Annual Report 2022

Investing to build a better future

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Frontpage:
Data centers are big energy consumers. Cooling servers prevent overheating and downtime. Danfoss energy-efficient technology can reduce the amount of energy needed to cool the data centers and capture excess heat from the cooling system to heat nearby buildings.

→ Read more

In 2022, our largest production facility in Nordborg, Denmark, became carbon neutral. It is one of the key milestones on the way to decarbonizing our global operations by 2030.

→ Read more

We continue to make bold investments in our green growth strategy

Kim Fausing — President & CEO

Driven by the shift in energy systems from carbon-driven to renewable energy and the need for significantly higher energy productivity in machines and infrastructure, Danfoss continues its transformation. With bold investments, we continue to improve our offering of best-in-class technology and solutions to drive the green transition through energy efficiency, machine productivity, lower emissions, and electrification.

With Core & Clear 2025, our green growth strategy, and a highly engaged team, we are well on the way towards 2025. I am excited to highlight the following strategic steps in 2022:

- We launched our green growth strategy in April, including our new ESG ambition, where sustainability is at the heart of our business focusing on Decarbonization, Circularity, and Diversity & Inclusion.
- We continued to strengthen our three core segments and are on track with our integration of the transformational acquisitions. The new Power Solutions segment is building a leading position in

"Our green growth strategy is focused on long-term value creation. With bold investments, we continue to improve our offering of best-in-class technology and solutions to drive the green transition.

mobile and industrial hydraulics, as well as electrification in the on- and off-highway and marine markets. With Semikron Danfoss, we have taken another important step in establishing a leading position in power electronics and electrification.

- We announced the agreement to acquire the compressor manufacturer BOCK GmbH and are looking forward to welcoming the new team to Danfoss in 2023.

- We continued our bold investments in innovation, additional capacity, new digital and electric solutions as well as our One ERP platform. We are approaching 25% of sales via e-commerce and Electronic Data Interchange (EDI).

- We are taking critical steps towards promoting Diversity & Inclusion, as we are strong believers that diverse teams lead to more innovation and drive strong employee engagement.

Our green growth strategy is focused on long-term value creation, and we are investing in significant growth opportunities like data centers, the growing market for heat pumps, and other energy-efficient solutions for the energy transition, but also autonomous machines, electrification of cars, trucks, marine vessels, and mobile machinery as well as electrification related to Power-to-X/hydrogen and battery energy-storage systems – just to mention a few.

Despite the challenges we have faced throughout the year, the strong growth momentum continued across our three segments and regions.

- Our sales reached EUR 10.3bn, up 36% since 2021, and almost doubling since 2017. Organic growth was 15%.

- We continued to globalize our business, and sales are now distributed almost evenly across the Americas, Europe, and Asia. Growth was strong across all regions except China, which has been counter cyclical since the start of the pandemic.

- EBITA was up 26% from 2021, leading to an EBITA margin of 11.9% against 12.8% last year.

- By increasing R&D investments by 39% to EUR 457m (2021: 328m), corresponding to 4.5% of sales (2021: 4.4%), we again demonstrated our commitment to differentiating through best-in-class technology and solutions.

> "Our results are truly driven by our high-performing diverse teams around the world. My sincere thanks go to our close to 42,000 colleagues worldwide who made this possible.

- Furthermore, with record levels of investments in production capacity and in digital transformation, our target is to improve service to our customers.

We faced an unprecedented number of challenges in 2022, and this has impacted our customers. I am proud to see how our team worked tirelessly together with our customers and partners to handle such issues as supply chain disruptions, extraordinary rising inflation and costs, pandemic lockdowns, a cyberattack on Semikron Danfoss, and our exit from Russia.

We remain in contact with our Ukrainian colleagues every day as they continue to face an incredibly difficult time. It's always safety first, and we are doing everything we can to keep our team in Ukraine safe and to support however we can.

Our main priority is always the health and safety of our teams, and we are proud that Lost Time Injury Frequency (LTIF) ended at another record-low level of 1.6, demonstrating our safety-first focus.

We continue our journey towards becoming carbon neutral in our global operations by 2030. As a first step, we became carbon neutral at our headquarters campus in 2022, and Danfoss' own solutions have been instrumental in achieving significant energy savings.

I would like to sincerely thank our customers and partners for the close cooperation in this extraordinary year. I also want to thank all of my colleagues. The team is the foundation of everything we do – and essential for our continued achievements as we move towards 2025 and beyond.

Kim Fausing
President & CEO

Danfoss VLT drives regulate the amount of heat Danfoss Nordborg receives and delivers to the district heating network. Our advanced heat exchanger technology minimizes the loss of energy when transferring heat from local to public district heating network.

Danfoss at a glance

Danfoss in brief

Worldwide sales in more than

100

countries

Three business segments with leading positions

Danfoss
Power Solutions

Danfoss
Climate Solutions

Danfoss
Power Electronics and Drives

Leading technology partner for our customers who want to decarbonize through energy efficiency, machine productivity, low emissions, and electrification

41,928

employees worldwide. People are the foundation of our business

Well on the way towards carbon-neutral global operations by 2030

97

factories in more than 20 countries

1933

Long track record within innovation and engineering

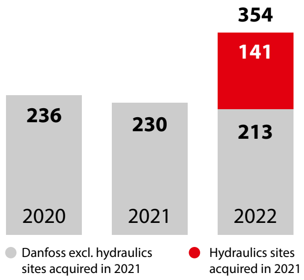
Danfoss in numbers

2022 was a very strong year. We continued our high investments in our green growth strategy, innovation, capacity, and digitalization. Our results are driven by our diverse teams across the world. The sales level exceeded expectations, and the EBITA margin reached 11.9% within range of guidance combined with a strong cash performance.

CO_2-neutral operations

Total scope 1 and 2 GHG emissions

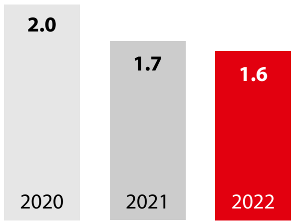
-7%*



LTIF record low

(number of incidents per million hours worked)

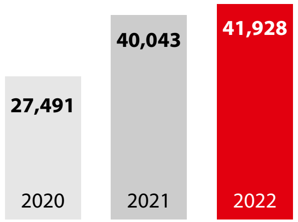
-6%



Employees at year-end

(headcount)

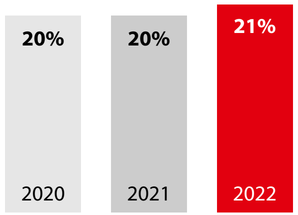
+1,885



Gender split

women in leadership positions

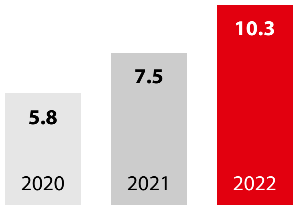
+1%-point



Sales

EURbn

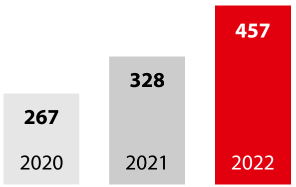
+36%
sales growth



Innovation

EURm

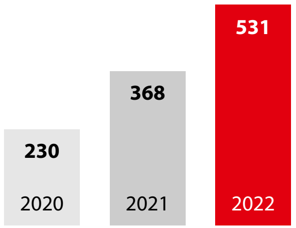
+39%
R&D increase



Investments excl. M&A

EURm

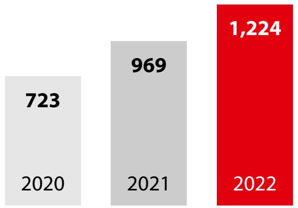
+44%



EBITA

EURm

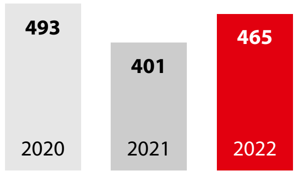
+26%
earnings increase



Cash flow

EURm

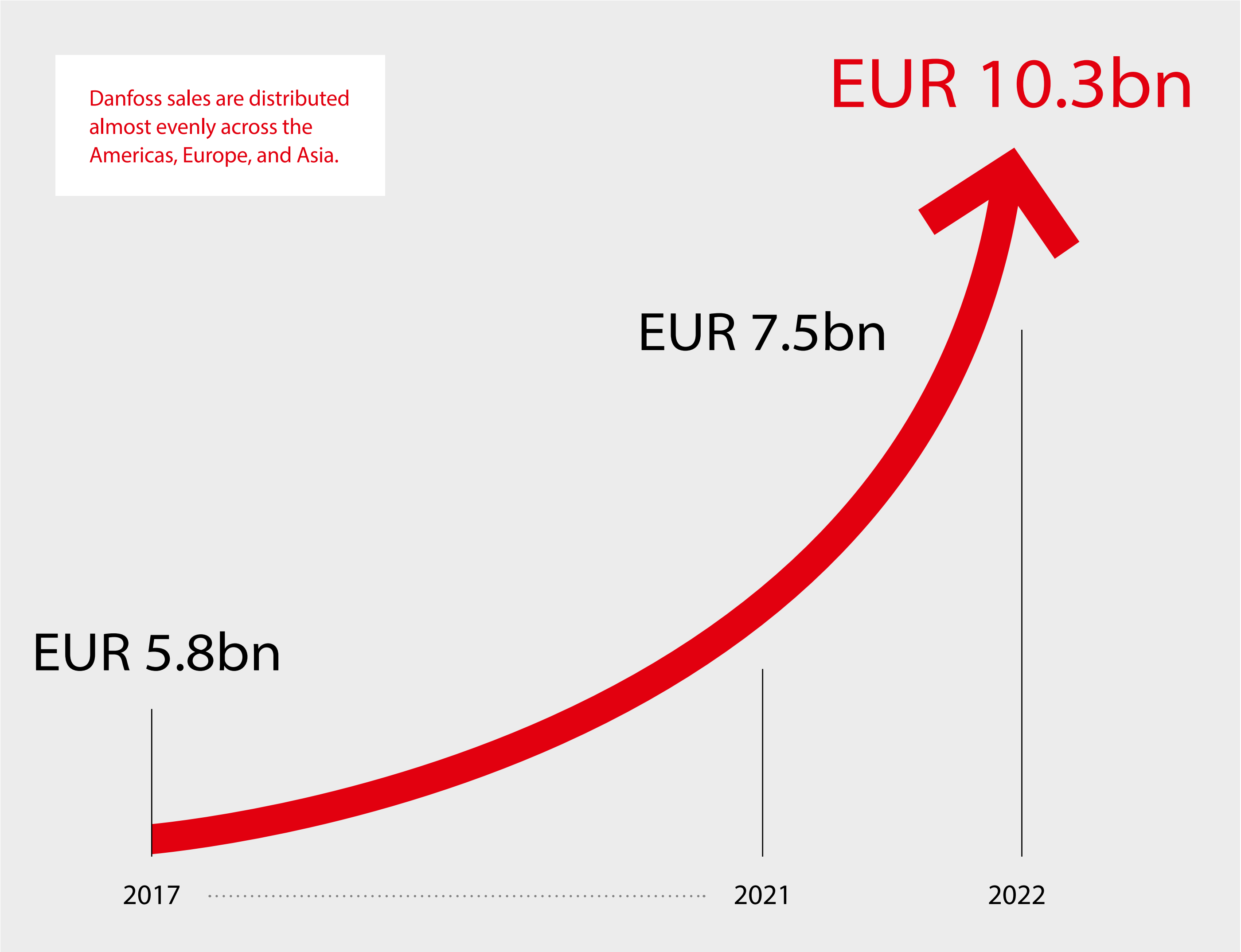
+16%
cash generation



* excluding hydraulics sites acquired in 2021

Transformational growth

Danfoss grew by 76% over the past five years, almost doubling. We continue to decouple environmental impact from business growth by delivering 7% decrease in scope 1 and 2 emissions while growing 15% organically in 2022. The integration of the hydraulics business acquired in 2021 continued as planned. We established the new combined Semikron Danfoss, building a global technology leader in power modules and assemblies for power electronics.



Our people

Great teamwork and strong engagement are our top criteria for success. Our people and high performing, diverse teams create results and are the foundation of Danfoss, helping our business strategy come to life.
We are building a better future together.

Danfoss invests in early talent recruitment and development with opportunities for students, recent graduates, and new professionals.

Ilonka Nussbaumer
Executive Vice President & Head of Human Resources

"Our people are the foundation of our business – the strong pillar on which we build our strategy. Our aim is to have high performing, diverse teams in place who feel valued and respected, all across the globe. We have made significant progress on our people agenda, but there is still a lot to do. Diversity & Inclusion is now one of the three step-change initiatives in our ESG ambition. Our 40 new Employee Resource Groups across Danfoss are just one example of many platforms that foster an inclusive environment.

We continue to foster high engagement by addressing:

Inclusive workplace

We offer an inspiring and inclusive workplace that represents the diversity of the communities in which we live and work, and that allows people to feel valued and respected.

Engaged employees

We unleash the full potential of our people by enabling them to build purposeful careers through impactful development opportunities and flexible ways of working that allow people to be at their best.

High-performing, diverse teams

Great teamwork and high engagement are our top criteria for success. Our leaders grow high-performing, diverse teams by living our Danfoss Behaviors.

Key capabilities

Our people are equipped to drive the green transition because they have the skills, knowledge, and agility to respond to current and future opportunities and challenges.

Five global megatrends

Danfoss is more relevant than ever. We engineer solutions that increase machine productivity, reduce emissions, lower energy consumption, and enable electrification. Our solutions meet many of the challenges from climate change, urbanization, and food and water supply scarcity, while capturing opportunities in digitalization and electrification.

Astrid Mozes
President, Regions

"Danfoss continues to transform by taking strategic steps to accelerate growth. Initiatives that bring us closer to customers, and increase customer satisfaction and loyalty, are key for our competitive advantage and our growth ambitions. It is in our DNA to have a positive impact on the communities in which we operate, addressing key societal imperatives like energy efficiency, energy availability, food security, and water scarcity.

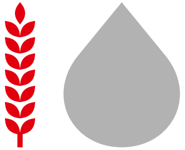
Climate change

We need to keep global temperature increases below 1.5 degrees by tackling the most emission-heavy sectors (transport, industry, buildings) with our customers. Danfoss technologies meet the increasing demand for sustainability, energy efficiency, and a greener energy mix.

Urbanization

Cities currently consume 80% of energy resources, and with continued urbanization, this will increase. Danfoss solutions for urban growth areas like data centers, industry, commercial, and residential buildings ensure we expand in the most efficient way.

Food and water supply

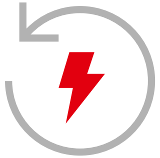


We are seeing food and water scarcity due to climate changes. Currently one third of all food is wasted, and by 2050 the world will need 60% more food. By making agriculture more efficient, we can produce more food using less resources. And by optimizing the cold chain, we can minimize food waste all the way from farm to fork.

Digitalization

The global digital adoption increased seven times during the pandemic, increasing customer expectations. Danfoss delivers data, analytics, and connectivity that can drive rapid change in our energy systems as well as machine productivity, enabling our customers to better monitor and optimize.

Electrification



Thanks to electromobility and decarbonization, fully sustainable transport is now a realistic goal. Danfoss delivers electrification solutions not only to cars and trucks, but also maritime vessels and heavy machinery that can go hybrid or fully electric, as well as energy systems.

Our green growth strategy

In 2022, we revised our strategy and launched Core & Clear 2025 to continue the transformation of Danfoss. To become the preferred partner in helping our customers decarbonize, we have set priorities within ESG. We continue our investments to strengthen our core businesses, building a global number 1 or 2 position in the industries in which they operate. We aim to be the partner of choice for our customers via our leading application know-how, sustainable innovation that differentiates by technology, adding low-carbon products and circularity, and through our leading positions.

→ Go to **Our customer promise**

Core & Clear

Our purpose

We engineer tomorrow to build a better future

Our strategy

Leading portfolio

Customers & Growth

Innovative Solutions

Lean & Agile

Our foundation

High-performing diverse teams

→ Go to **Core & Clear 2025**

Danfoss ESG step-change initiatives

Decarbonization

Circularity

Diversity & Inclusion

→ Go to **Our ESG ambition**

Our purpose

Why we exist: we engineer tomorrow to build a better future.

Decarbonizing with our customers and long-term value creation.

We help our customers decarbonize through our products and solutions providing value in an intelligent and cost-efficient way.

We continue on our own decarbonization journey.

We are a foundation- and family-owned company, with focus on the longer view, courage, and sustainability. We target over-proportional growth through investment-driven value creation. Our profitable growth and strong free cash flow allow us to invest significantly in the future.

The greenest energy is the energy we don't use

To reach the goals of the Paris Agreement and to accelerate the green transition, faster action is needed. Current challenges, like energy security, energy prices, and the cost of living require immediate action to curb energy demand. Without action, energy demand will grow significantly, getting us off track when it comes to meeting global climate goals. Instead, according to the International Energy Association (IEA), a collective push for energy efficiency can deliver one-third of the total emissions reductions needed to reach net zero.[1]

[1] IEA (2022). The value of urgent action on energy efficiency, p. 7

We have the solutions

Danfoss solutions are ready today to help reduce, reuse, and re-source energy – that is, technologies for energy efficiency, sector integration, and electrification. They can provide most of the global reductions in carbon emissions needed to reach net zero – while curbing the growing demand for energy. Danfoss has the solutions to help our customers decarbonize, and examples of our work are found throughout this report.

Reduce

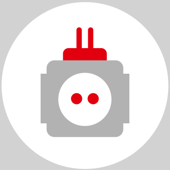
Energy efficiency could reduce CO_2 emissions by an additional 5 gigatons per year by 2030.

Reduce involves saving energy by installing energy-efficient solutions. Energy efficiency means using less energy to perform the same task – eliminating wasted energy.

Reuse

Sector coupling is key for the future. Only one-third of all energy is used. Two-thirds is wasted.

Reuse is about recycling the energy we already have, e.g., using excess heat from buildings, processes, and data centers. This involves connecting sectors in a smart way to convert and store energy, maximizing synergies.

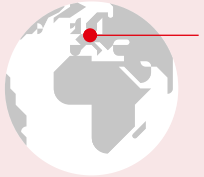


Re-source

Turning the energy green – electrification is an is an important lever, driving green transition.

Re-source means fully or partially switching from technologies that use fossil fuels to those that use electricity, enabling procurement of renewable energy.

Reduce



City area Linde Haven, Denmark

Case story

Zero-carbon-ready city area

230 billion square meters in new construction are expected in the next 40 years – adding an equivalent of Paris each week[1]. The new city area, Linde Haven, in Sønderborg, Denmark, has been built to meet the highest sustainability standards.

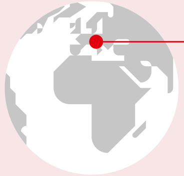
Danfoss' smart systems allow tenants to control lighting, heating, air-conditioning, and other energy use as efficiently as possible. The local district energy system supplies heating based mainly on CO_2-neutral sources, with Danfoss contributing the district heating substations.

Energy efficiency of buildings defines their operating temperatures, which are low at Linde Haven; thus district heating temperatures can be lowered, resulting in lower distribution heat losses. The low temperature of 57°C compared to typically 70°C in the network has the estimated potential to save 81 MWh a year – equal to a reduction in distribution heat loss of 31% compared to similar buildings operating at the typical temperatures.

New city areas like Linde Haven need to be built all over the world. The technology is available, so there's no reason to wait!

[1] UN Environment, GBA & IEA (2017). Global Status Report 2017, p. 2

Saving energy is possible all over the world



Barilla's Rubbiano plant, Italy

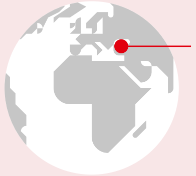
Case story

Danfoss makes pasta sauce "greener"

Electric motors claim about 50% of the world's electric energy usage[2]. A variable speed drive can cut up to 40% off an electric motor's energy consumption[3]. Imagine the savings and impact on sustainable manufacturing if the world maximized its use of drives.

Over 150 million jars of pasta sauce are produced each year at the Barilla Rubbiano plant in Italy. Danfoss VLT® drives power all conveyor belt movements, helping minimize energy spend in electric motors and provide maximum efficiency.

[2] IEA (2016). World Energy Outlook 2016, p. 298
[3] IEA (2016). World Energy Outlook 2016, p. 301
[4] Leadership in Energy and Environmental Design



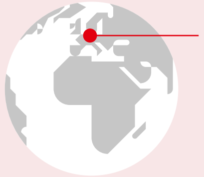
The worlds biggest airport in Istanbul, Turkey

Case story

Better efficiency in world's biggest airport

Istanbul Airport's main terminal hosts millions of visitors each year and promotes energy efficiency according to LEED certification[4]. The airport has around 14,000 control valves for heating and cooling applications that help minimize the airport's energy consumption. Operating with 100% capacity, the valves realize up to 50% annual savings in heating and cooling costs. Over 1,800 Danfoss VLT® HVAC drives and VLT® AQUA drives installed have up to 30% annual energy savings, reducing energy costs by EUR 130,000, with a payback time of 18 months. Imagine the energy savings if airports around the world were equipped with Danfoss' drives solutions!

Reuse



Case story

Turning supermarkets into heat suppliers

In 2018, heat accounted for 50% of global final energy consumption[1]. District energy systems, which distribute heat to end users via underground pipes, can enable a 100% green heat supply today – and offer a path for a complete decarbonization of the heat supply.

A Danfoss heat recovery solution helps a local supermarket, SuperBrugsen, in a small town in Southern Denmark, to capture waste heat from its CO_2 refrigeration system. Sounds counterintuitive? It isn't. Refrigeration and cooling counters generate excess heat – just like the back of your your fridge at home becomes warm on the outside when it is working.

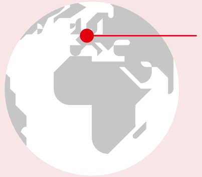
The local supermarket uses its excess heat to heat the store and produce domestic hot water.

Since 2019, 78% of the store's heat consumption has been covered by reused excess heat. And the supermarket has sold 133 MWh to the local district energy system to heat nearby homes and businesses[2].

Just imagine if more supermarkets turned into heat suppliers – green supermarkets reusing their excess heat are possible all over the world!

[1] IEA (2019). Renewables 2019: Heat
[2] Dansk Fjernvarme (2022). Varmeprisstatistik.

Sector integration is possible all over the world



Case story

Transforming energy users into green energy sources

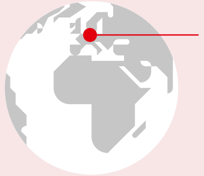
Data centers consume vast amounts of energy – energy to supply servers with power, as well as to cool down server rooms and remove the huge amounts of heat they generate. It is estimated that 10% of all electricity is used within the IT ecosystem.

Reducing the climate impact of digitalization is a high priority for us at Danfoss. In 2024, reused excess heat from Danfoss data centers will provide 25% of the overall heat supply for our 250,000 m² carbon-neutral headquarters.

How do we do it? Oil-free heat-pump systems transform the data center into a heat source. Then the excess heat will be distributed to a local neighborhood, helping to reduce data-center energy costs and lower greenhouse-gas emissions.

Just imagine if data centers all over the world became green energy sources?

Re-source



Zero-emission contruction site, Denmark

Case story

Zero-emissions construction sites are possible

The construction industry accounted for 20% of global energy-related carbon emissions in 2020[1]. These emissions can be curbed by electrifying construction machinery. An efficient and electrified excavator only needs 25% of the energy to do the same job as a diesel excavator.

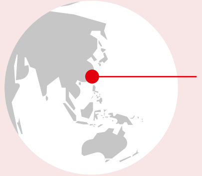
In June 2022 at the IEA's 7th Annual Conference on Energy Efficiency in Sønderborg, Denmark, Danfoss showcased electric excavators, crawlers, backhoe loaders, and more – all with Danfoss energy-efficient solutions inside. The machines moved tons of dirt – without emitting CO_2.

By combining Danfoss' electric drivetrain systems with our innovative Digital Displacement® pump technology, we can make electrification a commercially viable option for construction machinery and help the industry significantly reduce its carbon footprint.

No city is without a construction site, and decarbonizing construction machinery has tremendous societal impact. By electrifying construction machinery and increasing the number of zero-emissions construction sites globally, we can reduce global energy-related CO_2 emissions and decrease air pollution[2].

[1] IEA (2021). Tracking Buildings 2021
[2] Bellona (2019). Zero emission construction site, p. 12

Electrification is possible all over the world



The Taiwanese port city of Kaohsiung, Taiwan

Case story

Powering Asia's first e-ferry

Ferries rival flights in emissions per kilometer traveled[3], and approximately 15,400 ferries[4] are used all around the world, especially in Asia[5]. Taiwanese shipping company, Ship, converted the 100-ton ferry *Happiness* into Asia's first hybrid electric ferry. The ferry's new system ensures pure electric cruising for half the ferry's operation time, significantly reducing diesel fuel consumption. This reduces carbon emissions and the release of other harmful emissions, improving air quality. Following the success of this project, the Kaohsiung City Government plans to retrofit the rest of its diesel fleet.

Happiness shows the global potential in maritime electrification. Electrifying more ferries around the world can cut emission levels and improve air quality in cities.

[3] IPCC (2014). Climate Change 2014: Mitigation of Climate Change: IPCC Chapter 8 - Transport, p. 610.
[4] https://interferry.com/ferry-industry-facts/
[5] Interferry (2021). Economic impact of the global ferry industry, p. 4

Financial highlights and key figures

	EURm 2018	EURm 2019	EURm 2020	EURm 2021	**EURm 2022**
Profit and loss account					
Net sales	6,098	6,285	5,828	7,539	10,256
EBITDA before OOI/E	929	1,028	1,008	1,232	1,618
EBITDA	926	1,026	954	1,272	1,576
EBITA	724	771	723	969	1,224
EBIT	648	695	625	877	1,043
Financial items, net	-45	-33	-48	-58	-94
Profit before tax	603	662	577	819	949
Net profit	463	502	435	631	683
Financial ratios					
Local currency growth (%)	7	1	-6	31	31
EBITDA before OOI/E margin (%)	15.2	16.4	17.3	16.3	15.8
EBITDA margin (%)	15.2	16.3	16.4	16.9	15.4
EBITA margin (%)	11.9	12.3	12.4	12.8	11.9
EBIT margin (%)	10.6	11.1	10.7	11.6	10.2
Balance sheet					
Total non-current assets	3,886	4,217	4,106	6,693	7,803
Total assets	5,760	6,096	6,412	9,970	11,728
Total shareholders' equity	2,654	2,933	3,184	3,951	5,048
Net interest-bearing debt	962	1,048	537	2,677	3,168

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

	EURm 2018	EURm 2019	EURm 2020	EURm 2021	**EURm 2022**
Cash flow statement					
Cash flow from operating activities	673	789	800	838	1,053
Cash flow from investing activities	-227	-407	-242	-2,794	-931
Hereof:					
Acquisition of/Proceeds from disposal of property, plant and equipment	-238	-252	-187	-325	-486
Acquisition of/Proceeds from disposal of subsidiaries and activities	88	-140	0	-2,423	-429
Cash flow from financing activities	-424	-322	-54	1,596	-26
Financial key figures					
Free operating cash flow	564	634	709	664	794
Free operating cash flow after financial items and tax	359	463	493	401	465
Free cash flow	443	323	497	-2,020	40
Financial ratios					
Return on invested capital ROIC (%)	17.9	18.3	16.1	16.7	14.1
Return on invested capital after tax ROIC (%)	13.4	13.4	11.9	12.8	10.2
Return on equity (%)	17.0	17.0	13.1	16.6	14.8
Equity ratio (%)	46.1	48.1	49.7	39.6	43.0
Leverage ratio (%)	36.2	35.7	16.9	67.8	62.8
Net interest-bearing debt to EBITDA ratio	1.0	1.0	0.6	2.1	2.0
Dividend ratio (%) (proposed)	17.4	16.0	-	30.0	30.0
Dividend per 100 DKK share (proposed)	8.1	8.1	-	19.0	20.6

Outlook 2023

Decarbonizing with our customers and driving long-term sustainable value creation.

Our growth projections for 2023 remain positive as energy efficiency and electrification are gaining traction worldwide. Danfoss is in a good position with our three strong business segments engineering solutions that increase machine productivity, reduce emissions, lower energy consumption, and enable electrification.

The solutions are available today, and they are meeting many of the challenges generated by climate change, urbanization, and food and water supply scarcity while capturing opportunities in digitalization and electrification. This will continue to drive demand for our solutions and products.

However, the global economy is slowing down and in combination with global supply chain disruptions, the war in Ukraine, the inflationary business environment, and the COVID-19 pandemic, it is creating a high level of volatility and uncertainty. As a result, visibility is low.

Our key focus continues to be on ensuring profitable growth, while maintaining a high level of investments in our core businesses, new digital and electric solutions, and sustainability. Our profitable growth and strong free cash flow will allow us to invest significantly in the future.

2023 expectations

Danfoss has a continued ambition to expand or maintain market share. Sales are expected to be in the range of EUR 10.4-11.9bn for the full year. The EBITA margin is expected to be in the range of 11.5-13.0%, following the continued integration of already acquired businesses as well as investments in the development of new products and solutions. The expected growth and profitability performance is dependent on the development of global supply chain disruptions, the war in Ukraine, inflation, and the pandemic, as well as the general growth rates in the world economy.

Together with our customers, Danfoss has huge potential to contribute to global and regional climate goals through the technologies and solutions we bring to market. Danfoss remains committed to decarbonizing our global operations by 2030, which is included in the targets of our three step-change initiatives on Decarbonization, Circularity, and Diversity & Inclusion. We will continue to invest in sustainability, improve our climate footprint, and deliver on our ESG ambition.

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 has no duty and undertakes no obligation to update or revise any forward-looking statements after the publication of this Annual Report.

Every single Danfoss component plays a role in making applications all over the world run with higher energy efficiency and productivity. We ensure quality, reliability and innovation from the drawing board to the production line, here in the Fluid Conveyance unit in the New Danfoss Power Solutions.

Our business

Our customer promise

Danfoss delivers value to our customers through our leading application know-how, sustainable innovation, and leading positions.

Being the preferred partner for our customers requires us to continuously strengthen our competitive advantage. We are building on three core elements to deliver on our customer promise: leading application know-how, sustainable innovation, and leading positions.

