Danfoss

# Strong partnerships and bold investments

Annual Report 2023

Explore our solutions
www.danfoss.com

PAGE 3-78

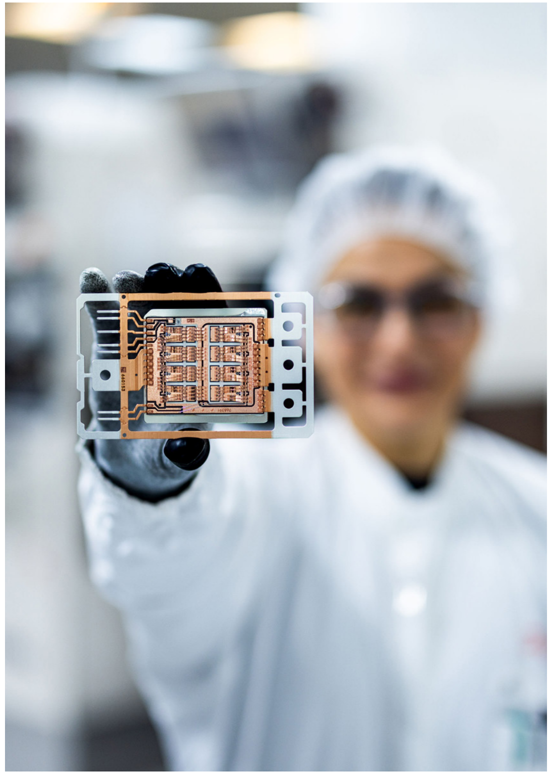
# Management's Review



PAGE 79-158

# Financial Statements





## Cover photo

The automotive power module showcased on the front cover converts the DC voltage in the battery to AC voltage, enabling the electric motor to function as well as controlling the speed of the electric vehicle.

Letter from the CEO

# With strong partnerships and bold investments, we continue to expand our offering of competitive, innovative, and best-in-class technology and solutions

We have entered a new era where the future energy system is electric and where improving energy efficiency in machines, infrastructure, and industry is critical to delivering an affordable, secure, and decarbonized future.

Being part of the solution to build a better future is what our purpose in Danfoss is all about. We continue to transform and invest in our green growth strategy. This is key to us as we continue to develop even closer relationships with our customers and partners. We will continue to deliver sustainable innovations that increase energy efficiency, enhance machine productivity, reduce emissions, and enable electrification. This is a key part of our green growth strategy and central to our sustainability and ESG goal of becoming our customers' preferred decarbonization partner.

This year, we celebrated our 90-year anniversary, and I would like to sincerely thank our customers and partners for the support and cooperation throughout the years. Partnering across the entire value chain has never been more important than it is today.

With Core & Clear 2025, our green growth strategy, and our highly engaged teams across Danfoss, we are well on the way towards 2025. I am excited about our strong portfolio and progress in both our core business and high-growth opportunities and would like to highlight the following:

- We continued to strengthen our core business with significant investments in innovation and building a more resilient supply chain by further regionalizing and adding new capacity.
- We are well on track with integrating our transformational acquisitions, Eaton's hydraulics business in Power Solutions and BOCK® Compressors in Climate Solutions, as well as establishing Semikron Danfoss as part of Power Electronics and Drives.
- We continue to focus on offering a broad set of competitive and innovative solutions for several high-growth verticals, for example, data centers and electrification of heating systems with commercial heat pumps.
- We invest to build a leading position in electrification by creating a strong offering for EVs, trucks, off-highway machines, marine vessels, and hydrogen production.

## Our results 2023

The post-pandemic recovery of our markets and businesses has been very strong. However, during the second half of 2023, high inflation and interest rates impacted the market, creating a more challenging business environment.

Despite the increasing headwinds, we delivered a robust result, while continuing to make significant investments in capacity, innovation, and digitalization. I would like to highlight the following:

- Our EBITA was up 10%, leading to an EBITA margin of 12.6%. EBITA excluding integration cost and other operating income and expenses, reached 13.7%.
- We delivered a record-level cash flow of EUR 692 million, up 49%.
- Our growth in local currency was 7%. We saw positive growth in North America and Europe. Asia Pacific sales growth was negative, mainly driven by the economic slowdown in China. India continued to deliver a strong growth performance.
- Our transformation continued with high investment in innovation and R&D that increased to 4.6% of sales and CapEx at record levels of EUR 596 million.

> "
>
> Results are created by people, and our empowered and high-performing, diverse teams are the foundation of everything we do. That's why we also continue to strengthen Danfoss as an inclusive, collaborative workplace and will keep working on our diversity, equity, and inclusion initiatives.
>
> — Kim Fausing, President and CEO

- We continued to decouple our organic growth from our own emissions. In 2023, our scope 1 and 2 emissions, excluding the newly acquired Semikron and BOCK® Compressors, decreased by 18%, despite organic sales growth of 2%. And for scope 3 emissions, we have clear roadmaps in place to reduce our carbon footprint by 15% from 2019 to 2030.

The more challenging business environment in the second half of 2023 has continued into 2024. However, we remain focused on serving and delivering strong value to our customers and partners all over the world. Close partnerships have never been more important, and we are more than ready to continue our collaboration in 2024.

To conclude, I would like to sincerely thank my 42,000 colleagues all around the world for the engagement and great contributions over the year.

**Kim Fausing**
President and CEO

Danfoss technologies help farmers get work done efficiently, safely, and reliably. Our state-of-the-art software, electronic, and hydraulic systems enable machines like this harvester to maximize crop yields.

# Danfoss at a glance

CONTENT

# Danfoss in brief

We aspire to be the leading technology partner for our customers who want to decarbonize through energy efficiency, machine productivity, lower emissions, and electrification.

Employees worldwide

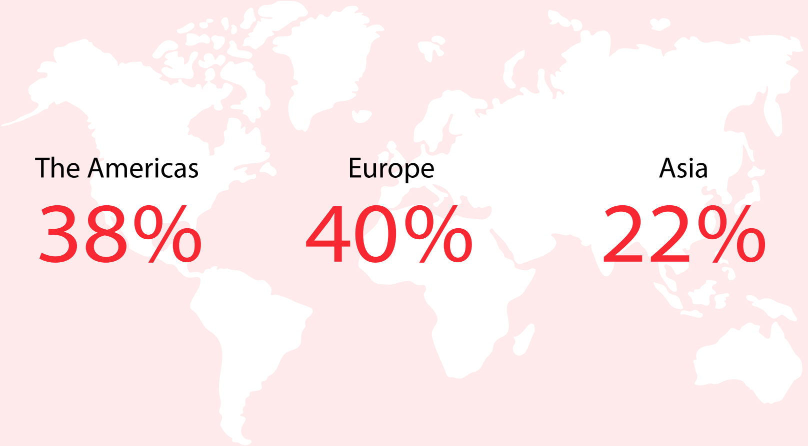
**42,000** Results are created by people

Global footprint

**100** factories close to our customers and partners

Worldwide sales

Sales in more than **100** countries



The Americas **38%**

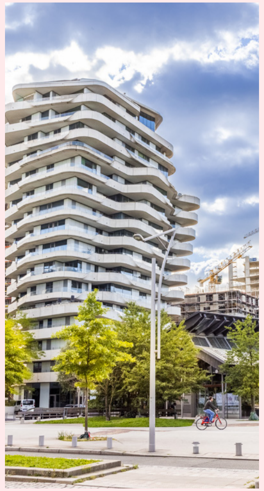
Europe **40%**

Asia **22%**

Business segments

Business segments with global leading positions

Danfoss Power Solutions



Danfoss Climate Solutions

Danfoss Power Electronics and Drives

Our transformation highlights

# Our foundation

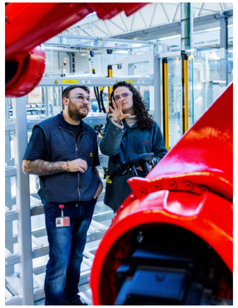
Our results are created by our people. Our high-performing, diverse teams around the globe are the strong foundation of Danfoss, empowered to execute on our strategy.

We continue our focus on four priorities: inclusive workplace; engaged employees; high-performing, diverse teams; and key capabilities. We prioritized our focus on improving gender and nationality diversity in our global teams as well as succession planning by sharing, developing, and rotating our team members across our organization.

## Inclusive workplace

We offer an inspiring and inclusive workplace, where everyone feels "at home." Our teams represent the diversity of the communities in which we live and work. Our global and regional Employee Resource Groups (ERGs) help us to make sure all our colleagues feel included, valued, and respected.

## Engaged employees



Our highly engaged workforce drives Danfoss' transformation. This year's engagement survey reconfirmed the high motivation and engagement level in Danfoss. In the last two years, we have added one-third of all team members through our M&A activities, while keeping the high engagement.

## High-performing, diverse teams

Increasing the share of diverse talents in all job functions remains a key focus area. In 2023, the share of women managers increased to 22.1% from 21.0% in 2022. We continue our efforts to improve but also realize that it will take time to reach our 30% target.

## Key capabilities

To help our customers decarbonize and thereby drive the green transition, we need to ensure we have the key capabilities to succeed. For that reason, we focus on succession planning, developing competences, and filling skill gaps to grow our team members.

"

Developing our colleagues and taking care of our working environment is key to achieving our purpose-led strategy. We want everyone to feel valued and be a respected team member of our high-performing, diverse teams.

— Ilonka Nussbaumer, Executive Vice President, Group Human Resources

The German "Best Place to Learn®" recognition is a national award given to companies being rated as "top-educators" providing excellent in-house apprentice training programs.

Case story

## Apprentice Training Program in Neumünster

Danfoss Power Solutions factory in Neumünster, Germany, received the "Best Place to Learn®" award in 2023 for their Apprentice Training Program.

We focus on building critical supply chain competences. Dedicated programs are provided within Metal Cutting Mechanics, Industrial Mechanics, Industrial Management Assistants, Computer Science, and Warehouse Logistics. Programs run over four years including a minimum of two years active support on the assembly lines.

## Empowering our teams

To become an even stronger partner for our customers, we aim to maintain a strong customer focus throughout the organization. We have taken inspiration from our founder and the Danfoss DNA to empower our teams and ensure strong engagement. This is what we call Our Behaviors.

