments as of January 1	-64	-16	-80	-69	-16	-85
Foreign exchange adjustments in foreign companies	1		1	-2		-2
Net profit/value adjustment	-4		-4	6		6
Dividends	-1		-1			
Disposal / Transfer	-1		-1	19		19
Adjustments as of December 31	-69	-16	-85	-46	-16	-62
Carrying amount as of December 31	280	3	283	279	4	283

Where indicators for impairment were present at the end of 2020, impairment tests were performed on the carrying 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 present value 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 2019.

Further information on associates and joint ventures is provided in Note 15 Financial risks and instruments and Note 25 Related parties.

Note 3 Investments in associates and joint ventures (continued)

EURm

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	
	2019	**2020**
Place of business	Germany	Germany
Share of ownership	20%	20%
SUMMARIZED PROFIT AND LOSS STATEMENT (PROVISIONAL NUMBERS FOR 2020 AND 2019)		
Revenue	915	1,027
EBIT	-11	28
Net income	-8	28
SUMMARIZED BALANCE SHEET (Q3 NUMBERS)		
Non-current assets	296	307
Current assets	719	679
Non-current liabilities	257	259
Current liabilities	347	305
Equity	411	422
OTHER INFORMATION		
Group share of equity as of December 31	79	83

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2020, was EUR 1,900m (2019: 1,200m).

IMMATERIAL ASSOCIATES AND JOINT VENTURES

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.

			2019			**2020**
Danfoss' proportionate share of:	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Profit or loss from continuing operations		1	1		2	2
Total comprehensive income		1	1		2	2
Carrying amount as of December 31		14	14		10	10

RECONCILIATION OF CARRYING AMOUNT

			2019			**2020**
	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Group share of equity of material associates and joint ventures	79		79	83		83
Goodwill concerning material associates and joint ventures	187		187	187		187
Carrying amount of immaterial associates and joint ventures		14	14		10	10
Total carrying amount as of December 31 of associates and joint ventures	266	14	280	270	10	280

For further information on associates and joint ventures, please see Note 29 Group companies.

Note 4 Financial income

EURm

	2019	2020
Interest from banks, etc.	4	2
Financial income	4	2
Interest on financial assets measured at amortized cost.	4	2

Note 5 Financial expenses

EURm

	2019	2020
Interest to banks etc.	-22	-27
Calculated interest on defined benefit plans	-3	-2
Interest expense for leasing arrangements	-8	-8
Foreign exchange losses, net	-4	-13
Financial expenses	-37	-50
Interest on financial liabilities measured at amortized cost.	-30	-35

A fair-value hedge impact of EUR 14m (2019: 7m) is included in Foreign exchange losses, net.
Further information on leases is provided in Note 24 Leases.

Note 6 Tax on profit

EURm

	2019	2020
Current tax expense	-163	-175
Change in deferred tax	7	30
Adjustments concerning previous years	-4	3
	-160	-142
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%	1.8%	1.7%
Tax exempt income/non-deductible expenses	-1.6%	-1.0%
Income from associates and joint ventures after tax	0.1%	-0.2%
Adjustment of net tax assets	0.5%	0.7%
Other taxes	0.9%	1.9%
Adjustments concerning previous years	0.5%	-0.5%
Effective tax rate	24.2%	24.6%

	2019	2020
Tax on profit (income statement)	-160	-142
Tax on fair-value adjustment of hedging instruments (other comprehensive income)	-1	4
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	8	4
Total taxes	-153	-134

Note 7 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, 2019	1,718	300	150	662	382	95	66	1,655	3,373
Foreign exchange adjustments in foreign companies	9	1	1	4	3	1	1	11	20
Additions through acquisition of subsidiaries	103	1		39	18			58	161
Transfers		36				-36			
Additions		51				1		52	52
Disposals						-2	-15	-17	-17
Cost as of December 31, 2019	1,830	389	151	705	403	59	52	1,759	3,589
Amortization and impairment losses as of January 1	152	145	11	377	253	59	65	910	1,062
Foreign exchange adjustments in foreign companies	2	1		3	1	1	1	7	9
Transfers		23				-23			
Amortization		26	2	46	31	3	1	109	109
Disposals						-2	-15	-17	-17
Amortization and impairment losses as of December 31, 2019	154	195	13	426	285	38	52	1,009	1,163
Carrying amount as of December 31, 2019	1,676	194	138	279	118	21		750	2,426
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, 2020	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

Of the "Internally developed software" approximately 50% relates to the One ERP program described in the Management's Review, page 24.
Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 20 Acquisition and sales of subsidiaries and activities.

Note 7 Intangible assets (continued)

EURm

IMPAIRMENT TESTS

At the end of 2020, 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 2021-2030. 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.

				2019				2020
	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Drives	Other	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Drives	Other
Goodwill as of December 31	339	565	770	2	323	544	770	2
Brand with indefinite useful life as of December 31	132				126			

The Danfoss Power Solutions brand with a carrying amount EUR 126m (2019: 132m) 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.
In 2020, the Danfoss Cooling and Danfoss Heating segments were combined into the Danfoss Climate Solutions segment. The goodwill for the new Danfoss Climate Solutions segment is an aggregation of the goodwill in the Danfos Cooling and Danfoss Heating segments.

The weighted average growth rate until 2030 is based on past performance/Management expectation of market development etc. and is estimated to be 3-6% (2019: 2-6%) 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 2019. 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 10-11% (2019: 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 2019.

Note 7 Intangible assets (continued)

Danfoss Power Solutions

The goodwill allocated to Danfoss Power Solutions derives primarily from the Danfoss Group's 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 2020, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to EUR 262m (2019: 315m), or approximately 58% (2019: 59%) of the corresponding Group carrying amount . The carrying amount of Technology and Customer relations is amortized until 2032.

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 2020, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 63m (2019: 71m), or approximately 14% (2019: 13%) 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 2020, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 128m (2019: 148m), or approximately 28% (2019: 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 2020, Danfoss had software in progress amounting to EUR 49m (2019: 36m) and EUR 0m (2019: 0m) capitalized development expenditure in progress. Capitalized software in progress is mainly developed internally.

In 2020, 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 (2019: 0m).

Note 8 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2019	925	1,548	258	179	2,910
Accounting policy change	107	1	27		135
Foreign exchange adjustments in foreign companies	6	9	1	1	17
Additions through acquisition of subsidiaries	8	1	1		10
Transfers	16	98	5	-119	
Additions	56	63	35	157	311
Disposals	-12	-17	-18		-47
Cost as of December 31, 2019	1,106	1,703	309	218	3,336
Depreciation and impairment losses as of January 1, 2019	421	1,161	159		1,741
Foreign exchange adjustments in foreign companies	2	6	1		9
Transfers	1	1	-2		
Depreciation	71	106	41		218
Impairment	1				1
Disposals	-11	-14	-17		-42
Depreciation and impairment losses as of December 31, 2019	485	1,260	182		1,927
Carrying amount as of December 31, 2019	621	443	127	218	1,409
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

Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 20 Acquisition and sale of subsidiaries and activities.

Note 8 Property, plant and equipment (continued)

EURm

The right-of use assets included in property, plant and equipment are presented below.

	Land and buildings	Plant and machinery	Equipment	**TOTAL**
Carrying amount related to right-of-use assets as of January 1, 2019	36	1	16	53
Accounting policy change	107	1	27	135
Foreign exchange adjustments in foreign companies	1			1
Acquisitions of subsidiaries	4			4
Additions	32	2	19	53
Depreciation	-38	-1	-23	-62
Carrying amount related to right-of-use assets as of December 31, 2019	142	3	39	184
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

Further information on leases is provided in Note 24 Leases.