Leading application know-how

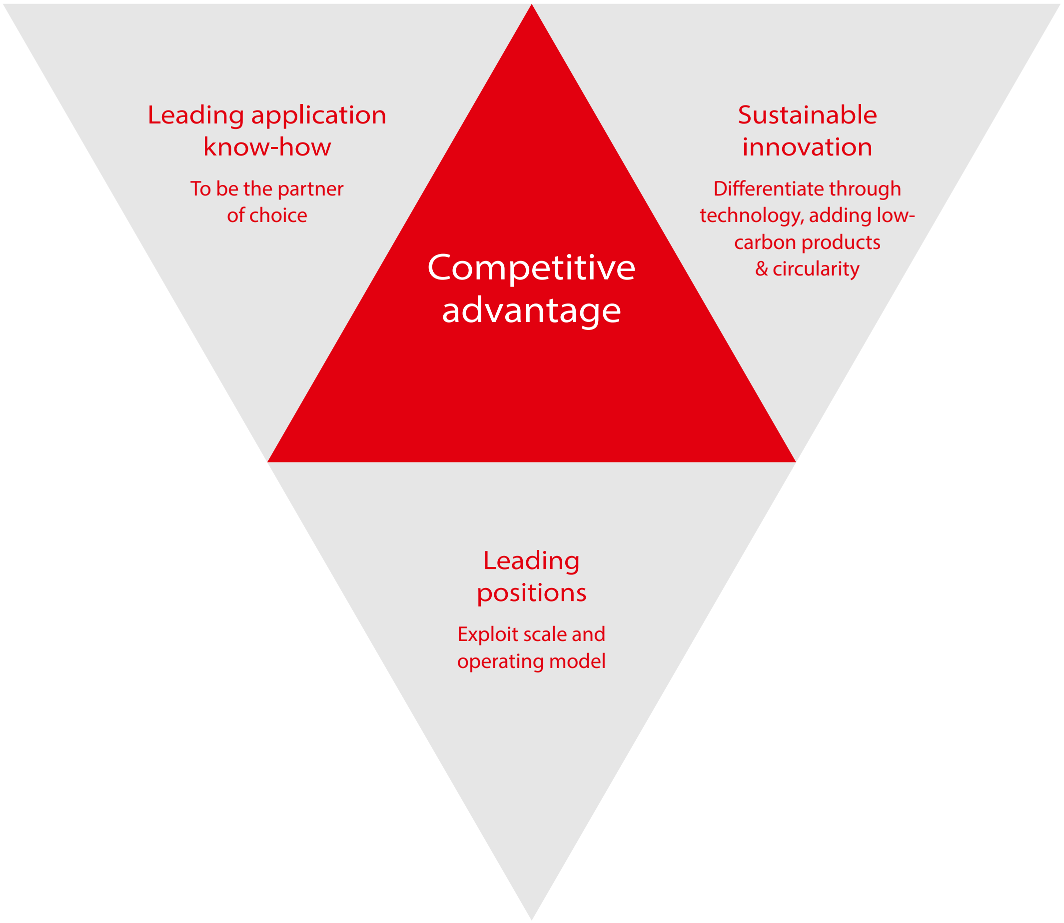
Understanding the applications where our products and solutions are used is key to differentiating and creating customer value. We invest in initiatives that enable our sales and R&D teams to turn their expertise and application understanding into performance-enhancing advantages for our customers.

Sustainable innovation

We are the technology leaders in our core businesses. We invest in technologies and new products that help our customers to differentiate even further. Danfoss is accelerating low-carbon products and circularity initiatives across all segments, coupled with actions to build sustainable value chains together with our suppliers.

Leading positions

All Danfoss core businesses are pursuing a global number one or number two position. We aim to be the partner of choice close to our customers with a leading position in safety, quality, delivery, and cost. Our long-term investments and value creation has a strong focus on strengthening our competitive position organically as well as inorganically.

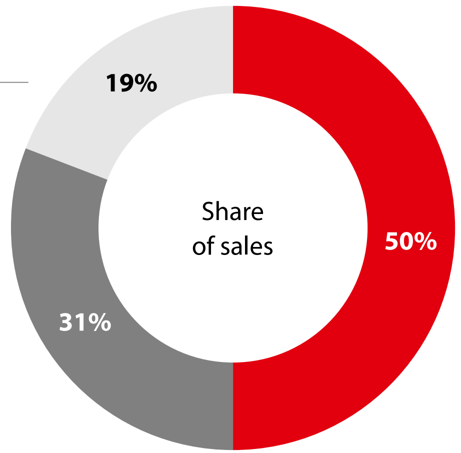


Danfoss business segments

Danfoss is committed to building a better future with solutions available today – from our three strong business segments. We deliver one of the world's strongest and most relevant portfolios of efficient components to increase machine productivity, reduce emissions, lower energy consumption, and enable electrification.

Our solutions are used in areas such as refrigeration, air conditioning, heating, power conversion, motor control, industrial machinery, automotive, marine, and off- and on-highway equipment. We also provide solutions for renewable energy, such as solar and wind power, as well as district-energy infrastructure for cities.

→ Read about the development in segments



Danfoss Power Electronics and Drives

Decarbonization with electric and energy-efficient solutions for vehicles and industry. Digital tools and lifecycle services.

Danfoss Climate Solutions

Sustainable heating and cooling solutions for buildings, cold chains, industry, and infrastructure.

Danfoss Power Solutions

Establishing a leading position in mobile and industrial hydraulics as well as electric powertrain systems.

Decarbonizing with our customers

With the promise of quality, reliability, and innovation rooted in our DNA, we deliver an extensive range of products and solutions across our business segments: Danfoss Power Solutions, Danfoss Climate Solutions, and Danfoss Power Electronics and Drives.

We are at the forefront of developing the newest decarbonization solutions for our customers. This is the Application Development Center, Nordborg, Denmark. Here Danfoss showcases solutions to electrify motor systems with battery technology that can power heavy-duty construction machines, like an electric wheel loader.

Danfoss Power Solutions

Optimizing performance for mobile and industrial equipment. Full solutions capabilities in mobile and industrial hydraulics, fluid conveyance, electrification, and software.

EUR 5.1bn
Sales
(2021: EUR 3.2bn)

EUR 720m
Earnings (EBITA)
(2021: EUR 489m)

14.2%
EBITA margin
(2021: 15.3%)

18,535
Number of employees
(2021: 19,061)

North America, Europe, Asia
Top three markets

52
Factories

3
Application Development Centers

"I'm immensely proud of what our Danfoss Power Solutions team has accomplished. Despite being our first full year as a newly merged business that had to navigate continued economic and supply chain challenges, we delivered robust financial results and kept investing in technology that will transform machines, vehicles, and vessels for our customers and distribution partners around the world.

Eric Alström
President, Danfoss Power Solutions

Case story

Addressing population growth and urbanization through autonomous machines

As the world's population grows and migrates to urban centers, food production will need to increase, as will the pace of construction. Machine productivity will be critical to achieving these objectives. One way to increase the productivity of off-highway machines is autonomy.

Autonomous machines help operators complete tasks quicker. They also increase reliability and speed when performing precision tasks, which helps prevent costly mistakes and time-consuming rework. For one specialist agricultural customer, one of our solutions improved productivity by as much as 30%.

Beyond productivity, autonomy enhances safety by enabling operators to pay closer attention to a vehicle's surroundings, reducing blind spots and decreasing the risk of a collision. Autonomy also helps address labor shortages by moving some of the skill and experience an operator would typically have onto the vehicle. Automating certain processes allows end users to assign workers to critical tasks while producing operational gains of up to 75%.

Danfoss Power Solutions has a team of experts that works with machine manufacturers in multiple industries to automate their vehicles. Our autonomy engineers work closely with customers to understand their needs and provide services for full machine development, including engineering services, products, and tailor-made software.

Our goal is to make the development, prototyping, and commercialization of autonomous functions faster for OEMs and to build safer, more precise, and more productive vehicles to solve the world's biggest challenges.

Danfoss Climate Solutions

Helping customers and partners mitigate climate change and build a greener future. Sustainable heating and cooling solutions for buildings, cold chains, industry, and infrastructure.

EUR 3.2bn
Sales
(2021: EUR 2.9bn)

EUR 556m
Earnings (EBITA)
(2021: EUR 511m)

17.4%
EBITA margin
(2021: 17.8%)

10,331
Number of employees
(2021: 11,235)

North America, Europe, Asia
Top three markets

31
Factories

4
Application Development Centers

"Danfoss Climate Solutions provides sustainable heating and cooling technologies for a decarbonized tomorrow, food and energy security, health and well-being. Our climate-friendly solutions are helping people to stay cool or warm – depending on season and geography. And as a global leader with one of the broadest product portfolios in the industry, we enable our customers to use energy and resources efficiently, in buildings, industrial applications, energy infrastructure and the coldchain.

Jürgen Fischer
President, Danfoss Climate Solutions

Case story

Energy can be recovered everywhere, reducing energy consumption

Traveling on the London Underground can be an extremely hot experience for the millions of commuters and visitors every day. But what if the surplus hot air could be put to good use? Danfoss is proudly taking part in a new state-of-the-art energy project, which is reusing heat that would otherwise be wasted, to heat up homes.

155 steps and 23 meters deep down in the Underground, you will find a world-first construction project, launched by Colloide Engineering Systems. The station has been transformed to house a new 500kW ammonia heat pump driven by the heat recovered from a heat exchanger coil within the shaft of the Underground; recovering the warm air generated along the Northern Line. The scheme recycles the wasted heat to provide heating and hot water to more than 1,350 homes, a school, and two leisure centers in Islington.

Danfoss supplied plate heat exchangers and substations to connect the four housing blocks and the school. The heating bills for council tenants connected to the network will be cut by 10% compared to other communal heating systems. In addition to this, connected tenants help to reduce CO_2 emissions by around 500 tons each year, equal to the annual emissions of approximately 200 cars.

This provides a blueprint for decarbonizing heat in potential future schemes in London, reducing heating bills and carbon emissions while improving air quality and making cities more self-sufficient in energy.

Danfoss Power Electronics and Drives

Fueling customers' green transition through energy efficiency and electrification in automotive, marine, onshore industries, and infrastructure. Clean-energy solutions, digital tools, and lifecycle services.

EUR 1.9bn
Sales
(2021: EUR 1.4bn)

EUR 196m
Earnings (EBITA)
(2021: EUR 180m)

10.1%
EBITA margin
(2021: 12.4%)

7,875
Number of employees
(2021: 4,582)

North America, Europe, Asia
Top three markets

17
Factories

4
Application Development Centers

"Danfoss Power Electronics and Drives is a powerhouse within energy efficiency and electrification. As the world goes electric, our technologies are more relevant than ever, helping the world use energy more efficiently. With more than 7,800 dedicated team members, we are ready to serve customers around the globe and around the clock with leading technologies spanning from semiconductor devices, power modules, stacks and systems to the world's largest portfolio of power converters and drives.

Mika Kulju
President, Danfoss Power Electronics and Drives

Case story

Retrofitting Keppel Bay Tower for a zero-energy future

Keppel Bay Tower, a landmark in Singapore's Keppel Bay water-front area, has been retrofitted with Danfoss VLT® drives. As a result, validated energy savings of more than 45% were achieved – and Keppel Bay Tower was Singapore's first commercial building to earn the Green Mark Platinum Zero Energy building certificate.

How? Danfoss retrofitted fans in one of the building's air-handling units with the high efficiency Danfoss EC+ concept engineered to boost the efficiency of heating, ventilation, and air-conditioning systems in new-builds and existing systems.

The EC+ concept enables significant reduction of energy use by means of intelligent Danfoss VLT® drives. Variable speed drives enable energy-efficient application control, which is key to achieving energy savings in building operations.

The HVAC-dedicated drive with built-in intelligence is known for its high reliability, low total cost of ownership, and many application functions – a perfect match for Keppel Bay Tower, a modern building fitted with a wealth of sophisticated solutions.

Buildings account for 28% of global energy-related CO_2 emissions. And more than 85% of the world's existing building stock today will still be standing in 2050.[1] Retrofitting – modifying existing buildings to incorporate green technologies – is crucial in reaching net zero.

→ Read more at danfoss.com

[1] https://www.eea.europa.eu/publications/building-renovation-where-circular-economy

Our Core & Clear 2025 plan was rolled out in April 2022. It details our green growth strategy to become our customers' preferred decarbonization partner.

Core & Clear 2025

Core & Clear 2025

We are transforming Danfoss into a preferred technology partner for our customers, with the business almost doubling over the last five years. The Core & Clear 2025 strategy including our ESG ambition sets a clear direction for the next three years, further accelerating our green growth and value creation while decarbonizing with our customers.

Danfoss is transforming

Our transformation is fueled by bold investments in Danfoss' long-term success. Our green growth strategy is focused on long-term value creation, and in 2022 we continued to increase our investments.

We are proud of our teams and our growth, creating long-term value through innovation, additional capacity, digitalization, and M&A.

Investments in innovation allow us to continuously improve the performance of our products and solutions. In 2022, we invested 4.5% of sales in R&D, which allowed us to drive sustainable innovation and help our customers to differentiate even further.

We have significantly increased CAPEX and investments in our digital transformation, including One ERP and our Digital Customer Experience. We intensified our regional customer focus to drive even more consistencies across regions, execute on cross-regional synergies, and secure knowledge transfer to future-proof our organization. And we are investing in growth opportunities that help customers decarbonize through energy efficiency, machine productivity, low emissions, and electrification.

Strategic M&A activities fuels transformational growth. We continue to strengthen our three core business segments and are on track with integrating our transformational acquisitions, such as the new Danfoss Power Solutions segment and Semikron Danfoss. We have also announced the agreement to acquire the compressor manufacturer BOCK GmbH.

All in all, our high investment levels are generating strong growth, which is reflected in our very strong 2022 results. We will continue with this strategy toward 2025.

Case story

One ERP digital platform – backbone of our digital transformation

We are continuously improving our digital backbone with better end-to-end processes, from R&D to our supply chain and customers. This is enabled by our digital IT platform, One ERP (Enterprise Resource Planning), which is being implemented – in combination with the global product store on our corporate website – to enable an improved digital customer experience. In 2022, we approached 25% of sales via e-commerce, half of which was through our product store.

In 2022, One ERP was fully implemented in two of our three segments, covering almost 50% of sales. Now that the hydraulics business we acquired in 2021 has been fully integrated into the new Danfoss Power Solutions segment, focus will now be directed towards implementing One ERP in the segment.

Sharing one digital platform in Danfoss will allow us to increase productivity and efficiency, as well as provide significant synergy value when acquired entities are being integrated into One ERP in the future.

Case story

Creating a leading position in power electronics

On August 1, Semikron and Danfoss joined forces in a new business called Semikron Danfoss. Together, we have established the ultimate partnership in power electronics and are a new leader in power semiconductor modules and assemblies. We are now all set to take the lead in automotive and silicon-carbide (SiC) power modules.

The product offerings of Semikron Danfoss include semiconductor devices, power modules, stacks, and systems.

In a world that is going electric, Semikron Danfoss technologies are more relevant than ever. With innovative solutions for automotive, industrial, and renewable applications, we help the world use energy more efficiently and sustainably, and thus significantly reduce overall CO_2 emissions.

SiC power modules are the answer to the global demand for smaller, faster, and more effective electronic devices. SiC power modules can reduce power consumption in electric cars by 10% and energy consumption in data centers by 5%. In the future, power modules are expected to be applied in other sectors like shipping, offshore, and hospitals to increase efficiency and reduce emissions.

The merger comes with a strong growth plan and a firm commitment to future investments in capacity, technology, and innovation.

Our bold investments to build the number one or two position in electrification go beyond Semikron Danfoss – all Danfoss business segments are leveraging electrification to increase efficiency and reduce emissions.

"We are very proud of the success of our Core & Clear strategy. It has transformed Danfoss into a technology powerhouse. We will continue to make bold investments in our digital transformation as well as our unique products and solutions to provide real value to our customers. As we move towards our 2025 destination, profitable growth and strong free cash flow will allow us to invest significantly in the future.

Jesper V. Christensen
Executive Vice President &
Chief Financial Officer

Strategic focus areas

Key to our success are our high-performing, diverse teams, enabling us to navigate serious challenges such as the COVID-19 pandemic, record high inflation, and severe supply chain bottlenecks. We have come out stronger – and are ready to further accelerate our growth and value creation with our Core & Clear 2025 strategy that includes our ESG ambition.

Leading Portfolio

Strengthen our core with three strong leading global business segments.

Strengthen our leading positions through focus on our three strong segments.

Technology investments to accelerate our offerings of low-carbon products and solutions.

Customers & Growth

Leading application know-how – to be the partner of choice.

Customer satisfaction and loyalty – continued strong focus on quality and delivery.

Digital customer experience end-to-end: fast, easy, and relevant.

Innovative Solutions

Sustainable innovation – differentiate through technology, adding circular, low-carbon, and net-zero products to add further value to our customers.

Digital as differentiator to strengthen our position within profitable digital products and services.

Continue to improve time to market.

Lean & Agile

Benchmark on safety, quality, delivery, and cost.

Regionalize our supply chains to be closer to our customers, improve service levels, and decarbonize our supply chain.

Continue to digitalize Danfoss with one common IT architecture and One ERP to improve digital customer experience and internal efficiency, while creating business impact.

Our ESG approach

We stand at a crucial moment for our world. The planet is seeing its highest recorded concentration of CO_2. Immediate change and a bold step up in ambition is the only way to reduce emissions and to accelerate green transition.

At the heart of this is technology and people. Danfoss' biggest contribution to the green transition and global climate goals is our own solutions that increase machine productivity, reduce emissions, lower energy consumption, and enable electrification.

We want our ESG (Environmental, Social, Governance) ambition to support our customers' decarbonization goals and become their preferred partner for decarbonization. Greening the entire value chain is not a quick or easy task, and has to be done in close collaboration with our suppliers and customers.

We are well on the way to decarbonize our operations (scope 1 and 2), but we recognize that we have a huge work ahead of us, especially on value chain emissions (scope 3) and circularity.

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

→ Go to Decarbonization and read about our efforts to become carbon neutral in scope 1 and 2 by 2030

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

→ Go to Circularity

Diversity & Inclusion: We offer a leading employee experience that values and respects diversity and inclusion to attract and retain the top talent who will lead the green transition

→ Go to Diversity & Inclusion

We engineer tomorrow to build a better future.

"ESG is in demand and paves the way for a new dialogue with our customers. Our customers want to decarbonize their supply chains – a green supply chain is often a lean supply chain. We are in the same boat! Reducing emissions by improving circularity in product design, and lowering energy consumption with the help of our solutions is a journey we take together with our customers.

Martin Rossen
Senior Vice President, Head of Group Communication & Sustainability

ESG in our value chain

Upstream

Supplier engagement
In line with our ambitious targets, we will rethink our supplier relationship management by analyzing embodied carbon in our products and identifying decarbonization levers with our suppliers.

→ See more on page 40

Operations

Safety first
We have a strong safety track record and are committed to ensuring safe operations for our employees and business partners.

→ See more on page 48

Downstream

Product decarbonization
With over 98% of our emissions taking place in the use-phase, we have set ambitious emissions reduction targets validated by the Science Based Target initiative.

→ See more on page 39

Circularity
Using our Rethink-Reduce-Recirculate framework, we will work towards having 80% of our newly developed products covered with our circularity approach.

→ See more on page 41

Diversity
We are committed to recruiting a diverse workforce, creating an environment of belonging, retaining our talents, and increasing representation.

→ See more on page 46

Carbon-neutral operations
Installing our own energy-efficient solutions to reduce energy consumption, reuse excess heat from processes and data centers, and source green electricity.

→ See more on page 38

Avoided emissions
As an essential solution provider to the global energy transition, our products and services support our customers' decarbonization journey and generate lifetime greenhouse gas emissions savings.

→ See more on page 36

The local district energy plant, Nordals Fjernvarme, supplies green heat to Danfoss' headquarters in Denmark.

Environment

Decarbonization

Decarbonization is one of the three pillars of our ESG ambition, and Danfoss has committed to ambitious targets covering our operations, suppliers, and customers.

For years, Danfoss has systematically worked to reduce and recycle energy in our factories and offices around the world. We have successfully optimized processes, heating, and ventilation systems, and used excess heat to minimize the energy needed to heat our buildings.

We manufacture equipment that reduces the use of energy. Smart cooling and heating systems use less energy to improve the indoor climate and make it possible to reuse excess heat.

Danfoss' climate goals were validated by the Science Based Targets initiative (SBTi) mid-2022.

As part of the science-based targets, Danfoss is required to reduce absolute scope 1 and 2 GHG emissions by at least 46.2% by 2030 from a 2019 base year. Danfoss is going beyond this requirement and has committed to becoming carbon neutral in scope 1 and 2 by 2030. Danfoss will reduce absolute scope 3 GHG emissions by 15% in the same time frame. As an energy-efficiency solution provider, walking the talk by decarbonizing our operations, energy sources, and manufacturing processes is a priority.

Decarbonization targets

Approved science-based targets validated by SBTi to limit global warming to 1.5°C.

Global carbon neutral Danfoss operations (scope 1 & 2) by 2030.

15% reduction of value chain emissions (scope 3) by 2030.

Make the reduction of customers' emissions core to Danfoss' value proposition.

Case story

Danfoss' Chennai campus reducing 10,000 tons of CO_2 – decarbonizing our own operations

Since 2014, solar panels have captured the sun's rays at our LEED Platinum-certified Chennai, India, campus. The solar panels cover 17% of the electricity consumption.

The Danfoss team found that excess solar-generated energy was going to waste and came up with the idea of installing a 200 kWh energy-storage facility.

Our campus now hosts India's first privately owned Energy Storage System, which is equipped with Danfoss technology to store electricity.

92% of the electricity used at the campus comes from renewables. And most of the technologies that the Indian team sell today are in real-life operation on the campus.

This year, all efforts on campus resulted in a reduction of 10,000 tons of CO_2.

Decarbonizing with our customers

For more than a decade, Danfoss and many other global businesses have realized the benefits of measuring greenhouse gas emissions using GHG Protocol standards and tools.

Efficient use of energy simply means using less energy to perform the same task – that is, eliminating wasted energy. Today, energy is being wasted everywhere across all sectors. In the transport sector, in the industrial sector, and in buildings, vast amounts of energy is wasted every day because simple measures to monitor and control energy use are not in place.

In past decades, improvements in energy efficiency have kept a lid on global emissions, but we need to accelerate and drive the world towards net zero. Energy efficiency will be critical to success, and we must use our energy smarter to stretch each watt generated from wind and solar.

Ambitious emissions reduction goals have been set by many companies, and significant reductions have already been achieved.

Companies play a key role in developing and promoting products and services that avoid emissions by enabling energy reductions or by providing low-emission products.

Avoided emissions or Scope 4 emissions are emissions that can be avoided through the use of a product or a service. Danfoss sells products that enable our customers to reduce their consumption of energy and thereby avoid greenhouse gas emissions. Accurately measuring a product's impact - whether positive or negative - is an important focal point of our value proposition and our ESG ambition.

In 2022, Danfoss engaged with customers, suppliers, and knowledge partners to build the first application-specific methodologies that quantify the energy saved and thereby the emissions avoided when using our products. By doing so, we have further strengthened the support to our customers on their decarbonization journey to demonstrate the relevance of our solutions. The solutions are here, and they will increase the competitiveness of our industries and improve the livelihoods of citizens. And most importantly, we need them to meet our climate goals. In 2023, we will further expand this work.

Semikron Danfoss power modules, like the eMPack for electric vehicles, are vital in building a leading position in electrification, helping customers reduce emissions and further decarbonize.

Decarbonizing Danfoss' operations

In pursuit of decarbonizing our global operations, we apply a three-step approach:

1. **Reduce** involves saving energy by installing energy-efficient solutions, such as heat pumps where possible.
2. **Reuse** is about recycling the energy we already have, e.g., using excess heat from buildings, processes, and data centers.
3. **Re-source** involves turning the remaining energy green by phasing out fossil fuels and procuring renewable energy.

Compensation will be considered as the last resort for the irremovable residual emissions.

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

We are ambitious in the use of our solutions to achieve a large part of the energy savings and have proven that applying energy-efficiency measures is good business.

Green electricity

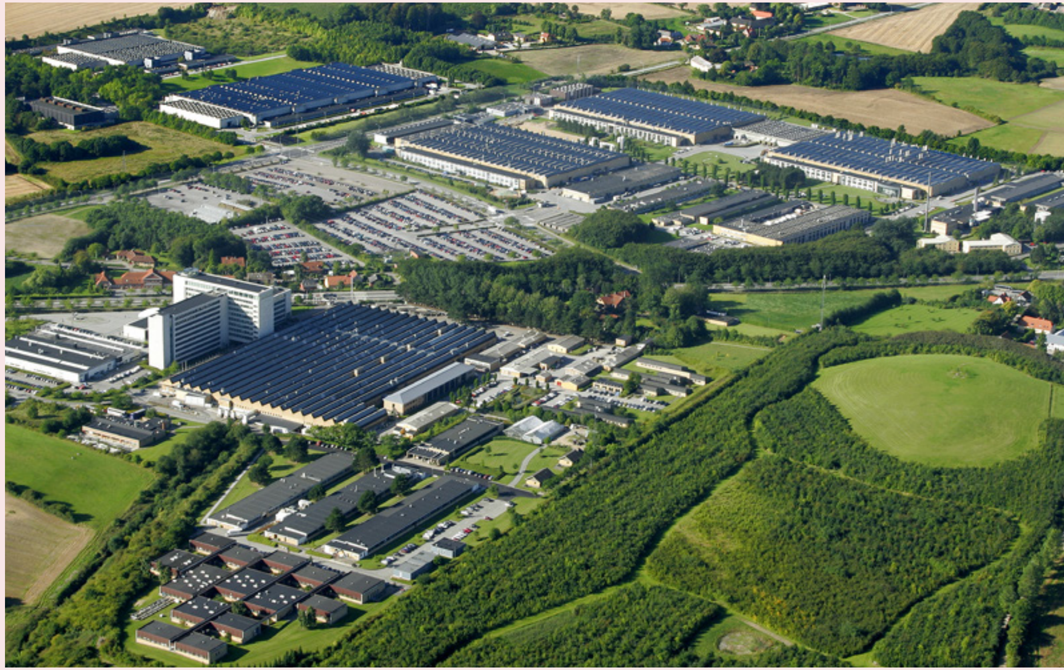
We continue towards our long-term commitment to purchase 100% renewable electricity by 2030. We prioritize Power Purchase Agreements (PPAs) that contribute to the transition to more sustainable electricity grids and reinforce our long-term commitment to renewable energy. By purchasing green electricity where available, we can make the fastest and most significant contribution to climate action.

As a result, in February 2021, we entered into the first PPA delivering green electricity to all our Danish and German facilities and accounting for approximately 14% of Danfoss' electricity consumption. Although the current energy crisis makes it difficult to enter long-term PPAs, in 2022 we focused on decarbonizing electricity consumption within the EU and US. In December 2022, we took the first step towards signing a PPA

Case story

Well on the way to reach carbon neutrality by 2030

In 2022, we reached carbon neutrality in scope 1 and 2 at our largest production facility, the Nordborg campus in Denmark. The 250,000 m^2 campus achieved neutrality through reduction of energy consumption, reuse of excess heat from processes and data centers, and sourcing of green electricity. Unavoidable emissions from leakage of refrigerants and company cars have been offset. Since 2007, the energy consumption for heating has been reduced by 78%, and the demand for electricity has been reduced by 50%.



We are preparing for a significant increase in electric company cars. In 2022, the number of on-site charging stations increased by 50%.

with a developer of a solar farm that will cover electricity use in all our US factories. The solar park will cover 24% of our global electricity consumption. As we advance, we will gradually expand the scope of countries. By entering the US PPA, and extending the existing PPA to cover all of Europe, 50% of our electricity consumption will come from renewable sources.

Electric company cars

Electrification of transportation is a key focus area for Danfoss. As a provider of solutions for electric vehicles, we joined the Climate Group's EV100 initiative in 2019 and committed to transitioning our entire company car fleet to electric vehicles by 2030 at the latest.

In 2022, we increased capacity of on-site charging stations by 50%, and the expansion of charging infrastructure will continue in the coming years to offer employees and customers charging points for their electric vehicles. We have established charging infrastructure at 25% of our locations and expect to replace more than 300 vehicles out of the 2,000 cars in our company car fleet with electric vehicles in 2023.

Decreasing value stream emissions

As a leading provider of energy-efficiency solutions, Danfoss is an essential partner in the green transition and decrease of value stream emissions.

In 2022, we progressed in our decarbonization journey by integrating our science-based targets across the organization, identifying decarbonization levers, and initiating pilot projects focused on reducing use-phase emissions. Our decarbonization activities span across the full value chain.

Building robust emissions data foundations

As part of our continued efforts to decarbonize our products and the value chain, we are building the foundation for an effective data architecture. In 2022, we engaged with customers to identify their data needs and find out how we could support their sustainability journey. We initiated several projects to further develop the consistency and transparency of sustainability data across functions, strengthening our internal processes and controls.

To deliver accurate and up-to-date information about our products' use-phase emissions and the corresponding avoided emissions, we collect information from our upstream and downstream business partners, such as the final end-user, country of destination, type of application, and carbon footprint. In 2023, we will continue to integrate our ESG data processes into our business infrastructure paving the way for third-party verified ESG reporting.

Reduction of product use-phase emissions

Approximately 98% of the emissions accounted for in our SBT baseline occur from the energy consumed during customers' use of the products we manufacture.

While it is expected that the carbon intensity of the used energy will decrease over time, we work to find ways to reduce the carbon footprint of our products, identifying levers to make them more energy efficient and optimize their use of energy.

Achieving a significant reduction in our downstream emissions calls for new solutions, ranging from business-model innovation to product and market portfolio-mix strategies. Strong collaboration with customers and end users is a prerequisite for a successful decarbonization of the use-phase of our products, and focus is therefore on establishing the necessary partnerships with customers to drive the use-phase emissions down.

Our compressors, heating solutions, and drives products account for most of our emissions under the "Use of Sold Products" category of the Science-Based Targets initiative. Since 2021, we have built foundations to identify decarbonization levers throughout our portfolio and the scale of emissions reduction needed to meet our targets. The work will be intensified in the coming years.

Decarbonization levers and technology roadmap

We are continuously assessing multiple innovation opportunities aimed at decarbonizing our product portfolio. With the emergence of smart grid systems, it has become possible to optimize the use of

The Danfoss Turbocor® compressor is the world's first oil-free magnetic bearing compressor unmatched on efficiency and endurance. It helps our customers run their comfort cooling, ice storage, and heat recovery with the lowest amount of emissions possible.