1. Frontline passion
2. Run the business like your own
3. Think Danfoss

Our transformation highlights

# Continued strong investments to build a better future

In 2023, we continued our significant investments in innovation, production capacity, and digitalizing Danfoss. By increasing innovation spend by 7% to EUR 487m (2022: 457m), corresponding to 4.6% of sales (2022: 4.5%), we have strengthened the leading position in our core businesses and invested significantly in building new high-growth businesses.

We regionalize our supply chains to improve service levels to our customers and reduce our carbon footprint. In 2023, we had another record level of investment. We also continued our high investments in digitalizing Danfoss to improve customer experience and drive further efficiencies. In 2023, we invested in our business with a total capital expenditure of EUR 596m (5.6% of sales), which is 12% more than last year.

"Our frontline passion sets the direction for how we provide a best-in-class digital customer experience. Together with our customers, we continue to improve our ways of working across all our regions.

– Astrid Mozes,
President, Danfoss Regions

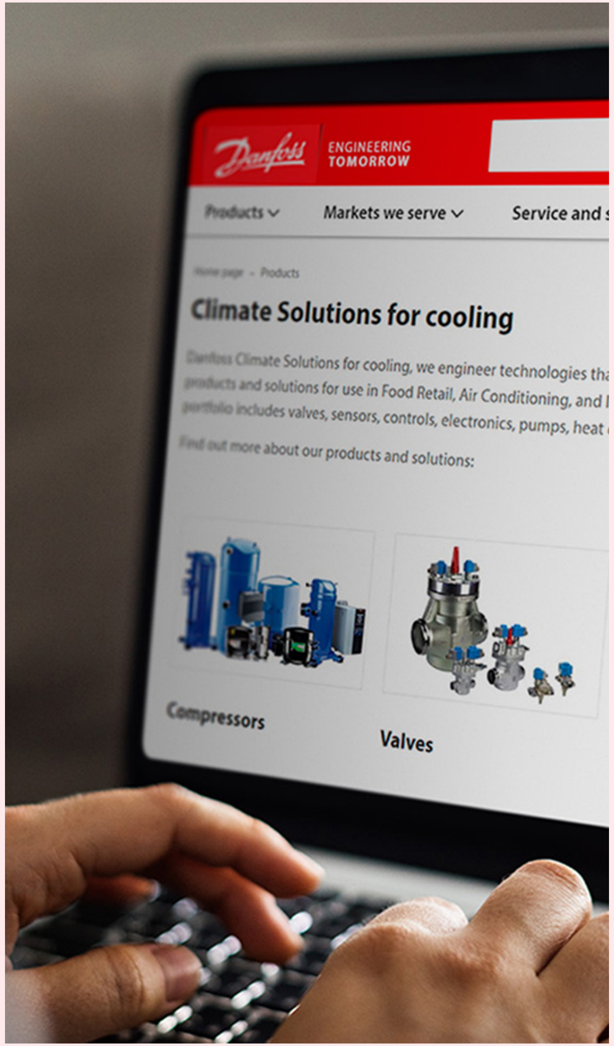
Case story

## Digital customer experience at Danfoss

Danfoss continues to invest in digital solutions to deliver a best-in-class customer experience. Our dedication to enhance customer relationships and improve day-to-day convenience for our customers led us to embark on a transformational journey towards digitalization. One of the cornerstones of these efforts has been implementing our e-commerce platform. This dynamic platform enables our customers to browse, choose, and order products at their convenience 24/7.

Through user-friendly interfaces and robust backend systems, we aim to make every interaction with Danfoss seamless. From intuitive navigation to secure transactions, every aspect has been shaped to meet our customers' needs.

Our investment in digital solutions is an ongoing commitment, ensuring that our customers continue to benefit from the latest advancements in technology.



Our transformation highlights

# On track with our transformative acquisitions

The transformation of Danfoss is driven by significant investments. In recent years, we have closed the acquisitions of Eaton's hydraulics business, Semikron, and BOCK® Compressors. We are on track with the integration of our three transformational acquisitions, and our new colleagues have quickly become part of our team.

> "Despite increasing headwind from the markets, we continued to invest in driving long-term value creation in 2023. This is what our investment-driven growth model is all about.

— Jesper V. Christensen,
Chief Financial Officer


Danfoss Power Solutions is building a leading position in mobile and industrial hydraulics, as well as electrification in the on- and off-highway markets. The acquisition of Eaton's hydraulics business in 2021 was the largest acquisition in the history of Danfoss, adding 10,000 colleagues to the team.


Danfoss Power Electronics and Drives is building a leading position in power electronics from power modules to intelligent drives, with Semikron Danfoss as a technology leader in power semiconducter modules and assemblies. The acquisition of Semikron in 2022 added 2,800 colleagues to the team.


Danfoss Climate Solutions is building a leading position in sustainable heating and cooling for buildings, cold chains, industry, and infrastructure. With the acquisition of BOCK® Compressors in 2023, we offer one of the most comprehensive compressor portfolios in the industry. This acquisition added 400 colleagues to the team.

Our transformation highlights

# Strong progress on our sustainability initiatives

In 2022, we defined our three ESG step-change initiatives: Decarbonization, Circularity, and DE&I (Diversity, Equity, and Inclusion). These are now an embedded part of our green growth strategy. During 2023, we further developed our competencies and understanding, supported by an online training platform for all employees.

**Decarbonization: our own operations**
We have a clear plan to fully decarbonize our own operations by 2030. In 2023, our scope 1 and 2 emissions, excluding the newly acquired Semikron and BOCK® Compressors, decreased by 18%, despite organic sales growth of 2%, demonstrating a continued decoupling of our decarbonization from our growth.

We have agreements in place that cover a 30% reduction towards carbon neutrality in 2030. These agreements include entering into two long-term power purchase agreements in China and North America, effective from 2024 and 2025, respectively.

**Decarbonization: our value chain**
In 2023, we developed decarbonization roadmaps by segment and business towards our 2030 target of a 15% reduction of our scope 3 emissions based on the 2019 baseline. One action has been our commitment to the First Movers Coalition to reduce the emissions from aluminum sourcing.

**Circularity: integration into new product development**
We developed a circularity framework and sustainable design guide for our innovation and product development teams, along with a toolbox to assess the circularity potential of materials and packaging. This will be a key lever for reducing the environmental impact of our products going forward.

"Our strategic approach to sustainability is based on strong partnerships and remains the same whether we apply it to our own business or decarbonize with our customers. First, we apply energy-efficient solutions to reduce energy consumption. Second, we reuse energy wherever possible. Finally, we source any remaining demand from renewable sources.

— Torben Christensen,
Chief Sustainability Officer &
Head of Global Services

Case story

## China PPA

In 2023, Danfoss signed a power purchase agreement (PPA) for renewable power supply that will reduce 28,000 tons of $CO_2e$ ($CO_2$ equivalents) annually, corresponding to a reduction of 23% of our total scope 1 and 2 emissions in China. The renewable power is produced at a newly constructed solar park located about 20 kilometers from the Danfoss Wuqing campus and will cover the annual electricity consumption of the 87,000 square meter campus. Danfoss is one of the first global companies to secure long-term renewable power for part of its operations in China.

**Diversity, Equity, and Inclusion**
Danfoss is committed to making a step-change in Diversity, Equity, and Inclusion (DE&I), as it leads to greater engagement, performance, and innovation.

In 2023, we increased the share of women leaders to 22.1% from 21.0% in 2022. To reach our target of 30% women leaders in 2025, we have implemented a number of initiatives across the business to accelerate the development of women candidates to fill our talent pipeline for future leadership positions.

At leadership levels 1 to 4, we increased management team diversity from 67.4% to 75.5%. We would like to see a minimum of two nationalities and two genders in each management team.

Our five global Employee Resource Groups (ERGs) – Danfoss Abilities, Danfoss Genders, Danfoss Generations, Danfoss Multicultural and Nations, and Danfoss Pride – support our commitment to improve on our DE&I journey. We currently have 45 active groups around the world.

Case story

## Accelerating our share of women in senior leadership positions

To fuel the pipeline of women leaders, Danfoss offers a mentoring program for women in senior leadership positions. This program helps them grow, develop, and build strong networks through coaching and learning.

Our Danfoss President and CEO coaches them, while our Executive Vice President, Group Human Resources facilitates. Each year, a senior leader also joins as role model and co-leader. The agenda is set by the women themselves.

Not only do the mentees benefit from the program – the coaches and facilitator say that they learn as much from the mentees. Each session is filled with diverse perspectives, unique insights, and valuable input that enrich their own understanding of the business and leadership.

All mentees are developing, rotating, or advancing, and we have been able to retain all of them.

The mentoring program for women is currently in its fourth year.

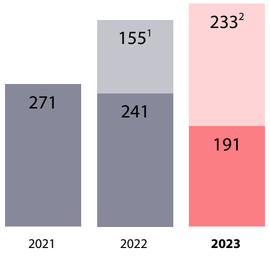
# In 2023, we continued our positive development

In 2023, we continued our strong investments in innovation, capacity, and digitalization. Despite the slower growth environment during the year, we delivered a 10% increase in earnings and a strong cash flow after financial items and tax, up 49% compared to last year. We reduced our scope 1 and 2 emissions by 18% (excluding newly acquired Semikron and BOCK® Compressors), demonstrating the continued decoupling of our own emissions from our sales growth. With a 25% reduction of LTIF, our safety is at the best level achieved so far.