Note 9 Inventories

EURm

	2019	**2020**
Raw materials and consumables	345	337
Work in progress	79	75
Finished goods and goods for resale	318	291
Inventories	742	703
Write-downs of inventories	62	66
Carrying amount of write-down inventories stated at net realizable value	52	35
Expensed adjustment of inventories to net realizable value included in cost of sales	9	13
Cost of goods sold included in cost of sales	3,214	2,894

Note 10 Trade receivables

EURm

	2019	2020
Trade receivables before provision for bad debts	910	875
Provision for bad debts	-25	-21
Trade receivables	885	854
Receivables from associates and joint ventures	8	9
Total trade receivables	893	863
Hereof trade receivables due after 1 year	1	
Provision for bad debts as of January 1	-25	-25
Foreign exchange adjustments in foreign companies	-1	2
Accrual of new provisions	-6	-3
Reversal of provisions accrued	3	3
Realized loss	4	2
Provision for bad debts as of December 31	-25	-21

Note 11 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	48.08%	86.14%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.47%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.31%

DISTRIBUTION OF SHARES	A shares		B shares		Total	
	Number	DKKm	Number	DKKm	Number	DKKm
Balance as of January 1, 2019	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2019	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

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	2019		2020	
	DKK	EUR	DKK	EUR
Proposed dividend per 100 DKK share	60.2	8.1		
Dividend from last year paid per 100 DKK share	60.2	8.1		

Dividend payment to shareholders has no tax consequences for Danfoss A/S.

No dividend was paid for 2019 and the Board of Directors recommends that no dividend is to be paid for 2020.

DEVELOPMENT IN THE GROUP'S HOLDING OF TREASURY SHARES (NO. OF B-SHARES OF 100 DKK)

	2019	2020
Holding as of January 1	350,698	412,122
Acquired in the year	1,924	2,512
Acquired from The Bitten & Mads Clausen's Foundation	59,500	
Sold to The Bitten & Mads Clausen's Foundation		-74,236
Holding as of December 31	412,122	340,398

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 2020 for acquiring own shares amounts to EUR 2m (2019: 60m). The total selling price in 2020 for selling own shares amounts to EUR 70m (2019: 0m). The Group's holding of of treasury shares represents 3.4% (2019: 4.1%) 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 negative outlook" by Standard and Poor's. End of 2020 the net-interest-bearing debt to EBITDA ratio was 0.6 (2019: 1.0) on a reported basis. Danfoss aims to use the free operating cash flow after financial items and tax for debt servicing and business development.

Note 12 Provisions

EURm

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

					2020
	Warranty	Contingent consideration	Employee-related	Other	**TOTAL**
Provisions as of January 1	40	51	36	31	158
Foreign exchange adjustments in foreign companies	-2		-1	-1	-4
Provisions used	-20		-2	-7	-29
Reversal of unused provisions	-2	-3		-4	-9
Additional provisions recognized	29		10	10	49
Provisions as of December 31	45	48	43	29	165

					2020
Estimated maturity of above provisions:	Warranty	Contingent consideration	Employee-related	Other	**TOTAL**
Within 1 year	31	6	5	10	52
Between 1 and 5 years	14	37	14	16	81
After more than 5 years		5	24	3	32
Provisions as of December 31	45	48	43	29	165

Note 13 Deferred tax

EURm

CHANGES IN DEFERRED TAXES

	2019	2020
Deferred taxes as of January 1 (net) *)	-140	-144
Adjustment from the adoption of IFRS 16	2	
Foreign exchange adjustment in foreign companies		1
Additions through acquisition of subsidiaries	-5	
Adjustments concerning previous years	-16	2
Deferred tax recognized in the income statement	7	30
Deferred tax recognized in other comprehensive income	8	4
Deferred taxes as of December 31 (net) *)	-144	-107

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES	2019	2020
	Deferred tax asset	Deferred tax asset
Intangible assets	4	4
Property, plant and equipment and financial assets	49	48
Current assets	18	22
Debt and provisions	127	156
Tax loss carry-forwards	40	41
Non-capitalized tax assets regarding tax losses	-34	-36
	204	235
Set-off within the same legal entities and jurisdiction	-123	-143
Deferred tax assets	81	92
	Deferred tax liability	Deferred tax liability
Intangible assets	142	131
Property, plant and equipment and financial assets	129	123
Current assets	10	10
Debt and provisions	62	73
Deferred tax regarding Danish joint taxation	5	5
	348	342
Set-off within the same legal entities and jurisdiction	-123	-143
Deferred tax liabilities	225	199

The tax asset related to tax-loss carry-forwards of EUR 5m net (2019: 6m) 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, 100% (2019: 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 36m (2019: 34m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized. 2% of the amount (2019: 19%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 83% (2019: 70%).

Of the deferred tax liability of EUR 199m (2019: 225m), EUR 5m (2019: 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 8m (2019: 15m). 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.

Note 14 Pension 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.
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:

	2019		2020	
	Gross liability	Net Liability	Gross liability	Net Liability
Germany	25%	67%	26%	65%
USA	38%	29%	38%	26%
UK	33%	-7%	33%	-3%
Other	4%	11%	3%	12%
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 200 (2019: 200) active employees. 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

	2019	2020
Present value of defined-benefit plan obligations	550	559
Fair value of plan assets	-406	-410
	144	149
Defined-benefit plan obligations are presented in the statement of financial position as follows:		
Pension benefit plan assets	11	4
Pension and healthcare plan obligations	155	153
	144	149

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

	2019	2020
Provision as of January 1	479	550
Foreign exchange adjustments in foreign companies	12	-29
Pension costs for the year	3	4
Calculated interest on plan liabilities	15	11
Actuarial gains(-)/losses from changes in demographic assumptions	-3	-2
Actuarial gains(-)/losses from changes in financial assumptions	66	48
Gains from reductions and redemptions	-1	
Plan participants' contribution liabilities	2	1
Disbursed benefits from the Group	-5	-5
Disbursed benefits from plan assets	-18	-19
Provision as of December 31	550	559

Note 14 Pension and healthcare obligations (continued)

EURm

DEVELOPMENT IN THE FAIR VALUE OF PLAN ASSETS

	2019	2020
Plan assets as of January 1	365	406
Foreign exchange adjustments in foreign companies	11	-26
Calculated interest on plan assets	12	9
Plan participants' contribution asset	2	1
Return for the year on plan assets, excluding calculated interest	25	32
Payments by the Group	9	7
Disbursed benefits	-18	-19
Plan assets as of December 31	406	410

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 some of the German subsidiaries and the healthcare plan in the USA. Unfunded plans amount to approximately EUR 72m (2019: 72m).

EXPENSES RELATING TO PENSION AND HEALTHCARE OBLIGATIONS

	2019	2020
Pension costs for the year	3	4
Calculated interest on liabilities	15	11
Calculated interest on assets	-12	-9
Gains from reductions and redemptions	-1	
Expensed in the income statement	5	6
Pension cost stated under cost of sales	1	1
Pension cost stated under administrative expenses	2	3
Other operating income and expenses	-1	
Interest concerning pension and healthcare obligations posted under financial items	3	2
	5	6

ESTIMATED MATURITY OF PROVISIONS

	2019	2020
Within 1 year	24	25
Between 1 and 5 years	93	100
After more than 5 years	433	434
	550	559

Note 14 Pension and healthcare obligations (continued)

EURm

PENSION PLAN ASSETS ARE SPECIFIED AS FOLLOWS:

		2019		2020
Shares and similar securities	132	33%	140	34%
Listed corporate bonds	136	34%	138	34%
Bonds	71	18%	65	16%
Other	67	15%	67	16%
	406	100%	410	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 34% (2019: 33%) 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

		2019		2020
	Range	Weighted average	Range	Weighted average
Discount rate	0.1-3.2%	2.2%	-0.3-2.3%	1.7%
Estimated future salary increase	1.5-4.2%	3.5%	1.2-4.3%	3.5%

		2019		2020
	Male Range	Female Range	Male Range	Female Range
Life expectancy for a pensioner retiring at the end of the reporting period	85-87	87-88	84-87	86-89
Life expectancy for a pensioner retiring 20 years after the end of the reporting period	86-90	88-90	86-90	88-90

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 10m to defined-benefit plans in 2021 (2020: 13m).