Danfoss invests in developing solutions that electrify off-highway machines, like excavators, crawlers, backhoe loaders, and truck-mounted cranes, making zero-emissions construction sites possible.

energy when the carbon content of the energy mix is at its lowest.

We are also looking at integrated business models and partnerships aimed at decarbonizing energy sources along our value chain, so the delivery of our solutions could result in the production and use of renewable energy.

Research and development

Our product decarbonization strategy revolves around existing products as well as products in development. Given our products' life cycle and the time from design to market entry, we identify short-term decarbonization levers while incorporating our climate targets into our long-term product development pipeline. As such, we aim at integrating use-phase emissions as a key performance indicator in our product development toolbox. This will enable the development of a product pipeline consistent with our ambitious climate targets.

Development of low-carbon products

Our approach to reducing emissions embodied in our products involves engaging our suppliers in productive dialogues to identify decarbonization levers in our purchased goods and services. While life-cycle thinking is still an emerging field, we initiated the Low-Carbon Product development project as a cross-segment deep dive to tackle our products' embodied emissions.

In 2022, we initiated a study on several of our products to establish a baseline of upstream carbon emissions, identify CO_2-reduction levers, reduce the CO_2 emissions from manufacturing, and develop strategic decarbonization roadmaps. Electronics and similar complex products involve multiple suppliers and components sourced globally, often requiring detailed product teardowns and life cycle assessment to establish an accurate emissions baseline. Once emissions breakdowns are established, we will develop specific product decarbonization strategies.

There are multiple levers available to the manufacturing sector, ranging from circular economy, alternative sourcing, and redesign to material switch. This first assessment supports us in the engagement with our suppliers as part of our upstream emissions reduction strategy. This approach is essential in creating a common vision across the value chain and mobilizing upstream and downstream partners.

In 2023, we will expand and scale the assessment of our products, across segments and product categories, while collaborating with our suppliers on decarbonization initiatives.

Supplier collaboration

Our upstream emissions are mostly driven by purchased goods and services, which represent approximately 2% of our total emissions. Our suppliers are important partners in helping Danfoss reduce our emissions and making our products more sustainable. In 2022, we reached a significant milestone by establishing a procurement sustainability roadmap and a strong governance structure. The roadmap sets a clear path towards 2024 and outlines key activities within procurement, e.g., data transparency and key enablers necessary to achieve our goals. The roadmaps will be regularly reviewed by a steering committee led by the procurement and sustainability functions.

In 2022, Danfoss engaged with our top-emissions supply chain partners, identifying concrete opportunities for CO_2 emissions savings. The ESG screening of our suppliers will become a part of our meetings with them. We also initiated a far-reaching program called "Choose2Reduce" aimed at decarbonizing our supply chain.

We continue to build data infrastructure to gain further visibility on emissions coming from the purchase of goods and services, and assessing supplier decarbonization opportunities across segments.

In 2023, we will focus on shaping and executing identified CO_2 emissions reductions, building strategic partnerships with key suppliers, and aligning sustainability criteria with procurement decision-making.

Circularity

At Danfoss, we are committed to supporting the transition towards a low-carbon and circular society.

In 2019, the EU launched their second comprehensive Circularity Action Plan. With this action plan, many new legislative initiatives will shape the future market for manufacturers with focus on material efficiency and recirculation of resources. Additionally, countries are issuing new regulations on waste minimization and recycling, packaging, extended producer responsibility and the right to repair.

Circularity is an important instrument that enables Danfoss to reduce dependence on scarce resources and raw materials. It reduces the consumption of virgin resources and energy used in the creation of new products. Moreover, it can contribute towards the reduction of carbon emissions by transforming the way we make and use products.

We believe that the shift towards a circular economy is particularly urgent in the manufacturing industry. Our ambition is to drive this change by refining how we design our products.

Danfoss' **Rethink-Reduce-Recirculate** approach drives the innovation and development of our new products. In 2022, we created the Danfoss Circularity Framework that will be implemented in new product development across Danfoss. We adopted this framework to measure circularity when designing new products, identifying opportunities for improvement, and determining whether a product contributes to circularity compared to the next-best alternatives. In 2023, we will implement our circularity toolbox, which consists of the framework and an assessment tool, in several projects across our business segments.

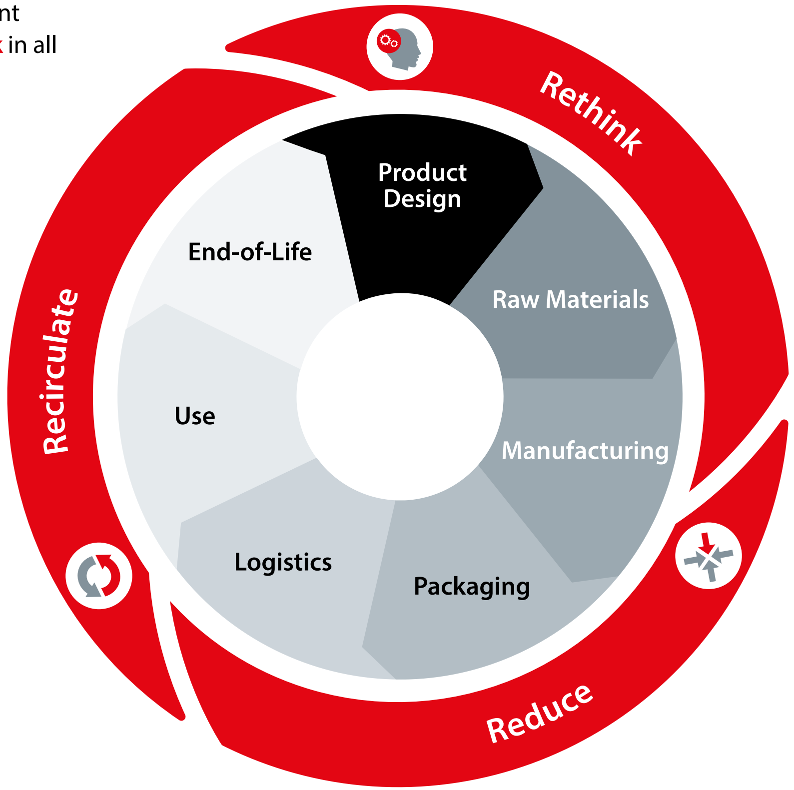
Our goal is to integrate circularity assessment as part of all product development processes to enable successful collaboration with customers. We aim to transparently communicate the Danfoss circularity framework next year and start tracking our overall progress against our targets. We also want to work with peers to create a shared understanding and interpretation of circularity in the industry. Our vision is to have our framework and tool aligned and validated across our industry towards a common approach to circularity.

Circularity targets

Develop and implement **circularity framework** in all segments.

More than 80% of newly developed products sold covered by circularity approach in 2030.

Circularity collaboration with 80% of top 25 customers.



Collaborations for better use of materials

Danfoss finds many ways of collaborating with partners to incorporate the circularity strategies that drive the Rethink-Reduce-Recirculate approach.

Rethink: We're working on changing the design towards disassembly. For example, the newly launched iCAD actuator from Danfoss Climate Solutions contains valuable and rare earth magnets. It was developed with end-of-life and product disassembly in mind, ensuring that the magnets can be removed more easily and reused in other products.

Reduce: This can be achieved through reducing and recycling more of our waste than in the past. In 2022, we focused mainly on plastics used in our products to achieve the required quality and strength. Plastic, however, can harm the environment when not properly recycled at end-of-life. We have joined a Danish cross-industry collaboration, called Circular Industrial Plastic project, in which several recycling plastic technologies are being explored over a period of three years. Through this engagement, we aim to reduce plastic waste in our facilities.

Recirculate: This can be secured through collaboration with customers. We have initiated several projects and partnerships with the intention of creating value as well as reducing environmental impacts through the recirculation of our products and materials from customers. We signed a three-year agreement with Beijer Ref, with Danfoss as a manufacturer and Beijer Ref as a wholesaler, to drive the circular-economy transition.

"We are very pleased with the renewal of our partnership, and together with Danfoss, we look forward to implementing this new and ambitious sustainability plan. In the last decade, The European Commission has established several policies to encourage circularity, and it is of great importance that we continue to support this sustainable transformation.

Christopher Norbye, CEO
Beijer Ref

Case story

Offering circularity services to our customers

Through the digital service DrivePro®, Danfoss offers an array of services with a focus on circularity – such as exchange, retrofit, preventive maintenance, and repair – which have the potential to extend the lifetime of products, save virgin resources, and reduce CO_2 emissions.

The DrivePro® service package is currently offered in 56 countries and markets and covers 95% of segment's product portfolio. DrivePro® is built to prolong and eventually close the loops of material circles. Refurbishing returned drives can make a significant impact, especially for industries grappling with the scarcity of virgin resources.

In 2022 we started a drives refurbishment pilot project in India and constructed a dedicated refurbishment area for returned drives that would have been scrapped and sent for external recycling. We plan to scale the project and offer refurbished drives to our customers in India. Refurbishment and reuse of drives is established practice in other Danfoss sites such as the Haiyan factory in China.

Case story

Product repair and remanufacturing service

Utilities and wind turbine manufacturers rely on Danfoss' proven proportional valve technology in turbine-blade pitch-control systems to adjust the rotor blades so they capture the right amount of wind and don't exceed maximum speed. The valves endure extreme temperatures, corrosive environments, and high and variable rotational and vibrational loads. Danfoss' wind energy valves are designed to withstand these conditions, but when maintenance is needed, Danfoss can clean and calibrate the valve, or repair it with the latest amplifier, position sensor, seals, and fasteners approved by the turbine OEM. Repairing components rather than replacing an entire valve keeps materials out of the waste stream while lowering the cost of energy.

Safe and compliant products

Product compliance is an important enabler for customer satisfaction, growth, and sustainability.

To deliver world-class solutions, we continuously monitor requirements from our customers and regulators. Through robust compliance programs and efficient processes, we ensure transparency, quality, and safety of our products. To minimize adverse impact on the environment and society, our product responsibility stretches across the supply chain.

In 2022, we enhanced our monitoring capabilities for managing the ever-increasing number of regulations and standards affecting our products. This enables us to stay agile and deliver compliant products to our customers.

Chemical compliance

We continue building our One ERP platform and other digital tools to provide common processes to manage product chemical compliance and to comply with extended producer responsibility schemes.

In 2022, we continued to roll out our IT infrastructure project One ERP which, among other things, is helping to ensure chemical substance compliance and deliver reliable compliance information to customers and authorities, including full material declarations and recycling information for our products.

Danfoss Negative List is the foundation for managing the chemicals we use - restricting the use of hazardous substances in products and production processes. PFAS is a group of thousands of substances, widely used in industrial products and processes. Due to their persistence in the environment, it has been proposed to restrict PFAS under the EU chemicals regulation, REACH, and similar initiatives are seen in the US. To that effect, Danfoss has established a task force for mapping our use of PFAS and for providing input to legislators.

Danfoss supports the Responsible Minerals Initiative (RMI) and continuously reviews whether tin, tantalum, tungsten, and gold (3TG) in our products originate from conflict-affected and high-risk regions. We collect data from 1,800 tier-one suppliers and provide conflict mineral reporting to our customers.

Life Cycle Assessment

LCA-based information is increasingly required by various regulations, such as the Ecodesign for Sustainable Products Regulation proposed in 2022 by the European Commission. It is also required by national building regulations and counts towards building certification schemes.

Through Life Cycle Assessment (LCA), we assess the impact of energy and resource consumption, as well as carbon emissions released into the environment during all product's life-cycle stages. In 2022, we invested in building our capacity to carry out LCAs. We hired LCA specialists in all business segments, acquired LCA software, and built a unified approach across the Danfoss Group for carrying out LCAs and communicating the results externally through Environmental Product Declarations (EPDs). In 2023, we will roll out EPDs based on customers' requests and defined priority criteria.


The printed circuit boards control Danfoss drives, which undergo life cycle assessment to ensure compliance.

Environmental performance

Danfoss is committed to complying with all environmental regulations, maintaining high standards of environmental management, and monitoring the impact on climate and communities.

Our commitment to environmental compliance is outlined in our Business Conduct Policy and Environmental, Health, and Safety (EHS) standards outlining minimum requirements for all Danfoss locations. We have established EHS objectives and targets to ensure our efforts result in continuous and measurable improvements of our EHS performance.

To minimize the environmental impact of our operational activities, we monitor the local consumption of materials, chemicals, and energy, as well as the generation of water and wastewater. We have clear governance and standards that enable the implementation of our sustainability agenda and environmental compliance.

87% of our production sites are certified to ISO 14001. Remaining sites are exempt from the requirement. Compliance with environmental regulations is a high priority for Danfoss and is reflected in our business continuity plans and day-to-day operations.

Acting with due diligence

We follow a strict due-diligence procedure when acquiring new companies and land. This includes thorough reviews of potential acquisitions by examining the site and the environmental history of its surroundings. Regional hydrogeological and geotechnical conditions are evaluated through field surveys to discover ground pollution or historical deposits. Danfoss strives to continuously reduce the company's environmental footprint through several initiatives throughout the global organization.

Energy consumption and emissions

Danfoss continues to show the ability to decouple the environmental impact from the business growth by delivering a 7% decrease in scope 1 and 2 emissions while growing 15% organically.

→ See detailed data in the ESG statements page 66

Danfoss continues to show improvements each year from 2019 to 2022 on environmental key figures when adjusting for the 2021 acquired hydraulics business.

With the acquisition the scope of our operations expanded significantly with approximately 10,000 employees, 60 active locations with 17,000 m^2 of office, 660,000 m^2 manufacturing space, and 47,000 m^2 warehouse and light industrial space.

The expanded scope of operations, of course, also added more energy and water consumption as well as additional carbon emissions compared with 2021.

The effect of the acquisition is further specified in the ESG statements and notes on pages 63-71.

We will continue to drive impact across Danfoss including the newly integrated businesses.

Intensity and productivity

Danfoss calculates energy intensity, energy productivity, and CO_2 intensity relative to our net sales. We have worked with intensity indicators, and especially energy intensity, since 2007. Intensity indicators on scope 1 and 2 GHG emissions, energy, and water show an improvement year-over-year for the Danfoss Group adjusted for the acquired hydraulics business. See page 66.

In 2022, environment figures were highly impacted by the inclusion of data from the acquired hydraulics business.

Water and waste

In 2022, Danfoss' water withdrawal decreased by 17% when adjusting for the acquired businesses. The withdrawal totaled two million m^3 water used for processes and sanitary purposes.

Danfoss recycled, in 2022, a total of 65% of the 76,829 tons of waste generated in factories and office locations. We will continue to optimize the waste handling to further reduce the amounts of waste and the withdrawal of water.

→ Further information about our data can be found in the section on ESG statements, pages 63-71

We value an environment where people can unleash their full potential, so we can welcome the best people on board to lead the green transition. We strive to make people feel like they belong. At the production line, in the meeting rooms, and in the hall ways, where we are busy working together on building a better future.

Social

Diversity & Inclusion

Our high-performing, diverse teams accelerate our green growth strategy.

We have a firmly established commitment to diversity and inclusion as one of our three ESG step-change initiatives. It focuses on delivering an inspiring and inclusive employee experience and fostering an environment of belonging.

This focus has increased the awareness, buy-in, and accountability of leaders across our organization. We have defined what success looks like when we deliver on three focus areas:

Recruitment: Recruit diverse talent by continuously improving our attraction, selection, and hiring practices

Retention: Retain diverse talent by creating an environment of belonging through communities of shared identity, experience, and interests, as well as providing resources that empower leaders and teams to foster inclusion

Representation: Increase diverse representation by optimizing our talent-management practices and digital platforms and accelerating development through impactful learning experiences, including training and mentoring

We are ensuring sustainable, long-term impact through a comprehensive Diversity & Inclusion roadmap and key performance indicators that look across the employee experience. We are also focused on diversifying the composition of our management teams to accelerate innovation, enable creative solutions, and optimize agility. In 2022, we saw a minor improvement in our ambitious target for gender split in leadership positions. We will of course continue our focus to improve further but also realize we may need more time to reach the target.

A significant milestone on our D&I roadmap was the introduction of our global Employee Resource Groups (ERGs), which provide employees with an outlet to help shape the organizational culture and create an environment of belonging through communities of shared identity, experience, and interests, as well as providing resources that empower leaders and teams to foster inclusion.

Each Global ERG is sponsored by a member of the Group Executive Team and a business or functional leader. The global ERGs serve as an umbrella for the local ERGs in the organization. This structure empowers local sites to implement groups that represent their colleagues' demographics and common interests and experiences.

We ensure an environment of belonging for our people and are continuously improving diversity through recruitment, retention, and representation.

We also implemented Regional Inclusion Councils to represent global perspectives across all Danfoss regions and provide equitable solutions by identifying and eliminating systemic barriers. They meet monthly to discuss what is being actioned, assess how it's working, and provide advice on next steps in expanding the company's D&I posture.

We will continue to embed Diversity & Inclusion across the employee experience, including how we recruit, develop, and engage our employees. We're already making focused efforts to strengthen and diversify our succession pipelines, enhance our leadership through common leadership principles, and innovate our talent practices and employer brand.

D&I targets

Continuously improve diversity through recruitment, retention, and representation

80%

diverse management teams by 2030[1]

30%

women in leadership positions by 2025

[1] Diverse management teams are defined by the following criteria: ≥1 man, ≥1 woman/non-binary, and ≥2 nationalities in management teams with ≥5 employees (excluding assistants). The data point is measured on the first 4 management levels.

As part of our diversity and inclusion journey, we have started Employee Resource Groups that accelerate career development opportunities and identify systemic barriers that hinder career mobility.

Global Employee Resource Groups

Closing out the year, Danfoss is supporting 40 ERG chapters around the world.

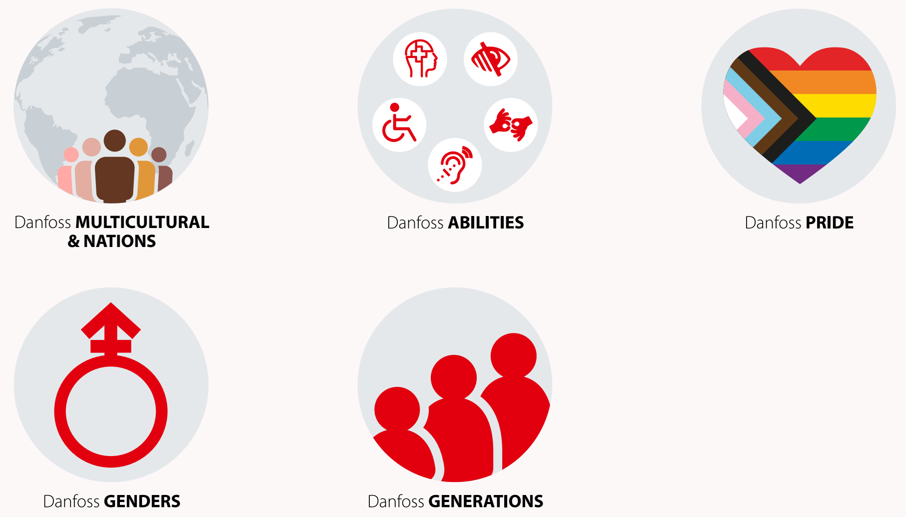
Danfoss MULTICULTURAL & NATIONS – focusing on employees of all ethnicities/ nationalities and allies

Danfoss GENDERS – focusing on employees of all gender identities (i.e., women, men, non-binary) and allies

Danfoss ABILITIES – focusing on employees with mental and/or physical disabilities and allies

Danfoss GENERATIONS – focusing on employees of all age groups and allies

Danfoss PRIDE – focusing on employees of the LGBTQ+ community and allies



A safe place to work

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

In 2022, we reached a record low Lost Time Injury Frequency (LTIF) of 1.6 incidents per million hours worked where the injured person was absent for more than one full day. The Total Recordable Injury Frequency (TRIF), which combines the number of Lost Time Injuries and Medical Treatment Injuries, fell by 7% from the the previous year and also reached a record low.

We are proud to see continued improvement in the work environment at Danfoss during 2022. This is clearly reflected in the steady decline of our safety indicators, demonstrating a strong safety mindset and management focus on making Danfoss an even safer place to work. This is the way forward, and we will continue this in 2023.

The severity of injuries was reduced by 12% in 2022 compared to the previous year. We measure the severity as the Lost Day Rate (LDR) – the number of days of absence per million hours worked.

Safety First! at Danfoss

Engaged employees drive our success in achieving a safe work environment because everyone is committed to safety as a top priority at Danfoss.

In 2022, a new safety campaign introduced different tools for employees and leaders to further engage them in daily safety activities. For example, leaders participated in daily safety walks, sending a strong signal to the organization that safety is a business priority. Leaders experienced first-hand how safe work practices are applied on the shop floor. We introduced safety discussions, reminding everyone to stay focused on safety during their daily work tasks. Leaders were guided to prepare safety discussions on relevant topics focused on tasks or procedures, observing potential hazards, and recognizing individual and team safety efforts.

The health and safety of Danfoss colleagues remain a top priority. A new campaign has further engaged employees and leaders in daily safety activities. For example, through daily safety walks, highlighting that safety is a business priority.

Governance

ESG governance

A solid ESG governance and accountability structure was established to ensure that we meet our ESG ambition and targets.

The Danfoss Board of Directors has the overall responsibility for ESG. The Audit Committee oversees the ESG reporting and data integrity. The Group Executive Team is accountable for ESG, providing strategic guidance and approving targets and policies. An ESG Leadership Team consisting of 12 members from segments and corporate functions and chaired by the Senior Vice President, Head of Group Communication & Sustainability, oversees the implementation of the ESG ambition and aligns cross-functional targets, processes, and communication. Working groups and supporting workstreams were established for each of the step-change initiatives. They determine metrics and targets and subsequently monitor and report on the overall process of each step-change initiative. The supporting workstreams include Sustainable Procurement, ESG Reporting, Life Cycle Assessment, Innovation, and other ESG relevant topics.

Materiality assessment

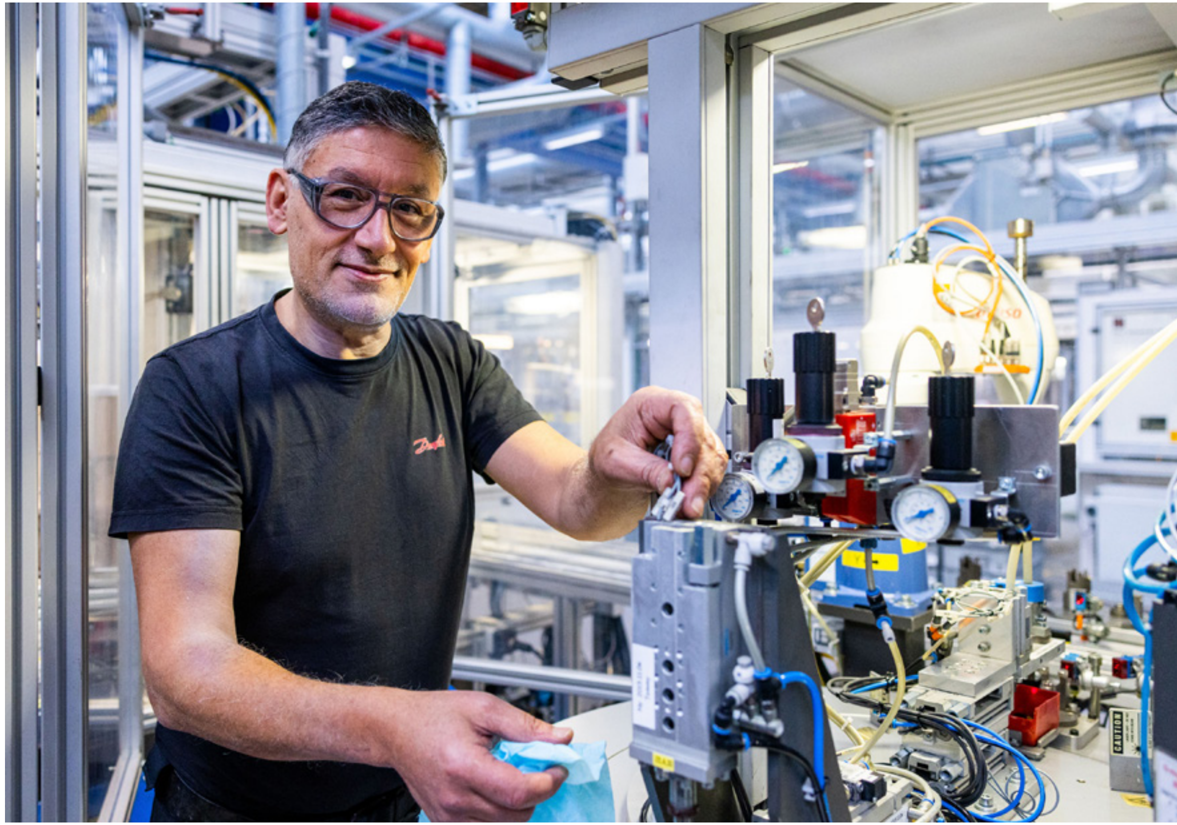
The most material ESG issues for Danfoss were identified through a materiality assessment based on a robust analysis of the economic, environmental, and social impacts of our business. By applying the principle of double materiality, we identified the topics with the highest impact on the business in terms of resilience and the ability to deliver long-term value to our customers and society.

→ Read more about the materiality assessment here

Our policies

Our Policies on Danfoss Business Conduct provide the link between our aspiration, our Core & Clear strategy and how we conduct business at Danfoss. It ensures that our efforts are systematic, supported by documented procedures, and governed by strong accountability and responsibility for action.

→ Read more about our policies here



Ethics and human rights

Danfoss conducts business and creates financial results in an ethical manner while respecting international human rights. Our policies ensure that business ethics and anti-corruption are core elements of the company's behaviors.

Comprehensive ethical guidelines

We have implemented comprehensive compliance programs with mandatory training to minimize the risk of non-compliance. The programs define clear ownership, policies, operational procedures, recurring training, and awareness activities.

Our whistleblower function

Danfoss Ethics Hotline serves as our whistleblower function. It is hosted by an external operator, ensuring that employees and external stakeholders can anonymously report violations of legislation or internal ethics guidelines without risk of retaliation. The Ethics Hotline also fulfils the requirement of having a griev-ance mechanism for human rights.

In 2022, Danfoss launched a communication campaign to refresh employees' awareness of the Ethics Hotline.

Dismissals due to unethical behavior

In 2022, we received 167 reports, a significant increase compared to previous years. The increase can be attributed to the awareness campaign and workforce expansion due to recent acquisitions. Subsequently, corrective actions ranging from stopping inappropriate behavior to termination of employment were implemented for all substantiated allegations.

In 2022, we reviewed conformance of the Ethics Hotline setup with the European Whistleblower Protection Directive and the interpretation by individual member states. The review concluded that the setup of our Ethics Hotline is in accordance with respective legislations.

Since 2004, we have tracked employee terminations due to unethical or illegal behavior. In 2022, 32 employees left Danfoss due to unethical behavior, compared to 28 in 2021, and 24 in 2020. The figure includes dismissals and voluntary resignations connected with ethical issues. The main reasons for the dismissals have been fraudulent behavior, conflicts of interest, disloyal behavior, or other violations of company policies. Some dismissals were handled by the Danfoss Ethics Hotline, while others were handled directly by the local management.

Anti-corruption and bribery

Our dedicated compliance program ensured that only very few cases were subject to investigation for anti-corruption or bribery. Most of them were concluded as unfounded; however, two cases related to kickbacks concluded in the dismissal of employees and the cessation of our relationship with business partners.

Focus in coming years will be on internal communication and targeted training to further avoid root causes for potential misconduct.

Human rights due diligence

We commit to the United Nations Guiding Principles on Business and Human Rights (UNGP) that require companies to prevent and address human rights abuses committed in business operations. New legislation like the European Due Diligence Directive will impact how Danfoss conducts human rights due diligence in the future, and we have therefore initiated a project to prepare for the upcoming legislation.

Mitigating modern slavery

Danfoss addresses forced labor in our supply chain and factories, where outsourced func-tions and services, such as facility management and recruitment, come with increased risk of forced labor.

One of the sectors with the highest risk of forced labor is recruitment, as various forms of fees and cost to workers can lead to debt bondage and other types of forced labor. Since temporary production workers and migrants are especially vulnerable to these forms of practices, we initiated third-party audits focusing on forced labor.

In 2022, we incorporated due diligence measures and other activities to prevent forced labor in construction. We continue to monitor the development of regulations and prepare to meet increased requirements.

Responsible suppliers

A stable, sustainable, and transparent supply chain is essential for Danfoss. We are continuously working on complying with quality standards and making sure we satisfy our customers' requirements.

Danfoss has more than 6,000 suppliers of direct materials used in products and approximately 20,000 suppliers of indirect materials and services like cleaning and catering. All suppliers must adhere to Danfoss' Code of Conduct for suppliers and meet our environmental and social requirements.

During the supplier qualification process, direct suppliers in high-risk countries are subject to second-party audits and self-assessment questionnaires prior to third-party audits. This is a precondition for being approved as a new supplier for Danfoss and has been an important lever in responsible sourcing since Danfoss became a member of the UN Global Compact.

Conducting audits for better results

In 2022, we conducted on-site audits in high-risk countries, supplemented by self-assessment reviews. Results revealed that two suppliers did not meet the requirement of paying minimum wage, two suppliers had issues with excessive working days, and one supplier was not providing correct payment for overtime work. All issues were experienced in high-risk countries:

Not paying minimum wage: one supplier remediated immediately while one is planning for the correction. The latter will not have more business with Danfoss until remedied.

Excessive working days (i.e., not having one day off in seven days for a long period of time): both suppliers agreed to remedy the situation and a close follow-up is planned.

Excessive over time hours and not paying for overtime work: Supplier has agreed to remedy the situation and a follow-up audit was made to monitor the situation.

Dedicated procurement specialists handle supplier assessment. Continuous training, awareness-raising activities, and an internal ambassador network have supported the understanding of the severity of the topic. These efforts mature the procurement organization – ensuring that requirements are explained to our suppliers up front, allowing for a better initial screening process.

All suppliers must adhere to Danfoss' Code of Conduct for suppliers and meet our environmental and social requirements.

Growing for bigger impact

Danfoss significantly increased the supplier base after the acquisition of Eaton's hydraulics business. We carried out due diligence through the fit-gap analysis for sourcing activities. The process resulted in the creation of a stricter governance in the identified high-risk countries. The merger has been a great opportunity to learn best practice from both companies, review the supplier pool, and consolidate and develop long-term strategic suppliers around the world. In 2023, we will continue to strengthen long-term relationships with our global strategic suppliers through our review process.