### Decarbonizing operations

Total scope 1 and 2 GHG emissions (kt $CO_2e$)

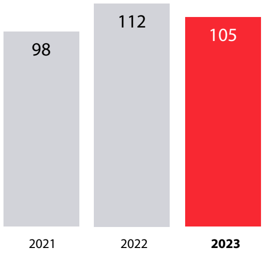
-18%[3]




### Energy intensity

MWh per EURm net sales

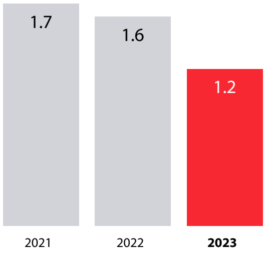
-6%




### LTIF record low

Number of incidents per million hours worked

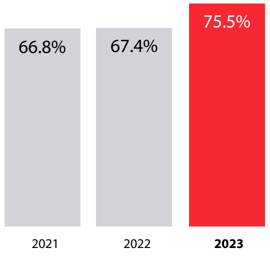
-25%




### Management team diversity

At least two genders and two nationalities in leadership levels 1-4

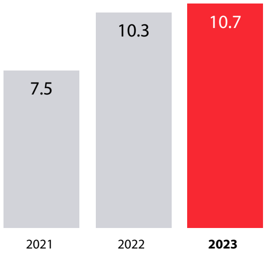
+8%-points




### Sales

EURbn

+4%

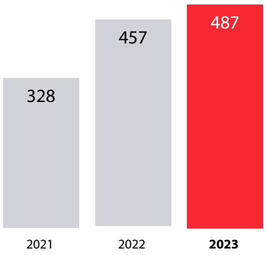



### Innovation

EURm

+7%

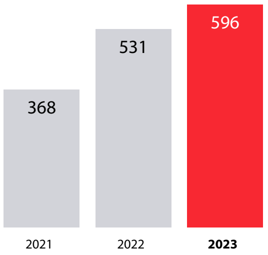
R&D expense




### Investments excl. M&A

EURm

+12%

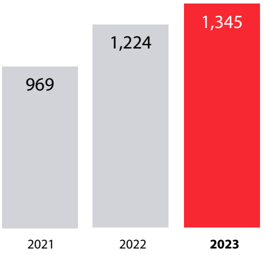



### EBITA

EURm

+10%

earnings increase

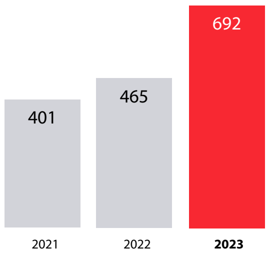



### Cash flow

EURm

+49%

cash generation




[1]Addition of Eaton's hydraulics business
[2]Addition of Eaton's hydraulics business and Semikron. BOCK® Compressors is not included in the Environmental data for 2023
[3]Calculated using scope 1 and 2 emissions in 2023 for Danfoss excluding Semikron (to ensure comparability with 2022)

# Financial highlights

| | EURm 2019 | EURm 2020 | EURm 2021 | EURm 2022 | **EURm 2023** |
|---|---|---|---|---|---|
| **Profit and loss account** | | | | | |
| Net sales | 6,285 | 5,828 | 7,539 | 10,256 | 10,654 |
| EBITDA before OOI/E | 1,028 | 1,008 | 1,232 | 1,618 | 1,786 |
| EBITDA | 1,026 | 954 | 1,272 | 1,576 | 1,768 |
| EBITA | 771 | 723 | 969 | 1,224 | 1,345 |
| EBIT | 695 | 625 | 877 | 1,043 | 1,252 |
| Financial items, net | -33 | -48 | -58 | -94 | -175 |
| Profit before tax | 662 | 577 | 819 | 949 | 1,077 |
| Net profit | 502 | 435 | 631 | 683 | 819 |
| **Financial ratios** | | | | | |
| Local currency growth (%) | 1 | -6 | 31 | 31 | 7 |
| EBITDA before OOI/E margin (%) | 16.4 | 17.3 | 16.3 | 15.8 | 16.8 |
| EBITDA margin (%) | 16.3 | 16.4 | 16.9 | 15.4 | 16.6 |
| EBITA margin (%) | 12.3 | 12.4 | 12.8 | 11.9 | 12.6 |
| EBIT margin (%) | 11.1 | 10.7 | 11.6 | 10.2 | 11.7 |
| **Balance sheet** | | | | | |
| Total non-current assets | 4,217 | 4,106 | 6,693 | 7,803 | 7,975 |
| Total assets | 6,096 | 6,412 | 9,970 | 11,728 | 11,717 |
| Total shareholders' equity | 2,933 | 3,184 | 3,951 | 5,048 | 5,443 |
| Net interest-bearing debt | 1,048 | 537 | 2,677 | 3,168 | 2,871 |

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

| | EURm 2019 | EURm 2020 | EURm 2021 | EURm 2022 | **EURm 2023** |
|---|---|---|---|---|---|
| **Cash flow statement** | | | | | |
| Cash flow from operating activities | 789 | 800 | 838 | 1,053 | 1,355 |
| Cash flow from investing activities | -407 | -242 | -2,794 | -931 | -724 |
| Hereof: | | | | | |
| Acquisition of intangible fixed assets | -52 | -44 | -43 | -45 | -44 |
| Acquisition of property, plant and equipment | -258 | -201 | -339 | -504 | -558 |
| Proceeds from sale of property, plant and equipment | 6 | 14 | 14 | 18 | 6 |
| Acquisition of subsidiaries and activities | -140 | 0 | -2,664 | -441 | -120 |
| Proceeds from disposal of subsidiaries and activities | 0 | 0 | 241 | 12 | -11 |
| Cash flow from financing activities | -322 | -54 | 1,596 | -26 | -590 |
| **Financial key figures** | | | | | |
| Free operating cash flow | 634 | 709 | 664 | 794 | 1,141 |
| Free operating cash flow after financial items and tax | 463 | 493 | 401 | 465 | 692 |
| Free cash flow | 323 | 497 | -2,020 | 40 | 561 |
| **Financial ratios** | | | | | |
| Return on invested capital ROIC (%) | 18.3 | 16.1 | 16.7 | 14.1 | 15.4 |
| Return on invested capital after tax ROIC (%) | 13.4 | 11.9 | 12.8 | 10.2 | 11.8 |
| Return on equity (%) | 17.0 | 13.1 | 16.6 | 14.8 | 15.3 |
| Equity ratio (%) | 48.1 | 49.7 | 39.6 | 43.0 | 46.4 |
| Leverage ratio (%) | 35.7 | 16.9 | 67.8 | 62.8 | 52.8 |
| Net interest-bearing debt to EBITDA ratio | 1.0 | 0.6 | 2.1 | 2.0 | 1.6 |
| Dividend ratio (%) (proposed) | 16.0 | - | 30.0 | 30.0 | 30.0 |
| Dividend per 100 DKK share (proposed) | 8.1 | - | 19.0 | 20.6 | 24.6 |

# Outlook 2024

We will continue to execute our investment-driven growth strategy in 2024, being mindful of the uncertainty in the global economy and geopolitical environment. As the megatrends continue to strengthen, we have a clear direction towards 2025, and our priorities do not change.

Danfoss is well positioned for 2024 as demands for energy efficiency and electrification gain momentum and continue to ensure a strong match between our offerings and customer needs. Global megatrends and technology shifts create significant opportunities in all our three global segments.

However, a high level of volatility and uncertainty still prevails in the global economy and geopolitical environment, causing lower visibility. Despite the current environment, our focus continues to be ensuring profitable growth. Our strong free cash flow will allow us to maintain a high level of investments in our core businesses, digitalization, and electrification that will drive energy efficiency and decarbonization.

**2024 expectations**
Danfoss has a continued ambition to expand or maintain our market share. Sales are expected to be in the range of EUR 10.0-11.5bn for the full year. The EBITA margin is expected to be in the range of 11.8-13.3%, following our continued integration of already-acquired businesses as well as investments in innovation of new products and solutions.

The expected growth and profitability performance is dependent on the development of global supply chain stability, the geopolitical environment, and inflation, as well as general global growth rates. As our customers' preferred decarbonization partner, Danfoss has huge potential to contribute to delivering on global and regional climate goals through the innovative technologies and solutions we bring to market. We remain committed to decarbonizing our global operations by 2030, as part of our three step-change initiatives on Decarbonization, Circularity, and DE&I (Diversity, Equity, and Inclusion). Finally, we will continue to invest in sustainability, improve our climate footprint, and deliver on our sustainability 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.


As part of the introduction of fully electric Volvo trucks for transport needs in Denmark, Danfoss is the first Danish company to introduce e-trucks that will operate fixed routes between local Danfoss sites. The trucks will operate up to 24 hours a day, five days per week, without significant charging downtime. The Volvo e-trucks are built with Danfoss technology.

# Our purpose

CONTENT

# Global megatrends and technology shifts create significant opportunities for Danfoss

## Climate change

Climate change is an immediate, not a future, risk. To stay on a 1.5°C pathway, rapid emissions reductions are necessary. Danfoss solutions accelerate the green transition of even the most carbon-intensive sectors: transport, industry, and buildings. Our technologies increase energy efficiency and enable electrification, increasing the share of renewables in the energy mix.

## Urbanization

Cities account for more than 70% of global carbon emissions.[1] Danfoss solutions can significantly reduce their carbon footprint through a range of smart and efficient technologies in transportation, heating and cooling, supermarkets, wastewater facilities, data centers, and much more.

## Food and water supply

Nearly one-fifth of all food is wasted,[2] and global food demand is expected to increase by up to 56% by 2050.[3] Optimizing food production, transport, and storage is essential. By making agriculture more efficient and reducing energy waste in the food and beverage industries, we can produce more with fewer resources.

## Digitalization

Digitalization increases functionality in our systems and solutions and thereby the opportunity to further decarbonize. Danfoss' intelligent software solutions provide customers with real-time insights and automated decision-making. Our digital technologies can drive rapid change in our energy systems, increase machine productivity, and ensure that energy is used when it is greenest and cheapest.

## Electrification

Transitioning to a fully electrified energy system could cut up to 40% of energy consumption.[4] Danfoss delivers electrification solutions not only to cars and trucks, but also to heavy industrial machinery, marine, and off- and on-highway equipment that can go hybrid or fully electric. Our technologies for hydrogen production can help electrify hard-to-abate sectors.

[1] IEA (2021). Empowering Cities for a Net Zero Future.
[2] NEP (2021). UN: 17% of all food available at consumer levels is wasted.
[3] van Dijk et al. (2021). A meta-analysis of projected global food demand and population at risk of hunger for the period 2010-2050. Nature Food. 2, 494-501.
[4] United Nations (n.d.). Reducing food loss and waste: Taking Action to Transform Food Systems

# Our purpose is to be part of the solution and help build a better future

Our sustainable innovations increase energy efficiency, enhance machine productivity, reduce emissions, and enable electrification. We decarbonize with our customers through our leading application know-how. This is how we are part of the solution.