SENSITIVITY ANALYSIS

	2019	2020
Reported defined-benefit plan obligations	550	559
Increase in discount rate of a 0.5 percentage point affects the defined-benefit plan obligations by	-40	-42
Decrease in discount rate of a 0.5 percentage point affects the defined-benefit plan obligations by	+44	+47
Increase in future salary increase of a 0.5 percentage point affects the defined-benefit plan obligations by	+2	+3
Decrease in future salary increase of a 0.5 percentage point affects the defined-benefit plan obligations by	-2	-3
Increase in average life expectancy of 1 year affects the defined-benefit plan obligations by	+20	+21
Decrease in average life expectancy of 1 year affects the defined-benefit plan obligations by	-19	-21

Note 15 Financial risks and instruments

EURm

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, commodity, credit, interest rate and liquidity 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 and not to engage in speculative transactions that increases the financial risk of the Group.

For a description of accounting policies and procedures such as applied recognition criteria and basis of measurement, please see the disclosure under Note 27 Basis for preparation and accounting policies.

CURRENCY EXPOSURE

Currency exposure consists of three elements:

1. Transaction risk: This covers both the balance sheet risk, i.e. the risk related to assets and liabilities denominated in foreign currency, and 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 balance sheet 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 2020 follow 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 2020 and 2019.

2. Translation risk: This is the risk that the P&L and Equity of Danfoss are impacted adversely by currency movements when consolidating the financial statements of subsidiaries. Translation risk (Reporting risk) 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/structural risk (strategic risk): This risk is not in scope for financial risk management. Economic/structural currency risk is dealt with strategically by keeping an appropriate balance between the geographical footprint of end markets and sourcing markets.

				2019				**2020**
NOMINAL POSITION OF SIGNIFICANT CURRENCIES	EUR	USD	GBP	**Total**	EUR	USD	GBP	**Total**
Receivables and payables	-101	-25	5	-121	-117	15	-6	-108
Cash and loans 1)	37	-75	-3	-41	89	-142		-53
Derivative financial instruments for hedging of fair value 2)	66	101	-3	164	31	124	6	161
Derivative financial instruments for hedging of future cash flow 3)	-412	-120	-38	-570	-1,136	747	-27	-416

1) Besides the loans included, loans of EUR 614m (2019: 627m) are used for hedging of net investments (equity hedge). The impact on the Group's equity is EUR 2.6m (2019: -0.4m).
2) Financial instrument for hedging of fair value also includes the exposure related to inventories in countries applying foreign currency price lists.
3) Includes the cash-flow hedge related to the expected acquisition of Eaton Hydraulics, USD/EUR 1.000m.

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	-10	-12	-4	-26	-17	75	-3	55

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.

Note 15 Financial risks and instruments (continued)

EURm

COMMODITY RISK
Movements in commodity prices can affect the Group's earnings and cash flow. It is Danfoss' policy to ensure that significant risk related to raw materials are reduced through a combination of fixed price agreements with suppliers, active price adjustment and in some cases financial hedging. If commodity exposure is considered material, the price should be fixed for a period of between 3 months and 12 months.
Danfoss has not undertaken financial hedging of commodities in 2020 or 2019.

CREDIT RISK
The Group's credit risks primarily apply to trade receivables and bank deposits (the so-called 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.

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. The expected credit losses also incorporate forward-looking information. Out of the EUR 21m write-down, EUR 18m relates to receivables, which are more than 180 days overdue.

Trade receivables are distributed on a large number of customers and geographical areas. The geographical distribution does not differ significantly from the split of net sales according to Note 1 Segment reporting.
Historically, the Group has only had limited losses on bad debts.

Ageing of trade receivables as of December 31:	**2019**	**2020**
Overdue less than 30 days	41	13
Overdue from 30 to 90 days	16	15
Overdue more than 90 days	33	20
Neither impaired nor overdue at the reporting date	828	836
Total gross carrying amount	918	884
Provision for bad debts as of December 31	25	21
Net carrying amount	893	863

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 0.1% of Group annual revenue in case of a one-percentage-point parallel shift in interest rates across the interest-rate curve.
All things being equal, an increase in the interest rate of one percentage-point compared to the interest-rate level on the balance sheet date, would not have any material impact on the profit for the year, while equity would be impacted by a gain of EUR 45m, mainly related to USD interest rate hedge.
A significant part of the financing of the Eaton Hydraulic acquisition is expected to be structured as synthetic USD financing and end of 2020 a part of the interest rate exposure have been fixed for the expected duration via interest-rate swaps.

Note 15 Financial risks and instruments (continued)

EURm

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 0.4bn, in terms of accessible cash, and non-terminable credit facilities with an average maturity profile of at least 3 years.

At the end of 2020, Danfoss' credit rating from Standard and Poor's was "BBB with a negative outlook" and the liquidity reserve equaled EUR 2.1bn (2019: 1.1bn). In addition to this, Danfoss had cash and 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 above 2 years at the end of 2020. The Danfoss Group's loan agreements contain no financial covenants.

The major part of the Group's cash, and cash equivalents, of EUR 611m (2019: 110m) is placed on short-term deposits and short-term flex bonds (Danish) with a maturity on April 1, 2021.
A significant part of the Group's cash equivalents is expected to be used in the Eaton Hydraulic acquisition.

THE GROUP'S DEBT CATEGORIES AND MATURITIES

	2019					2020				
			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	906	941	39	650	252	883	906	30	626	250
Mortgage debt	69	74		1	73	69	74		1	73
Lease liabilities	194	219	55	124	40	219	247	56	139	52
Trade payables	820	820	820			774	774	774		
Debt to associates and joint ventures	3	3	3			4	4	4		
Derivative financial liabilities	3	3	3			62	62	61		1
	1,995	2,060	920	775	365	2,011	2,067	925	766	376

*) Maturity is evenly spread over the period.
Further information on lease is provided in Note 24 Leases.

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 (2019: 45m) of trade payables that are part of such agreements.

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2019	2020
Non-current liabilities	1,093	1,104
Current liabilities	902	907
	1,995	2,011

Note 15 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS BY CATEGORY

	2019		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS:				
Other investments	3	3	4	4
Financial assets measured at fair value via the income statement	3	3	4	4
Trade receivables	893	893	863	863
Other receivables	104	104	106	106
Cash and cash equivalents	110	110	611	611
Loans, receivables, cash and cash equivalents measured at amortized cost	1,107	1,107	1,580	1,580
FINANCIAL LIABILITIES:				
Contingent consideration measured at fair value via the income statement	51	51	48	48
Interest-bearing debt	1,169	1,197	1,171	1,193
Trade payables and other debt	1,385	1,385	1,417	1,417
Financial liabilities measured at amortized cost	2,554	2,582	2,588	2,610
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	1	1	4	4
Derivative financial instruments for the hedging of future cash flows	2	2	58	58
Financial liabilites used as hedging instruments	3	3	62	62

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap curves and exchange rates. The market value of the interest-bearing debt is recognized as the present value of expected future instalment 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 remain unchanged compared to 2019.

Note 15 Financial risks and instruments (continued)

EURm

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR THE GROUP

	2019				2020			
	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	Total	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	Total
FINANCIAL ASSETS:								
Other investments			3	3			4	4
Total financial assets			3	3			4	4
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		1		1		4		4
Derivative financial instruments for the hedging of future cash flows		2		2		58		58
Contingent consideration			51	51			48	48
Interest-bearing debt		1,197		1,197		1,193		1,193
Total financial liabilities		1,200	51	1,251		1,255	48	1,303

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2019	2020
Carrying amount as of January 1, assets/liabilities (-)	-50	-48
Disposals/Reversals	2	2
Purchase		2
Carrying amount as of December 31, assets/liabilities (-)	-48	-44

Fair value of the majority of the financial instruments is determined using discounted cash-flow analysis.