Responsible sourcing going forward

The Danfoss ESG ambition – integrating sustainability into everything we do – has a big effect on our sourcing practices. We began engaging with our suppliers about our ESG ambition and targets in 2022 and will continue in 2023.

Increasingly stringent regulatory requirements, growing customer demand, and a call for greater transparency in the supply chain has put a focus on stronger compliance. In 2023, we plan to start a collaboration with third-party providers to achieve the next level in our supply chain activities.

Managing risks

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

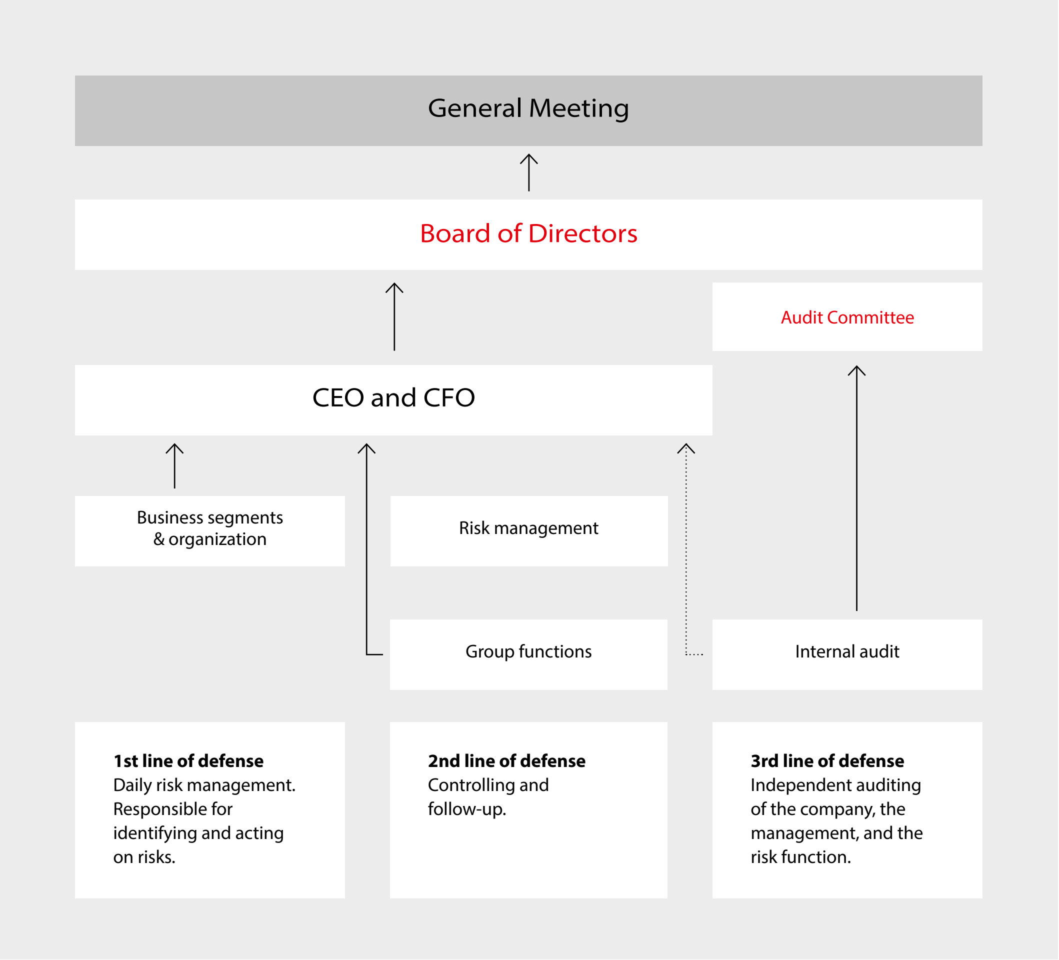
Overall, the Board of Directors performs risk oversight, and the Audit Committee assesses the effectiveness of the risk management process. The Group Executive Team is responsible for executing risk management, ensuring that policies and processes are effective at all relevant levels. Responsibility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

Risk governance

Like its industry peers, Danfoss is exposed to risks. While no single risk can threaten the existence of Danfoss – in either the current circumstances or when looking to the future – the following external risk conditions apply:

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

Risk-management structure and control environment



Specific risk areas

Non-fulfilment of ESG regulation and ambitions	Disruption of IT systems
Risk Danfoss has recently ramped up on our ESG ambition and set far-reaching targets across the entire business. In addition, regulatory bodies and other corporate stakeholders are setting formal requirements and increasing their expectations. This risk deals with the inability to live up to the self-imposed targets and upcoming regulation.	**Risk** The risk of a disruption of IT systems, thereby suppressing the ability to produce or deliver on time.
Mitigation Danfoss has set up a global ESG Leadership Team tasked with managing the execution of the company's ESG ambition and monitoring and mitigating new and revised ESG-relevant regulation. The ESG Leadership Team acts on deviations from plans and escalates issues to higher management bodies as required.	**Mitigation** Danfoss has set up relevant safeguards and employee training to reflect the increased risk in the cyber area to ensure that our business can operate in this macro environment. Danfoss closely follows the changing threat environment and responds accordingly.

The Group Executive Team has a special focus on two additional risks that are currently very important. These two specific risk areas are described in the overview, which does not include financial risks. Financial risks are described in Note 17.

Case story

Stronger together: Fighting the cyberattack at Semikron

Days before joining forces with Danfoss Silicon Power, Semikron was hit by a cyberattack. Cybercriminals had deployed malware on computer systems, which then encrypted software and prevented employees from accessing any data.

After the transaction closed, Danfoss deployed resources to facilitate system recovery.

Dedicated and determined IT colleagues from Danfoss packed all available IT equipment in a van and rushed to Nuremberg, Germany, to help getting critical business systems and processes back on track with their new Semikron colleagues. Since the attack, we continue to closely monitor the changing threat environment and respond accordingly.

Settlement agreement

On December 30, 2022, Danfoss entered into a settlement agreement to pay USD 4.4m to the Office of Foreign Asset Control (OFAC) of the Department of the Treasury of the United States of America for apparent violations of OFAC economic sanctions programs regarding Iran, Syria, and Sudan.

No products sold were subject to sanctions or export controls. The apparent violations occurred when a subsidiary company accepted payments made to a US bank account in the United Arab Emirates from and to customers in sanctioned jurisdictions.

According to OFAC, no evidence was found that Danfoss willfully accepted payments for the purpose of potentially evading sanctions. OFAC said Danfoss took quick action to ascertain the root causes of the conduct at issue and cooperated highly with OFAC. The settlement also said Danfoss adopted new and more effective internal controls and procedures to prevent a recurrence of the apparent violations.

Danfoss has not had any businesses in Iran since November 2018. The last shipment to Iran took place in January 2019.

Data privacy

We maintain a high focus on data privacy processes and compliance with data privacy regulations. Based on updated Danfoss Binding Corporate Rules, approved by the Danish data protection authorities, we follow a Data Privacy Handbook, conduct and participate in training, and follow other requirements of data-privacy legislations.

Data ethics

Following our digital transformation, processes in Danfoss are becoming increasingly digitalized. This is accompanied by gathering, storage, analysis, and use of vast quantities of personal, but also non-personal data. Danfoss applies the same ethical values and guidelines to the processing of data across the organization, and thereby goes beyond compliance with privacy legislation. Danfoss handles data with care and transparency. Danfoss takes full responsibility for the data we process, and we apply high standards to the data we collect or receive. Data exploration and data modelling help us to better understand stakeholder needs and provide insights to improve service, reduce risks, and improve operational processes. This also means that Danfoss respects the right to privacy, whether it is the privacy of our employees, our business partners, or the people using our products. Danfoss takes great care to protect data, and additional security measures are in place to protect personal data. We do not monetize the data of individuals. Where Danfoss uses Artificial Intelligence (AI) or automated decision-making, Danfoss ensures that stakeholders are informed in line with our legal obligations and that appropriate security measures are implemented. Special personal data that reveals racial or ethnic origin, political opinions, religious or philosophical beliefs, trade union membership, genetic data, biometric data, or data concerning health or revealing a person's sexual activity or orientation will in no event be subject to AI or automated decision-making. An exception is when individuals have provided their explicit consent or the processing is necessary for reasons of substantial public interest or applicable law.

Employees and other stakeholders are encouraged to contact Group Compliance or the Group Data Protection Office for guidance or to report concerns.

Our people ensure diligent treatment of data that always honors the privacy of our employees, business partners, and product users first.

Corporate governance

Remaining committed to good corporate governance practices and following the Danish Recommendations on Corporate Governance.

Danfoss has a two-tier management system consisting of the Board of Directors and the Group Executive Team (GET), including the CEO and CFO. The Board of Directors appoints and supervises the CEO and CFO and approves Danfoss' overall strategies and targets. As it has overall responsibility for the company's activities, it is important that Danfoss has a dynamic and professional Board of Directors, whose members possess the knowledge and experience necessary to ensure the Group's long-term performance.

The aggregate competencies of the members of the Board of Directors are regularly assessed to ensure consistency with the Group's requirements. The entire Board of Directors performs the function of the Nomination and Remuneration Committee.

The Board of Directors consists of 12 members. Six of the eight shareholder-elected members are independent. Each member is elected for the term until the following year's Annual General Meeting (AGM) and may be re-elected. The Board of Directors appoints a Chair and may appoint a Vice Chair from among its members. Pursuant to Danish legislation, four employee representatives serve on the Board for four years and may be re-elected. The most recent employee election took place in early 2022.

Diversity of thought and voices ensures better discussions, decisions, and outcomes.

The Board of Directors meets at least five times a year and holds extraordinary meetings when relevant. At least one meeting each year includes a site visit to one of the Group's locations around the world. All members of the Board of Directors are expected to participate in the meetings.

Matters discussed at Board meetings are decided by simple majority, and, if needed, the Chair has the casting vote. The CEO and CFO normally attend the meetings of the Board of Directors, unless the Board of Directors is reviewing matters pertaining to the CEO and CFO. The distribution of tasks between the Board of Directors, CEO, and CFO is set out in the rules of procedure.

Gender composition of the Board of Directors

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

Danfoss has a target that at least two of the eight shareholder-elected members of the Board of Directors should be women, equal to 25%. Danfoss met the target in 2022.

In 2022, the Board of Directors had three female members, two shareholder-elected and one employee-elected. Furthermore, the Board of Directors consists of people with diverse backgrounds, professional skills, nationalities, and ages.

Gender composition targets like that of the Board of Directors have been implemented in the relevant subsidiaries of a certain size and type. Danfoss meets the gender composition target in the Board of Directors of Danfoss Power Solutions ApS, but not in Danfoss Power Electronics A/S, as the composition of the Board did not change during the year.

However, Danfoss Power Electronics A/S has a woman employee-elected Board member. The gender composition target for the Board of Directors is expected to be met in 2023.

Audit Committee

The Audit Committee consists of three members of the Board of Directors and is established in line with recommendations for good corporate governance. The Chair of the Audit Committee conducts regular meetings with corporate functions and internal audit outside Board meetings. The Committee's activities and tasks are set out in its rules of procedure. Five meetings were held in 2022.

The main objectives of the Audit Committee are to:

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

Group Executive Team

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

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

Shareholders with more than 5% of share capital

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

Recommendations on Corporate governance

As its code of Corporate governance, Danfoss follows the recommendations on good corporate governance, as set out by the Committee on Corporate Governance in Denmark. The recommendations are available on corporategovernance.dk. Danfoss complies with the recommendations.

Danfoss' statement is available at: https://www.danfoss.com/en/about-danfoss/company/financial-information/corporate-governance/

Share capital

Danfoss' share capital amounts to EUR 134m or DKK 997m and is divided into two share classes: Class A shares account for EUR 57m or DKK 425m and Class B shares account for EUR 78m or DKK 572m. A-shares entitle holders to 10 votes for every DKK 100 nominal value of shares held and B-shares entitle holders to one vote for every DKK 100 nominal value of shares held. See more information in Note 16. Class A shareholders have a pre-emptive 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 99.88% of the votes. At the end of 2022, Danfoss had 2,407 registered shareholders.

Share price

The price of Danfoss shares is set once a year, based on a valuation prepared by Danske Markets immediately before the Annual General Meeting (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 2022, the price was set at DKK 11,908 per share against DKK 10,717 per share the previous year.

Annual General Meeting

Danfoss' AGM will be held virtually from the company's registered office, on March 24, 2023. The Board of Directors will recommend that a dividend of 30.0% of the Group's net profit be paid for 2022, corresponding to EUR 20.6 or DKK 153.1 per DKK 100 share.

Board of Directors
The Danfoss Board of Directors regularly makes site visits to Danfoss locations.
In 2022, the Board of Directors visited the Danfoss Climate Solutions Application Development Center in Tallahassee, US, and were shown the world-leading oil-free compressor technology, Danfoss Turbocor®.

Board of Directors

Jens Bjerg Sørensen
Chair

Born: 1957
Appointed: 2020
Independent

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

Board positions
Board Member and Chair: F. Salling Holding A/S; F. Salling Invest A/S; Købmand Herman Sallings Fond; A. Kirk A/S.

Board Member and Vice Chair: Salling Group A/S.

Board Member: Købmand Herman Sallings Mindefond; Aida A/S; Ejendomsselskabet FMJ A/S; F.M.J. A/S.

Mads Clausen

Born: 1984
Appointed: 2022

Special competencies
Professional experience in technology and product development, commercialization of new technology, finance, M&A and business management.

Board positions
Board Member and Chair: MC2 Therapeutics A/S; Vandstrom Inc.

Board Member: Bitten & Mads Clausen's Foundation since 2015.

Mads-Peter Clausen

Born: 1976
Appointed: 2014

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

Board positions
Board Member and Chair: miniBOOSTER A/S, Denmark.

Board Member: Bitten & Mads Clausen's Foundation since 2022.

Karin Dohm
Chair of Audit Committee

Born: 1972
Appointed: 2022
Independent

Special competencies
Extensive international experience in key topics such as strategy, finance, treasury, risk management and compliance as well as Corporate governance and ESG reporting. Broad experience in a global environment working for and with multinational companies. Former Assurance Partner at Deloitte and Managing Director at Deutsche Bank Group.

Board positions
Board Member and Vice Chair: Hornbach Immobilien AG

Board Member and Head of Audit Committee: CECONOMY AG

Per Falholt

Born: 1958
Appointed: 2017
Independent

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

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

Board Member: Cytovac A/S; Vandstrom; Co-Ro A/S; Lactobio; LIFE foundation; Bactolife.

Board of Directors continued

Connie Hedegaard

Born: 1960
Appointed: 2016
Independent

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

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

Board Member: Volkswagen's Sustainability Board; Cadeler; Kirkbi A/S and BBVA.

Jürgen Reinert

Born: 1968
Appointed: 2015
Independent

Special competencies
International experience with executive management and industrial operation as well as strong strategic, organizational, and communication skills. Expert within electrical engineering (drives, electric vehicles, renewable energy, storage) and science, and knowledge from other Board positions.

Board positions
Board Member: KraftPowercon AB.

Mika Vehviläinen

Born: 1961
Appointed: 2018
Independent

Special competencies
Extensive international experience in business management. Professional experience with performance transformation, organizational changes, mergers and acquisitions, and Internet of Things (IoT). Lengthy experience in listed companies as a Board member and CEO.

Henning Bjørklund

Born: 1964
Appointed: 2022

Special competencies
Employee-elected member in accordance with Danish law.

Marianne Godballe

Born: 1984
Appointed: 2018

Special competencies
Employee-elected member in accordance with Danish law.

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

Board Member: Danfoss Employee Foundation in Denmark; Junior Chamber International Denmark.

Henning Andreas Krogh

Born: 1962
Appointed: 2022

Special competencies
Employee-elected member in accordance with Danish law.

Bent Lewke

Born: 1972
Appointed: 2022

Special competencies
Employee-elected member in accordance with Danish law.

Board positions
Board Member: Dansk Metal Sønderjylland.

Group Executive Team
The Danfoss Group Executive Team holds their meetings at different site locations, here in Semikron Danfoss. From left: Danfoss colleague, Kim Fausing, Jesper V. Christensen, Astrid Mozes, Ilonka Nussbaumer, Eric Alström, Mika Kulju, Jürgen Fischer.

Group Executive Team

Kim Fausing
President & CEO

Born: 1964
Joined Danfoss in 2007

Board positions

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

Board Member and Vice Chair: SMA Solar Technology AG.

Board Member: Holcim Ltd.

Registered officer with the Danish Business Authority for Danfoss A/S since 2008.

Jesper V. Christensen
Executive Vice President & CFO

Born: 1969
Joined Danfoss in 1993

Board positions

Board Member and Vice Chair: Manufacturing Industry in Denmark.

Board Member: Confederation of Danish Industries.

Board Member and Head of Audit Committee: Danish Crown A/S.

Registered officer with the Danish Business Authority for Danfoss A/S since 2013.

Eric Alström
President, Danfoss Power Solutions

Born: 1966
Joined Danfoss in 2012

Board positions

Board Member and Vice Chair: Hempel A/S.

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

Jürgen Fischer
President, Danfoss Climate Solutions

Born: 1963
Joined Danfoss in 2008

Board positions

Board Member: Steering Committee EPEE - the European Partnership for Energy and the Environment; Cool Champion at the UN Environment Cool Coalition.

Advisory Board Member: TÜV SÜD Germany.

Supervisory Board Member: BDR Thermea

Mika Kulju
President, Danfoss Power Electronics and Drives

Born: 1968
Joined Danfoss in 2022

Astrid Mozes
President, Regions

Born: 1960
Joined Danfoss in 2021

Ilonka Nussbaumer
Executive Vice President & Head of Human Resources

Born: 1973
Joined Danfoss in 2019

Board positions

Board Member: SMA Solar Technology AG.

Our climate targets are validated by the Science Based Target initiative (SBTi). Setting science-based targets supports an ambitious decarbonization roadmap, clarifying the alignment with the Paris Agreement.

ESG statements

ESG review

To further increase the transparency in ESG data disclosure, we are introducing a section of consolidated ESG statements accompanied by notes. These data points, spanning from 2019 to 2022, are considered material. The notes to the consolidated ESG statements contain descriptions of general considerations as well as accounting policies and scope of reporting for each data point presented in the consolidated ESG statements.

Consolidated ESG statements

Including the consolidated ESG data and the notes is the initial step towards an even more comprehensive data table in the years to come, as we continue to implement disclosure requirements outlined by the Corporate Sustainability Reporting Directive (CSRD). This supports our ambition to improve data quality, which allows us to develop a systematic approach in monitoring the progress on our ESG targets. As previously mentioned in this report, 2022 was the year we had our targets on scope 1, 2, and 3 approved by the SBTi to limit global warming to 1.5°C.

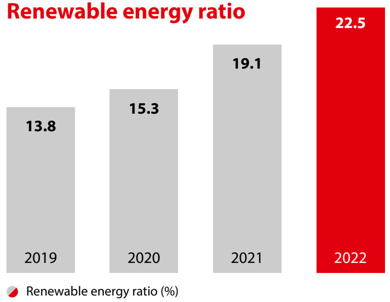
Development in key figures in 2022

In 2022, our consolidated ESG statements were influenced by the inclusion of data from the hydraulics business acquired in 2021. This applies especially to the environmental figures, which show significant increases. Adjusted for the acquired hydraulics business, the development of the intensity ratios shows an improvement each year from 2019 to 2022.

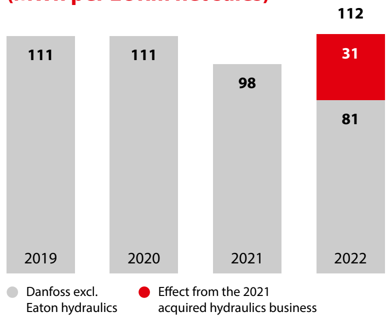
Environment

Intensity indicators on scope 1 and 2 GHG emissions, energy, and water show an improvement year-over-year when excluding the acquired hydraulics business. In 2022, environment figures are impacted by the inclusion of data from the acquired hydraulics business. The effect from the acquisition is further specified in the consolidated ESG statements and accompanying notes. We will continue to drive impact across Danfoss including the acquired business.

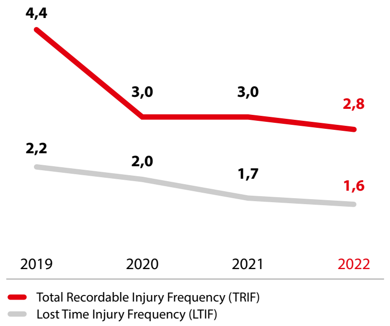
Renewable energy ratio



Energy intensity (MWh per EURm net sales)



Health & Safety



Social

Our people KPIs measure overall population data, as well as gender data specifically so we can quickly identify and address trends. We focus on women representation in total workforce and in management, women hiring ratio, and salaried attrition by gender, which we seek to stay within a 2.5% margin of men. We are also conducting an equity analysis, which uses quantitative and qualitative data to identify and mitigate potential barriers for women and underrepresented communities within the employee experience.

With our focus on diversity & inclusion, we see a minor improvement in our gender split on leadership positions, moving from 20.1% in 2021 to 21% in 2022. We will continue our focus to improve further. In particular, we are proud of our approach to safety as our LTIF reached a new low of 1.6.

The pay ratio between genders per job category is 3.6%, and the general pay ratio between genders is at 22.7%. This reflects the significant overrepresentation of men in leadership positions, a challenge we aim to improve.

The CEO pay ratio is calculated at 172. This level is in line with our global peers.

Governance

Our governance continues to be of high relevance for us, and we also see an improvement in Board independence, which reflects a healthy level of 75%. We will continue to work with information campaigns on our ethics hotline and collaborate with our suppliers regarding Code of Conduct.

Next steps in 2023

In 2022, we focused on building robust ESG data foundations. Our ambition for the coming years is to further expand our consolidated ESG statements to cover more disclosure requirements in the European Sustainability Reporting Standards (ESRS). In 2022, we participated in industry forums to take part in the regulation process of the standards and to be prepared for the upcoming regulation.

COMMUNICATION ON PROGRESS
UN GLOBAL COMPACT

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

We welcome feedback on its contents.

Consolidated ESG statements

	Note	2019	2020	2021	2022 excl. acq. hydraulics bus.	2022
Environment						
Climate						
Scope 1 GHG emissions (metric tons CO_2e)	2	55,118	48,588	41,792	42,609	72,731
Scope 2 GHG emissions, market-based (metric tons CO_2e)	2	-	-	-	159,967	284,917
Scope 2 GHG emissions, location-based (metric tons CO_2e)	2	215,302	187,353	187,851	170,317	280,938
Scope 3 GHG emsissons (metric tons CO_2e)	2	66,765,948	67,302,161	77,816,418	*	*
GHG Intensity (scope 1 and 2 GHG emissions, market-based, metric tons CO_2e per EURm net sales)**	2	43.0	40.5	34.0	26.6	36.2
Energy						
Energy consumption (MWh)	3	696,721	645,005	659,783	615,617	1,103,142
Energy intensity (MWh per EURm net sales)	3	110.9	110.7	97.7	80.7	111.7
Renewable energy ratio (%)	3	13.8	15.3	19.1	31.7	22.5
Circularity & Waste						
Total waste amount (metric tons)	4	-	-	38,682	44,942	76,829
Hazardous waste (metric tons)	4	-	-	4,868	10,285	13,344
Recycled waste (metric tons)	4	-	-	27,749	29,538	49,918
Waste intensity (metric tons per EURm net sales)	4	-	-	5.7	5.9	7.8
Water						
Water withdrawals (M^3)	5	1,069,463	946,846	1,045,908	984,602	2,007,260
Water intensity (M^3 per EURm net sales)	5	170.2	162.5	154.9	129.1	203.2

Environmental data includes the 2021 acquired hydraulics business as of 2022.
The Social and Governance data include the 2021 acquired hydraulics business as of 2021.

* Scope 3 GHG emissions data on 2022 to be reported in CDP reporting in June 2023.
** 2019-2021 reported as scope 1 and 2, location-based, metric tons CO_2e per EURm net sales.

	Note	2019	2020	2021	2022
Social					
People					
Number of employees	6	27,871	27,491	40,043	41,928
Employee turnover (%)	6	-	11.8	16.0	19.2
Diversity & Inclusion					
Gender split all employees (m/f) (%)	7	70.4 / 29.6	70.6 / 29.4	72.5 / 27.5	71.0 / 29.0
Gender split all leadership positions (m/f) (%)	7	79.9 / 20.1	79.8 / 20.2	79.9 / 20.1	79.0 / 21.0
Management team diversity (%)	7	-	-	66.8	67.4
Equity					
Pay ratio between gender, general (%)	8	-	-	-	22.7
Pay ratio between gender, within job categories (%)	8	-	-	-	3.6
Pay ratio between CEO and average employee (ratio)	8	-	-	-	172
Health & Safety					
Lost Time Injury Frequency (LTIF)	9	2.2	2.0	1.7	1.6
Total Recordable Injury Frequency (TRIF)	9	4.4	3.0	3.0	2.8
Governance					
Board of Directors					
Gender split Board of Directors (m/f) (%)	10	75.0 / 25.0	75.0 / 25.0	75.0 / 25.0	75.0 / 25.0
Attendance rate at Board meetings (%)		89.0	98.0	100.0	96.0
Board independence (%)	10	63.0	63.0	63.0	75.0
Ethics and Human Rights					
Whistleblower cases (Ethics Hotline), all	11	81	55	74	167
Whistleblower cases (Ethics Hotline), substantiated	11	20	8	2	6
Ratio of suppliers signed Code of Conduct (%)	11	94.6	94.5	94.5	93.0

Notes to the consolidated ESG statements

1 Basis of preparation

Reporting period
Unless otherwise stated, the consolidated ESG Statements covers the period from January 1 to December 31, 2022.

Significant changes in accounting policies
In comparison to earlier years' reporting of ESG performance, the following significant changes have been implemented in 2022:

- Data on scope 1 and scope 2 market- and location-based emissions differs from earlier reports as emissions factors have been updated. Comparative years have been corrected.
- Data from the hydraulics business acquired in 2021 has been included.

General reporting standards and guidelines
As a guidance to secure high-quality information and proper presentation of Danfoss' ESG performance, we strive to fulfill the reporting principles in November's draft of European Sustainability Reporting Standards (ESRS 1 General requirements, section 2).

The consolidated ESG Statements are supported by a GRI Content Index, which can be found here →
The GRI Content Index is reported with reference to GRI Standards.

Consolidation and scope of reporting
The ESG statement encompasses consolidated data from the parent company, Danfoss A/S (Danfoss), and subsidiaries controlled by Danfoss.

Scope of reporting covers all Danfoss locations. Any deviations from this policy will be referred to under the relevant note.

GHG emissions are calculated in accordance with the GHG Protocol. The consolidation of GHG emissions follows the operational control approach, which implies that all locations where Danfoss has operational control are included in the scope 1 and 2 figures.

Data from associates, joint ventures, and other capital interests are not included. Data from mergers and acquisitions are included from the reporting year after the closing date of the acquisition. This does not apply to the Social and Governance data points, which are applied from the transaction date and onwards. This applies to the newly merged Semikron business, where Danfoss will include environmental performance data from the reporting year 2023. In case of divestments in the reporting year, the data is included up to the closing date of the divestment.

Materiality
The data presented in the ESG statement is considered to have significant impact on the ESG performance of Danfoss. Management is assessing key issues to include in the performance data with respect to the importance for our stakeholders, risk assessment, and by professional judgement with inclusion of qualitative factors. More information about our materiality assessment is to be found here →

Significant development in ESG figures is referred in connection with the specific notes.

2 Climate

Primary data on scope 1 and 2 GHG emission constitutes the largest proportion of the emissions data. This includes data from digital and manual meter readings and consumption data from invoices. Locations with primary data covers Danfoss factories, currently approximately 1.9 million m^2 out of Danfoss' total real estate footprint of 2.3 million m^2 corresponding to 82%.

For the remaining part of Danfoss locations where no consumption and emissions data are available, average consumption values per m^2 have been applied to estimate energy consumption and GHG emissions. For 2022, this amounts to 6% of total scope 1 and 2 emissions (market-based).

If available, calculations of GHG emissions are based on emission factors from invoices from energy suppliers. Otherwise, most recent available emission factors from IEA, are applied. All GHG emissions are converted to CO_2 equivalents (CO_2e).

2022 (CO_2e metric tons)	Market-based	Location-based
Scope 1 GHG emissions	-	**72,731**
Combustion of gas	-	51,265
Combustion of oil	-	3,780
Filling media	-	9,531
Vehicles	-	8,155
Scope 2 GHG emissions	**284,917**	**280,938**
Purchased electricity	279,522	273,568
Purchased heating	5,395	7,370

Scope 1 GHG emissions
Scope 1 GHG emissions includes direct emissions from combustion of gas and oil, filling media and mileage in Danfoss-owned or controlled vehicles.

Scope 2 GHG emissions (market-based)
Scope 2 GHG emissions includes indirect emissions from purchased heating and electricity. Market-based emission factors have been applied, which implies that Power Purchase Agreements (PPAs) of green energy and other renewable sourcing of energy influences the calculation. Where no market-based emissions factors are available, location-based emissions factors from IEA have been applied. For 2022 emissions, 2021 factors are applied.

Scope 2 GHG emissions (location-based)
Scope 2 GHG emissions includes indirect emissions from purchased heating and purchased electricity. Location-based emission factors from IEA have been applied. For 2022 emissions, 2021 factors are applied.

Scope 3 GHG emissions (2021)
Scope 3 GHG emissions are reported for 2019-2021, where 2020 data have been extrapolated by net sales. The scope of the calculation covers Danfoss without the hydraulics business acquired in 2021 and the newly merged Semikron business. In Carbon Disclosure Project (CDP) reporting for 2022, Danfoss will include the acquired hydraulics business, and calculation methodologies will be revisited to meet evolving practices within the field. From 2023, Semikron will be included and Danfoss will align Scope 3 GHG emissions reporting in the Annual Report for 2023.