We already have many of the solutions needed to tackle the world's challenges while creating growth. This is all made possible by our long-term view on value creation and the dedicated Danfoss teams around the world, pushing the boundaries of what's possible.


We have implemented energy-saving projects across our global campuses since 2007 with short pay-back times. We reduce our energy consumption, reuse as much energy as possible, and source renewable energy. In 2022, our headquarter campus, 250,000 m² indoor floorspace, became $CO_2$e neutral. In 2023, our Graasten, Kolding, and Sunds campuses in Denmark and our Vaasa campus in Finland also became $CO_2$e neutral.

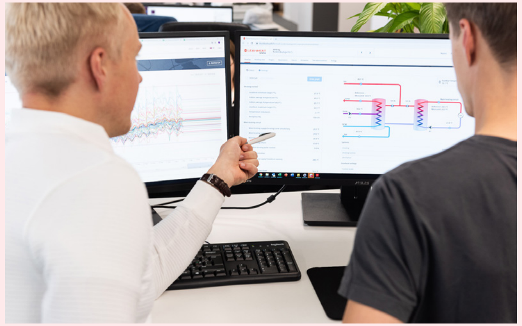
# To decarbonize in an intelligent and cost-effective manner, sequence matters!

To grow the role of green electricity in the energy mix, it is a fundamental fact, yet often overlooked, that we must first reduce demand for energy.

The first priority is to reduce energy waste by scaling energy-efficient technologies and increasing machine productivity. Secondly, we focus on reusing energy through energy recovery and sector coupling. And thirdly, we re-source green energy by replacing fossil fuels with renewable energy sources. Only in this sequence can we achieve rapid and cost-efficient decarbonization.

The greenest energy is the one we don't use – or the energy we reuse. We have many of the solutions ready today to drive decarbonization in all three focus areas. Seeing is believing. In addition, the majority of our solutions have short payback times and attractive returns.

In decarbonizing our own operations globally, we apply the same approach that we bring to our customers.



## Reduce

Reducing energy waste is possible across all sectors. Energy efficiency can improve the fuel economy of machines and reduce demand for diesel, while simple and smart technologies for heating and cooling buildings can reduce energy consumption significantly. Likewise, implementing better energy management in industries can deliver significant energy savings. Energy efficiency is a major opportunity to drive the world towards an ambitious and cost-effective green transition.

## Reuse

Energy reuse has a large, untapped potential in the green transition. Industries, supermarkets, data centers, and wastewater facilities all produce large amounts of excess energy – often in the form of heat. With Danfoss solutions, this energy can both be reused onsite and sold back to the grid. Through sector integration and district energy systems, heavy energy consumers can become major energy suppliers.

## Re-source

Re-sourcing from fossil fuels to renewable electricity represents a pivotal change in the green transition. Through electrification, we can lower emissions and become more efficient, enabling a future energy grid powered by renewables. Wherever electrification is not possible, we can partly electrify through hybrid solutions or indirectly electrify through hydrogen production.


The Danfoss Smart Store supermarket and Application Development Center is a functioning supermarket and test environment, providing the unique opportunity to understand how new technology will operate in the real world.

# Our business

CONTENT

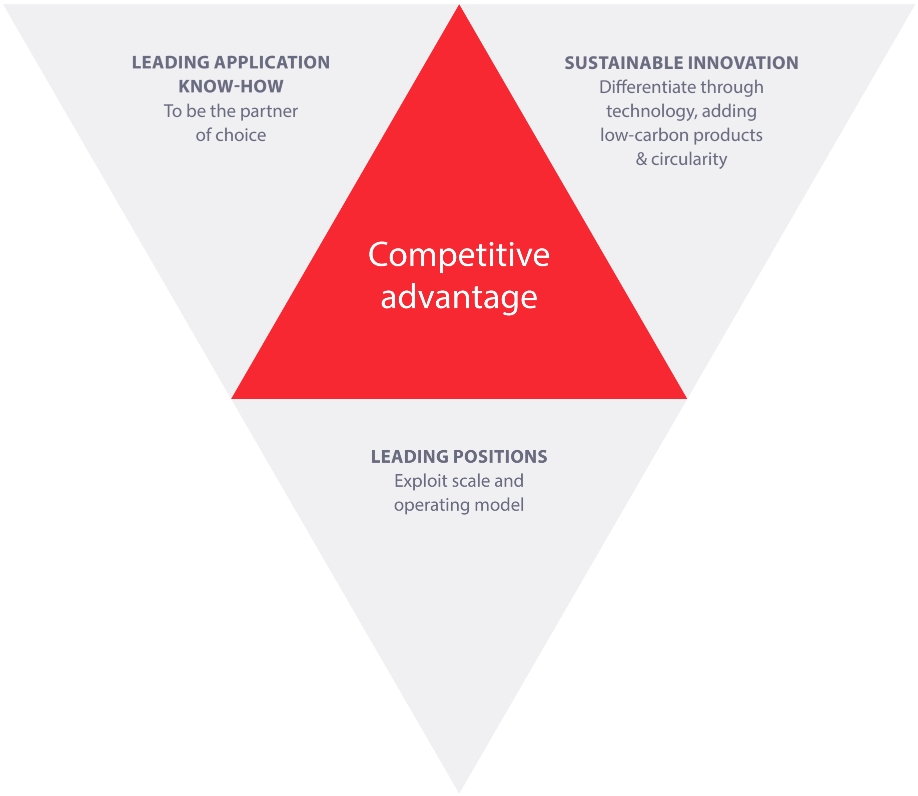
# How we deliver value to our customers

Danfoss delivers value to our customers as a technology partner with global leading positions, deep application know-how, and sustainable innovation in our core businesses. This is our competitive advantage.

**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 Application Development Centers to optimize solutions for our customers. Our deep application know-how makes us the partner of choice to decarbonize together with our customers.

**Sustainable innovation**
We strive to be the technology leader in our core businesses. We invest significantly in new products and new technologies to help our customers differentiate even further. To help our customers decarbonize, Danfoss develops low-carbon products, and implements circularity initiatives across our businesses. This includes 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. Operational excellence is part of the Danfoss DNA building on a leading position within safety, quality, delivery, and productivity. Through our investment-driven growth strategy, we invest to strengthen our core businesses, take the lead in digital, and build a leading position in electrification.



# We continue to invest in building leading positions in our three segments

## Danfoss
## Power Solutions

Full solutions capabilities in mobile and industrial hydraulics, fluid conveyance, electrification, and software, driving machine productivity


## Danfoss
## Climate Solutions

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


## Danfoss
## Power Electronics and Drives

Clean-energy solutions such as AC drives, power semiconductor modules, and electrification in automotive and various industries

# Danfoss
# Power Solutions

Sales

EUR 4.8bn

Earnings (EBITA)

EUR 701m

EBITA margin

14.5%

Number of employees

17,694

Factories

51

Application Development Centers

3

"

Danfoss Power Solutions equips machines to be more productive, efficient, and sustainable. While enabling machines to do more with less, we're strengthening our core in hydraulics and building new business in autonomy and electrification.

— Eric Alström, President, Danfoss Power Solutions

Case story

# Danfoss Power Solutions
# Propelling growth with hydrostatics

## The challenge

As the world's population continues to grow, so does the demand for food, housing, and infrastructure. However, the amount of land available for farming and development is finite, and sectors such as construction and agriculture are facing challenges with resource scarcity, rising cost of materials and energy, and lack of skilled labor. We must maximize the productivity of our land as well as farmers and construction workers.

## The solution

Efficient, productive machinery is vital to solving this challenge, and Danfoss Power Solutions plays a key role in keeping such equipment moving, increasing productivity and efficiency. Our Hydrostatics division is home to hydraulic pumps and motors that propel agricultural, construction, material-handling, and other off-highway machines, providing the best traction for the toughest terrain. We offer differentiated solutions known for high efficiency, controllability, and reliability.

A key application is agricultural sprayers. In fact, Danfoss holds a leading position in hydrostatic transmissions for self-propelled sprayers. Typically featuring an elevated chassis, hydraulically operated boom, and large tank, these machines efficiently apply crop performance and management materials, helping maximize yields while minimizing costs. Danfoss hydrostatic components are robust, reliable, and efficient, but our complete system solution is the reason we win with sprayer OEMs. Our pumps and motors together with our controllers and software provide superior traction and control.

With recent and future capital investments totaling more than EUR 100 million, Danfoss is well positioned to continue its growth trajectory in Hydrostatics. Capital allocated to a variety of projects globally has enabled increased production capacity, allowing us to better serve our customers with the products and the quantities they want.

Self-propelled sprayers help maximize yields by efficiently applying fertilizers and other performance materials.

Localization initiatives ensure these products are available where and when our customers need them, reducing supply chain risk as well as shipping-related emissions. In short, we're investing to win and to enable our customers as they develop the machines that help feed and house the world's growing population.

# Danfoss
# Climate Solutions

| | |
|---|---|
| Sales | Earnings (EBITA) |
| EUR 3.1bn | EUR 524m |
| EBITA margin | Number of employees |
| 16.8% | 11,289 |
| Factories | Application Development Centers |
| 35 | 4 |

"Decarbonizing with our customers is at the heart of everything we do in Climate Solutions. With the move away from burning fossil fuels towards an electrified economy comes the need to use resources more efficiently. We systematically look beyond the individual product or application, helping our customers to disrupt existing patterns. We also do this with digital solutions to address peak loads, with heat recovery from cooling and with innovative approaches to support the further uptake of heat pumps.