Note 15 Financial risks and instruments (continued)

EURm

DERIVATIVES AS OF DECEMBER 31 FOR THE GROUP

	2019						2020					
	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
USD	-99	-2	-1	-1			857	-59	-2	-58		
EUR	-232	-1		-1			-27					
Other currencies	-117						144	-1	-2	2		
Forward exchange contracts		-3	-1	-2				-60	-4	-56		
Interest swaps							877	-1				-1
Other derivatives								-1	-1			
Derivatives end of year		-3	-1	-2				-62	-5	-56		-1

At the end of 2020, unrealized gain/loss(-) on derivatives on hedging of foreign currency risk recognized in equity amounted to EUR -57m (2019: -2m). The main reason for the 2020 impact is the hedging of part of the expected acquisition price of Eaton Hydraulics.

The interest-rate swap is related to the expected financing of the Eaton Hydraulic acquisition. The maturity of the swaps is from 5 to 7 years. The swap sets a fixed USD market interest rate at levels seen during the last half of December 2020.

For the open foreign exchange contracts, used for USD cash-flow hedges, at the end of 2020, the weighted average hedge rate for USD/DKK is 6.4793 (2019: 6.5276).

Note 16 Corporation tax

EURm

	2019	2020
Corporation tax payable/receivable (-) as of January 1	26	38
Foreign exchange adjustment in foreign companies		-1
Paid during the year	-140	-169
Adjustments concerning previous years	-12	-1
Current tax expenses in income statement	163	175
Current tax expenses in other comprehensive income	1	-4
Corporation tax payable/receivable (-) as of December 31	38	38
The above corporation tax is recorded as follows:		
Assets	30	23
Liabilities	68	61
	38	38

Note 17 Other debt

EURm

	2019	2020
Accrued salaries and wages	312	319
Accrued expenses	197	222
Other debt	509	541

Note 18 Adjustment for non-cash transactions

EURm

	2019	2020
Depreciation/amortization and impairment	328	335
Gain(-)/loss on disposal of tangible assets and business activities	-1	4
Gain(-)/loss from step-acquisitions	-9	
Share of profit from associates and joint ventures after tax	4	-6
Financial income	-4	-2
Financial expenses	37	50
Other	-21	-9
Adjustment for non-cash transactions	334	372

Depreciation/amortization and impairment includes depreciation on leased right-of-use assets. Further information on depreciation charge and lease payment is provided in Note 8 Property, plant and equipment and Note 22. 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.

Note 19 Change in working capital

EURm

	2019	2020
Change in inventories	30	-7
Change in receivables	14	-13
Change in trade payables and other debt	-87	72
Change in working capital	-43	52

Note 20 Acquisition and sale of subsidiaries and activities

EURm

Company/activity:		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid
							2019
Artemis Intelligent Power Ltd. (AIP)	Acquisition	UK	February	75%	3	53	**
Leanheat Oy	Acquisition	Finland	May	100%	2	50	**
Hydraulik Nord Fluidtechnik GmbH & Co. KG	Acquisition	Germany	April	100%	21	170	**
UQM Technologies Inc.	Acquisition	US	August	100%	13	85	94

*) Net sales in the financial year prior to the acquisition or sale.
** According to non-disclosure obligations, purchase

2020 acquisitions and disposals:

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

2019 acquisitions and disposals:
The largest acquisition in 2019 was the purchase of UQM Technologies Inc., which was acquired on July 31. UQM is a developer and manufacturer of power-dense, high-efficiency electric motors, generators, power electronic controllers and fuel-cell compressors for the commercial truck, bus, automotive, marine and industrial markets. Its sales activities are mainly in US and its production and R&D centers are located in Colorado, US. UQM has been aquired into the Power Solutions segment. Likewise in the Power Solutions segment, Danfoss acquired 75% of Artemis Intelligent Power, a Scottish R&D and engineering company, as well as German-based Hydraulic Nord Fluidtechnik, a supplier of hydraulic steering. In 2019, Danfoss also acquired the remaining shares of Leanheat Oy, a Finnish system-provider of turnkey IoT solutions, upgrading and building HVAC systems for the digital age. Leanheat is a separate business within the Climate Solutions segment. For accounting purposes, the acquisition is treated as a step-acquisition, which means that a gain of EUR 9m is recorded in other operating income.
The net sales included in the consolidated income statement of the acquired companies in 2019 is less than EUR 25m and impact on profit before tax is around EUR -10m, which includes Purchase Price Allocation amortizations.

In the preliminary Purchase Price Allocation, a total goodwill of EUR 103m was calculated. Goodwill arising from the acquisitions is attributable to the value of staff, know-how and synergies expected from combining the operations of the Danfoss Group and the acquired businesses. A part of the goodwill recognized is expected to be deductible for income-tax purposes. The final calculation will take place within 12 months from the acquisition date, but no material changes in the allocation of the purchase prices are expected.
Revaluation done for previous year, related to Purchase Price Allocation, is included in the statement below.

Note 20 Acquisition and sale of subsidiaries and activities (continued)

EURm

The following table summarizes the consideration paid/received for acquired/sold companies, and the fair value of assets and liabilities at the closing date.

	2019 Acquisitions	2020 Acquisitions	2019 Disposals	2020 Disposals
Intangible assets, except goodwill	-58			
Property, plant and equipment	-10			
Other non-current assets, including deferred tax assets	-2	-2		
Inventories	-8			
Receivables *)	-11			
Cash and cash equivalents	-7			
Interest-bearing debts	14			
Provisions, including deferred tax liabilities	8			
Trade and other payables	13			
Net assets acquired	-61	-2		
Goodwill/profit on disposal	-103	2		
Net assets, including goodwill(-)/profit on disposal	-164			
Cash and cash equivalents	7			
Consideration, net of cash	-157			
Change in short-term payables/receivables/provisions	1			
Previously acquired shares (associated)	5			
Adjustment related to step-acquisition	9			
Minority interests	2			
Net cash paid(-)/received	-140			

*) receivables in acquisitions includes provision for bad debt of EUR 0m (2019: 0.2m)

Note 21 Acquisition / Sale of other investments

EURm

	2019	2020
Sale of shares and other securities		5
Purchase of shares and other securities		-1
Increase/decrease in lending	37	-15
	37	-11

Note 22 Change in liabilities arising from financing activities

EURm

	Short-term borrowings	Long-term borrowings	TOTAL
Carrying amount as of January 1, 2019	56	1,007	1,063
Adoption of IFRS 16	52	90	142
Restated balance as of Janaury 1, 2019	108	1,097	1,205
Cash flows:			
Cash repayment	-423	-604	-1,027
Lease payments	-59		-59
Cash proceeds	383	601	984
Non-cash transactions:			
Acquisitions of subsidiaries	10	4	14
Acquisitions and disposal of lease liabilities	28	25	53
Reclassification	30	-30	
Other	-1		-1
Carrying amount as of December 31, 2019	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

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 2020 mainly consists of foreign exchange adjustments and short-term and long-term borrowings, reclassification.

Further information on lease is provided in Note 24 Leases.

Note 23 Contingent liabilities, assets and security

EURm

SECURITY

	2019	2020
Carrying amount of land and buildings pledged as security for bank loans and mortgages	140	126
Leasing assets pledged as security for leasing commitments	184	208
Carrying amount of interest-bearing liabilities with security in assets	265	289

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

	2019	2020
Service contract commitment other than leases	85	72
Inventories	166	144
Property, plant and equipment	37	48
Purchase commitments	288	264

Note 24 Leases

EURm

LESSEE

Lease liabilities are presented in borrowings of the Statement of Financial Position as follows:	2019	2020
Current	48	49
Non-current	146	170

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 8 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 weather 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 (2019: 8m).

At December 31, 2020, the Group had committed to leases not yet commenced. The total future cash outflows for leases that had not yet commenced are EUR 57m (2019: 64m), which are mainly for buildings.

Total cash outflow for leases for the financial year ended December 31, 2020, was EUR 65m (2019: 66m).

The amount recognised as profit or loss for the reporting period to reflect changes in lease payments arising from rent concessions to which the Group has applied the practical expedient for COVID-19-related rent concessions, is below EUR 1m.