Scope 3 GHG emissions include indirect emissions from the following categories (C):

- C1 Purchased goods and services: covers direct spend on materials.
- C2 Capital goods: includes acquisition of machines.
- C3 Fuel- and energy-related activities: covers emissions from energy not already included in scope 1 and 2 GHG emissions based on average country emission factors.
- C4 Upstream transportation and distribution: included as average based on shipped weight.
- C5 Waste generated in operations: includes emissions from categories listed in note 4 on waste.
- C6 Business travel: based on emissions data from booking system for air travel.
- C7 Employee commuting: calculation method based on average commuting data.
- C8 Upstream leased assets: includes emissions from leased locations, mainly Danfoss sales office locations.
- C9 Downstream transportation and distribution: transportation and distribution of products sold by Danfoss in the reporting year between the reporting company's operations and the end consumer. Emissions were estimated by splitting our spend by transport mode and extrapolating available supplier emission factors to the spend base.
- C11 Use of sold products: covers the use-phase emissions from sold products in the reporting year, over their expected lifetime. Lifetime power consumption is converted into emissions using IEA CO_2e emissions per kWh.
- C12 End-of-life treatment of sold products: reported as emissions from disposal or treatment of materials reported in C1 Purchased goods and services.

The following categories have been excluded from the calculation: C10: Processing of sold products, C13: Downstream leased assets, C14: Franchises, C15: Investments.

GHG intensity - scope 1 and 2 GHG emissions (market-based)
GHG intensity is reported as scope 1 and 2 GHG emissions (market-based) in metric tons per EURm net sales. Location-based scope 1 and 2 GHG emissions in metric tons per EURm net sales equals 35.8.

3 Energy

Energy consumption

	2021	2022	
Energy consumption by type (MWh)	Danfoss	Danfoss excl. Eaton hydraulics	Total
Oil	915	897	897
Natural gas	127,990	131,801	313,432
Electricity	487,714	444,928	750,822
District heating	43,164	37,991	37,991
Total	**659,783**	**615,617**	**1,103,142**

Includes the total energy consumption of oil, natural gas, electricity, and district heating converted to megawatt hours (MWh). Calculation of energy consumption follows operational control approach.

Energy consumption of the Danfoss Group excluding the acquired hydraulics business shows a reduction compared to 2021. This can be attributed to an energy savings awareness campaign run in 2022, which resulted in energy reduction in multiple locations. The inclusion of energy consumption data from the acquired hydraulics business results in an overall increase in energy consumption.

Energy intensity
Energy intensity is reported as energy consumption (MWh) per EURm net sales. The energy intensity has increased in 2022 due to the acquisition of the hydraulics business.

Renewable energy ratio
Renewable share of energy consumption. Renewable energy ratio is determined by average energy mix from suppliers, energy generated from Danfoss' own solar parks or via PPAs of renewable energy.

4 Waste

Primary data on waste is available for Danfoss and the acquired hydraulics production locations, while the remaining locations are calculated as average waste generation per employee in unmapped location multiplied by average waste generation (based on survey from Business Resource Efficience Guide, avg. 200 kg waste per employee). The estimated part accounts for 3.8% of the total waste amount reported in the following table:

	2021	2022	
Waste types (metric tons)	Danfoss	Danfoss excl. Eaton hydraulics	Total
Oil and chemicals (hazardous waste)	4,868	10,285	13,344
Landfill	2,613	1,690	5,561
General waste	2,694	2,878	7,303
Metal waste - non-recycled	354	179	179
Estimated remaining locations	404	372	524
Non-recycled waste	**10,933**	**15,404**	**26,911**
Cardboard and paper	3,629	3,890	5,346
Plastic	710	948	5,186
Metal	18,661	19,197	28,935
Electronic	187	279	291
Other recyclable waste	2,808	3,532	7,775
Estimated remaining locations	1,754	1,672	2,385
Recycled waste	**27,749**	**29,538**	**49,918**
Total waste amount	**38,682**	**44,942**	**76,829**

A significant change is seen in the waste type; oil and chemicals due to a change in waste treatment method in our Nordborg facility, where oil-contaminated wastewater treatment has been moved to an off-site service provider. This is leading to higher reported numbers because the water in the wastewater was previously evaporated before the wastewater was sent for external treatment.

Waste intensity
Waste intensity is reported as total waste amount in metric tons per EURm net sales.

5 Water

Water withdrawals
Water is reported as withdrawals in m³. Primary data on water is available for Danfoss production locations, while the remaining locations are estimated by industry average data. The estimated part accounts for 2.7% of the total water withdrawals.

	2021	2022	
Water withdrawals in m³	Danfoss	Danfoss excl. Eaton hydraulics	Total
Production locations	1,004,124	946,292	1,953,282
Estimated remaining locations	41,784	38,310	53,978
Total water withdrawals in m³	**1,045,908**	**984,602**	**2,007,260**

Danfoss continued to see a reduction in our water withdrawals in our factory locations when excluding the acquired hydraulics business. With the acquisition, Danfoss sees potential in implementing water-saving initiatives that can reduce overall water withdrawals.

Water intensity
Water intensity is measured as water withdrawals in m³ per EURm net sales.

Water intensity in our factory locations across Danfoss, when excluding the acquired hydraulics business, has continuously been improving. In 2022, the improvement was related to a reduction in water withdrawals combined with higher sales. With the acquisition of the hydraulics business and the nature of the production processes, the water intensity increased to a higher level than previous years.

6 People

Number of employees
Number of employees are measured by headcount. The increase in number of employees is primarily driven by the acquisition of the hydraulics business in 2021 and the merger with Semikron in 2022.

Employee turnover
Employee turnover is reported as the turnover of employees in general, including both voluntary and involuntary turnover, divided by average headcount. Reported ratio of employee turnover is corrected for divestments for 2021 and 2022. Actual reported employee turnover from 2021 and 2022 has been adjusted to full-year ratios for the integrated hydraulics and Semikron businesses. Adjusted employee turnover has increased by 3.2 percentage points to 19.2%.

7 Diversity & Inclusion

Gender split all employees
Split between gender in total workforce measured by headcount and reported as the ratio of male to female employees. Non-binary is collected on a voluntary basis and is included in the number of female employees. The non-binary currently is less than 0.1% of our workforce.

Gender split all leadership positions
Split between gender in all leadership positions measured by headcount and reported as the ratio of male to female employees in leadership positions. Leadership positions are defined by leaders with direct reports from employees.

Management team diversity
Diverse management teams are defined by the following criteria: ≥1 man, ≥1 woman/non-binary, and ≥2 nationalities in management teams with ≥5 employees (excluding assistants). The data point is measured on the first 4 management levels.

8 Equity

Pay ratio between gender
Pay ratio between gender is both reported as the general pay ratio between male and female employees and as the pay ratio within job categories (equal pay for equal work). The general pay ratio between gender is determined as the average salary for male employees compared to average salary for female employees. Pay ratio within job categories shows the average pay ratio between employees in same job categories. Danfoss is committed to equal remuneration for equal work. We let skills and experience determine compensation.

Pay ratio between CEO and average employee
The ratio between the salary of the CEO compared to average employee salary (excluding CEO salary). Both including bonuses and benefits.

9 Health & safety

The following two measures cover all production locations in Danfoss and include full-time employees, part-time employees (with a permanent contract), trainees and apprentices, temporary employees on short-term contracts (<1 year), such as students, holiday reliefs, temporary replacements for Danfoss employees on leave, or external workers employed by an external agency. Data from Semikron merger is not included in TRIF and LTIF figures.

Lost Time Injury Frequency (LTIF)
The number of Lost Time Injuries occurred in Danfoss per million hours worked. A Lost Time Injury (LTI) is defined as a personal injury that results in one or more days away from work beyond the day the injury occurred.

Total Recordable Injury Frequency (TRIF)
Number of fatalities, Lost Time Injuries, and other injuries requiring treatment by a medical professional per million hours worked.

10 Board of Directors

Gender split Board of Directors
Split between gender in Board of Directors is reported in accordance with the Danish Financial Statements Act §99b and reported as the ratio of male to female members on the Board of Directors.

Board independence
Board independence shows to what extent Board members elected at the Annual General Meeting are independent from Danfoss. The Board of Directors' independence is determined through criteria that follows the recommendations from the Committee on Corporate Governance in Denmark, which are accessible here →

11 Ethics & human rights

Whistleblower cases
Whistleblower cases are reported as the total number of new whistleblower cases received through Danfoss' own Ethics Hotline. In the reporting year, 6 cases have been concluded as substantiated, 131 cases have been closed as unsubstantiated, and 46 cases are still under investigation. The increase in the number of cases from 2021 to 2022 can be ascribed to an awareness campaign and workforce expansion due to the acquisition of the hydraulics business and the merger with Semikron.

Ratio of suppliers signed Code of Conduct
This datapoint is reported as total direct (materials) spend on suppliers who have signed Danfoss' Code of Conduct in relation to total direct spend. The scope of suppliers does not cover the following spend; indirect, internal suppliers, joint ventures, prototypes, customs, taxes, and government-regulated spend. In some cases, Danfoss accepts the Code of Conduct of a supplier, which is also considered eligible to be included in this ratio. This datapoint does not cover data on the acquisition of the hydraulics business and the merger with Semikron, which will be included from the reporting year 2023.

Financial review

Financial review

Danfoss continued to allocate high investments into innovation, additional capacity, digitalization, and M&A. This resulted in a transformational sales growth of 36%. The organic growth was 15% showing a high demand for our products and solutions. EBITA grew 26%, with a margin of 11.9%, which was within our range of guidance. The strong results were achieved despite global supply chain disruptions, rising inflation, pandemic lockdowns, exit from Russia and integration of the Semikron business. The free operating cash flow after financial items and tax reached EUR 465m after high investments in innovation, digital initiatives, and production capacity. On August 1, we closed the transaction with Semikron, acquiring the majority of the shares to create a joint operation with the Danfoss Silicon Power business unit.

Sales

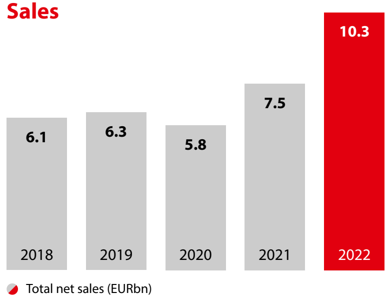
2022 was another very strong year for Danfoss with significant organic and inorganic growth, continuing the company's sound growth journey. Group sales increased 36% to EUR 10,256m (2021: 7,539m), with organic growth of 15%. Acquisitions added 23% to sales growth, while the exit of Russia and divestments impacted -4%. The sales level exceeded our expectations due to higher demand than originally planned.

All three business segments and all Danfoss regions saw continued high demand, despite increased volatility created by global supply chain disruptions, unprecedented rising inflation, and our exit from Russia due to the war in Ukraine.

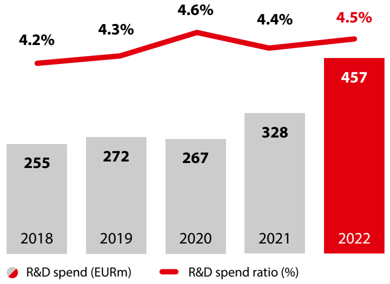
Growth was broadly based across the major markets of North America, Europe, and Asia, and all three business segments had double-digit organic growth rates. Sales in China were at the same level as in 2021 as growth was impacted by the pandemic lockdowns during the first half of 2022.

Danfoss continued to see strong demand for our technologies and solutions that are driving the green transition towards lower CO_2 emissions through energy efficiency, machine productivity, low emissions, and electrification.

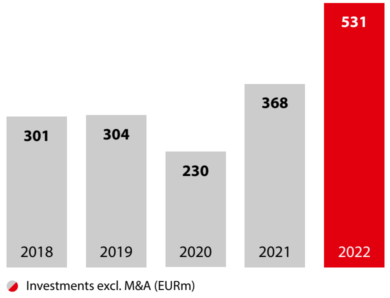
Sales



Innovation spend



Net investments in fixed assets excluding M&A



Earnings

After continued high levels of strategic investments in innovation, production capacity, digital transformation, regional initiatives to fuel future growth as well as integration of acquired companies, the operating profit before acquisition-related amortizations (EBITA) increased 26% to EUR 1,224m (2021: 969m). The EBITA margin reached 11.9% (2021: 12.8%).

Earnings were driven by the higher topline and continued traction in managing procurement savings, factory performance, as well as customer pricing and mix. To some extent, this countered the inflationary cost pressure from increasing raw material prices, freight cost, and spot buys related to the supply chain bottlenecks. All segments and regions were managing the supply situation and increasing cost in the inflationary environment.

Danfoss reassessed net assets at fair value in relation to the Russia exit. This resulted in a write-down of EUR 85m, impacting EBIT.

The effective tax rate for 2022 was 28.0% (2021: 23.0%). Net profit reached EUR 683m (2021: 631m), 8% higher than the previous year.

Innovation

Danfoss continues to invest in innovation across the business segments to improve the performance of our products and solutions and to become the preferred partner in helping our customers decarbonize. Research and development expenses increased 39% to EUR 457m (2021: 328m), corresponding to 4.5% of sales (2021: 4.4%).

Assets and liabilities

Total assets increased 18% to EUR 11,728m (2021: 9,970m), mainly due to the acquisition of Semikron.

Equity increased 28% to EUR 5,048m (2021: 3,951m). The acquisition of Semikron contributed with minority equity of EUR 231m and a gain on transfer of shareholdings in the Danfoss Silicon Power business unit of EUR 180m. The equity ratio, calculated as equity relative to total assets, was 43.0% (2021: 39.6%). The return on equity was 14.8% (2021: 16.6%).

Net interest-bearing debt amounted to EUR 3,168m (2021: 2,677m), leading to a net interest-bearing debt to EBITDA ratio of 2.0 (2021: 2.1).

The non-current interest-bearing debt maturing after more than 12 months amounted to EUR 2,702m (2021: 2,708m), corresponding to 86% (2021: 92%) of the total interest-bearing debt. At year-end, the Group had a liquidity reserve of EUR 1.2bn (2021: 1.2bn).

At the end of 2022, Danfoss' credit rating assigned by Standard & Poor's was "BBB with a stable outlook." See Note 16 for more information.

Cash flow

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

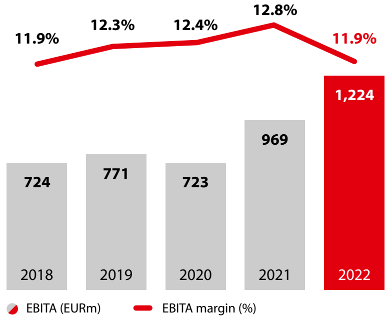
The free operating cash flow after financial items and tax (before M&A) amounted to EUR 465m (2021: 401m), confirming the cash generating capability of Danfoss. This is including the higher level of investments in innovation and production capacity as well as additional trade working capital due to the growth in activity levels.

The cash flow from operating activities increased to EUR 1,053m (2021: 838m), driven by a positive operational performance but negatively impacted by a higher level of inventory and receivables following the growth in activity levels.

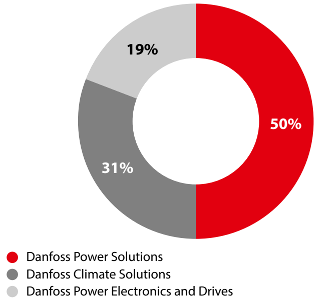
Cash flow from investing activities amounted to EUR -931m (2021: -2,794m), driven by investments in machinery and equipment, M&A activities, and our digital transformation. The exit of the Russian activities impacted the cash flow negatively by EUR 20m.

The cash flow from financing activities amounted to EUR -26m (2021: 1,596m). Last year's level reflected the bond issuance related to the acquisition of Eaton's hydraulics business.

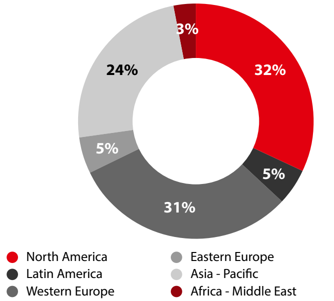
EBITA



Sales split by segments



Sales split by regions



Danfoss Power Solutions sales increased 59% to EUR 5,087m (2021: 3,209m), due to full-year impact on sales from the 2021 acquired Eaton's hydraulics business and an organic growth of 16%. The demand from the mobile and industrial hydraulic industry remained high and sales grew strongly in all regions. In some areas the segment saw signs of softer market conditions, e.g., in China that was challenged by pandemic lockdowns. Following the global supply chain disruptions, Power Solutions continued to see high inflationary cost pressure on raw materials, freight rates, and spot buys, which was countered by productivity improvements, inventory optimization, and proactive pricing measures. EBITA increased 47% to EUR 720m (2021: 489m). The EBITA margin reached 14.2% against 15.3% the previous year.

Danfoss Climate Solutions sales increased 12% to EUR 3,200m (2021: 2,869m) with strong organic growth of 12%, compensating for lost sales in Russia. Growth was driven by the strongly growing market for heat pumps, high-pressure pumps, and other energy-efficient solutions for the energy transition in the coming years, such as refrigeration and commercial compressors for supermarkets, sustainable datacenters, and other buildings. Most regions grew strongly, but growth in China slowed down due to pandemic lockdowns. The global supply chain disruptions and the war in Ukraine pushed high inflationary cost pressure on raw materials, freight rates, and component availability. EBITA increased 9% to EUR 556m (2021: 511m). The EBITA margin reached 17.4% against 17.8% the previous year.

Danfoss Power Electronics and Drives sales increased 33% to EUR 1,927m (2021: 1,444m) mainly due to strong organic growth of 19%. Semikron was included from August 1, which was the date of closing the acquisition and forming the new Semikron Danfoss division that is targeting a leading position within electrification. The demand for AC drives and power semiconductors was high and all regions grew, despite the volatile market dynamics with electronic components shortages and pandemic lockdowns in China. The supply chain disruptions were easing during the second half of the year. The inflation was driving cost pressures that were partly offset by factory performance and proactive pricing actions. EBITA increased 9% to EUR 196m (2021: 180m). The EBITA margin was 10.1% against 12.4% the previous year. Excluding the newly acquired Semikron, the EBITA margin would have been 13.7%.

M&A activities

Semikron Danfoss joint venture
On August 1, Danfoss acquired the majority of the shares in Semikron, forming the new Semikron Danfoss division together with the Danfoss Silicon Power business.

Semikron Danfoss is specialized in power electronics focusing on power semiconductor modules. The module is built of power semiconductors that make it possible to convert and control electrical power, which is an increasingly important energy source.

Semikron Danfoss will leverage its strong core business in industrial and renewable power module applications, targeting a leading position in automotive power modules. Semikron Danfoss will set the trend and drive the technology shift into silicon carbide solutions in both automotive and industrial applications.

Semikron Danfoss is owned by the current owner-families of Semikron and the Danfoss Group, with Danfoss being the majority owner.

Divestment of orbital motor business in China
On July 5, 2022, an agreement to sell the Danfoss Power Solutions orbital motor business and assets in Zhenjiang (Jiangsu), China, was signed with buyer Impro Fluidtek Limited, an indirectly wholly owned subsidiary by Impro Precision Industries Limited. As previously announced, the divestment was a necessary condition by the State Administration for Market Regulation in China (SAMR) to reach approval to close the 2021 acquisition of Eaton's hydraulics business. The transaction was closed on October 31, 2022. See Note 12 for more information.

Exit from Russia
Following the war in Ukraine and related sanctions, Danfoss decided to exit from Russia and Belarus on April 1, 2022. On July 15, 2022, Danfoss signed the agreement to sell its Russian businesses to the local management in Russia, currently pending local Russian approval. Following this, Danfoss no longer sells products in Russia. Danfoss reassessed its ability to controls its Russian subsidiaries and determined that as of end of August 2022, it can no longer exercise control over these entities or repatriate funds. Thus, Danfoss de-consolidated its Russian activities as of August 31, 2022.

Danfoss had 1,066 employees in the Russian business that contributed around 2% share of Group sales. Danfoss impaired net assets of EUR 85m.

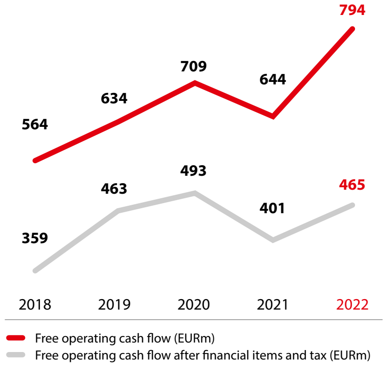
Employees
The number of employees increased by 1,885 to 41,928 employees end of year, impacted by both the acquisition of Semikron and the de-consolidation of Russia. In 2021, Danfoss had 40,043 employees.

Acquisition of BOCK GmbH
On October 10, 2022, Danfoss announced the acquisition of the German compressor manufacturer BOCK GmbH from NORD Holding GmbH. BOCK GmbH is headquartered in Germany and is a technology and innovation leader in its field, offering one of the world's largest portfolios of semi-hermetic compressors for natural refrigerants. With the acquisition, Danfoss is investing significantly in broadening its scope of sustainable, clean technologies to speed up the green transition in commercial refrigeration systems.

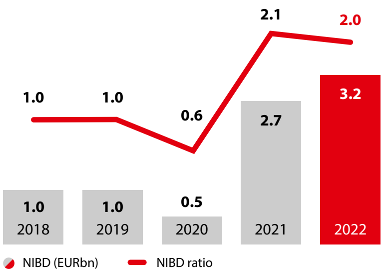
The acquisition of BOCK GmbH comes with a firm commitment to invest in the business, paving the way for green growth, and a more sustainable, energy efficient and decarbonized future. The transaction is subject to certain closing conditions being fulfilled and is expected to close in the first quarter of 2023. There is no impact in the reported numbers for 2022.

Events after the balance sheet date
We are not aware of any events after the balance sheet date of December 31, 2022, which could be expected to have a material impact on the Group's financial position.

Cash flow



Net interest-bearing debt (NIBD)



Group accounts and notes

Group accounts and notes

Group accounts

Group notes

Income statement

January 1 to December 31

EURm	Note	2021	2022
Net sales	2	7,539	10,256
Cost of sales	3	-5,087	-6,956
Gross profit		**2,452**	**3,300**
Research and development costs	3	-328	-457
Selling and distribution costs	3	-970	-1,249
Administrative expenses	3	-319	-513
Operating profit excluding other operating income and expenses		**835**	**1,081**
Other operating income and expenses	3	40	-41
Share of profit from associates and joint ventures after tax	8	2	3
Operating profit (EBIT)		**877**	**1,043**
Financial income	15	5	14
Financial expenses	15	-63	-108
Profit before tax		**819**	**949**
Tax on profit	20	-188	-266
Net profit		**631**	**683**
Attributable to:			
Shareholders of Danfoss A/S		575	632
Minority interests		56	51
		631	**683**

Statement of comprehensive income

January 1 to December 31

EURm	Note	2021	2022
Net profit		**631**	**683**
Other comprehensive income			
Actuarial gain/loss (-) on pension and healthcare plans	19	28	44
Tax on actuarial gain/loss on pension and healthcare plans	21	-7	-15
Items that cannot be reclassified to income statement		**21**	**29**
Foreign exchange adjustments on translation of foreign currency into EUR		105	25
Recycling of foreign exchange adj. on disposal/de-consolidation of companies		2	16
Adjustment for hyperinflation on Equity			58
Fair value adjustment of hedging instruments:			
Hedging of interest rates (Interest rates and cross currency swaps)		22	130
Hedging of future cash flows		12	3
Hedging transfered to inventory		-4	12
Tax on hedging instruments		-1	-31
Items that will be reclassified to income statement		**136**	**213**
Other comprehensive income after tax		**157**	**242**
Total comprehensive income		**788**	**925**
Attributable to:			
Shareholders of Danfoss A/S		728	875
Minority interests		60	50
		788	**925**

Statement of financial position

As of December 31

EURm	Note	2021	2022
Non-current assets			
Intangible assets	9	4,241	4,860
Property, plant and equipment	10	2,056	2,483
Investments in associates and joint ventures	8	283	287
Pension benefit plan assets	19	18	13
Non-current receivables		22	21
Deferred tax assets	21	73	139
Total non-current assets		**6,693**	**7,803**
Current assets			
Inventories	4	1,401	1,658
Trade receivables	5	1,394	1,648
Receivable corporation tax	22	34	27
Derivative financial instruments (positive fair value)	17	2	8
Other receivables		197	244
Receivables		1,627	1,927
Cash and cash equivalents	17	249	340
Total current assets		**3,277**	**3,925**
Total assets		**9,970**	**11,728**

EURm	Note	2021	2022
Shareholders' equity			
Equity, shareholders in Danfoss A/S	16	3,848	4,720
Minority interests		103	328
Total shareholders' equity		**3,951**	**5,048**
Liabilities			
Provisions	14	79	86
Deferred tax liabilities	21	165	325
Pension and healthcare benefit plan obligations	19	203	150
Borrowings	17	2,708	2,702
Derivative financial instruments (negative fair value)	17	81	232
Other non-current debt		96	140
Non-current liabilities		**3,332**	**3,635**
Provisions	14	91	104
Borrowings	17	236	442
Trade payables		1,417	1,511
Debt to associates and joint ventures		4	2
Corporation tax	22	96	164
Derivative financial instruments (negative fair value)	17	18	
Other debt	6	825	822
Current liabilities		**2,687**	**3,045**
Total liabilities		**6,019**	**6,680**
Total liabilities and shareholders' equity		**9,970**	**11,728**

Statement of cash flows

January 1 to December 31

EURm	Note	2021	2022
Profit before tax		819	949
Adjustments for non-cash transactions	23	385	643
Change in working capital	7	-97	-226
Interest received		5	4
Interest paid		-67	-84
Dividends received		2	
Income tax paid	22	-209	-233
Cash flow operating activities		**838**	**1,053**
Acquisition of intangible assets		-43	-45
Acquisition of property, plant and equipment		-339	-504
Proceeds from sale of property, plant and equipment		14	18
Acquisition of subsidiaries and activities	12	-2,664	-441
Proceeds from disposal of subsidiaries and activities	12	241	32
De-consolidation of Russian activities	12		-20
Change in financial receivables	13	-5	24
Proceeds from sale of other investments	13	2	5
Cash flow from investing activities		**-2,794**	**-931**
Cash repayment of interest-bearing debt	18	-658	-390
Cash proceeds from interest-bearing debt	18	2,309	603
Purchase of treasury shares		-2	-2
Sale of treasury shares		2	2
Proceeds from minority interests		1	
Dividends to shareholders in Danfoss A/S			-183
Dividends to minority interests		-56	-56
Cash flow from financing activities		**1,596**	**-26**
Net change in cash and cash equivalents		**-360**	**96**
Cash and cash equivalents as of January 1		611	249
Foreign exchange adjustment of cash and cash equivalents		-2	-5
Cash and cash equivalents as of December 31		**249**	**340**

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 payments 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.

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, 2021	**134**	**10**	-50	-108	-309	3,407	**2,940**		**3,084**	**100**	**3,184**
Net profit						386	**386**	**189**	**575**	**56**	**631**
Foreign exchange adjustments of foreign companies			-4	107			**103**		**103**	**4**	**107**
Fair value adjustment of hedging instruments			30				**30**		**30**		**30**
Actuarial gain/loss (-) on pension and healthcare plans						28	**28**		**28**		**28**
Tax on other comprehensive income			-1			-7	**-8**		**-8**		**-8**
Total other comprehensive income			25	107		21	**153**		**153**	**4**	**157**
Total comprehensive income for the period			25	107		407	**539**	**189**	**728**	**60**	**788**
Dividends to shareholders										**-56**	**-56**
Hedging transferred to Goodwill (Acquisition of companies)			34				**34**		**34**		**34**
Purchase of treasury shares					-2		**-2**		**-2**		**-2**
Sale of treasury shares					2		**2**		**2**		**2**
Purchase of minority interests						2	**2**		**2**	**-2**	
Capital increase										**1**	**1**
Total transactions with owners			34			2	**36**		**36**	**-57**	**-21**
Balance as of December 31, 2021	**134**	**10**	9	-1	-309	3,816	**3,515**	**189**	**3,848**	**103**	**3,951**
Net profit						427	**427**	**205**	**632**	**51**	**683**
Foreign exchange adjustments of foreign companies				26			**26**		**26**	**-1**	**25**
Recycling of foreign exchange adj. on disposal/de-consolidation of companies				16			**16**		**16**		**16**
Fair value adjustment of hedging instruments			145				**145**		**145**		**145**
Adjustment for hyperinflation on Equity				58			**58**		**58**		**58**
Actuarial gain/loss (-) on pension and healthcare plans						44	**44**		**44**		**44**
Tax on other comprehensive income			-31			-15	**-46**		**-46**		**-46**
Total other comprehensive income			114	100		29	**243**		**243**	**-1**	**242**
Total comprehensive income for the period			114	100		456	**670**	**205**	**875**	**50**	**925**
Dividends to shareholders						6	**6**	**-189**	**-183**	**-56**	**-239**
Purchase of treasury shares					-2		**-2**		**-2**		**-2**
Sale of treasury shares					2		**2**		**2**		**2**
Addition of minority interest Semikron										**231**	**231**
Gain on sale of part of subsidiaries (Semikron Danfoss merger)						180	**180**		**180**		**180**
Total transactions with owners						186	**186**	**-189**	**-3**	**175**	**172**
Balance as of December 31, 2022	**134**	**10**	123	99	-309	4,458	**4,371**	**205**	**4,720**	**328**	**5,048**

Basis of reporting and critical accounting estimates

1 Basis of preparation

Introduction

Danfoss A/S is a company domiciled in Denmark. The Annual Report for the period January 1 - December 31, 2022, comprises the Consolidated Financial Statements of Danfoss A/S and its subsidiaries (the Group).

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional requirements of the Danish Financial statements Act. The Group is classified as a Class C (large) entity under the Danish Financial Statements Act. However, the Group has decided to prepare Consolidated Financial Statements in accordance with IFRS as adopted by the EU and additional requirements of the Danish Financial statements Act.

Basis of measurement

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

The Annual Report has been prepared on the basis of the historical-cost convention except for the following assets and liabilities, which are measured at fair value: financial instruments measured at fair value, derivatives, contingent considerations from business combinations as well as pension and healthcare obligations. Non-current assets and disposal groups held for sale are measured at the lower carrying amount before the reclassification and fair value less costs to sell.
Refer also to note 27 for description of accounting for hyperinflation related to the Turkish subsidiaries.

Changes in accounting policies

Danfoss A/S has implemented the standards and interpretations that have taken effect for 2022. None of those standards and interpretations have material effect on recognition and measurement in 2022, nor are they expected to have a material effect on Danfoss A/S in the future.