— Jürgen Fischer, President, Danfoss Climate Solutions

Case story

# Danfoss Climate Solutions Decarbonizing supermarkets with Danfoss technologies

## The challenge

The world's population is on course to reach 10 billion people by 2050 and investments in sustainable food retail and storage are urgently needed. The pressure is growing, both on energy demand and costs, and on the need to reduce food loss. While supermarkets and retail food stores are an integral part of communities around the world, they are also big energy consumers and account for 3% of the total electricity used in industrialized countries.[1]

## The solution

This year, Danfoss opened a Smart Store that is expected to be around 50% more energy efficient compared to typical supermarkets and with a first-generation $CO_2$ refrigeration system, cutting both energy and emissions.[2] Enabled by Danfoss solutions, including compressors, heat exchangers, valves, energy storage, smart refrigeration case controls, AC drives, sensors, and digital monitoring, it demonstrates significant savings for supermarkets, with a typical payback time of 3-4 years. 90% of the space heating need is provided by a heat recovery unit capturingexcess heat from cooling systems.[3]

The site is also an Application Development Center, a test environment for equipment manufacturers, contractors, food retailers, and Danfoss engineers to co-develop new technologies and solutions enhancing energy and operational efficiency. The Smart Store is managed by Danfoss and ANEO Retail's partnership using the unique Energy-as-a-Service model.

The Smart Store's refrigeration and comfort cooling systems run exclusively on a natural refrigerant ($CO_2$), which has a very low global warming potential (GWP = 1). In comparison, typically used fluorinated refrigerants in this application have a GWP between 1,300 and 4,000. Combining $CO_2$ as a refrigerant with highest energy efficiency maximizes savings both from refrigerant and energy use.

A core solution featured in the Smart Store is a compressor rack, combining multiple Danfoss BOCK® semi-hermetic reciprocating compressors working together to create the cooling as well as heating effect through reuse of heat.

The Smart Store's refrigeration and comfort cooling systems run exclusively on natural refrigerants ($CO_2$).

[1] Environmental Investigation Agency and Shecco (2018). Technical report on energy efficiency in HFC-free supermarket refrigeration, p. 10
[2] Danfoss calculation.
[3] Danish supermarket cuts heating bill and $CO_2$ footprint with Danfoss Heat Recovery Unit (HRU) | Danfoss

# Danfoss
# Power Electronics and Drives

| | |
|---|---|
| Sales<br>EUR 2.7bn | Earnings (EBITA)<br>EUR 391m |
| EBITA margin<br>14.4% | Number of employees<br>8,365 |
| Factories<br>17 | Application Development Centers<br>4 |

"Power Electronics and Drives is a powerhouse within energy efficiency and electrification. We enable our customers to improve energy efficiency and productivity, and to develop sustainable decarbonization solutions. Based on leading-edge technologies, our strong offering spanning from power semiconductor modules to intelligent drives makes us uniquely positioned within power electronics.

— Mika Kulju, President, Danfoss Power Electronics and Drives

Case story

# Danfoss Power Electronics and Drives Brewing for a greener future

## The challenge

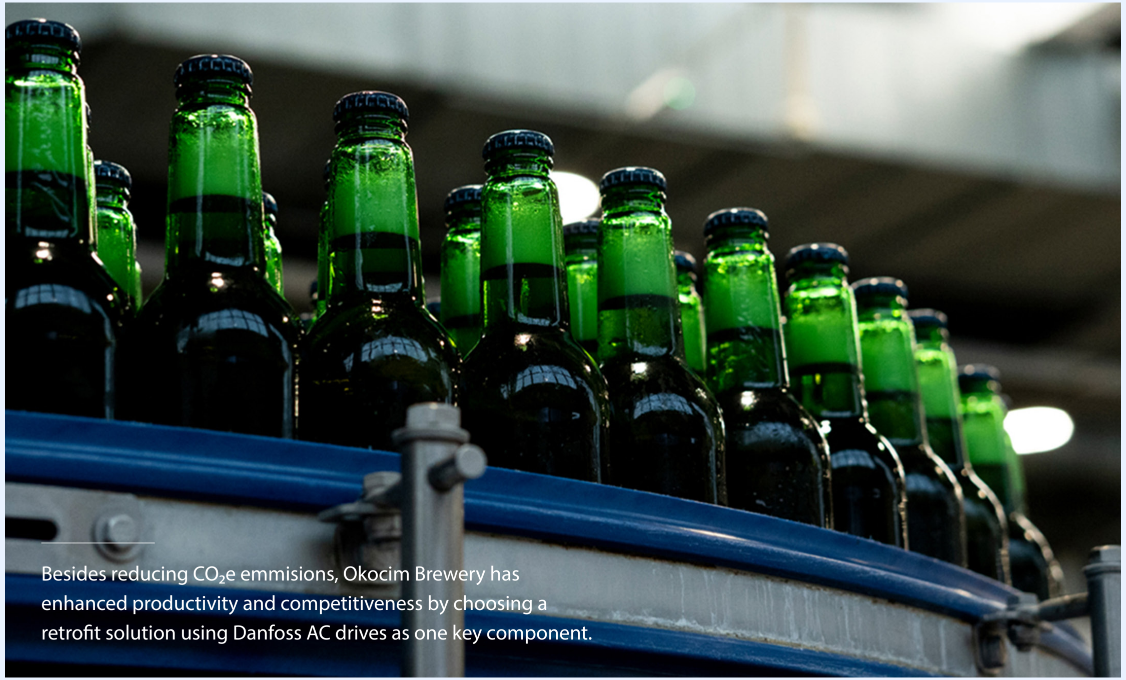
Industry production accounts for approximately one-quarter of total global energy consumption. Recognizing the environmental and economic significance of this sector, scalable initiatives focusing on energy efficiency can serve as powerful tools for creating a long-lasting impact.

## The solution

Retrofit is exactly such a tool. In many cases prolonging the lifecycle of existing facilities with a retrofit solution on key components is a better investment that will solve several challenges by increasing availability and total system efficiency, reduce the need for maintenance, and cut energy consumption. AC drives control power supply to electric motors and typically save 15-40% of energy consumed. The latest technology within AC drives offers substantial savings potential with short payback time, making retrofit investments not only environmentally responsible but also financially prudent.

Okocim Brewery in Poland embarked on a journey towards higher operational efficiency and sustainable brewing to enhance its productivity and competitiveness. Danfoss played a pivotal role in transforming Okocim Brewery's operations by optimizing the ventilation and water pressurization systems with the local partner, Control-Service. With the help of VLT® drives solutions, the water supply, air conditioning, and ventilation systems consume approximately 50% less electricity than comparable standard solutions.

Not only did the new water distribution system meet the requirements, the investment also had a payback time of only seven months. The dual-pump solution is approximately 17% more energy-efficient than a comparable system using only a single pump running at 100% capacity. Furthermore, the system now uses data analysis to create ideal conditions for both beer production and storage, ensuring quality and efficiency.



Besides reducing $CO_2e$ emmisions, Okocim Brewery has enhanced productivity and competitiveness by choosing a retrofit solution using Danfoss AC drives as one key component.

The positive outcomes of this project extend beyond the brewery walls. By significantly reducing energy consumption and implementing water-saving measures, Okocim Brewery has taken substantial steps towards sustainability. Carbon dioxide emissions have been curtailed, aligning with global efforts to combat climate change. And there are many more like Okocim around the world. Through innovative solutions and technological upgrades, most industry production lines can gain significant operational efficiency while also becoming a global sustainability leader in their respective industries.

According to the International Energy Agency, the rollout of electric vehicles is set to avoid the need for five million barrels of oil a day. Already, approximately 500,000 new electric cars use our Semikron Danfoss power modules to control the power of the car – saving the world millions of tons of $CO_2e$.

# Our strategy

CONTENT

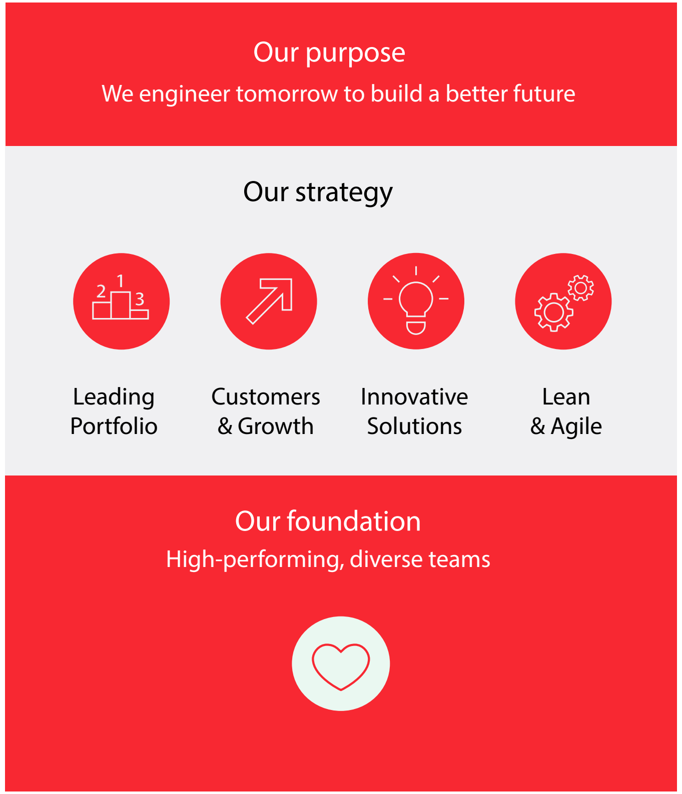
# Our green growth strategy: Core & Clear 2025

We transform Danfoss through our green growth strategy. Our strategy is fueled by significant investments, ensuring we are ready for the future, with focus on the longer view.

Danfoss delivers value to our customers as a technology partner with global leading positions, deep application know-how, and sustainable innovation in our core businesses.

Our priorities remain unchanged, and we have four key strategic focus areas within Leading Portfolio, Customers & Growth, Innovative Solutions, and Lean & Agile.

Our foundation is our people. We offer an inspiring and inclusive workplace where we unlock the full potential of our colleagues through empowering high-performing, diverse teams. And we develop key capabilities to drive the green transition.




### Leading Portfolio

We strengthen our leading positions through continued investments in our three strong segments.

We build new businesses through investments in new high-growth opportunities.

We invest in new technology to accelerate our offering of low-carbon products and solutions.

### Customers & Growth

We want to be the partner of choice by providing leading application know-how.