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 22 Change in liabilities arising from financing activities, Note 5 Financial expenses, Note 8 Property, plant and equipment and Note 15 Financial risks and instruments.

Note 25 Related parties

EURm

Danfoss A/S' related parties comprise the Bitten & Mads Clausen's Foundation and other shareholders with significant ownership interests, cf. Note 11 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 48.08% of the shares in Danfoss A/S and controls 86.14% 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 (2019: 3.3m).
In the financial year, the Bitten & Mads Clausen's Foundation purchased shares in Danfoss A/S at a value of EUR 70m from to the company (2019: -58m).
The Bitten & Mads Clausen's Foundation has agreed to utilize its first right to buy back the Danfoss A/S shares that relates to employee share programs, when these shares will be offered for sale. The agreement effectively transfers the liability from Danfoss A/S to the Bitten & Mads Clausen's Foundation. End of December 2020, these shares constitute less than 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, except for the following:

The Group has a rental agreement for a property in Italy with Chairman of the Board Jørgen M. Clausen. The rental agreement expired at the end of 2020. The rent payment amounted to EUR 0.3m in 2020 (2019: 0.3m).
Besides that, 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 (2019: 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 2 Expenses and other operating income, section A. Personnel expenses.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2019	**2020**
Sales of goods and services	40	40
Purchases of goods and services	16	16

Transactions besides the above transactions with joint ventures and associates are described in Note 3 Investments, Note 4 Financial income, Note 5 Financial expenses, and Note 15 Financial risks and instruments.

Note 26 Events after the balance sheet date

Subsequent to December 31, 2020, on January 14, 2021, Danfoss announced the acquisition of the remaining 25% ownership share in Artemis Intelligent Power Ltd (AIP). AIP is the R&D and engineering company based in Edinburgh, Scotland specializing in hydraulic system development.

On January 27, 2021, Danfoss announced the preparation of a divestment to meet regulatory requirements concerning fair competitive levels in the market. Danfoss is required to create and and divest the stand-alone business unit, White Drive Motors & Steering. The new business unit will include operations and products at three Danfoss locations in Hopkinsville, Kentucky, US; Wroclaw, Poland; and Parchim, Germany; in addition to three product lines from Eaton Hydraulics. Altogether, this includes approximately 800 employees. The divestment is a pre-requisite to close the acquisition of Eaton Hydraulics.

Note 27 Basis for preparation and accounting policies

Danfoss A/S is a company domiciled in Denmark. The Annual Report for the period January 1 - December 31, 2020, 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 further requirements in the Danish Financial Statements Act for Class D companies.

The Annual Report is presented in EUR, rounded to 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 2020. None of those standards and interpretations have material effect on recognition and measurement in 2020, nor are they expected to have a material effect on Danfoss A/S in the future.

New financial reporting regulations
- Amendment to IFRS 16 COVID-19-Related Rent Concessions

The Group has early adopted COVID-19-Related Rent Concessions – Amendment to IFRS 16 issued on May 28, 2020. The amendment introduces an optional practical expedient for leases in which the Group is a lessee – i.e. for leases to which the Group applies the practical expedient, the Group is not required to assess whether eligible rent concessions that are a direct consequence of the COVID-19 coronavirus pandemic are lease modifications. The amendment has no impact on retained earnings at January 1, 2020.

Other standards and amendments that are effective for 2020 are not relevant to the Group.

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 2020 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 IAS 1 Classification of Liabilities as Current or Non-current
- Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to IAS 37 Onerous contracts - Cost of Fulfilling a Contract
- Amendments to IFRS 3 Reference to Conceptual Framework
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2

Accounting policies
The 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, intragroup 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".

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

Note 27 Basis for preparation and accounting policies (continued)

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.

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.

Income Statement

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 has 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 measured 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

Note 27 Basis for preparation and accounting policies (continued)

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.

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 cost
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.

Other operating income and expenses
Other operating income and expenses comprise items secondary to the principal activities of the companies, 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.

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.

Financial income and expenses
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.

Balance sheet

Intangible assets

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.

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".

Property, plant and equipment
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 separate 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

Note 27 Basis for preparation and accounting policies (continued)

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

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 non-current 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. 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.

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 made. 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 or amortization, had the asset not been impaired. However, impairment of goodwill is never reversed.

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

Inventories
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.

Receivables
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.

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

Note 27 Basis for preparation and accounting policies (continued)

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.

Provisions
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.

Pension obligations and defined benefit healthcare plans
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 an 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.

Other long-term employee benefits
Similarly, 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.

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 is 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.

Corporation tax and deferred tax
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.

Income statement
The 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.

Note 27 Basis for preparation and accounting policies (continued)

Surcharges, premiums and refunds relating to tax payments are recognized in financial income and expenses.

Balance sheet
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. 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 measurement method.

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 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 crystallized as current tax.

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.

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, which 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.

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:

Local currency growth
Sales growth adjusted for exchange rate translation effects

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

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

EBITA	EURm 2018	EURm 2019	EURm 2020
Operating profit (EBIT)	648	695	625
Share of profit from associates and joint ventures	33	4	-6
Amortizations:			
Brand	3	3	3
Technology	43	46	47
Customer relations	28	30	19
Gains/losses related to acquisitions and divestments	-31	-7	35
EBITA	**724**	**771**	**723**

Note 27 Basis for preparation and accounting policies (continued)

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

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 pay-out ratio
Total dividends distributed to shareholders/net profit

Dividend ratio per share
Total 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 tables 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 2018	EURm 2019	EURm 2020
Cash flow from operating activities	673	789	800
Cash flow from investing activities	-227	-407	-242
Acquisition of subsidiaries	41	140	
Proceeds from sales of subsidiaries	-129		
Acquisition of other investments	4		
Proceeds from sale of other investments			-4
Lease payments	-3	-59	-61
Free operating cash flow after financial items and tax	**359**	**463**	**493**

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

Note 28 Critical accounting estimates

As a consequence of the accounting policies, determining the carrying amount of certain assets and liabilities requires estimates of how future events will affect the value of these assets and liabilities at the balance sheet date.

The volatility of the global economy and the financial markets has made it more difficult to forecast the development of some future key assumptions – such as liquidity risk, credit risk, interest level and capital management etc. Therefore, Danfoss provides additional information about items in the Consolidated Financial Statements the carrying amount of which is at risk of being adjusted considerably over the next few years. Estimates, which are significant for the preparation of the Financial Statements, include goodwill, investments in associates and joint ventures, assessment of depreciation, amortization and impairment of non-current assets, measurement of deferred tax assets and measurement of pension and healthcare obligations. 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. For the Group, the measurement of intangible assets could be materially affected by significant changes in estimates and assumptions on which the measurement is based.

Impact of COVID-19

Danfoss has actively monitored the COVID-19 development and the related risks during the year. Cost flexibility measures to safeguard profitability were implemented. Credit risk of customers, trade receivables and inventory development have been monitored.

Overall, COVID-19 has not impacted the critical accounting estimates and risks applied in the annual accounts.

Management will continue to monitor and assess the ongoing development and respond accordingly.

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. The impairment test of goodwill and the particularly sensitive parts of the test are described in detail in Note 7 Intangible assets.

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. The investments in associates and joint ventures are described in more detail in Note 3 Investments in **associates and joint ventures.**

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.

The amortization and depreciation periods used are described in the accounting policies in Note 27, and the value of non-current assets is disclosed in Note 7 Intangible assets and Note 8 Property, plant and equipment.

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. Please see Note 13 Deferred tax for unrecognized, deferred tax assets.

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, and Management believes that the provision 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. Corporation tax is disclosed in Note 16 Corporation tax.

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.

Defined-benefit plans and healthcare obligations

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. The assumptions used are disclosed in Note 14 Pension plans and healthcare obligations.