Critical accounting estimates and assesments

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

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

- Investments in associates and joint ventures (Note 8)
- Goodwill and measurement of intangible assets (Note 9 and Note 12)
- Assessment of depreciation, amortization and impairment of non-current assets (Note 9 and Note 10)
- Deferred tax assets (Note 21)
- Measurement of pension and healthcare obligations (Note 19)
- Assessment of de-consolidation of the Russian activities (Note12)

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

New financial reporting regulations

Danfoss A/S has implemented a number of amendments and improvements to IFRS for the financial year 2022.

The Group has assessed these interpretations and concluded they do not have material impact on the Group in 2022 or previous years.

- Amendments to IFRS 3 "Reference to the Conceptual Framework".
- Amendments to IAS 16 "Property, Plant and Equipment: Proceeds before Intended Use"
- Amendments to IAS 37 "Onerous Contract - Cost of fulfilling a Contract"
- Annual improvements 2018-2022: IFRS 1, IFRS 9, IAS 41

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 2022 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 "Disclosure of Accounting Policies"
- Amendments to IAS 8 "Definition of Accounting Estimates"
- Amendments to IAS 12 "Deferred Tax related to Assets and Liabilities arising from a Single Transaction"
- IFRS 17 "Insurance Contracts"
- Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"
- Amendments to IFRS16 "Leasing"

In 2022, IFRIC issued agenda decisions on IFRS 16, IAS 32, IAS 7 and IFRS 15. The Group has assessed these interpretations and concluded they do not have material impact on the Group in 2022 or previous years.

Income statement

2 Segment reporting

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

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

EURm					2022
Business segments	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Power Electronics and Drives	Other areas	**Group**
Income statement					
Net sales	5,087	3,195	1,911	63	10,256
Depreciation/amortization/impairment	132	57	49	154	392
EBITA	720	556	196	-248	1,224
Acquisition-related amortization	104	8	32		144
Share of profit from Ass./JV. after tax					3
Operating profit (EBIT)					1,043
Financial Items					-94
Profit before tax					949
Total assets *)	4,837	2,001	2,985	1,905	11,728
Net investments, excluding M&A	181	124	118	108	531
Total liabilities *)	690	478	365	5,147	6,680
Number of employees	18,535	10,331	7,875	5,187	41,928

For further information on the business segments, see page 22, 24 and 26.

2 Segment reporting continued

EURm 2021

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

EURm 2022

Geographical segments	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	Group
Net sales	3,212	480	2,422	3,270	525	347	10,256
Total non-current assets *)	3,752	225	641	2,782	129	135	7,664

Sales in Denmark amount to EUR 265m (2021: 253m) and non-current assets amount to EUR 998m (2021: 961m). Sales in North America mainly relate to the US, which represent EUR 3,040m (2021: 1,781m) and non-current assets amount to EUR 2,781m (2021: 2,628m). China is part of the Asia Pacific region and sales amount to EUR 1,378m (2021: 1,155m) and non-current assets amount to EUR 374m (2021: 328m).

Sales and non-current assets in the Eastern Europe region are impacted by the exit of Russia and the acquisition of Semikron.

*) Deferred tax assets are not included.

EURm	2021	2022
Specification of other areas - EBITA		
Corporate and shared functions and projects, not allocated *)	-197	-241
Other	-14	-7
EBITA	-211	-248
Specification of other areas - Assets		
Cash, current & non-current tax receivables	356	506
Other receivables	181	232
Corporate and shared functions, not allocated tangible, and intangible fixed assets *)	1,069	1,131
Other	26	36
Total assets	1,632	1,905
Specification of other areas - Liabilities		
Interest-bearing debt, current & non-current tax liabilities	3,206	3,633
Other debt	985	1,132
Pension and healthcare plans	203	150
Corporate and shared functions and projects, not allocated *)	200	221
Other	5	11
Total liabilities	4,599	5,147

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

2 Segment reporting continued

Accounting Policy

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

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

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

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

Lease payments are recognized under segment expenses. Capitalized lease assets and lease liabilities, and related depreciations and interest are recognized in "Other areas". Relevant adjustments are made in "Other areas" to eliminate for lease payments in segments.

Trade between segments takes place on market terms or on a cost-recovery basis.

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

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

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

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

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

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

3 Expenses and other operating income

EURm	2021	2022
A. Personnel expenses		
Salaries and wages	1,725	2,207
Severance payments	11	20
Social security	164	234
Pension cost - defined contribution plans	100	125
Pension cost - defined benefit plans excl. gains from reductions and redemptions *)	6	8
	2,006	2,594
Average number of employees	32,932	41,324
Total number of employees as of end of the year	40,043	41,928

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

EURm	2021	2022
Remuneration to the Group Executive Team and the Board of Directors:		
Salaries	5	5
Pension costs	2	2
Bonuses, short-term	8	6
Bonuses, long-term	16	16
Group Executive Team	31	29
Board of Directors' fee	1	1
Total remuneration	32	30

Bonuses, short-term are paid based on meeting annual targets for selected financial ratios and sales growth. Bonuses, long-term are paid based on value creation over multiple years. Severance payments of EUR 2m (2021: 2m) are included in bonuses, long term.

Total remuneration for registered and former registered members of the Group Executive Team amounts to EUR 17m (2021: 20m).

A presentation of the Group Executive Team is available on page 62.

EURm	2021	2022
B. Depreciation/amortization and impairment losses		
Classification by nature:		
Amortization of intangible assets	136	194
Depreciation of property, plant and equipment	261	342
Depreciation/amortization and impairment losses	397	536
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	103	124
Selling and distribution costs	28	63
Administrative expenses	5	7
Intangible assets	136	194
Classification of depreciation/impairment of tangible assets by functions:		
Cost of sales	220	296
Selling and distribution costs	28	31
Administrative expenses	13	15
Tangible assets	261	342

3 Expenses and other operating income continued

EURm	2021	2022
C. Other operating income and expenses		
Gain on disposal of activities	48	51
Gain from disposal of property, plant and equipment	12	4
Government grants	10	18
Other	13	27
Other operating income	83	100
Loss on disposal of activities		-85
Loss on disposal of intangible fixed assets	-1	
Loss on disposal of property, plant and equipment	-2	-4
Restructuring costs	-11	-20
Other	-29	-32
Other operating expenses	-43	-141
Other operating income and expenses	40	-41

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

The Group has received government grants of EUR 18m in total. This is among other items related to investment incentives and support for research and development programs.

On 31 October 2022 Danfoss disposed of part of Orbital Motors, which was part of the Danfoss Power Solution activities in Zhenjiang, China. The divestment resulted in a a net gain of EUR 49m.

Danfoss has reassessed its ability to control its Russian subsidiaries and determined that as of end of August 2022, it can no longer exercise control over these entities or repatriate funds. Danfoss de-consolidated its Russian activities as end of August 2022. This has resulted in a loss of approximately EUR 85m.

More details of the disposal in China and de-consolidation of Russian activities are available in Note 12.

EURm	2021	2022
D. Fees to auditors appointed at the Annual General Meeting		
Audit fee	4	5
Other assurance engagements fee	0	0
Tax and VAT advice	0	0
Other fees	1	1
Total fee to Group Auditor	5	6

Accounting Policy

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

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

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

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

3 Expenses and other operating income continued

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

Networking capital

4 Inventories

EURm	2021	**2022**
Raw materials and consumables	748	853
Work in progress	161	206
Finished goods and goods for resale	492	599
Inventories	1,401	1,658
Write-downs of inventories	89	120

Accounting Policy
Inventories are measured at cost. Where the estimated selling price less any costs of completion and selling (net realizable value) is lower than cost, inventories are written down to this lower value. Cost is calculated on the basis of the weighted average method. The cost of work in progress and finished goods comprise 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.

5 Trade receivables

EURm	2021	2022
Not overdue at the reporting date	1,327	1,548
Overdue less than 30 days	32	74
Overdue from 30 to 90 days	29	36
Overdue more than 90 days	37	37
Trade receivables before provision for bad debts	1,425	1,695
Provision for bad debts as of December 31	-31	-47
Net carrying amount	1,394	1,648
Provision for bad debts as of January 1	-21	-31
Additions through acquisition of subsidiaries	-7	-13
Accrual of new provisions	-6	-13
Reversal of provisions accrued	1	5
Realized loss	2	5
Provision for bad debts as of December 31	-31	-47

Out of the EUR 47m write-down, EUR 23m relates to receivables which are more than 180 days overdue. The carrying amount of trade receivables is estimated to represent their fair value as well as the maximum credit risk.

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

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

6 Other debt

EURm	2021	2022
Accrued salaries and wages	408	435
Accrued expenses and sundry creditors	417	387
Other debt	825	822

7 Change in working capital

EURm	2021	2022
Change in inventories	-307	-125
Change in receivables	-319	-178
Change in trade payables and other debt	529	77
Change in working capital	-97	-226

Capital employed

8 Investments in associates and joint ventures

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

EURm			**2022**
	Investments in associates and joint ventures	Other investments	**Total**
Cost as of January 1	325	20	345
Additions through aquisition of subsidiaries		2	2
Disposals		-1	-1
Cost as of December 31	325	21	346
Adjustments as of January 1	-46	-16	-62
Net profit/value adjustment	3		3
Dividends			
Adjustments as of December 31	-43	-16	-59
Carrying amount as of December 31	282	5	287

Impairment test

Where indicators for impairment were present at the end of 2022, impairment tests were performed on the recovered amount of "Investments in associates and joint ventures". Main indicators are loss-making activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the recoverable amount of cash flows from associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2021.

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

8 Investments in associates and joint ventures continued

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

SMA Solar Technology AG	2021	2022
Place of business	Germany	Germany
Share of ownership	20%	20%
Summarized profit and loss statement, EURm *)		
Revenue	984	975-1,050
EBITDA	9	60-75
Net income	-23	N/A
Summarized balance sheet, EURm *)		
Non-current assets	333	349
Current assets	719	757
Non-current liabilities	290	280
Current liabilities	352	403
Equity	410	423
Other information, EURm		
Group share of equity as of December 31	80	82

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2022, was EUR 2,320m (2021: 1,300m).

*) 2021 numbers as reported from SMA Solar Technology AG. 2022 Numbers as of guidance from SMA Solar Technology AG from Quarter3 2022.

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

EURm 2021

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

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

8 Investments in associates and joint ventures continued

EURm			2022
Immaterial associates and joint ventures	Associates	Joint Ventures	**Total**
Danfoss' proportionate share of:			
Profit or loss		2	2
Total comprehensive income		2	2
Carrying amount as of December 31		13	13

Reconciliation of carrying amount	Associates	Joint Ventures	**Total**
Group share of equity of material Ass/JV.	82		82
Goodwill concerning material Ass/JV.	187		187
Carrying amount of immaterial Ass/JV.		13	13
Total carrying amount as of December 31 of associates and joint ventures	269	13	282

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

Accounting Policy

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

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

Critical accounting estimates

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

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

9 Intangible assets

EURm	**Goodwill**	Internally developed software	Brand	Technology	Customer relations	Patents, trademarks and other rights	Development costs	**Total Other**	**Total**
Cost as of January 1, 2021	1,786	392	144	687	383	48	50	1,704	3,490
Foreign exchange adjustments in foreign companies	88	3	15	26	25		1	70	158
Additions through acquisition of subsidiaries	1,145	11	48	289	481			829	1,974
Transfers		6				-4		2	2
Additions		42				1		43	43
Disposals		-31			-13	-6	-8	-58	-58
Disposals of subsidiaries	-58	-2		-30	-29			-61	-119
Cost as of December 31, 2021	2,961	421	207	972	847	39	43	2,529	5,490
Amortization and impairment losses as of January 1	147	188	15	454	292	31	50	1,030	1,177
Foreign exchange adjustments in foreign companies	6	3	1	19	9		1	33	39
Transfers		5				-3		2	2
Amortization		49	6	54	24	3		136	136
Disposals		-30			-13	-6	-8	-57	-57
Disposals of subsidiaries	-8	-1		-21	-18			-40	-48
Amortization and impairment losses as of December 31, 2021	145	214	22	506	294	25	43	1,104	1,249
Carrying amount as of December 31, 2021	2,816	207	185	466	553	14		1,425	4,241
Cost as of January 1, 2022	2,961	421	207	972	847	39	43	2,529	5,490
Foreign exchange adjustments in foreign companies	102	3	-1	33	33		1	69	171
Additions through acquisition of subsidiaries	265		68	210	108			386	651
Additions		42				3		45	45
Disposals		-3				-6	-5	-14	-14
Disposals of subsidiaries	-17	-5		-5	-4			-14	-31
Cost as of December 31, 2022	3,311	458	274	1,210	984	36	39	3,001	6,312
Amortization and impairment losses as of January 1, 2022	145	214	22	506	294	25	43	1,104	1,249
Foreign exchange adjustments in foreign companies	5	3		12	9	1		25	30
Amortization		47	13	80	51	3		194	194
Disposals		-3				-6	-5	-14	-14
Disposals of subsidiaries				-4	-3			-7	-7
Amortization and impairment losses as of December 31, 2022	150	261	35	594	351	23	38	1,302	1,452
Carrying amount as of December 31, 2022	3,161	197	239	616	633	13	1	1,699	4,860

Of the "Internally developed software", approximately 50% relates to the One ERP program.
Additions/disposals through acquisitions/sales of subsidiaries are mainly due to Semikron acquisition and partial disposal of Orbital Motors in China are further described in Note 12 Acquisition and sales of subsidiaries and activities. Impact on Goodwill, due to hyperinflation in Turkey, amounts to EUR 13m (2021: 0m), and is included in above "Foreign exchange adjustments in foreign companies".

9 Intangible assets continued

Impairment tests
At the end of 2022, 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 2023-2032. 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.

EURm	2021				2022			
	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Power Electronics and Drives	Other	Danfoss Power Solutions	Danfoss Climate Solutions	Danfoss Power Electronics and Drives	Other
Goodwill as of December 31	1,479	564	770	3	1,536	572	1,050	3
Brand with indefinite useful life as of December 31	132				136			

The Danfoss Power Solutions brand with a carrying amount EUR 136m (2021: 132m) is not amoritized, but is tested annually for impairment. Global megatrends and industry recognition as one of the market leaders indicate that the brand will generate cash inflow for the Group for an indefinite period.

The weighted average growth rate until 2032 is based on past performance/Management expectation of market development etc. and is estimated to be 2-7% (2021: 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 2021. The net cash flow during the terminal period from 2033 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 11-12% (2021: 9-10%) before tax for all segments.

Management assess that a reasonable change in the fundamental assumptions used in the impairment tests will not result in recoverable amounts lower than the carrying amounts. The same conclusion was made for 2021.

Danfoss Power Solutions
The goodwill allocated to Danfoss Power Solutions derives primarily from Eaton Hydraulics in 2021, the acquisition of the additional 38.2% of the share capital in Sauer-Danfoss Inc. (USA) in 2008, Visedo Oy (Finland) in 2017, UQM Technologies Inc. (USA) in 2019. At the end of 2022, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to EUR 1,021m (2021: 1,041m), or approximately 69% (2021: 86%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2033 and 2036, respectively.

Danfoss Climate Solutions
The goodwill allocated to Danfoss Climate Solutions derives primarily from the acquisitions of DEVI Group (Denmark) in 2003, Scroll Technologies (USA) in 2006, Danfoss Turbocor Compressors (USA) in 2012, and Sondex Holding A/S (Denmark) in 2016. At the end of 2022, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 48m (2021: 56m), or approximately 3% (2021: 5%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2032 and 2030, respectively.

9 Intangible assets continued

Danfoss Power Electronics and Drives
The goodwill allocated to Danfoss Power Electronics and Drives segment derives primarily from the acquisition of Vacon (Finland) in December 2014 and Semikron (Germany) in 2022. At the end of 2022, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 419m (2021: 108m), or approximately 28% (2021: 9%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2034 and 2035, respectively.

Other intangible assets
At the end of 2022, Danfoss had software in progress amounting to EUR 38m (2021: 43m). Capitalized software in progress is mainly developed internally.

In 2022, 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 (2021: 0m).

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

Development projects, software, patents and licenses
Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or utilization opportunity within the company is demonstrated, and where the company intends to produce, market or use the project, are recognized as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net selling price can cover cost of sales, selling and distribution costs and administrative expenses and development costs. Other development costs are recognized in the income statement when incurred. Recognized development projects are measured at cost less accumulated amortization and impairment. Cost includes direct and indirect expenses, including salaries and borrowing costs incurred from specific and general borrowing directly pertaining to the development of development projects.

Completed development projects, including software, are generally amortized on a straight-line basis over 4 to 8 years. Development projects in progress are not amortized, but annually tested for impairment. Patents and licenses are measured at cost less accumulated amortization and impairment. Patents are amortized on a straight-line basis over the patent period and licenses are amortized over the shorter of the contract period and the useful life. Patent and contract periods are normally 5-10 years.

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

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

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

9 Intangible assets continued

Critical accounting estimates

Impairment of goodwill

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

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

Useful life and residual value of non-current assets

Non-current assets are measured at cost less accumulated amortization, depreciation and impairment. Amortization and depreciation is made on a straight-line basis over the useful life of the assets, taking into account the asset's residual value. Expected useful life 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 life 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.

10 Property, plant and equipment

EURm	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of January 1, 2021	1,158	1,755	307	200	3,420
Foreign exchange adjustments in foreign companies	32	58	5	6	101
Additions through acquisition of subsidiaries	249	275	23		547
Transfers	24	116	9	-151	-2
Additions	77	76	22	219	394
Disposals	-46	-47	-27		-120
Disposals of subsidiaries	-36	-94	-1	-11	-142
Cost as of December 31, 2021	1,458	2,139	338	263	4,198
Depreciation and impairment losses as of January 1, 2021	538	1,295	183		2,016
Foreign exchange adjustments in foreign companies	10	36	3		49
Transfers		-3	1		-2
Depreciation	79	140	42		261
Disposals	-40	-45	-24		-109
Disposals through sale of subsidiaries	-9	-64			-73
Depreciation and impairment losses as of December 31, 2021	578	1,359	205		2,142
Carrying amount as of December 31, 2021	880	780	133	263	2,056
Cost as of January 1, 2022	1,458	2,139	338	263	4,198
Foreign exchange adjustments in foreign companies	56	25	17	-1	97
Additions through acquisition of subsidiaries	72	71	6	28	177
Transfers	43	101	17	-161	
Additions	101	120	22	344	587
Disposals	-56	-62	-40		-158
Disposals of subsidiaries	-28	-25	-9	-4	-66
Cost as of December 31, 2022	1,646	2,369	351	469	4,835
Depreciation and impairment losses as of January 1, 2022	578	1,359	205		2,142
Foreign exchange adjustments in foreign companies	28	-1	15		42
Transfers		-5	5		
Depreciation	104	194	44		342
Disposals	-45	-52	-35		-132
Disposals of subsidiaries	-17	-19	-6		-42
Depreciation and impairment losses as of December 31, 2022	648	1,476	228		2,352
Carrying amount as of December 31, 2022	998	893	123	469	2,483

Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 12 Acquisition and sale of subsidiaries and activities.
Impact on Property, plant and equipment, due to hyperinflation in Turkey, amounts to EUR 27m (2021:0m), and is included in above "Foreign exchange adjustments in foreign companies".

10 Property, plant and equipment continued

EURm	Land and buildings	Plant and machinery	Equipment	**Total**
The right-of use assets included in Property, plant and equipment are presented below.				
Carrying amount related to right-of-use assets as of January 1, 2021	164	3	41	208
Additions through acquisition of subsidiaries	69		8	77
Additions	40		15	55
Depreciation	-42	-1	-24	-67
Disposals	-5		-2	-7
Disposals of subsidiaries	-13			-13
Carrying amount related to right-of-use assets as of December 31, 2021	213	2	38	253
Carrying amount related to right-of-use assets as of January 1, 2022	213	2	38	253
Foreign exchange adjustments in foreign companies	7			7
Additions through acquisition of subsidiaries	7			7
Additions	69		14	83
Depreciation	-57		-22	-79
Disposals	-3		-3	-6
Disposals of subsidiaries	-1		-1	-2
Carrying amount related to right-of-use assets as of December 31, 2022	235	2	26	263

Further information on leases is provided in Note 11 Leases.

10 Property, plant and equipment continued

Accounting Policy
Land and buildings, plant and machinery and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price, expenses for materials, components, sub-suppliers, direct salary expenses, borrowing costs incurred from specific and general borrowing, which directly pertain to the construction of the individual asset and for self-produced assets as well as indirect construction costs. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as seperate items, and depreciated separately.
Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognized in the carrying amount of the asset, if it is probable that the costs will result in future economic benefits. All costs incurred for ordinary repairs and maintenance are recognized in the income statement as incurred. Depreciation is provided on a straight-line basis over the expected useful lives, which are as follows:

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

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

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

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

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

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

11 Leases

Lease liabilities are presented in borrowings of the Statement of financial position as follows:

EURm	2021	2022
Current	83	63
Non-current	185	207

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

The Group has decided not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. The expenses related to payments, not included in the measurement of the lease liability, are below EUR 15m (2021: 8m).

At December 31, 2022, the Group had committed to leases not yet commenced. The total future cash outflows for leases that had not yet commenced are EUR 55m (2021: 56m), which are mainly for buildings.

Total cash outflow for leases for the financial year ended December 31, 2022 was EUR 93m (2021: 70m).

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

12 Acquisition and sale of subsidiaries and activities

EURbn								2022
Company/activity:		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid/received
Semikron Group	Acquisition	DE	Aug	61%	0.5	2,800	0.6
Kolex Production	Acquisition	DK	Jan	100%	0.0	10	**
Russia exit	De-consolidation	RU	Aug	100%	0.3	1,100	**
Part of Orbital Motors, China	Disposal	CN	Oct	100%	0.1	170	**

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

2021 acquisitions and disposals:
On August 2, 2021, Danfoss acquired Eaton's hydraulics business. A business that provides products for customers in markets such as agriculture, construction, as well as in industrial market segments with a global presence for both sales and manufacturing. The business has been incorporated into the existing Danfoss segment, Danfoss Power Solutions. Eaton's hydraulics business was acquired at around EUR 2.7bn on a cash and debt-free basis.
The strengthened Danfoss Power Solutions will have a broad selection of mobile and industrial hydraulics products and solutions available on the market, with a full line offering, including fluid-conveyance systems. The company's distribution channels have also been significantly widened, while its local application support and geographical reach have increased considerably.
The acquisition has been included in the consolidated financial statements from August 2, 2021. From the acquisition date to December 31, 2021, Eaton's hydraulics business contributed with a revenue of EUR 786m and a profit before tax of EUR -93m. Net profit is significantly impacted by consumption of inventory step-up, integration costs and amortizations on PPA intangibles assets related to the opening balance sheet. If the acquisition had occurred on January 1, 2021, the impact on the Group's revenue would have been additional EUR 1.1bn. The profit before tax contributed to the Group would have been additional EUR 64m. Acquisition related transaction costs are EUR 12m and have been included in "Other operating expenses" in the consolidated income statement. Integration costs are ongoing and amount to EUR 38m, impacting EBIT negatively.

12 Acquisition and sale of subsidiaries and activities cont.

The preliminary purchase price allocation (PPA) accounting has total goodwill of EUR 1.1bn. Goodwill arising from the acquisition is attributable to the value of employees and synergies expected from combining the operations of the Danfoss Group and the acquired business. A large part of the goodwill and recognized PPA Intangible assets are expected to be deductible for income tax purposes.

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

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

2022 acquisitions and disposals:
On January 3, 2022, Danfoss acquired assets and activities in Kolex Production ApS. Kolex was a subcontractor to Danfoss' industrial refrigeration business, and the acquisition ensures a future stable delivery to Danfoss' customers. Kolex has specialized in precision CNC machining in stainless steel and aluminum. The acquisition has an insignificant impact on Danfoss revenue and profit before tax.

On August 1, 2022, Danfoss acquired approximately 61% of the shares in the Semikron Group, one of the world's leading manufacturers of power modules used for energy-efficient motor drives and industrial automation systems. Further application areas include power supplies, renewable energies and electric vehicles. The Semikron business has been merged with Danfoss Silicon Power, and the new combined business is named Semikron-Danfoss Division. The new division is part of the Danfoss Power Electronics and Drives segment. The shares in Semikron were acquired at EUR 0.6bn. At the same time as the acquisition, some of the previous shareholders of Semikron received shares amounting to around 39% of the new Semikron-Danfoss Division. The acquisition has been included in the consolidated financial statements from the time of acquisition. From the acquisition date to December 31, 2022, Semikron contributed with a revenue of EUR 195m and a profit before tax of EUR -70m. Net profit is significantly impacted by consumption of inventory step-up, integration costs and amortizations on PPA intangibles assets related to the opening balance sheet. Additionally, Semikron was exposed to a cyber-attack during August and September that has impacted sales and net profit negatively.
If the acquisition had occurred on January 1, 2022, the impact on the Group's revenue would have been additional EUR 0.4bn. The profit before tax contributed to the Group would have been additional EUR 33m. Acquisition related transaction costs are EUR 2m and have been included in "Other operating expenses" in the consolidated income statement. Integration costs are ongoing and amount to EUR 13m, impacting EBIT negatively. The preliminary purchase price allocation (PPA) accounting has total goodwill of EUR 0.3bn. Goodwill arising from the acquisition is attributable to the value of employees and synergies expected from combining the operations of the Danfoss Group and the acquired business.
The final PPA calculation will take place within 12 months from the acquisition date.

On 31 October, 2022, Danfoss disposed part of Orbital Motors, which was part of the Danfoss Power Solution activities in Zhenjiang, China. The divestment resulted in a a net gain of EUR 49m, which is recognized in the consolidated income statement under "Other operating income". The divestment has been excluded from the consolidated financial statements as of 1 November 2022.

In response to the Russian invasion of Ukraine, many juristictions, including USA and Europe, have imposed several economic sanctions on Russia. As a result Danfoss has reassessed its ability to controls its Russian subsidiaries and determined that as of end of August 2022, it can no longer exercise control over these entities or repatriate funds. Thus Danfoss de-consolidated its Russian activities as end of August 2022. This has resulted in a loss of approximately EUR 85m, which is recorded under Other Operating Expenses.
Danfoss has signed an agreement to divest the shareholdings in Russia to the local management. This process is ongoing and is awaiting approval from the relevant authorities in Russia. Any consideration for the transfer is considered very uncertain and the value of the shares in the Russian subsidiaries are thus recorded to nil.

Disposal of White Drives, partial disposal of Orbital Motors in China and de-consolidation of activities in Russia have a combined impact on the Group's Net Sales development from 2021 to 2022 of approximately -4%.

12 Acquisition and sale of subsidiaries and activities cont.

The below figures for 2022 acquisitions include adjustments to final PPA allocation related to acquisitions in 2021 The net impact of these changes are around EUR -16m on Net cash paid (-)/received.

EURm	2021 Acquisitions	2021 Disposals	2022 Acquisitions	2022 Disposals	2022 Deconsolidated
Intangible assets, except goodwill	-829	21	-386	2	5
Property, plant and equipment	-547	69	-177	4	20
Other non-current assets, including deferred tax assets	-11	2	-51		1
Inventories	-382	30	-137	4	29
Receivables *)	-328	30	-142		17
Cash and cash equivalents	-60	9	-42		19
Interest-bearing debts	93	-13	99		-2
Provisions, including deferred tax liabilities	124	-5	128		-1
Trade and other payables	355	-38	81	-7	-28
Net assets acquired	-1,585	105	-627	3	60
Goodwill/profit on disposal	-1,145	98	-265	59	-77
Net assets, including goodwill(-)/profit on disposal	-2,730	203	-892	62	-17
Cash and cash equivalents	60	-8	41		-19
Consideration, net of cash	-2,670	195	-851	62	-36
Change in short-term payables/receivables/provisions	6	46	-1	-30	
Adjustments minority interest			231		
Gain on sale of part of subsidiary (Semikron Danfoss merger)			180		
Adjustments for recycling of translation impact					16
Net cash paid(-)/received	-2,664	241	-441	32	-20

*) Receivables in acquisitions includes provision for bad debt of EUR 2m (2021: 8m).

Accounting Policy

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

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

When part of the business is sold, but the Group remains control of the business, the gain is recorded directly in the equity.

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

12 Acquisition and sale of subsidiaries and activities cont.

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.

13 Acquisition / Sale of other investments

EURm	2021	**2022**
Sale of shares and other securities	2	5
Increase/decrease in lending	-5	24
	-3	29

14 Provisions

EURm

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

				2022
	Warranty	Employee-related	Other	**Total**
Provisions as of January 1	42	52	76	170
Foreign exchange adjustments in foreign companies	1	1	1	3
Additions through acquisition of subsidiaries and activities	14		15	29
Provisions used	-20	-6	-23	-49
Reversal of unused provisions	-8	-3	-14	-25
Additional provisions recognized	36	21	6	63
Disposals through sale of subsidiaries	-1			-1
Provisions as of December 31	64	65	61	190

				2022
Estimated maturity of above provisions:	Warranty	Employee-related	Other	**Total**
Within 1 year	49	8	47	104
Between 1 and 5 years	15	29	12	56
After more than 5 years		28	2	30
Provisions as of December 31	64	65	61	190

14 Provisions continued

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

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

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

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

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

Capital structure and financing

15 Financial income and expenses

EURm	2021	2022
Financial income		
Gain on other investments		4
Foreign exchange gains, net		6
Interest from banks, etc.	5	4
Financial income	5	14
Interest on financial assets measured at amortized cost.	5	4
Financial expenses		
Interest to banks etc.	-52	-78
Calculated interest on defined benefit plans	-3	-4
Interest expense for leasing arrangements	-7	-8
Monetary loss on adjustments for hyperinflation		-18
Foreign exchange losses, net	-1	
Financial expenses	-63	-108
Interest on financial liabilities measured at amortized cost	-59	-86

A fair-value hedge impact of EUR -1m (2021: 5m) is included in Foreign exchange gains, net.
Further information on leases is provided in Note 11 Leases.
Further infomation on Monetary loss on adjustments for hyperinflation is provided in note 27.
General accounting policies including hyperinflation.

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

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

16 Share capital

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

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

Distribution of shares	A shares		B shares		Total	
	Number	DKKm	Number	DKKm	Number	DKKm
Balance as of January 1, 2021	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2021	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2022	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0

Class A shares entitle the holder to 10 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	2021		2022	
	DKK	EUR	DKK	EUR
Proposed dividend per 100 DKK share	141.3	19.0	153.1	20.6
Dividend from last year paid per 100 DKK share	0	0	136.4	18.3

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

	2021	2022
Holding as of January 1	340,398	340,153
Acquired in the year	1,189	1,254
Sold to The Bitten & Mads Clausen's Foundation	-1,434	-1,233
Holding as of December 31	340,153	340,174

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 2022 for acquiring own shares amounts to EUR 2m (2021: 2m). The total selling price in 2022 for selling own shares amounts to EUR 2m (2021: 2m). The Group's holding of treasury shares represents 3.4% (2021: 3.4%) of the Group's share capital.