We continue to improve quality and delivery service to ensure customer satisfaction and loyalty.

We invest to improve the digital customer experience.

### Innovative Solutions

We want to be the preferred partner on our customers' intelligent decarbonization journey, enabled by our cost-optimal, low-carbon products and solutions.

We differentiate through digital solutions.

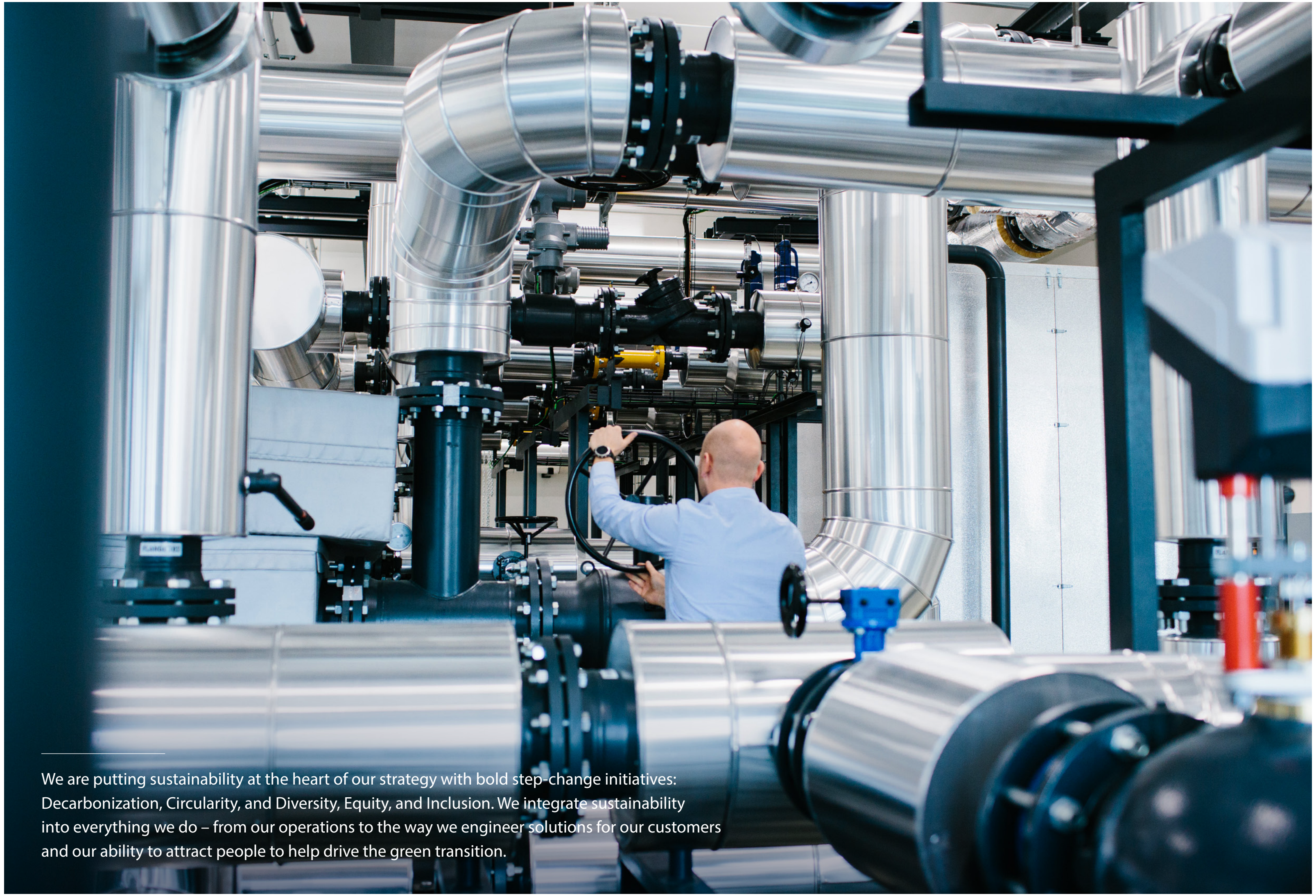
We continue to improve time-to-market by using digital engineering enablers.

### Lean & Agile

We want to be the benchmark on safety, quality, delivery, and cost.

We regionalize our supply chains to be closer to our customers, improve service levels, and decarbonize.

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



We are putting sustainability at the heart of our strategy with bold step-change initiatives: Decarbonization, Circularity, and Diversity, Equity, and Inclusion. We integrate sustainability into everything we do – from our operations to the way we engineer solutions for our customers and our ability to attract people to help drive the green transition.

# Sustainability

CONTENT

# Driving sustainability at Danfoss

At Danfoss, we continue our transformation and integrate sustainability in everything we do.

We stand at a pivotal moment in setting the pathway for global climate change. In 2023, global leaders agreed that to keep the goals of the Paris Agreement within reach, and to limit warming to 1.5°C, we must triple renewables and double energy efficiency globally by 2030. The solutions to make this a reality are available today, and we bring these solutions to our customers in a responsible way.

In 2022, we defined three ESG (environmental, social, and governance) step-change initiatives: Decarbonization, Circularity, and Diversity, Equity, and Inclusion.

We stay committed to reaching the targets related to our three step-change initiatives and reaching our ESG ambitions.

## Progress on our ESG step-change initiatives in 2023

### Decarbonization

- Reduced our scope 1 and 2 emissions by 18%, excluding the newly acquired BOCK® Compressors and Semikron.
- Secured long-term PPAs in North America and China, which are expected to result in 75% and 23% reductions in our scope 1 and 2 emissions in each region, respectively.
- Developed decarbonization roadmaps by segment and business towards our 2030 target of a 15% reduction of our scope 3 emissions based on the 2019 baseline.
- Committed to the First Movers' Coalition, in support of emerging climate technologies in hard-to-abate sectors.

### Circularity

- Developed the Danfoss Circularity Framework, Sustainable Design Guide, and toolbox, which are ready to be deployed as part of all R&D and new product development processes in early 2024.

### Diversity, Equity, and Inclusion

- Achieved 75.5% management team diversity,[1] up from 67.4% in 2022.
- Reached 22.1% women in leadership positions, compared to 21.0% in 2022.

[1] Management team diversity is measured on manager levels 1-4. Teams of at least five employees (excluding administrative assistants) are diverse if they are composed of at least two genders and two nationalities. The team is considered non-diverse, if only one of these requirements is met.


Danfoss in Eastern Europe has reached our diversity target of 30% women leaders. In Eastern Europe, we cover 16 countries and 15 languages.

# Sustainability is at the core of our business and value chain

## Upstream

### Decarbonizing with our suppliers

We work with our suppliers to secure stable and high-quality resources for our products in a responsible way and continue to deepen supplier relationships to decarbonize the embodied carbon of our products.

Read more on p. 38 →

## Operations

### Carbon-neutral operations

For the production of our products and solutions, we install our own energy-efficient solutions to reduce energy consumption, reuse excess heat, and source renewable energy.

Read more on p. 37 →

## Downstream

### Decarbonizing with our customers

We deliver value to our customers through our energy-efficient products that enable electrification and decarbonization.

Read more on p. 38 →


### Safety first

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

Read more on p. 47 →

### Diversity

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

Read more on p. 45 →

### Circularity

Using our Rethink, Reduce, Recirculate framework, we will work towards increasing the circularity of our products.

Read more on p. 41 →

### Decarbonization and 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.

Read more on p. 39 →

# Materiality of sustainability topics

Danfoss' prioritization of environmental, social, and governance topics, both for action and in this report, is based on a materiality assessment.

Through this analysis, we identified the ESG topics that are most important to:

- Our purpose, behaviors, our business, and growth opportunities
- The social and environmental impact that we have in our value chain
- Our stakeholders, including our customers

We selected Decarbonization, Circularity, and DE&I (Diversity, Equity, and Inclusion) as our three ESG step-change initiatives as these are areas where Danfoss can create positive impact at scale through our core business.

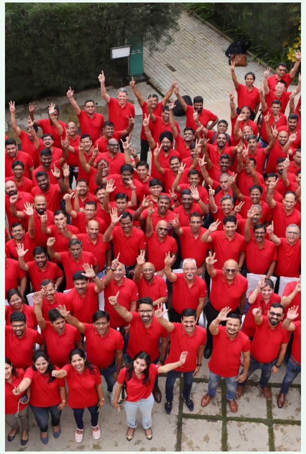
For other material topics, our approach is to be a responsible business partner across our value chain and to our customers. That means we must continue to get the basics right.

We conducted our materiality assessment in 2021. Since then, the EU has further developed guidance on double materiality, which comprises both financial and impact materiality.

We will therefore update our materiality assessment to reflect that the world around us has changed in the past three years and to better reflect both the financial and impact materiality dimensions.

Read more about the materiality assessment →

## Our three ESG step-change initiatives

### Decarbonization

We help our customers decarbonize through our energy-efficient solutions and ensure carbon neutrality in our operations.

### Circularity

We innovate best-in-class circular and safe products.

### Diversity, Equity, and Inclusion

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

Environmental

# Decarbonization

Climate change is one of the defining challenges of this generation.[1] It is also where we at Danfoss, as the core of our business, engineer the solutions needed to support the decarbonization of the industries we serve.

In decarbonizing our own operations globally, we apply the same approach that we bring to our customers. We have coined this three-step approach: Reduce, Reuse, Re-source.