Note 29 Group companies

As of December 31, 2020
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
- BetterHome ApS– 33%
- 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
- Leanheat Oy
- Oy Danfoss Ab
- 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. – 75%
- Danfoss Limited
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions II Ltd.
- Danfoss Scotland Limited
- Senstronics Holding Ltd.– 50% (joint venture)
- Senstronics Limited
- Sondex (UK) Limited – in liquidation

Hungary
- Danfoss Kft.

Iceland
- Danfoss hf.

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

Poland
- Danfoss Poland Sp. z.o.o.
- Danfoss Power Solutions 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 Polska Sp. z.o.o.
- Sondex Sp. z.o.o.

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

Russia
- AO Ridan
- Danfoss LLC
- Danfoss Power Solutions LLC

Serbia
- Danfoss d.o.o.

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

Slovenia
- Danfoss Trata d.o.o.

Note 29 Group companies (continued)

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

Sweden
- Danfoss AB
- Danfoss Power Solutions AB
- EP Technology AB

Switzerland
- Danfoss AG

Ukraine
- Danfoss T.o.v.

AFRICA – MIDDLE EAST

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

Turkey
- DAF Enerji Sanayi Ve Ticaret Anonim Sirketi
- Danfoss Otomasyon ve Urunleri Tic Ltd.

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

NORTH AMERICA

Canada
- Danfoss Inc.

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

LATIN AMERICA

Argentina
- Danfoss S.A.

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

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) Fire Safety Co., Ltd.
- Danfoss Industries Limited
- 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 (Jining) Co., Ltd.
- Danfoss Power Solutions (Nanjing) Co., Ltd.
- Danfoss Power Solutions (Zhejiang) Co., Ltd.
- Danfoss Power Solutions Trading (Shanghai) Co., Ltd.
- Danfoss Shanghai Hydrostatic Transmission Co. Ltd.–60%
- Danfoss (Shanghai) Investment Co., Ltd.
- Sondex Plate Heat Exchanger (Ningbo) Co., Ltd.
- Sondex Plate Heat Exchanger (Taicang) Co. Ltd.
- UQM Technologies Asia Ltd.
- UQM Technologies (Shanghai) Co., Ltd.
- Vacon (China) Drives Co. Ltd.
- Visedo (Asia) Ltd.
- Zheijang Holip Electronic Technology Co. Ltd

India
- Danfoss Fluid Power Pvt. Ltd.
- Danfoss Industries Pvt. Ltd.
- Danfoss Power Solutions India Pvt. Ltd.
- Danfoss Technologies Pvt. Ltd.
- Sondex Heat Exchangers India Pvt. Ltd.

Indonesia
- PT Danfoss Indonesia
- PT Sondex Indonesia

Iran
- Danfoss Pars Private Joint Stock Company - in liquidation

Japan
- Daikin-Sauer-Danfoss Ltd. - 45%
- Danfoss Power Solutions Ltd.

Malaysia
- Danfoss Malaysia Sdn. Bhd.
- Danfoss Power Solutions II SDN. Bhd.
- Sondex Heat Exchangers Malaysia Sdn. Bhd.

Philippines
- Danfoss Philippines, Inc.

Singapore
- Danfoss Power Solutions Pte. Ltd.
- Danfoss Power Solutions II Pte. Ltd.
- Danfoss Singapore 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

Check into **sustainability**

The climate-friendly Alsik hotel, situated close to the Danfoss headquarter, is today 76% CO_2-neutral. A main contributor is the Danfoss Turbocor® oil-free chillers.

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 the Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. Danfoss A/S had 2,752 employees at the end of 2020.

The profit before other operating income and expenses was EUR 101m against EUR 78m in 2019. The Company's operating profit was EUR 86m against EUR 68m the previous year.

Financial income and expenses decreased from a net expense of EUR 15m against a net income of EUR 93m in 2019, mainly due to a decrease in received dividends, impact of foreign-exchange contracts and increased impairment of subsidiaries.

The profit after tax in 2020 was EUR 53m against EUR 149m the previous year.

Equity was EUR 3,030m at the end of 2020 against EUR 2,896m at the end of 2019. The increase was mainly attributable to recognition of the profit for the year.

Danfoss A/S expects net sales for 2021 to be on a level with the 2020 figures, and the company expects to report a profit in 2021.

Income statement

January 1 to December 31

EURm	Note	2019	2020
Net sales	1	1,283	1,224
Cost of sales	1	-1,016	-952
GROSS PROFIT		**267**	**272**
Research and development costs	1	-35	-37
Selling and distribution costs	1	-94	-83
Administrative expenses	1	-60	-51
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**78**	**101**
Other operating income and expenses	1	-10	-15
OPERATING PROFIT (EBIT)		**68**	**86**
Financial income	2	148	127
Financial expenses	3	-55	-142
PROFIT BEFORE TAX		**161**	**71**
Tax on profit	4	-12	-18
NET PROFIT		**149**	**53**
Attributable to:			
Proposed dividends reserve		80	
Other reserves		69	53
		149	**53**

Statement of comprehensive income

January 1 to December 31

EURm

	2019	2020
NET PROFIT	**149**	**53**
OTHER COMPREHENSIVE INCOME		
Foreign exchange adjustments on translation of DKK into EUR	-1	13
Items that can be reclassified to profit or loss	**-1**	**13**
OTHER COMPREHENSIVE INCOME AFTER TAX	**-1**	**13**
TOTAL COMPREHENSIVE INCOME	**148**	**66**

Statement of financial position

As of December 31

EURm	Note	2019	2020
ASSETS			
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	5	**240**	**249**
PROPERTY, PLANT AND EQUIPMENT	6	**277**	**286**
Investments	7	3,281	3,840
OTHER NON-CURRENT ASSETS		**3,281**	**3,840**
TOTAL NON-CURRENT ASSETS		**3,798**	**4,375**
CURRENT ASSETS			
INVENTORIES		**104**	**100**
Trade receivables external		36	38
Trade receivables from subsidiaries		90	90
Short-term loans to subsidiaries		878	275
Receivable corporation tax	10		5
Other receivables		19	17
RECEIVABLES		**1,023**	**425**
CASH AND CASH EQUIVALENTS	9	**83**	**554**
TOTAL CURRENT ASSETS		**1,210**	**1,079**
TOTAL ASSETS		**5,008**	**5,454**

Statement of financial position

As of December 31

EURm **LIABILITIES AND SHAREHOLDERS' EQUITY**	Note	2019	2020
SHAREHOLDERS' EQUITY		**2,896**	**3,030**
LIABILITIES			
Provisions	9	46	41
Deferred tax liabilities	8	38	37
Pension and healthcare benefit plan obligations		2	2
Borrowings	9	959	946
Borrowings from subsidiaries			102
Other non-current debt		21	39
NON-CURRENT LIABILITIES		**1,066**	**1,167**
Provisions		9	23
Borrowings	9	16	16
Trade payables		163	153
Trade payables to subsidiaries		41	13
Borrowings from subsidiaries		709	880
Debt to associates and joint ventures		3	4
Corporation tax	10	2	
Derivative financial instruments (negative fair value)	9	2	60
Other debt		101	108
CURRENT LIABILITIES		**1,046**	**1,257**
TOTAL LIABILITIES		**2,112**	**2,424**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,008**	**5,454**

Statement of cash flows

January 1 to December 31

EURm	Note	2019	2020
Profit before tax		161	71
Adjustments for non-cash transactions	11	-49	101
Change in working capital		18	-7
Interest received		18	26
Interest paid		-13	-21
Dividends received		124	92
Paid tax	10	-13	-26
CASH FLOW FROM OPERATING ACTIVITIES		**246**	**236**
Acquisition of intangible assets		-42	-37
Acquisition of property, plant and equipment		-43	-37
Acquisition of subsidiaries		-35	-34
Proceeds from disposal of subsidiaries			2
Cash repayment of (-)/cash proceeds from loans to subsidiaries		-13	26
CASH FLOW FROM INVESTING ACTIVITIES		**-133**	**-80**
Cash repayment of interest-bearing debt	12	-985	-24
Cash proceeds from interest-bearing debt	12	974	
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		94	270
Purchase of treasury shares		-60	-2
Sale of treasury shares			70
Dividends paid to shareholders in the Parent Company		-78	
CASH FLOW FROM FINANCING ACTIVITIES		**-55**	**314**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**58**	**470**
Cash and cash equivalents as of January 1		25	83
Foreign exchange adjustment of cash and cash equivalents			1
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**83**	**554**

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, 2019	**134**	**10**		-316	93	2,885	**2,662**	**80**	**2,886**
Net profit						69	**69**	**80**	**149**
Software-development costs					37	-37			
Currency-translation adjustments						-1	**-1**		**-1**
Total other comprehensive income						-1	**-1**		**-1**
Total comprehensive income for the period					37	31	**68**	**80**	**148**
Dividends to shareholders						2	**2**	**-80**	**-78**
Purchase of treasury shares				-60			**-60**		**-60**
Total transactions with owners				-60		2	**-58**	**-80**	**-138**
BALANCE AS OF DECEMBER 31, 2019	**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 of 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**

For further information on Equity and Share capital, see Statement of changes in equity and Note 11 Share capital, in Group section.