Capital structure

The capital structure of Danfoss is intended to ensure sufficient financial flexibility and stability over the cycle for the company to reach its strategic goals. It is the policy of the Group to have a "BBB credit rating", and the Group aims for financial metrics that are commensurate with such a credit rating over the cycle. Danfoss is currently rated "BBB with a stable outlook" by Standard and Poor's. End of 2022, the net-interest-bearing debt to EBITDA ratio was 2.0 (2021: 2.1) on a reported basis. Danfoss aims to use the free operating cash flow after financial items and tax, for debt servicing, business development and shareholder distribution.

17 Financial risks and instruments

Financial risks

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

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

Currency risk

Currency exposure consists of three elements:
1. Transaction risk: This covers both the fair value risk, i.e. the risk related to assets and liabilities denominated in foreign currency, and the cash flow risk, i.e. the risk related to future cash flows in foreign currency. Both risk types have direct cash flow and earnings impact and therefore are the primary focus of Danfoss' currency hedging strategy. The hedging policy is to cover all fair value risk and all significant future cash flow risk for a 12-month period on a rolling and layered basis. The policy for future cash flow hedge for 2022 follows a cash flow at risk approach in combination with the hedge ratios below:

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

The policy for balance sheet risk has been unchanged and the hedge ratio was 100% in both 2022 and 2021.

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

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

Nominal position of significant currencies

EURm	2021				2022			
	EUR	USD	GBP	**Total**	EUR	USD	GBP	**Total**
Receivables and payables	-75	10	-5	-70	-69	23	1	-45
Cash and loans 1)	-180	22	59	-99	-252	65	58	-129
Derivative financial instruments for hedging of fair value 2)	263	-31	-55	177	318	-88	-59	171
Derivative financial instruments for hedging of future cash flow	-231	-130	-30	-391	-289	-75	-25	-389
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	-3	-13	-3	-19	-4	-7	-3	-14

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

1) Besides the loans included, loans of EUR 87m (2021: 101m) are used for hedging of net investments. The impact on the Group's equity is EUR 0m (2021: 0m).
2) Financial instrument for hedging of fair value also includes the exposure related to inventories in countries applying foreign currency price lists.

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

Credit risk

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

17 Financial risks and instruments continued

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

Interest-rate risk

The Group's interest-rate risk derives primarily from interest-bearing debt, cash funds and pension obligations. The Group makes use of both fixed and floating-rate loans, as well as interest-rate derivatives, to manage this risk. As per Danfoss' Treasury Policy, the interest-rate risk on its debt portfolio should not exceed a maximum of 0.5% of Group annual revenue in case of a 1% point parallel shift in interest rates across the interest rate curve.

All things being equal, an increase in the interest rate of 1% point compared to the interest rate level on the balance sheet date would impact on the profit with EUR 4m, while equity would be impacted by a gain of EUR 45m, mainly related to USD interest rate hedge.
For interest rate risk on pension obligations, refer to Note 19 Pensions and healthcare obligations.

Liquidity risk

It is Danfoss' policy to maintain a robust capital structure and to aim for a capital and financing structure that is compatible with a BBB credit rating, a liquidity reserve of minimum 7.5% of Group sales, in terms of accessible cash, and non-terminable credit facilities with an average maturity profile of at least 3 years.

At the end of 2022, Danfoss' credit rating from Standard and Poor's was "BBB with a stable outlook" and the liquidity reserve equaled EUR 1.2bn (2021: 1.2bn). In addition to this, Danfoss had significant amounts of short-term credit lines. The Group considers the liquidity reserve to be adequate in relation to current plans and the market conditions in general.

The average maturity profile on non-terminable credit facilities was 3.9 years at the end of 2022.
The Danfoss Group's loan agreements contain no financial covenants.

EURm	2021					2022				
			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	2,568	2,637	162	1,259	1,216	2,782	2,853	393	1,362	1,098
Mortgage debt	69	74	1	1	72	64	79		4	75
Contingent considerations	39	39	2	37		26	26	2	24	
Lease liabilities	268	291	88	154	49	270	295	69	160	66
Trade payables	1,417	1,417	1,417			1,511	1,511	1,511		
Debt to ass./ JV.	4	4	4			2	2	2		
Derivative financial liabilities	99	99	18	38	43	232	232		86	146
	4,464	4,561	1,692	1,489	1,380	4,887	4,998	1,977	1,636	1,385

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

In 2021, Danfoss issued three EUR Bonds in total EUR 1.9bn as part of the financing related to the acquisition of the Eaton Hydraulics business.

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 65m (2021: 37m) of trade payables that are part of such agreements.

17 Financial risks and instruments continued

Financial instruments by category

EURm	2021 Carrying amount	2021 Fair value	2022 Carrying amount	2022 Fair value
Financial assets:				
Investments in associates and joint ventures	279	272	282	478
Financial assets measured at equity method	279	272	282	478
Other investments **)	4	4	5	5
Financial assets measured at fair value via the income statement	4	4	5	5
Derivative financial instruments for the hedging of the fair value of recognized assets *)	1	1	4	4
Derivative financial instruments for the hedging of future assets cash flows 1)	39	39	163	163
Financial assets used as hedging instruments	40	40	167	167
Trade receivables	1,394	1,394	1,648	1,648
Other receivables	197	197	244	244
Cash and cash equivalents	249	249	340	340
Loans, receivables, cash and cash equivalents measured at amortized cost	1,840	1,840	2,232	2,232
Financial liabilities:				
Contingent consideration measured at fair value via the income statement **)	39	39	27	27
Interest-bearing debt	2,905	2,967	3,117	3,112
Trade payables and other debt	2,342	2,342	2,475	2,475
Financial liabilities measured at amortized cost	5,247	5,309	5,592	5,587

Financial instruments by category

EURm	2021 Carrying amount	2021 Fair value	2022 Carrying amount	2022 Fair value
Financial liabilities:				
Derivative financial instruments for the hedging of the fair value of recognized liabilities *)	107	107	391	391
Derivative financial instruments for the hedging of future cash flows	30	30		
Financial liabilities used as hedging instruments	137	137	391	391

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

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

The fair value of the interest-bearing debt is recognized as the present value of expected future installment and interest payments. The discount rate applied is the Group's current borrowing rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied in 2022 remain unchanged compared to 2021.

1) Out of EURm 163, the 159 is offset in derivative financial instruments under liabilities in the statement of financial position (2021: EURm 38).

17 Financial risks and instruments continued

Derivates as of December 31 for the Group

EURm	2021			2022		
	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement
USD	-138	-4		-202	5	-2
EUR	-1,007	-13	-3	31	5	5
Other currencies	-96	-3	-2	-116	-2	1
Forward exchange contracts		-20	-5		8	4
Interest rate swaps	-1,125	22	-15	-1,266	-41	-205
Cross currency hedge	1,425	-99	-83	1,603	-191	-183
Derivatives end of year		-97	-103		-224	-384

Fair value hedge

The Group mainly uses forward exchange contracts to hedge currency risks arising from assets and liabilities denominated in foreign currency in the balance sheet. All derivates are due within 1 year. Fair value adjustments recognized in financial items in the income statement amounted to EUR 4m (2021: -5m).
Refer to section below "Derivative contracts related to the bond issuance" for fair value hedges related to cross currency swaps.

Cash flow hedge

The Group uses forward exchange contracts to hedge currency risks regarding expected future cash flows meet the criteria for cash flow hedging. At the end of 2022, unrealized gain/loss(-) on derivatives on hedging that of foreign currency risk recognized in equity amounted to EUR 4m (2021: -15M).
For the open foreign exchange contracts, used for USD cash flow hedges, at the end of 2022, the weighted average hedge rate for USD/DKK is 7.24 (2021: 6.32).

Refer to section below "Derivative contracts related to the bond issuance" for cash flow hedge related to interest rate swaps.

Derivative contracts related to the bond issuance

To obtain a balanced currency risk profile on the outstanding debt, related to issued bonds in 2021, is swapped into USD via cross currency swaps, while a significant part of the interest rate risk is hedged via interest rate swaps. The maturity of these contracts follow the maturity of the bond loans. Refer also to the table "The Group's debt categories and maturities".

Due to the economic relationship between the exposure and the hedges, a highly outcome is expected.

Commodity risk

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

Danfoss has not undertaken financial hedging of commodities in 2022 or 2021.

17 Financial risks and instruments continued

Accounting Policy

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

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

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

18 Change in liabilities arising from financing activities

EURm	Short-term borrowings	Long-term borrowings	**Total**
Carrying amount as of January 1, 2021	68	1,103	1,171
Cash flows:			
Cash repayment	-90	-504	-594
Lease payments	-64		-64
Cash proceeds	153	2,156	2,309
Non-cash transactions:			
Acquisitions of subsidiaries	35	46	81
Acquisitions and disposal of lease liabilities	23	23	46
Adjustment of Euro borrowings *)		-104	-104
Reclassification	117	-117	
Other	-6	105	99
Carrying amount as of December 31, 2021	236	2,708	2,944
Cash flows:			
Cash repayment	-215	-94	-309
Lease payments	-81		-81
Cash proceeds	250	353	603
Non-cash transactions:			
Acquisitions of subsidiaries	8	89	97
Acquisitions and disposal of lease liabilities	24	52	76
Adjustment of Euro borrowings *)		-276	-276
Reclassification	212	-212	
Other	8	82	90
Carrying amount as of December 31, 2022	442	2,702	3,144

Lease payments are the principal portion of lease liabilities and are presented under cash flows from financing activities in the Statement of cash flows. Further information on leases is provided in Note 11 Leases.

*) Some of the Euro borrowings, are swapped to USD borrowings via cross- currency and interest-swap derivatives. The impact of this arrangement is that borrowings are reduced with foreign exchange and fair value adjustments.

Other, includes changes in contingent liabilities/earn-outs and currency translation impacts.

19 Pensions and healthcare obligations

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

In 2022, Danfoss acquired Semikron Group and in this respect certain pension plans were taken over. The largest plan is located in Germany.

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

	2021		2022	
	Gross liability	Net Liability	Gross liability	Net Liability
Germany	29%	72%	27%	56%
USA	35%	19%	39%	21%
UK	30%	-9%	25%	-8%
Other	6%	18%	9%	31%
Total	100%	100%	100%	100%

The pension plans are based on the individual employee´s salary and years of service in the company. The plans have varying requirements for risk diversification and for matching assets strategies. The majority of the liabilities are either due to deferred members and pensioners, or they are linked to minimum-return guarantees. However, some of the defined-benefit plans in the UK and the USA are still linked to final salary for a closed, limited group of less than 300 (2021: 300) 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

EURm	2021	2022
Present value of defined-benefit plan obligations	634	475
Fair value of plan assets	-449	-338
	185	137
Defined-benefit plan obligations are presented in the statement of financial position as follows:		
Pension benefit plan assets	18	13
Pension and healthcare plan obligations	203	150
	185	137

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

Development in the present value of defined-benefit plan obligations

EURm	2021	2022
Provision as of January 1	559	634
Foreign exchange adjustments in foreign companies	27	3
Additions through acquisition of subsidiaries and activities	72	1
Pension costs for the year	6	9
Calculated interest on plan liabilities	10	14
Actuarial gains(-)/losses from changes in demographic assumptions	1	1
Actuarial gains(-)/losses from changes in financial assumptions	-18	-155
Plan participants' contribution liabilities	1	1
Disbursed benefits from the Group	-5	-9
Disbursed benefits from plan assets	-19	-18
Net transfer from provisions		-6
Provision as of December 31	634	475

19 Pensions and healthcare obligations continued

Development in the fair value of plan assets

EURm	2021	2022
Plan assets as of January 1	410	449
Foreign exchange adjustments in foreign companies	27	3
Additions through acquisition of subsidiaries and activities	3	
Calculated interest on plan assets	7	10
Plan participants' contribution asset	1	1
Return for the year on plan assets, excluding calculated interest	12	-112
Payments by the Group	7	7
Disbursed benefits	-19	-18
Net transfer from provisions	1	-2
Plan assets as of December 31	449	338

A few countries may require that the liability is funded, but this is not the case in most countries. Defined-benefit plans that are unfunded are mainly related to pension plans in Germany and the healthcare plan in the USA. Unfunded plans amount to approximately EUR 86m (2021: 95m).

Expenses relating to pension and healthcare obligations

EURm	2021	2022
Pension costs for the year	6	9
Calculated interest on liabilities	10	14
Calculated interest on assets	-7	-10
Expensed in the income statement	9	13
Pension costs distributed by function:		
Pension cost stated under cost of sales	2	4
Pension cost stated under selling and distribution costs	1	1
Pension cost stated under administrative expenses	4	4
Interest concerning pension and healthcare obligations posted under financial items	2	4
	9	13

Estimated maturity of provisions

EURm	2021	2022
Within 1 year	24	25
Between 1 and 5 years	101	103
After more than 5 years	509	347
	634	475

Pension plan assets are specified as follows:

EURm	2021	2021	2022	2022
Shares and similar securities	138	31%	95	28%
Listed corporate bonds	153	34%	116	34%
Bonds	83	19%	80	24%
Other	75	16%	47	14%
	449	100%	338	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 28% (2021: 31%) 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

	2021		2022	
	Range	Weighted average	Range	Weighted average
Discount rate	1.0-2.7%	2.1%	3.6-5.2%	4.8%
Estimated future salary increase	1.8-4.7%	3.7%	2.0-4.7%	3.8%

	2021		2022	
	Male Range	Female Range	Male Range	Female Range
Life expectancy for a pensioner retiring at the end of the reporting period	85-87	87-89	86-87	87-89
Life expectancy for a pensioner retiring 20 years after the end of the reporting period	87-89	88-90	87-90	89-91

19 Pensions and healthcare obligations continued

The estimated return on defined-benefit plan assets is based on external actuarial calculations and determined according to the composition of the assets and considering the general expectations with regard to economic developments. The Group expects to pay in EUR 14m to defined-benefit plans in 2023 (2022: 11m).

SENSITIVITY ANALYSIS

EURm	2021	2022
Reported defined-benefit plan obligations	634	475
Impact of increase in discount rate of a 0.5 percentage point	-42	-26
Impact of decrease in discount rate of a 0.5 percentage point	+45	+29
Impact of increase in future salary increase of a 0.5 percentage point	+8	+4
Impact of decrease in future salary increase of a 0.5 percentage point	-8	-4
Impact of increase in average life expectancy of 1 year	+21	+13
Impact of decrease in average life expectancy of 1 year	-21	-13

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

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

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

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

Tax

20 Tax on profit

EURm	2021	2022
Current tax expense	-239	-314
Change in deferred tax	48	46
Adjustments concerning previous years	3	2
Tax on profit (income statement)	-188	-266
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Adjustment of tax in foreign subsidiaries calculated at 22.0%	1.7%	2.8%
Tax exempt income/non-deductible expenses	-2.5%	-2.2%
De-consolidation of Russian activities		2.0%
Income from associates and joint ventures after tax	-0.1%	-0.1%
Adjustment of net tax assets	0.5%	1.1%
Withholding tax on dividends	1.9%	1.6%
Hyperinflation restatements		1.4%
Other Taxes	-0.1%	-0.3%
Adjustments concerning previous years	-0.4%	-0.3%
Effective tax rate	23.0%	28.0%

EURm	2021	2022
Tax on profit (income statement)	-188	-266
Tax on fair-value adjustment of hedging instruments (other comprehensive income)	-1	-31
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	-7	-15
Total taxes	-196	-312

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

21 Deferred tax

Changes in deferred taxes

EURm	2021	2022
Deferred taxes as of January 1 (net) *)	-107	-92
Foreign exchange adjustment in foreign companies		-3
Additions through acquisition of subsidiaries	-25	-78
Adjustments concerning previous years		-10
Disposals through sale of subsidiaries	2	-1
Deferred tax recognized in the income statement	48	46
Deferred tax recognized in other comprehensive income	-10	-48
Deferred taxes as of December 31 (net) *)	-92	-186

*) Liability (-)

Specification of deferred taxes

EURm	2021	2022
	Deferred tax asset	Deferred tax asset
Intangible assets	2	31
Property, plant and equipment and financial assets	47	68
Current assets	23	36
Debt and provisions	150	160
Tax loss carry-forwards	50	100
Non-capitalized tax assets regarding tax losses	-43	-54
	229	341
Set-off within the same legal entities and jurisdiction	-156	-202
Deferred tax assets	73	139

21 Deferred tax continued

Specification of deferred taxes

EURm	2021	2022
	Deferred tax	Deferred tax
Intangible assets	165	312
Property, plant and equipment and financial assets	114	97
Current assets	11	18
Debt and provisions	26	99
Deferred tax regarding Danish joint taxation	5	1
	321	527
Set-off within the same legal entities and jurisdiction	-156	-202
Deferred tax liabilities	165	325

The tax asset related to tax-loss carry-forwards of EUR 46m net (2021: 7m) 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% (2021: 99%) 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 54m (2021: 43m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized. 13% of the amount (2021: 13%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 82% (2021: 82%).

Of the deferred tax liability of EUR 325m (2021: 165m), EUR 1m (2021: 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 42m (2021: 21m). The liabilities are not recognized, because the Group decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

Accounting Policy

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

Critical accounting estimates

Measurement of recognized tax assets and liabilities

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

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

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

22 Corporation tax

EURm	2021	2022
Corporation tax payable/receivable (-) as of January 1	38	62
Foreign exchange adjustment in foreign companies	1	
Additions through aquisition of subsidiaries	-1	8
Paid during the year	-209	-233
Adjustments concerning previous years	-3	-12
Disposals through sale of subsidiaries	-1	-1
Current tax expenses in income statement	239	314
Current tax expenses in other comprehensive income	-2	-1
Corporation tax payable/receivable (-) as of December 31	62	137
The above corporation tax is recorded as follows:		
Assets	34	27
Liabilities	96	164
	62	137

Accounting Policy

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

Critical accounting estimates

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

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

Other notes

23 Adjustment for non-cash transactions

EURm	2021	2022
Depreciation/amortization and impairment	397	536
Gain(-)/loss on disposal of tangible assets and business activities	-58	36
Share of profit from associates and joint ventures after tax	-2	-3
Financial income	-5	-14
Financial expenses	63	108
Other	-10	-20
Adjustment for non-cash transactions	385	643

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

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

24 Contingent liabilities, assets and securities

Securities

EURm	2021	2022
Carrying amount of land and buildings pledged as security for bank loans and mortgages	115	138
Leasing assets pledged as security for leasing commitments	253	262
Carrying amount of interest-bearing liabilities with security in assets	337	335

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

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

Contractual obligations

EURm	2021	2022
Service contract commitment other than leases	123	281
Inventories	194	210
Property, plant and equipment	108	226
Purchase commitments	425	717

25 Related parties

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

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

In the financial year, a limited number of transactions have taken place between the Bitten & Mads Clausen's Foundation, its other subsidiaries and certain shareholders of the Clausen family. The transactions comprise service and financial transactions, and they have been made according to the arm's length principle, or on a cost-covering basis. The total payment to the Danfoss Group does not exceed EUR 3.3m (2021: 3.3m). In the financial year, the Bitten & Mads Clausen's Foundation purchased shares in Danfoss A/S at a value of EUR 2m from the company (2021: 2m). The Bitten & Mads Clausen's Foundation has agreed to utilize its first right to buy back the Danfoss A/S shares that relate to employee share programs, when these shares will be offered for sale. End of December 2022, these shares constitute less than 1% of the share capital in Danfoss A/S. Around 96% of Danfoss A/S' dividend payments are related to the Bitten & Mads Clausen's Foundation and shareholders from the Clausen family.

Board of Directors and Group Executive Team
In the financial year, no transactions took place with the Board of Directors and Group Executive Team other than the transactions as a result of conditions of employment. The companies in which Mads-Peter Clausen and Mads Clausen have significant ownership interests have sold goods and services of less than EUR 0.7m (2021: 0.7m) to the Danfoss Group. All transactions were performed on an arm's length basis.

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

25 Related parties continued

Transactions with associates and joint ventures

EURm	2021	2022
Sales of goods and services	3	4
Purchases of goods and services	17	17

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

26 Events after the balance sheet date

Subsequent to December 31, 2022, there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the Annual Report.

27 General accounting policies

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

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

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

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

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

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

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

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

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

27 General accounting policies continued

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.

Equity

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

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

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

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

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

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

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

Transition to hyperinflation
In 2022, Turkey was included on The International Practices Task Force's (IPTF) list of hyperinflationary economies based on several qualitative and quantitative conditions, including that the accumulated inflation over a 3-year period exceeded 100% after several years of increasing inflation.

As a result of this classification, Danfoss has implemented IAS 29 on financial reporting in hyperinflationary economies regarding the group's Turkish subsidiaries. The implementation of IAS 29 means that the accounting figures for the Turkish subsidiaries are restated so that they reflect the current purchasing power at the end of the accounting period. In this regard, both non-monetary items, including fixed assets, inventories, equity and the income statement are restated to the current purchasing power on the balance sheet date. Monetary items such as receivables, debts and bank debts etc. in itself reflect the current purchasing power, as the items consist of cash, receivables, or debts in the current monetary unit.

27 General accounting policies continued

At the same time, IAS 29, with reference to IAS 21 on currency conversion, requires that all the year's transactions in the hyperinflationary currency, the Turkish lira, TRY, be converted into the group's presentational currency, euro, EUR, using the exchange rate on the balance sheet date. All Turkish transactions in the financial year have thus been converted to EUR using the exchange rate on 31 December 2022, in contrast to the group's usual practice, according to which the profit and loss account transactions are converted to the exchange rate on the day of the transaction.

Basis for hyperinflation restatements
The hyperinflation restatement of the accounting figures for Turkey is based on the development in the available general price index in Turkey, which consists of the Turkish Consumer Price Index (CPI) in the period from and including January 2022. The price index has changed so that the inflation amounted to 63% in 2022.

The exchange rate between TRY and EUR has fallen from 0.067 at the beginning of the year to 0.050 at the end of the year. This constitutes a decrease of 25%.

Intangible and tangible assets as well as inventories in Danfoss' Turkish business are adjusted for inflation based on the changes in the price index from the time of first recognition until 31 December 2022 or until the date of any departure or consumption of goods during 2022. The adjustments have been made from the first recognition of the items in the accounts, however, from 1 January 2022 at the earliest.

Equity in Turkey is adjusted for inflation based on the development of the price index in the financial year 2022 to reflect purchasing power on the balance sheet date. In the income statement, all transactions in 2022 are adjusted for changes in the price index from the month of recognition in the income statement to the price index per 31 December.

Time and practice for recognition
Implementation of IAS 29 was made retroactively from 1 January 2022 and were recognized for the first time in the group's Annual Report for year of 2022 with a total effect for the period from 1 January 2022 to 31 December 2022.

Impact on key figures

EURm	2022
Income Statement	
External net sales	12
Profit before tax	-15
Tax	-11
Profit	-26
Statement of financial position	
Non-monetary assets	43
Equity	32

Financial measures

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

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

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

Local currency growth
Sales growth adjusted for exchange rate translation.

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

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

27 General accounting policies continued

EURm	2020	2021	2022
EBITA			
Operating profit (EBIT)	625	877	1,043
Share of profit from associates and joint ventures	-6	-2	-3
Amortizations:			
Brand	3	6	13
Technology	47	54	80
Customer relations	19	24	51
Gains/losses and costs related to acquisitions and divestments	35	10	40
EBITA	723	969	**1,224**

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, including fair value of derivatives hedging the underlying debt, less interest-bearing assets/EBITDA

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

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

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

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).

27 General accounting policies continued

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

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

EURm	2020	2021	**2022**
Free operating cash flow after financial items and tax			
Cash flow from operating activities	800	838	1,053
Cash flow from investing activities	-242	-2,794	-931
Acquisition of subsidiaries		+2,664	+441
Disposal of subsidiaries		-241	-12
Acquisition of other investments			
Proceeds from sale of other investments	-4	-2	-5
Lease payments	-61	-64	-81
Free operating cash flow after financial items and tax	493	401	**465**

28 Group companies

Per December 31, 2022
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 – 60%

Bulgaria
- Danfoss EOOD

Croatia
- Danfoss d.o.o.

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

Denmark
- Danfoss Distribution Services A/S
- Danfoss Distribution II A/S
- Danfoss Fire Safety A/S
- Danfoss International A/S
- Danfoss IXA A/S – 75%
- Danfoss Power Electronics A/S
- Danfoss Power Solutions ApS
- Danfoss Power Solutions Holding ApS
- Danfoss Power Solutions Holding II ApS
- Danfoss Redan A/S
- Enfor A/S – 17% (associate)
- Gemina Termix Production A/S
- Issab Holding ApS
- Semikron Danfoss Holding A/S – 61%
- Sondex Holding A/S

Estonia
- Danfoss AS

Finland
- Danfoss Editron Oy
- Danfoss Power Solutions Oy Ab
- Oy Danfoss Ab
- Leanheat Oy
- Semikron Oy – 61%
- 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.
- Semikron S.a.r.l – 61%

Germany
- Danfoss Esslingen Gm0bH
- Danfoss GmbH
- Danfoss Deutschland GmbH
- Danfoss Power Solutions GmbH & Co. OHG
- Danfoss Power Solutions Holding GmbH
- Danfoss Power Solutions Informatic GmbH
- Danfoss Power Solutions II GmbH
- Danfoss Sensors GmbH
- Danfoss Silicon Power GmbH – 61%
- Danfoss Werk Offenbach GmbH - in liquidation
- Semikron Elektronik GmbH & Co. KG – 61%
- Semikron Elektronik Verwaltungs GmbH – 61%
- Semikron International GmbH – 61%
- SMA Solar Technology AG – 20% (associate)
- Sondex Deutschland GmbH

Great Britain
- Artemis Intelligent Power Ltd.
- Danfoss Limited
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions II Ltd.
- Danfoss Scotland Ltd.
- Semikron Ltd. – 61%
- Senstronics Holding Ltd. – 50% (joint venture)
- Senstronics Limited – 50% (joint venture)

Hungary
- Danfoss Kft.

Iceland
- Danfoss hf.

Italy
- Danfoss Distribution Services S.r.l.
- Danfoss Power Solutions S.r.l.
- Danfoss S.r.l.
- Eaton Fluid Power S.r.l.
- Semikron S.r.l. – 61%

Kazakhstan
- Danfoss LLP

Latvia
- Danfoss SIA

Lithuania
- Danfoss UAB

The Netherlands
- Danfoss B.V.
- Danfoss Editron B.V.
- Danfoss Finance I B.V.
- Danfoss Finance II B.V.
- Danfoss Power Solutions B.V.
- Danfoss Power Solutions II B.V.
- Semikron B.V. – 61%
- Sondex B.V.
- Sondex Holding Netherlands B.V.

Norway
- Danfoss AS
- Danfoss Power Solutions AS

Poland
- Danfoss Poland Sp. z.o.o.
- Danfoss Saginomiya Sp. z.o.o. – 50% (joint venture)
- Elektronika S.A. – 50% (joint venture)
- Semikron Sp.z.o.o. – 61%
- Sondex Braze Sp. z.o.o.
- Sondex Poland Sp. z.o.o. - in liquidation
- Sondex Sp. z.o.o.

Romania
- Danfoss S.r.l.
- S.C. Sondex Production S.r.l.

Russia
- AO Ridan*
- Ridan LLC*
- Semikron OOO – 61% – in liquidation

Serbia
- Danfoss d.o.o.

Slovakia
- Danfoss Power Solutions a.s.
- Danfoss spol. s.r.o.
- Semikron s.r.o – 61%

Slovenia
- Danfoss Trata d.o.o.

Spain
- Danfoss S.A.
- Danfoss Power Solutions Telecontrol, S.L.U.
- Danfoss Power Solutions S.A.
- Semikron Electronics S.L – 61%

* Companies in Russia have been excluded from the Group consolidation as of 31/08-2022

28 Group companies continued

Sweden
- Danfoss AB
- Danfoss Power Solutions AB
- EP Technology AB
- Ohmia Retail Sweden AB – 33% (associate)

Switzerland
- Danfoss AG
- Semikron AG – 61%

Ukraine
- Danfoss T.o.v.

AFRICA – MIDDLE EAST

Egypt
- Danfoss Egypt LLC

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

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

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

NORTH AMERICA

Canada
- Aeroquip-Vickers Canada Company
- Danfoss Inc.

USA
- Daikin-Sauer-Danfoss America LLC – 45%
- Danfoss LLC
- Danfoss Power Solutions Inc.
- Danfoss Power Solutions II, LLC
- Danfoss Power Solutions (US) Company
- Danfoss Power Solutions Work Function, LLC
- Danfoss Silicon Power LLC – 61%
- Hydro-Gear Inc. – 60%
- Hydro-Gear Limited Partnership – 60%
- Hydro-Gear of Indiana, LLC – 60%
- Semikron Inc. – 61%
- Sondex Equipment Holding, LLC
- Sondex Properties, Inc.

LATIN AMERICA

Argentina
- Danfoss S.A.

Brazil
- Aeroquip do Brasil Ltda.
- Danfoss do Brasil Indústria e Comércio Ltda.
- Danfoss Power Solutions Comércio e Indústria Ltda.
- Semikron Semiconductures Ltda. – 61%

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. – in liquidation
- Danfoss Power Solutions IV S.A. de C.V. – in liquidation
- Eaton Controls, S. de R.L. de C.V.
- Semikron de México S.A. de C.V. – 49%

ASIA-PACIFIC

Australia
- Danfoss (Australia) Pty. Ltd.
- Danfoss Power Solutions Pty. Ltd.
- Danfoss Power Solutions II Pty. Ltd.
- Semikron Pty. Ltd. – 61%
- Sondex Australia Pty. Ltd.
- Sondex Engineering Pty. Ltd.