In 2023, we continued to make progress on our validated science-based targets to limit global warming to 1.5°C. Since 2022, we have reduced our scope 1 and 2 emissions by 18% (excluding newly acquired Semikron and BOCK® Compressors). Since 2019, we have decreased our total scope 1 and 2 emissions, compared to the 2019 recalculated baseline, by 10.7%.

| | Targets | | Progress | |
|---|---|---|---|---|
| **Scope 1 & 2** | **46.2%** reduction by 2030 compared to a base year of 2019 (Validated science-based target) | Additionally, we have a clear commitment to fully decarbonize our own operations by 2030. | **10.7%** decrease of total emissions (scope 1 and 2), compared to the 2019 recalculated baseline | We secured long-term PPAs in China and North America to become active in 2024 and 2025, respectively. |
| **Scope 3** | **15%** emissions reduction by 2030 compared to a base year of 2019 (Validated science-based target) | **25%** reduction of scope 3 upstream emissions by 2030 compared to a base year of 2019 | We have developed decarbonization roadmaps for all our businesses, charting the way to our 2030 science-based target and embedding ownership of the targets with our business leaders. In the coming years, we will continue to execute on our roadmaps.<br><br>Additionally, together with our customers, we have established pilot cases on avoided emissions. | |

[1] United Nations Framework Convention on Climate Change

Environmental

# Danfoss scope 1, 2, and 3 emissions 2023

## Scope 1

**0.1%**

Combustion of fuels
51kt $CO_2e$

Company cars
6kt $CO_2e$

Leakage of cooling agents in factories
105kt $CO_2e$

## Scope 2

**0.2%**

Purchased electricity
256kt $CO_2e$

Purchased heating
6kt $CO_2e$

## Scope 3

**99.7%**

Purchased goods
4,027kt $CO_2e$

Upstream transport
387kt $CO_2e$

Commuting
34kt $CO_2e$

Capital goods
682kt $CO_2e$

Waste
2kt $CO_2e$

Upstream leased assets
5kt $CO_2e$

Use of sold products
122,284kt $CO_2e$

Transmission of electricity
34kt $CO_2e$

Business travel
39kt $CO_2e$

Downstream transport
41kt $CO_2e$

End-of-life treatment of sold products
27kt $CO_2e$

Read more about our three-step approach: Reduce, Reuse, Re-source →

## Own emissions (scope 1 and 2)

In 2023, we continued to take concrete steps towards achieving carbon neutrality in our operations, including securing a plan for renewable energy, covering 30% of this target. Danfoss remains a committed member of the EP100 initiative, with the objective of doubling our energy productivity by 2030. We have already achieved 68% since 2007.

**Carbon-neutral operations**
We have applied our Reduce, Reuse, Re-source approach to decarbonizing our own factories around the world. By the end of 2023, five of our factories were carbon neutral, with additional factories set to become carbon neutral in the coming years.

By applying this approach, we have demonstrated that decarbonization is also good business. Our factory decarbonization projects thus far have achieved a payback time on investment of fewer than three years.

**Securing renewable energy**
To fulfill our long-term commitment to sourcing 100% renewable electricity for our own operations by 2030, we entered into two long-term power purchase agreements (PPAs) in 2023, in the US and China, which are expected to reduce our scope 2 emissions in those regions by 75% and 23%, respectively. This builds on our first PPA in 2021 that supplies renewable energy to our operations in Denmark and Germany.

**Electrification of our own fleet**
Electrification of transportation is a focus area for Danfoss – both from the perspective of being a solution provider for electric vehicles and charging infrastructure and as a member of the Climate Group's EV100 initiative. Through this initiative, we have committed to transitioning our entire company car fleet to electric vehicles by 2030 and installing charging infrastructure on our premises. In 2023, we increased the share of electric vehicles in our car fleet to 12%, and we increased the capacity of on-site charging stations.

## Value chain emissions (scope 3)

Value chain emissions, also known as scope 3 emissions, are the most significant part of Danfoss' total carbon footprint, comprising more than 99%. These emissions happen outside of our own walls – upstream with suppliers and downstream with the use of our products by our customers – and we take responsibility to be a part of the solution. This is why we have set a science-based target to reduce our scope 3 emissions by 15% in 2030. Given Danfoss' influence on decision-making

Case story

## Electric trucks in Denmark

This year, Danfoss received one of the world's first heavy duty line haul electric trucks from Volvo, with additional trucks to be delivered in 2024. Danfoss and Volvo Trucks have a strategic collaboration to pioneer electric transport operations. The first project will see Danfoss' existing fleet of 10 internal combustion engine-powered delivery trucks replaced with nine new, fully electric vehicles.

The new e-truck will operate routes between Danfoss sites in Denmark. Mega chargers will be used to rapidly charge the truck's battery during offloading and onloading at each stop – usually around 15 minutes, reducing charging downtime. This is made possible by using Danfoss solutions, such as on-board chargers and electric power supplies and traction inverters.

The e-truck fleet will reduce $CO_2e$ emissions by approximately 70% compared to diesel trucks, leading to a reduction of our scope 1 and 2 emissions of 433 tons $CO_2e$ annually.

through our purchasing power in the supply chain, we have set a stretch goal, going beyond our science-based target, to reduce upstream scope 3 emissions by 25%.

2023 was about preparing the launch pad for executing on scope 3 emissions reductions. All our businesses developed 2030 decarbonization roadmaps, charting the path and levers to achieving our scope 3 targets. The process was overseen by the Group Executive Team, and ownership of decarbonizing our value chain was anchored with our business leaders. This is an important foundation for the execution of the decarbonization levers going forward. We will continue to mature and further refine the roadmaps next year.

The decarbonization levers for scope 3 are complex and often require innovation and partnerships all along the value chain. We embrace this as an opportunity to collaborate with our business partners, suppliers, peers, and customers to achieve our shared goals of industry decarbonization.

**Upstream emissions:**
**Decarbonizing with our suppliers**
Upstream emissions make up around 4% of our total carbon footprint. This is where we have influence through our partnership with suppliers. In the upstream decarbonization roadmaps developed in 2023, we identified key levers that will guide our work in the coming years:

- **Low-carbon raw materials**: We selected three high-impact materials categories to ramp up our efforts in 2024: aluminum, iron, and steel, focusing on low-carbon production and increasing recycled content. We selected these materials as they comprise more than two-thirds of our upstream emissions.

- **Circular economy**: Strategies, such as design for disassembly and recycling, increased recycled content, and re-manufacturing, are key to our work on circularity. They are also important levers identified in our roadmaps for decarbonizing our supply chain.

- **Supplier commitments to decarbonization**: We will continue to work with sustainability data and performance improvements, rolled out to key suppliers in the coming years.

**Downstream emissions:**
**Decarbonizing with our customers**
Our downstream scope 3 emissions from the use of sold products account for around 96% of our total carbon footprint and amount to approximately 122 million tons annually.

In the segment decarbonization roadmaps, we identified levers, opportunities, and also roadblocks and learnings. Highlights of levers and opportunities include: further investment in optimization and energy efficiency, transition to next-generation technologies, and automation.

Case story

## First Movers Coalition

In November 2023, Danfoss announced our commitment to the First Movers Coalition (FMC). The goal of the Coalition is simple: Send a clear demand signal to accelerate emerging climate technologies in order to decarbonize the world's heaviest emitting sectors.

Danfoss made the commitment to purchase at least 10% (by volume) low-carbon primary aluminum by 2030. Additionally, we committed to ensuring that at least half of all aluminum used is composed of secondary aluminum by 2030.

It was important to us at Danfoss to have a clear path towards delivering on our First Movers Coalition commitment. By the time we announced our commitment, we had begun negotiations with suppliers and had secured the first contracts for low-carbon aluminum.

"

Joining the First Movers Coalition goes hand-in-hand with our aim to be our customers' preferred decarbonization partner. To bring products to market with a lower carbon footprint, we will continue to expand collaboration across our value chain. The coalition comprises global leading companies that are important partners and customers to Danfoss. We look forward to working together in the FMC to accelerate innovation and decarbonize hard-to-abate sectors, starting with aluminum.

— Frances Iris Lu, Vice President,
Head of Sustainability & ESG

### About the First Movers Coalition

- 90+ leading global companies
- A partnership by the US State Department and World Economic Forum
- Represents EUR 14 billion in annual demand, the world's largest demand signal
- The seven hard-to-abate sectors covered by the FMC account for 30% of total global emissions

In addition to our direct use-phase emissions, levers for decarbonization were identified for products with indirect use-phase emissions, which consume energy sources other than fuel and electricity. These levers have been included in the decarbonization roadmaps. In line with the SBTi guidelines, these emissions are not currently included in Danfoss' scope 3 baseline. However, it is important to Danfoss that we work to reduce emissions, increase efficiency, and minimize losses for all of our products, as they represent our customers' emissions.

Not all decarbonization levers are alike. For some, the financial investment results in a viable business case and a positive impact on decarbonization. Examples of this are energy efficiency and energy-use optimization. Others are technologically feasible but pose other challenges and dilemmas.

In 2024, we will further mature these roadmaps with best practices and learnings, explore other strategic levers, such as new business models, and continue to grow our portfolio of solutions that enable the green transition.

## Avoided emissions

Avoided emissions is a term used to quantify the savings enabled by a specific solution versus a reference scenario. For Danfoss, avoided emissions represent potential savings for our customers and end-users of our products. Delivering on this through energy efficiency, machine productivity, and enabling electrification is the core of our business.

In 2023, we welcomed the World Business Council for Sustainable Development's (WBCSD) Guidance on Avoided Emissions. Building on existing literature on avoided emissions, the WBCSD provides a guide on how companies can credibly, consistently, and transparently calculate avoided emissions, leveling the playing field for corporate claims on avoided emissions.

Also in 2023, we took the first major steps on our avoided emissions journey. We have:

- Developed an Avoided Emissions Guideline to support the calculation and communication of avoided emissions in a credible way (according to existing public standards and guides).
- Begun to pilot cases that measure avoided emissions on selected applications and sites.
- Included avoided emissions considerations in the new product development toolbox.

Going forward, we will finalize the pilots and continue to build a baseline from which to further increase Danfoss' avoided emissions.

Case story

## Scope 3 emissions data

Data availability, quality, comparability, and transparency across value chains is an important part of measuring progress against our goals on decarbonization.

One of the challenges that Danfoss faces, like many other companies, is the availability of ESG data along the entire supply chain. We will continue our work to secure this data, so we can reliably measure the progress we are making.

Since setting our science-based target, we have continued to grow and mature our competencies on sustainability across the company. As a result, we have identified potential improvements in the methodology, underlying assumptions, and data sources behind our scope 3 emissions. Starting in 2023, and continuing into 2024, we will continue to work on improving our baseline and scope 3 data.