Notes

Note 1 Net Sales, expenses and other operating income

EURm

A. NET SALES

	2019	2020
Sale of goods	1,046	1,047
Sale of services to Group members	237	177
	1,283	1,224

Sales of services to Group members mainly includes services sold in relation to Group functions.

B. PERSONNEL EXPENSES

	2019	2020
Salaries and wages	256	238
Severance payments	1	9
Social security	2	8
Pension cost - defined contribution plans	21	20
	280	275
Average number of employees	2,863	2,810
Total number of employees as of end of the year	2,869	2,752

	2019	2020
Remuneration to Group Executive Team and Board of Directors:		
Salaries	4	4
Pension costs	1	1
Bonuses	8	11
Group Executive Team	13	16
Board of Director's fee	1	1
Total	14	17

Bonuses are influenced by results of 2020 as well as results of prior years.
Total remuneration for registered members of Executive Management amounts to EUR 12m (2019: 10m).

Note 1 Net Sales, expenses and other operating income

EURm

C. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2019	2020
Classification by nature:		
Amortization of intangible assets	23	29
Depreciation of property, plant and equipment	37	39
Depreciation/amortization and impairment losses	60	68
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	21	27
Selling and distribution costs	2	2
Other operating expenses	23	29

D. OTHER OPERATING INCOME AND EXPENSES

	2019	2020
Other gains related to acquisitions/disposals		5
Other	1	4
Other operating income	1	9
Loss on disp. of property, plant and equipment		-1
Restructuring costs	-1	-9
Other	-10	-14
Other operating expenses	-11	-24
Other operating income and expenses	-10	-15

Danfoss A/S has received government grants of EUR 13m (2019: 0m) 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.

E. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2019	2020
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

Fees for services other than the statutory audit of the Financial Statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PricewaterhouseCoopers Denmark) amounted to EUR 0.9m (2019: 0.9m). Services other than the statutory audit of the Financial Statements comprise services relating to transfer pricing, tax audits, due diligence and agreed-upon procedures, as well as accounting advice.

Note 2 Financial income

EURm

	2019	2020
Dividend from subsidiaries and associates/joint ventures	124	92
Interest from subsidiaries	22	32
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	1	1
Interest from banks, etc.	1	2
Financial income	148	127
Interest on financial assets measured at amortized cost	23	34

Note 3 Financial expenses

EURm

	2019	2020
Interest to banks, etc.	-12	-22
Foreign exchange losses, net	-7	-45
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-17	-65
Interest to subsidiaries	-6	-6
Impairment/loss on loans	-12	-3
Interest expense for leasing arrangements	-1	-1
Financial expenses	-55	-142
Interest on financial liabilities measured at amortized cost	-18	-28

The impact of derivatives/foreign exchange contracts of EUR -65m (2019: 4m) is included in Foreign exchange losses, net.

Further information on leases is provided in Note 14 Leases.

Note 4 Tax on profit

EURm

	2019	2020
Current tax expense	-15	-17
Change in deferred tax	-2	-1
Adjustments concerning previous years	5	
	-12	-18

Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Tax-exempt income/non-deductible expenses	4.1%	29.0%
Dividends exempt of tax	-16.8%	-28.7%
Other taxes	1.6%	2.0%
Adjustments concerning previous years	-3.1%	0.4%
Effective tax rate	7.8%	24.7%

	2019	2020
Tax on profit (income statement)	-12	-18
Total taxes	-12	-18

Note 5 Intangible assets

EURm

	Goodwill	Internally developed software	Patents, trademarks and other rights	Development costs	Total Other	TOTAL
Cost as of January 1, 2019	64	186	67	11	264	328
Addition through merger with subsidiaries	3					3
Transfers		35	-35			
Additions		42			42	42
Disposals		-2			-2	-2
Cost as of December 31, 2019	67	261	32	11	304	371
Amortization and impairment losses as of January 1, 2019		53	46	11	110	110
Transfers		22	-22			
Amortization		21	2		23	23
Disposals		-2			-2	-2
Amortization and impairment losses as of December 31, 2019		94	26	11	131	131
Carrying amount as of December 31, 2019	67	167	6		173	240
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

Of the "internally developed software" approximately 60% relates to the One ERP Program described in the Management's Review for Group, page 24.

IMPAIRMENT TESTS

Goodwill in Danfoss A/S of EUR 67m (2019: 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 2020, 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 7 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 2019.

Note 6 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2019	281	312	116	33	742
Accounting policy change	7		6		13
Transfers	4	7		-11	
Additions	8	8	13	22	51
Disposals	-6	-8	-8		-22
Cost as of December 31, 2019	294	319	127	44	784
Depreciation and impairment losses as of January 1, 2019	179	269	43		491
Depreciation	8	13	16		37
Disposals	-6	-8	-7		-21
Depreciation and impairment losses as of December 31, 2019	181	274	52		507
Carrying amount as of December 31, 2019	113	45	75	44	277
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

Note 6 Property, plant and equipment (continued)

EURm

The right-of-use assets included in property, plant and equipment are presented below.

	Land and buildings	Equipment	**TOTAL**
Carrying amount related to right-of-use assets as of January 1, 2019		16	16
Accounting policy change	7	6	13
Additions		7	7
Depreciation	-1	-9	-10
Carrying amount related to right-of-use assets as of December 31, 2019	6	20	26
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

Further information on leases is provided in Note 14 Leases.

Note 7 Investments

EURm

	2019					2020				
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**TOTAL**	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**TOTAL**
Costs as of January 1	2,646	934	314	19	3,913	2,677	369	314	19	3,379
Foreign exchange adjustments, etc.	-2				-2	10		1		11
Additions	35				35	34	578		2	614
Disposals	-2	-565			-567	-11			-1	-12
Costs as of December 31	2,677	369	314	19	3,379	2,710	947	315	20	3,992
Adjustments as of January 1	-61		-5	-16	-82	-78		-4	-16	-98
Reversed impairment			1		1			1		1
Impairment for the year	-17				-17	-65				-65
Disposal						10				10
Adjustments as of December 31	-78		-4	-16	-98	-133		-3	-16	-152
Carrying amount as of December 31	2,599	369	310	3	3,281	2,577	947	312	4	3,840

Where indicators for impairment were present at the end of 2020, 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 2019.

Additions for the year to "Investments in subsidiaries" is mainly related to capital injection in Danfoss (Shanghai) Investment Co., Ltd.

Impairment losses for the year 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.

Additions for 2019 to "Investments in subsidiaries" is mainly related to the acquisition of Danfoss Scotland Limited.

Impairment losses for 2019 on "Investments in subsidiaries" of EUR 17m mainly relates to Sondex Holding A/S. The impairment was caused by a lower valuation of the entity due to large dividend payments in recent years.
Impairment losses/reversed impairment are reported as financial expenses/financial income.