P. R. of China
- Danfoss (Anshan) Controls Co., Ltd.
- Danfoss (China) Investment Co., Ltd.
- Danfoss (Tianjin) Ltd.
- Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd.
- Danfoss (Jiaxing) Plate Heat Exchanger Co., Ltd.
- Danfoss Power Electronics (Nanjing) Co., Ltd
- Danfoss Power Solutions (Jiangsu) Co., Ltd.
- Danfoss Power Solutions (Jining) Co., Ltd.
- Danfoss Power Solutions (Luzhou) Co., Ltd.
- Danfoss Power Solutions (Nanjing) Co., Ltd.
- Danfoss Power Solutions (Ningbo) Co., Ltd.
- Danfoss Power Solutions Trading (Shanghai) Co., Ltd.
- Danfoss Power Solutions (Zhejiang) Co., Ltd.
- Danfoss Shanghai Hydrostatic Transmission Co., Ltd. – 60%
- Danfoss (Tianjin) Fire Safety Co., Ltd.
- Eaton Fluid Power (Shanghai) Co., Ltd.
- Eaton Industrial Clutches and Brakes (Shanghai) Co., Ltd.
- Semikron Electronics (Zhuhai) Co., Ltd. – 61%
- Sondex Plate Heat Exchanger (Taicang) Co., Ltd.
- Vacon (China) Drives Co., Ltd.
- Zheijang Holip Electronic Technology Co., Ltd.

Hong Kong
- Danfoss Industries Limited
- Semikron Hong Kong Co., Ltd. – 61%
- Vickers Systems Limited

India
- Danfoss Fluid Power Pvt. Ltd.
- Danfoss Industries Pvt. Ltd.
- Danfoss Power Solutions India Pvt. Ltd.
- Danfoss Technologies Pvt. Ltd.
- Danfoss Systems Limited – 98%
- Semikron Electronics Pvt. Ltd. – 61%

Indonesia
- PT Danfoss Indonesia

Iran
- Danfoss Pars Private Joint Stock Company - in liquidation

Japan
- Daikin-Sauer-Danfoss Ltd. – 45%
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions (Japan) Ltd.
- Semikron K.K. – 61%

Malaysia
- Danfoss Malaysia Sdn. Bhd.
- Danfoss Power Solutions II Sdn. Bhd.

Philippines
- Danfoss Philippines, Inc.

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

South Korea
- Danfoss Korea Ltd.
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions 2 Ltd.
- Semikron Co., Ltd. – 61%

Taiwan
- Danfoss Co. Ltd.

Thailand
- Danfoss (Thailand) Co. Ltd.

New Zealand
- Danfoss (New Zealand) Ltd.
- Danfoss Power Solutions II Ltd.

Parent accounts and notes

Management's review for Danfoss A/S

(Part of Management's Review)

Danfoss A/S is the Parent Company of the Danfoss Group. In addition to holding the shares of most of the other Danfoss Group companies, an important function of the company is to fund the Group's activities. The company also constitutes the corporate framework for many of Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. Danfoss A/S had 2,814 employees at the end of 2022.

In 2022 Danfoss A/S merged as the continuing entity with the following fully owned subsidiaries:

- Sondex A/S
- Danfoss Compressors Holding A/S
- Danfoss Power Solutions II Technology A/S

The mergers have been done with retro perspective effect and comparative information for 2021 has been adjusted accordingly. The effect from the mergers is shown in the table to the right.

The profit before other operating income and expenses was EUR 130m against EUR 84m in 2021. The company's operating profit was EUR 116m against EUR 94m the previous year.

Financial income and expenses decreased to a net income of EUR 128m against a net income of EUR 174m in 2021, mainly due to an increase in received dividends, impact of foreign exchange contracts and increased impairment of subsidiaries.

The profit after tax in 2022 was EUR 200m against EUR 241m the previous year.

Equity was EUR 3,290m at the end of 2022 against EUR 3,273m at the end of 2021. The increase was mainly attributable to recognition of the profit for the year.

Danfoss A/S expects net sales for 2023 to be on a level with the 2022 figures, and the company expects to report a profit in 2023.

Gender split senior leadership positions

Split between gender in senior leadership positions are reported as the two levels under Board of Directors of the Parent Company Danfoss A/S in compliance to the Danish Financial Statements Act §99b. The two levels under Board of Directors are defined as the level that reports directly to the Board of Directors (1st level) and the level that reports to this level (2nd level). The calculation is based on headcount and is reported as the ratio of male to female employees in senior leadership positions.

The ratio for 2022 is 83.3/16.7. Danfoss is committed to increase the gender diversity in senior leadership positions.

EURm	Danfoss A/S 2021	Effect from mergers	**Danfoss A/S new 2021**
Net sales	1,335	94	1,429
Gross profit	276	24	300
Operating profit (EBIT)	96	-2	94
Profit before tax	267	1	268
Net profit	**240**	**1**	**241**

EURm	Danfoss A/S closing 31 December 2021	Effect from mergers	**Danfoss A/S new balances 1 January 2022**
Intangible assets	243	86	329
Tangible assets	264	33	297
Shares in subsidiaries	2,852	0	2,852
Other non-current assets	1,444	0	1,444
Total current assets	1,122	-72	1,050
Total assets	**5,925**	**47**	**5,972**
Equity	3,272	1	3,273
Non-current liabilities	1,060	4	1,064
Current liabilities	1,593	42	1,635
Total liabilities and shareholders' equity	**5,925**	**47**	**5,972**

Parent accounts and notes

Parent accounts

Parent notes

Income statement

January 1 to December 31

EURm	Note	2021	2022
Net sales	1	1,429	1,569
Cost of sales	1	-1,129	-1,153
Gross profit		**300**	**416**
Research and development costs	1	-64	-123
Selling and distribution costs	1	-95	-96
Administrative expenses	1	-57	-67
Operating profit excluding other operating income and expenses		**84**	**130**
Other operating income and expenses	1	10	-14
Operating profit (EBIT)		**94**	**116**
Financial income	6	228	447
Financial expenses	6	-54	-319
Profit before tax		**268**	**244**
Tax on profit	9	-27	-44
Net profit		**241**	**200**
Attributable to:			
Proposed dividends reserve		189	205
Other reserves		52	-5
		241	**200**

Statement of comprehensive income

January 1 to December 31

EURm	2021	2022
Net profit	**241**	**200**
Other comprehensive income		
Foreign exchange adjustments on translation of DKK into EUR	2	
Items that will be reclassified to income statement	**2**	
Other comprehensive income after tax	**2**	
Total comprehensive income	**243**	**200**

Statement of financial position

As of December 31

EURm	Note	2021	2022
Non-current assets			
Intangible assets	3	329	316
Property, plant and equipment	4	297	340
Investments	2	4,296	4,765
Total non-current assets		**4,922**	**5,421**
Current assets			
Inventories		125	132
Trade receivables external		55	61
Trade receivables from subsidiaries		171	140
Short-term loans to subsidiaries		438	925
Receivable corporation tax	11	10	
Derivative financial instruments (positive fair value)	7		8
Other receivables		46	26
Receivables		720	1,160
Cash and cash equivalents	7	205	240
Total current assets		**1,050**	**1,532**
Total assets		**5,972**	**6,953**

EURm	Note	2021	2022
Shareholders' equity		**3,273**	**3,290**
Non-current liabilities			
Provisions		9	9
Deferred tax liabilities	10	47	54
Borrowings	7	402	667
Borrowings from subsidiaries		564	983
Other non-current debt		42	58
Total non-current liabilities		**1,064**	**1,771**
Current liabilities			
Provisions		10	7
Borrowings	7	12	211
Trade payables		206	185
Trade payables to subsidiaries		49	40
Borrowings from subsidiaries		1,239	1,301
Debt to associates and joint ventures		3	2
Corporation tax	11		26
Derivative financial instruments (negative fair value)	7	8	
Other debt		108	120
Total current liabilities		**1,635**	**1,892**
Total liabilities		**2,699**	**3,663**
Total liabilities and shareholders' equity		**5,972**	**6,953**

Statement of cash flows

January 1 to December 31

EURm	Note	2021	2022
Profit before tax		268	244
Adjustments for non-cash transactions	12	-152	-66
Change in working capital		-40	35
Interest received		30	39
Interest paid		-35	-19
Dividends received		164	360
Paid tax	11	-23	1
Cash flow operating activities		**212**	**594**
Acquisition of intangible assets		-111	-28
Acquisition of property, plant and equipment		-46	-82
Proceeds from sale of property, plant and equipment		30	-3
Acquisition of subsidiaries and capital increase		-295	-1,249
Proceeds from disposal of subsidiaries		4	18
Cash repayment of (-)/cash proceeds from loans to subsidiaries		-370	23
Cash flow from investing activities		**-788**	**-1,321**
Cash repayment of interest-bearing debt	8	-571	-75
Cash proceeds from interest-bearing debt	8		538
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		798	482
Purchase of treasury shares		-2	-2
Sale of treasury shares		2	2
Dividends paid to shareholders in the Parent Company			-183
Cash flow from financing activities		**227**	**762**
Net change in cash and cash equivalents		**-349**	**35**
Cash and cash equivalents as of January 1		554	205
Cash and cash equivalents as of December 31		**205**	**240**

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, 2021	**134**	**10**		-309	138	3,057	**2,886**		**3,030**
Net profit						52	**52**	**189**	**241**
Software-development costs					-5	5			
Currency-translation adjustments						2	**2**		**2**
Total other comprehensive income						2	**2**		**2**
Total comprehensive income for the period					-5	59	**54**	**189**	**243**
Purchase of treasury shares				-2			**-2**		**-2**
Sale of treasury shares				2			**2**		**2**
Total transactions with owners									
Balance as of December 31, 2021	**134**	**10**		-309	133	3,116	**2,940**	**189**	**3,273**
Net profit						-5	**-5**	**205**	**200**
Software-development costs					-4	4			
Total other comprehensive income									
Total comprehensive income for the period					-4	-1	**-5**	**205**	**200**
Dividends to shareholders						6	**6**	**-189**	**-183**
Purchase of treasury shares				-2			**-2**		**-2**
Sale of treasury shares				2			**2**		**2**
Total transactions with owners						6	**6**	**-189**	**-183**
Balance as of December 31, 2022	**134**	**10**		-309	129	3,121	**2,941**	**205**	**3,290**

For further information on Equity and Share capital, see Statement of changes in equity and Note 16 Share capital, in Group section.

Income statement

1 Net sales, expenses and other operating income

EURm	2021	2022
A. Net sales		
Sale of goods	1,221	1,262
Sale of services and income from royalties, Group members	208	307
	1,429	1,569

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

EURm	2021	2022
B. Personnel expenses		
Salaries and wages	271	277
Severance payments	5	3
Social security	9	9
Pension cost - defined contribution plans	21	22
	306	311
Average number of employees	2,859	2,826
Total number of employees as of end of the year	2,827	2,814
Remuneration to Group Executive Team and Board of Directors:		
Salaries	4	4
Pension costs	2	1
Bonuses, short-term	7	5
Bonuses, long-term	14	14
Group Executive Team	27	24
Board of Director's fee	1	1
Total remuneration	28	25

Bonuses, short-term are paid based on meeting annual targets for selected financial ratios and sales growth. Bonuses, long-term are paid based on value creation over multiple years. Severance payments of EUR 2m. (2021: 0m) are included in bonuses, long term.
Total remuneration for registered members of Executive Management amounts to EUR 17m (2021: 20m).

EURm	2021	2022
C. Depreciation/amortization and impairment losses		
Classification by nature:		
Amortization of intangible assets	44	42
Depreciation of property, plant and equipment	41	42
Depreciation/amortization and impairment losses	85	84
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	42	41
Selling and distribution costs	2	1
Intangible assets	44	42
Classification of depreciation/impairment of tangible assets by functions:		
Cost of sales	30	32
Administrative expenses	11	10
Tangible assets	41	42

1 Net sales, expenses and other operating income continued

EURm	2021	2022
D. Other operating income and expenses		
Other gains related to acquisitions/disposals	4	
Gain on disposal of property, plant and equipment	19	1
Government grants		1
Other	3	1
Other operating income	26	3
Loss on disp. of intangible fixed assets		-5
Restructuring costs	-5	-3
Other	-11	-9
Other operating expenses	-16	-17
Other operating income and expenses	10	-14

EURm	2021	2022
E. Fees to auditors appointed at the Annual General Meeting		
Audit fee	1	1
Other assurance engagements fee	0	0
Tax and VAT advice	0	0
Other fees	1	1
Total fee to Group Auditor	2	2

Capital employed

2 Investments

EURm 2021	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**Total**
Costs as of January 1	2,774	947	315	20	4,056
Foreign exchange adjustments, etc.	1				1
Additions	295	177	1		473
Disposals	-99				-99
Costs as of December 31	2,971	1,124	316	20	4,431
Adjustments as of January 1	-199		-3	-16	-218
Reversed impairment	2		3		5
Impairment for the year	-17				-17
Disposal	95				95
Adjustments as of December 31	-119			-16	-135
Carrying amount as of December 31	2,852	1,124	316	4	4,296

Additions for 2021 to "Investments in subsidiaries" is mainly related to investment in Danfoss B.V., Polimer Kauçuk Sanayi ve Pazarlama A. S. and Eaton Industries (Japan) Ltd.

Impairment losses for 2021 on "Investments in subsidiaries" of EUR 17m mainly relates to Danfoss Power Solutions AS (Norway). The impairment is caused by a lower valuation of the entity due to dividend payments and lower earnings during recent years.
Impairment losses/reversed impairment are reported as financial expenses/financial income.

2 Investments continued

EURm					**2022**
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**Total**
Costs as of January 1	2,971	1,124	316	20	4,431
Additions	1,246				1,246
Disposals	-9	-505			-514
Costs as of December 31	4,208	619	316	20	5,163
Adjustments as of January 1	-119			-16	-135
Reversed impairment	15				15
Impairment for the year	-278				-278
Adjustments as of December 31	-382			-16	-398
Carrying amount as of December 31	3,826	619	316	4	4,765

Additions for the year to "Investments in subsidiaries" is mainly related to investment in Semikron Danfoss Holding A/S, Danfoss Power Solutions S.r.l. (Italy) and Danfoss Deutschland GmbH.

Impairment losses for the year on "Investments in subsidiaries" of EUR 278m mainly relates to Sondex Holding A/S, Danfoss Scotland Ltd. and Danfoss Editron Oy. The impairment is caused by a lower valuation of the entity due to lower earnings during recent years and expected lower earnings in future years.
Impairment losses/reversed impairment are reported as financial expenses/financial income.
The principle for calculating recoverable amounts is basically the same as described in Note 9 Intangible assets in the Group section, with the main difference that the focus is on a stand-alone company basis.
In the calculation of recoverable amounts discount rates of around 11% to 15%, before tax, are used.

Impairment tests
Where indicators for impairment were present at the end of 2022, impairment tests were performed on the carrying amount of "Investments in subsidiaries, associates and joint ventures". Main indicators are loss-making 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 2021.

Further information on subsidiaries, associates and joint ventures is provided in Note 6 Financial income and expenses, Note 7 Financial risks and instruments, and Note 14 Related parties.

3 Intangible assets

EURm	Goodwill	Internally developed software	Patents, trademarks and other rights	Development costs	Total Other	Total
Cost as of January 1, 2021	83	284	26	10	320	403
Additions		33	78		111	111
Disposals		-26	-2	-8	-36	-36
Cost as of December 31, 2021	83	291	102	2	395	478
Amortization and impairment losses as of January 1, 2021		107	21	10	138	138
Amortization		39	5		44	44
Impairments for the year	3					3
Disposals		-26	-2	-8	-36	-36
Amortization and impairment losses as of December 31, 2021	3	120	24	2	146	149
Carrying amount as of December 31, 2021	80	171	78		249	329
Cost as of January 1, 2022	83	291	102	2	395	478
Additions		33			33	33
Disposals		-6	-3		-9	-9
Cost as of December 31, 2022	83	318	99	2	419	502
Amortization and impairment losses as of January 1, 2022	3	120	24	2	146	149
Amortization		35	7		42	42
Disposals		-2	-3		-5	-5
Amortization and impairment losses as of December 31, 2022	3	153	28	2	183	186
Carrying amount as of December 31, 2022	80	165	71		236	316

Of the "internally developed software" approximately 60% relates to the One ERP Program.

Impairment tests
Goodwill in Danfoss A/S of EUR 80m (2021: 80m) 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 2022, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were perfomed on Danfoss A/S representing the base level of cash-generating units (CGUs), to which the carrying amount of goodwill can be allocated with reasonable accuracy. The impairment test method is similar to the impairment test performed at Group level described in Note 9 Intangible assets in the Danfoss Group accounts.

Management assess that a reasonable change in the fundamental assumptions used in the impairment tests will not result in a recoverable amount lower than the carrying amount. The same conclusion was made for 2021.

4 Property, plant and equipment

EURm	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of January 1, 2021	321	339	118	49	827
Transfers	14	16		-30	
Additions	18	3	2	27	50
Disposals	-34	-59	-4		-97
Cost as of December 31, 2021	319	299	116	46	780
Depreciation and impairment losses as of January 1, 2021	194	291	43		528
Transfers	1		-1		
Depreciation	11	14	16		41
Disposals	-34	-48	-4		-86
Depreciation and impairment losses as of December 31, 2021	172	257	54		483
Carrying amount as of December 31, 2021	147	42	62	46	297
Cost as of January 1, 2022	319	299	116	46	780
Addition through acquisition of subsidiaries/activities		1			1
Transfers	5	5	9	-19	
Additions	5	7	1	72	85
Disposals	-2	-27	-5		-34
Cost as of December 31, 2022	327	285	121	99	832
Depreciation and impairment losses as of January 1, 2022	172	257	54		483
Transfers		-5	5		
Depreciation	14	12	16		42
Disposals	-2	-26	-5		-33
Depreciation and impairment losses as of December 31, 2022	184	238	70		492
Carrying amount as of December 31, 2022	143	47	51	99	340

4 Property, plant and equipment continued

EURm	Land and buildings	Equipment	**Total**
The right-of-use assets included in property, plant and equipment are presented below.			
Carrying amount related to right-of-use assets as of January 1, 2021	5	19	24
Additions		1	1
Depreciation	-1	-8	-9
Carrying amount related to right-of-use assets as of December 31, 2021	4	12	16
Carrying amount related to right-of-use assets as of January 1, 2022	4	12	16
Additions	1	2	3
Depreciation	-1	-8	-9
Carrying amount related to right-of-use assets as of December 31, 2022	4	6	10

Further information on leases is provided in Note 5 Leases.

5 Leases

Lease liabilities are included as borrowings in the statement of financial position as follows:

EURm	2021	**2022**
Current	8	6
Non-current	8	4

Danfoss A/S mainly leases buildings and cars. Lease payments are generally fixed. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the Statement of Financial Position as a right-of-use asset and a lease liability. Danfoss A/S classifies its right-of-use assets in a consistent manner to property, plant and equipment, see Note 4. Each lease contract generally restricts the use of the right-of-use asset to Danfoss A/S. Some lease contracts contain an option to extend the lease period or terminate the lease before the lease term. Management assesses whether or not it is reasonably certain that the option will be exercised after considering all relevant facts and circumstances.

Danfoss A/S has decided not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. The expenses related to payments not included in the measurement of the lease liability are below EUR 5m.

Total cash outflow for leases for the financial year ending December 31, 2022, was EUR 10m (2021: 9m).

Further information on lease payments, interest expense on lease liabilities, additions, depreciation charge, carrying amount of right-of-use assets and maturity analysis of lease liabilities is provided in Note 6 Financial income and expenses, Note 4 Property, plant and equipment, Note 7 Financial risks and instruments and Note 8 Change in liabilities arising from financing activities.

Capital structure and financing

6 Financial income and expenses

EURm	2021	**2022**
Financial income		
Dividend from subsidiaries and associates/joint ventures	164	360
Interest from subsidiaries	35	54
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	5	24
Foreign exchange gains, net	23	
Interest from banks, etc.	1	3
Reversal of impairment on loans		6
Financial income	228	447
Interest on financial assets measured at amortized cost	36	57
Financial expenses		
Interest to banks, etc.	-27	-20
Foreign exchange losses, net		-4
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-17	-278
Interest to subsidiaries	-5	-17
Impairment/loss on loans	-5	
Financial expenses	-54	-319
Interest on financial liabilities measured at amortized cost	-32	-37

The impact of derivatives/foreign exchange contracts of EUR 8m is included in Foreign exchange losses, net. (2021: 27m included in Foreign exchange gains, net).

Further information on leases is provided in Note 5 Leases.

7 Financial risks and instruments

Financial instruments

Below are relevant financial instrument specifications regarding Danfoss A/S. A description of financial risks can be found in the Group section, see Note 17 Financial risks and instruments, to which reference is made.

Danfoss A/S' debt categories and maturities

EURm	2021					2022				
			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	299	309	4	305		777	793	209	584	
Mortgage debt	69	73		1	72	64	79	1	3	75
Contingent consideration	29	29	3	26		27	27	3	24	
Borrowings from subsidiaries	1,803	1,803	1,239	564		2,284	2,284	1,301	983	
Finance lease liabilities	17	17	9	8		10	10	6	4	
Trade payables	206	206	206			185	185	185		
Trade payables to subsidiaries	49	49	49			40	40	40		
Debt to ass./ JV.	3	3	3			2	2	2		
Derivative financial liabilities	8									
	2,483	2,489	1,513	904	72	3,389	3,420	1,747	1,598	75

*) Maturity is evenly spread over the period.
Further information on leases is provided in Note 5 Leases.

The maturity analysis is based on all non-discounted cash flow, including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flow from derivative financial instruments is presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements.

Financial instruments by category

EURm	2021		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investments in associates and joint ventures	316	272	316	478
Financial assets measured at equity method	316	272	316	478
Other investment **)	4	4	4	4
External derivatives *)			8	8
Financial assets measured at fair value in the income statement	4	4	12	12
Trade receivables	55	55	61	61
Trade receivables from subsidiaries	171	171	140	140
Short-term loans to subsidiaries	438	438	925	925
Other receivables	46	46	26	26
Cash and cash equivalents	205	205	240	240
Loans, receivables, cash and cash equivalents measured at amortized cost	915	915	1,392	1,392
Financial liabilities:				
Contingent consideration measured at fair value via the income statement **)	29	29	27	27
Interest-bearing debt *)	385	443	851	846
Debt to subsidiaries	49	49	40	40
Borrowing from subsidiaries	1,803	1,803	2,284	2,284
Trade payables and other debt	359	359	365	365
Financial liabilities measured at amortized cost	2,596	2,654	3,540	3,535
Financial liabilities measured at fair value in the income statement *)	8	8		

7 Financial risks and instruments continued

Financial assets and liabilities measured at fair value are measured on a recurring basis and categorized into the following levels of the fair value hierarchy:
Level 1: Observable market prices for identical instruments.
Level 2 *): Derivatives that are not traded on an active market based on quoted prices are measured using valuation techniques, where all significant inputs are based on observable market data such as exchange rates and swap curves.
Level 3 **): Valuation techniques primarily based on unobservable prices.

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap prices and exchange rates. The market value of the interest-bearing debt is recognized at the present value of expected future instalment and interest payments. The discount rate applied was the Group's current borrowing rate on loans for corresponding terms. The short-term floating-rate bank debt is stated at the par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2021.

Derivates as of December 31 for Danfoss A/S

EURm	2021			2022		
	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement
USD	-159	-4	-4	-202	5	5
EUR	-1,046			31	5	5
Other currencies	-98	-4	-4	-116	-2	-2
Forward exchange contracts		-8	-8		8	8
Derivatives end of year		-8	-8		8	8

8 Change in liabilities arising from financing activities

EURm	Short-term borrowings	Long-term borrowings	**Total**
Carrying amount as of January 1, 2021	16	946	962
Cash flows:			
Cash repayment	-63	-501	-564
Lease payments	-7		-7
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	1	1	2
Reclassification	69	-69	
Other	-4	25	21
Carrying amount as of December 31, 2021	12	402	414
Cash flows:			
Cash repayment	-64	-5	-69
Lease payments	-6		-6
Cash proceeds	200	338	538
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	1	1	2
Reclassification	69	-69	
Other	-1		-1
Carrying amount as of December 31, 2022	211	667	878

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 5 Leases.

Tax

9 Tax on profit

EURm	2021	2022
Current tax expense	-24	-39
Change in deferred tax	-5	-4
Adjustments concerning previous years	2	-1
Tax on profit (income statement)	-27	-44
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Tax-exempt income/non-deductible expenses	0.6%	25.6%
Dividends exempt of tax	-13.5%	-32.5%
Other taxes	1.6%	2.7%
Adjustments concerning previous years	-0.6%	0.2%
Effective tax rate	10.1%	18.0%

EURm	2021	2022
Tax on profit (income statement)	-27	-44
Total taxes	-27	-44

10 Deferred tax

Changes in deferred taxes

EURm	2021	2022
Deferred taxes as of January 1 (net) *)	-38	-47
Adjustments concerning previous years	-4	-3
Deferred tax recognized in the income statement	-5	-4
Deferred taxes as of December 31 (net) *)	-47	-54

*) Liability (-)

Specification of deferred taxes

EURm	2021	2022
	Deferred tax asset	Deferred tax asset
Property, plant and equipment and financial assets	6	5
Liabilities	13	10
	19	15
Set-off within the same legal entities and jurisdiction	-19	-15
Deferred tax assets	0	0
	Deferred tax liability	Deferred tax liability
Intangible assets	33	33
Property, plant and equipment and financial assets	12	11
Current assets	2	2
Liabilities	14	22
Deferred tax regarding Danish joint taxation	5	1
	66	69
Set-off within the same legal entities and jurisdiction	-19	-15
Deferred tax liabilities	47	54

10 Deferred tax continued

Of the deferred tax liability of EUR 54m (2021: 47m), EUR 1m (2021: 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 20m (2021: 18m). 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.

11 Corporation tax

EURm	2021	**2022**
Corporation tax payable/receivable (-) as of January 1	-5	-10
Paid during the year	-23	1
Adjustments concerning previous years	-6	-4
Current tax expenses in income statement	24	39
Corporation tax payable/receivable (-) as of December 31	-10	26
The above corporation tax is recorded as follows:		
Assets	10	
Liabilities		26
	-10	26

Other notes

12 Adjustment for non-cash transactions

EURm	2021	**2022**
Depreciation/amortization and impairment	85	84
Gain(-)/loss on disposal of tangible assets and business activities	-19	4
Financial income	-228	-447
Financial expenses	54	319
Other, including provisions	-44	-26
Adjustment for non-cash transactions	-152	-66

Depreciation/amortization and impairment includes depreciation on leased right-of-use assets. Further information on depreciation charge and lease payments is provided in Note 4 Property, plant and equipment and Note 8 Change in liabilities arising from financing activities.

13 Contingent liabilities, assets and securities

Securities

EURm	2021	2022
Carrying amount of land and buildings pledged as security for bank loans and mortgages	115	138
Leasing assets pledged as security for leasing commitments	16	10
Carrying amount of interest-bearing liabilities with security in assets	85	74

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

Contingent liabilities

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

Contractual obligations

EURm	2021	2022
Service contract commitment other than leases	61	169
Inventories	44	36
Property, plant and equipment	4	72
Purchase commitments	109	277

14 Related parties

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

Transactions with associates and joint ventures

EURm	2021	2022
Purchases of goods and services	20	19

Transactions besides the above transactions with joint ventures and associates are described in Note 6 Financial income and expenses, Note 2 Investments and Note 7 Financial risks and instruments.

Transactions between Danfoss A/S and the subsidiaries

EURm	2021	2022
Sales of goods and services	1,397	1,556
Purchases of goods and services	590	696
Disposal of intangible assets and property, plant and equipment	24	3

Transactions besides the above transactions with joint ventures and associates are described in Note 6 Financial income and expenses, Note 2 Investments and Note 7 Financial risks and instruments.

15 Events after the balance sheet date

Subsequent to December 31, 2022, there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the Annual Report.

16 General accounting policies for Danfoss A/S

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2022, comprises the Financial Statements of Danfoss A/S.

The Financial Statements of Danfoss A/S have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for listed companies. Unless otherwise indicated, the Annual Report is presented in EUR rounded to the nearest million.

Besides the following section, the accounting policies for Danfoss A/S are the same as for the Danfoss Group. Please refer to Note 27 in the Consolidated Financial Statements for the Danfoss Group. The impact of new accounting standards, as described in Note 1 in the Consolidated Financial Statements for the Danfoss Group are also assessed as immaterial to Danfoss A/S.

Investments in subsidiaries, associates and joint ventures
In Danfoss A/S' Financial Statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is performed. If the recoverable amount is lower than cost, investments are written down to this lower value. Impairments are recognized in Danfoss A/S' income statement under financial expenses. Reversal of impairments are recognized under financial income.

Dividends from investments in subsidiaries, associates and joint ventures are recognized in Danfoss A/S' income statement under financial income in the year, when the dividends are declared.

Significant subsidiaries, that are merged into Danfoss A/S are accounted for according to the "Group-method" (Koncernmetoden), which means it has retro perspective effect and comparative information is adjusted accordingly. Any difference between accumulated cost price (after any impairments) and merged net assets (January 1, 2021) is treated as goodwill.
In 2022 Danfoss merged with certain subsidiaries, refer to "Management's review for Danfoss A/S", where the impact on main comparative figures is also stated.

Corporation tax and deferred tax
Danfoss A/S is jointly taxed with its Danish subsidiaries and sister companies. Current tax and deferred tax is allocated between the jointly taxed companies. The jointly taxed companies are taxed under the tax prepayment scheme.

Reserve for capitalized development projects
Danfoss A/S has established a non-distributable reserve in equity regarding capitalized development projects. This reserve will be reversed as the development projects have effect on the income statements. The amount is presented net of deferred tax.

17 Significant accounting estimates for Danfoss A/S

Significant accounting estimates for Danfoss A/S concern investments in subsidiaries, associates and joint ventures.

In Danfoss A/S' Financial Statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is performed. If the recoverable amount is lower than cost, investments are written down to this lower value.

Due to the nature of the operations of the investments, estimates of expected cash flows have to be made many years into the future, which will be subject to some degree of uncertainty. The investments in subsidiaries, associates and joint ventures are described in more detail in Note 2 Investments.

Statements

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, 2022.

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, 2022, of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2022.

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 1, 2023

CEO and CFO

Kim Fausing

Jesper V. Christensen

Board of Directors

Jens Bjerg Sørensen, Chair

Mads Clausen

Mads-Peter Clausen

Karin Dohm

Per Falholt

Connie Hedegaard

Jürgen Reinert

Mika Vehviläinen

Henning Bjørklund

Marianne Godballe

Henning Andreas Krogh

Bent Lewke

Independent Auditor's Report

To the Shareholders of Danfoss A/S

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at December 31, 2022 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, 2022 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Danfoss A/S for the financial year January 1 - December 31, 2022, pp. 79-125 and 129-145, which comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ("financial statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review, pp. 1-78 and 126-128.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, March 1, 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

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