Further information on subsidiaries, associates and joint ventures is provided in Note 2 Financial income, Note 3 Financial expenses, Note 9 Financial risks and instruments, and Note 15 Related parties.

Note 8 Deferred tax

EURm

CHANGES IN DEFERRED TAXES

	2019	**2020**
Deferred taxes as of January 1 (net) *)	-31	-38
Adjustments concerning previous years	-5	2
Deferred tax recognized in the income statement	-2	-1
Deferred taxes as of December 31 (net) *)	-38	-37

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2019	**2020**
	Deferred tax asset	Deferred tax asset
Property, plant and equipment and financial assets	12	10
Current assets		1
Liabilities	15	16
Set-off within the same legal entities and jurisdiction	-27	-27
Deferred tax assets	0	0
	Deferred tax liability	Deferred tax liability
Intangible assets	32	31
Property, plant and equipment and financial assets	13	13
Current assets	2	
Liabilities	13	15
Deferred tax regarding Danish joint taxation	5	5
	65	64
Set-off within the same legal entities and jurisdiction	-27	-27
Deferred tax liabilities	38	37

Of the deferred tax liability of EUR 37m (2019: 38m), EUR 5m (2019: 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 6m (2019: 5m). 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 9 Financial risks and instruments

EURm

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 15 Financial risks and instruments, to which reference is made.

DANFOSS A/S' DEBT CATEGORIES AND MATURITIES

					2019					**2020**
			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	882	917	18	648	251	869	893	17	626	250
Mortgage debt	69	74		1	73	69	74		1	73
Borrowings from subsidiaries	709	709	709			982	982	880	102	
Finance lease liabilities	24	25	11	14		24	25	10	15	
Trade payables	163	163	163			153	153	153		
Trade payables to subsidiaries	41	41	41			13	13	13		
Debt to associates and joint ventures	3	3	3			4	4	4		
Derivative financial liabilities	2					60				
	1,893	1,932	945	663	324	2,174	2,144	1,077	744	323

*) Maturity is evenly spread over the period.
Further information on leases is provided in Note 14 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.

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2019	**2020**
Non-current liabilities	959	1,048
Current liabilities	934	1,126
	1,893	2,174

Note 9 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS BY CATEGORY

	2019		2020	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS:				
Other investment	3	3	4	4
Financial assets measured at fair value in the income statement	3	3	4	4
Trade receivables	36	36	38	38
Trade receivables from subsidiaries	90	90	90	90
Short-term loans to subsidiaries	878	878	275	275
Other receivables	19	19	17	17
Cash and cash equivalents	83	83	554	554
Loans, receivables, cash and cash equivalents measured at amortized cost	1,106	1,106	974	974
FINANCIAL LIABILITIES:				
Contingent consideration measured at fair value via the income statement	37	37	34	34
Interest-bearing debt	975	1,002	962	984
Debt to subsidiaries	41	41	13	13
Borrowing from subsidiaries	709	709	982	982
Trade payables and other debt	288	288	304	304
Financial liabilities measured at amortized cost	2,013	2,040	2,261	2,283
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	2	2	60	60
Financial liabilities measured at fair value in the income statement	2	2	60	60

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 2019.

Note 9 Financial risks and instruments (continued)

EURm

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR DANFOSS A/S

	2019				2020			
	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	Total	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	Total
FINANCIAL ASSETS:								
Other investments			3	3			4	4
Total financial assets			3	3			4	4
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		2		2		60		60
Contingent consideration			37	37			34	34
Interest-bearing debt		1002		1,002		984		984
Total financial liabilities		1,004	37	1,041		1,044	34	1,078

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2019	2020
Carrying amount as of January 1, assets/liabilities (-)	-37	-34
Disposals/Reversals	3	4
Carrying amount as of December 31	-34	-30

Gain/loss (-) in the income statement is recognized under other operating income and expenses, and financial income and expenses.

Fair value of the majority of the the financial instruments is determined using discounted cash-flow analysis.

Note 9 Financial risks and instruments (continued)

EURm

DERIVATIVES AS OF DECEMBER 31 FOR DANFOSS A/S

	2019						2020					
	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
USD	-56	-2	-2				898	-59	-59			
EUR	-214	-1	-1				-27					
Other currencies	-117	1	1				144	-1	-1			
Forward exchange contracts		-2	-2					-60	-60			
Derivatives end of year		-2	-2					-60	-60			

Note 10 Corporation tax

EURm

	2019	2020
Corporation tax payable/receivable (-) as of January 1	10	2
Paid during the year	-13	-26
Adjustments concerning previous years	-10	2
Current tax expenses in income statement	15	17
Corporation tax payable/receivable (-) as of December 31	2	-5
The above corporation tax is recorded as follows:		
Assets		5
Liabilities	2	
	2	-5

Note 11 Adjustment for non-cash transactions

EURm

	2019	2020
Depreciation/amortization and impairment	60	68
Financial income	-148	-127
Financial expenses	55	142
Other, including provisions	-16	18
Adjustment for non-cash transactions	-49	101

Depreciation/amortization and impairment includes depreciation on leased right-of-use assets. Further information on depreciation charge and lease payments is provided in Note 6 Property, plant and equipment and Note 12 Change in liabilities arising from financing activities.

Note 12 Change in liabilities arising from financing activities

EURm

	Short-term borrowings	Long-term borrowings	TOTAL
Carrying amount as of January 1, 2019	11	951	962
Adoption of IFRS 16	6	8	14
Restated balance as of Janaury 1, 2019	17	959	976
Cash flows:			
Cash repayment	-386	-592	-978
Lease payments	-7		-7
Cash proceeds	373	601	974
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	-5	-2	-7
Reclassification	12	-12	
Other	12	5	17
Carrying amount as of December 31, 2019	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

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

Further information on leases is provided in Note 14 Leases.

Note 13 Contingent liabilities, assets and security

EURm

SECURITY

	2019	2020
Carrying amount of land and buildings pledged as security for bank loans and mortgages	118	111
Leasing assets pledged as security for leasing commitments	26	24
Carrying amount of interest-bearing liabilities with security in assets	93	93

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

	2019	2020
Service contract commitment other than leases	75	61
Inventories	48	32
Property, plant and equipment	5	27
Hereof commitments relating to succeeding year	87	88

Note 14 Leases

EURm

LESSEE

Lease liabilities are included as borrowings in the Statement of Financial Position as follows:	2019	2020
Current	9	9
Non-current	16	15

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 6. 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, 2020, was EUR 11m (2019: 14m).

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 3 Financial expenses, Note 6 Property, plant and equipment, Note 9 Financial risks and instruments and Note 12 Change in liabilities arising from financing activities

Note 15 Related parties

For more information about related parties, see Note 25 Related parties, in Group section.

EURm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2019	2020
Purchases of goods and services	19	19

Transactions besides the above transactions with joint ventures and associates are described in Note 2 Financial income, Note 3 Financial expenses, Note 7 Investments and Note 9 Financial risks and instruments.

TRANSACTIONS BETWEEN DANFOSS A/S AND THE SUBSIDIARIES

	2019	2020
Sales of goods and services	1,179	1,196
Purchases of goods and services	440	452

Transactions besides the above transactions between Danfoss A/S and subsidiaries are described in Note 2 Financial income, Note 3 Financial expenses, Note 7 Investments, and Note 9 Financial risks and instruments.

Note 16 Events after the balance sheet date

Subsequent to December 31, 2020, on January 27, 2021, Danfoss announced the preparation of a divestment to meet regulatory requirements concerning fair competitive levels in the market. For further information refer to Note 26 in the Group section.

Note 17 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, 2020, 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.

The Board of Directors and the Group Executive Team reviewed and approved the Annual Report 2020 on March 4, 2021, and it will be presented for approval at the Annual General Meeting to be held on March 26, 2021. The Annual General Meeting has the power to amend and reissue the Financial Statements.

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 27 in the Consolidated Financial Statements for the Danfoss Group is 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 made. 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.

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.

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 18 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 made. 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 7 Investments.

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Further information available
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