## TCFD disclosures

The Task Force on Climate-related Financial Disclosures (TCFD) developed a set of climate-related financial disclosure recommendations designed to help companies provide better information to support market transparency and more informed capital allocation. These recommendations have formed the basis of reporting regulation in the EU and the US, as well as voluntary global standards and ratings. Disclosures are structured around four thematic areas: governance, strategy, risk management, and metrics and targets.

At Danfoss, the management of climate risks is integrated into a company-wide enterprise risk management process. The types of risks considered include current and emerging regulations, technology changes, legal challenges, market shifts, reputational impacts, and physical risks, both acute and chronic.

In 2024, we will continue to build out and refine our approach to identifying and addressing climate-related risks and opportunities in line with the recommendations of the TCFD.

## Governance

The Board of Directors has the ultimate oversight of sustainability, including climate change. The Group Executive Team is responsible for setting the ambition and direction for sustainability and climate. Regular updates on ESG topics, including climate change, are given to the Group Executive Team at least every quarter.

Our climate-related risks and opportunities are owned by various functions that have the following responsibilities:

- Group Risk Management: For Group-wide risk assessments and monitoring
- Group Sustainability: For overall risk assessment, climate strategy and targets, data collection and reporting
- Segment leadership: For their respective operations, including optimization of processes
- Global Real Estate: For facility and energy management of all locations and buildings, including risk management and risk mitigation
- Group Finance: For data and reporting

Read more on p. 57 ESG governance →

## Strategy

All main TCFD risk categories are considered relevant and are included into our risk assessment process. A preliminary climate-related risks and opportunities assessment was conducted in 2023. This list is not exhaustive and will be refined and strengthened in a Group-wide and cross-functional exercise in 2024 that will include climate-related scenarios. Preliminary risks and opportunities identified include:

**Climate-related financial risks**

- **Acute physical risks**: Floods and storms. Danfoss factory sites are assessed on several climate-related risk exposure measures every year. The exposure assessment is done by a third party and includes, if deemed necessary, local site visits and inspection. Disturbances in our operations could have an negative impact on profit.

- **Chronic physical risks**: Drought. Danfoss operations can depend on certain locations with the availability of water supply or regulations restricting its use. A Group-wide assessment of our water consumption in water-scarce areas has been completed. Disturbances in our operations could have an negative impact on profit.

**Climate-related financial opportunities**

- **Energy-efficient technologies that enable decarbonization**: As already highlighted in this report, we see a growing demand for low-carbon products and services, which is at the heart of our business model. Read more on pp. 35-39 →

## Climate-related risk management

At Danfoss, the management of ESG risks is integrated into a company-wide enterprise risk management process. The types of risks considered include current and emerging regulations, technology changes, legal challenges, market shifts, reputational impacts, and physical risks, both acute and chronic. In 2024, we will continue to refine and further analyze climate risks and opportunities.

Risks are reported on an ongoing basis between the various managerial levels. In addition, the Group Risk Management function prepares an annual report on the most significant risks for the Audit Committee. The Audit Committee provides overall supervision of the risk management process and monitors selected Group risks as well as potential emerging risks on behalf of the Board of Directors.

## Metrics and targets

See p. 35 for our climate and decarbonization targets →
See p. 66 for greenhouse gas (GHG) emissions data →

Environmental

# Circularity

Today's economy is only 7.2% circular,[1] meaning that most materials in today's products end up as waste. Embracing circularity has the potential to fulfil the same global needs with just 70% of the current material usage.[2] This shift not only reduces waste but also plays a significant role in lowering global carbon emissions, as material extraction and processing contribute to at least half of the world's greenhouse gas (GHG) emissions.

What's more, we will not be able to achieve our climate and decarbonization targets without circularity.[3] Accordingly, circularity strategies are necessary to reduce Danfoss' scope 3 emissions. Examples include increasing recycled content in the raw materials in our products and collaborating with our customers on new business models, such as takeback, remanufacturing, and refurbishing.

While it is still early days, 2023 was a transformational year for Danfoss also in our work with circularity. We developed our Circularity Framework, Sustainable Design Guide, and toolbox, ready to be deployed through Danfoss Business Systems in all new product development from 2024. In practical terms, this means that from 2024, sustainability and circularity considerations will be part of all of our new product development.

## The Danfoss Circularity Framework, Sustainable Design Guide, and toolbox

Throughout 2023, we worked with external experts and several Research and Development colleagues internally to develop and test the Danfoss Circularity Framework, Sustainable Design Guide, and toolbox.

[1] Circle Economy Foundation,2023, Circularity Gap Report 2023, available via https://www.circularity-gap.world/2023
[2] Circle Economy Foundation,2023, Circularity Gap Report 2023, available via https://www.circularity-gap.world/2023
[3] United Nations, Act Now: Facts and Figures, available via https://www.un.org/en/actnow/facts-and-figures

| Targets | Progress |
|---|---|
| Develop and implement a Danfoss circularity framework | Developed Danfoss Circularity Framework "Rethink, Reduce, Recirculate," Danfoss Sustainable Design Guide, and full suite of tools for sustainability assessment during new product development. |
| More than **80%** of newly developed products sold covered by circularity approach in 2030 | Sustainability assessment has been introduced in our stage-gate model for all new product development moving forward. |
| Circularity collaboration with **80%** of top 25 customers | Initiated discussions, had knowledge-sharing sessions, or started pilot collaboration projects with top customers across all segments. Focus areas include returnable packaging and takeback programs. |

Our Circularity Framework centers on the principles of "Rethink, Reduce, Recirculate" and was built based on external best practices. Ten underlying sustainability and circularity strategies support our engineers in developing new products and will guide improvements in our existing portfolio.

The Danfoss Circularity Framework and approach is supported by a newly developed toolbox, to accelerate integration of circularity into our new product development. The toolbox includes:

- Sustainable Design Guide: Operationalizes the Danfoss Circularity Framework, providing guidelines and practical examples for implementaiton.
- Danfoss RE:CIRC tool: Assesses the sustainability of a product, supporting our R&D teams to identify high-impact design improvements.
- Green Materials Guide: Circularity and carbon data on materials and applications to inform our materials choices.
- Carbon Footprint tool: Calculates the lifecycle carbon footprint of potential products.
- Circularity Index tool: Measures the circularity potential of products.
- Sustainable Packaging tool: Assesses the sustainability of packaging options.

In 2023, we ran more than 10 pilots internally to test the toolbox and educate our team. Our Commercial Compressors division showcases an example where we tested our toolbox in a new scroll compressor for the industrial heat pump market. The development team actively integrated circularity and decarbonization in the research and development process, using our own developed RE:CIRC tool. As a result, packaging tests were run with suppliers, data was collected for the Life Cycle Assessment calculations, and disassembly instructions are being developed.

The toolbox will enable our product development teams to compare the effects of product design choices on circularity and decarbonization, such as materials consumption and carbon emissions. The tools will be validated by an external third party and used to further measure our progress against the targets.

## Plastics and packaging

"Closing the loop" on materials consumption is core to a more circular economy. Globally, packaging generates 141 million tons of plastic waste annually, and plastic accounts for 2.2 billion tons of $CO_2e$, representing 4.5% of total global GHG emissions every year.[4] To address this, we updated our packaging standard, introduced sustainability criteria for plastic packaging, and developed the Danfoss Sustainable Packaging Tool.

We have defined how to reduce our environmental impact resulting from packaging, using our defined approach:

- Rethink: Avoid the use of single-use plastic in packaging; optimize the use of materials in packaging; ensure more efficient logistics to transport more products safely.
- Reduce: Reduce the carbon footprint of the materials used for packaging; reduce the use of virgin resources; increase recycled content; eliminate the use of restricted substances in packaging, ensuring safe packaging materials.
- Recirculate: Reuse the packaging through returnable packaging; ensure that packaging can be recycled at end-of-life.

While it is still early days, we have initiated small-scale pilots on plastics and packaging across Danfoss to build learnings and assess the potential to scale. Examples include: Replacement of plastic foam packaging with cardboard for our VLT® drives products, replacement of single-use plastic package fills with paper-based alternatives, and a collaboration with global climate leader and customer Trane Technologies, taking the first step to introduce returnable packaging solutions in Mexico.

In 2024, it is our aim to set packaging targets and continue to scale the most promising pilots.

[4] World Economic Forum, 2021, What's the real toll of plastics on the environment?, available via https://www.weforum.org/agenda/2021/12/plastic-environment-carbon-footprint-coal/

Case story

## Remanufacturing pumps by Danfoss Power Solutions

The aftermarket service parts replacement program running in Caxias do Sul, Brazil and in Ames, US offers three options: Maintenance, basic retrofit, and complete core replacement.

S90 pumps are remanufactured to their original performance specifications through state-of-the-art salvage techniques, adhering to strict reuse guidelines, using advanced manufacturing systems and following robust quality control. The newly remanufactured Danfoss S90 pumps then re-enter the supply chain with their lifecycle restarted, ready to be installed.

Remanufacturing is one important lever for meeting decarbonization and circularity objectives. It represents an example of identifying a new business opportunity to continue to increase our aftermarket sales while maintaining high standards of quality in the products we provide to our customers. Remanufacturing products goes beyond simple repair as it is the re-engineering of products and components to as-new condition with the same or improved level of performance as a newly manufactured product.

This program has a potential to supply thousands of remanufactured units and to be expanded to additional products.

Environmental

# Environmental performance

Our commitment to safeguarding the environment is outlined in our Business Conduct Policy and Environmental, Health, and Safety (EHS) standards, which define minimum requirements for all Danfoss locations. Our EHS objectives, initiatives, and targets ensure our efforts result in continuous and measurable improvements of our 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.

All Danfoss sites are covered by our EHS Policy, requiring production sites to maintain environmental management systems compliant with requirements in the ISO14001 standard. Additionally, as of 2023, 80% of our production sites were certified to the ISO14001 environmental management system certification.

**Energy efficiency**
Our energy-efficiency strategy aims to reduce energy consumption by at least 5% year-on-year, contributing significantly to our 2030 carbon-neutrality target. We identified 40 additional focus factories across our three segments, representing 80% of our energy consumption and $CO_2e$ footprint. Here we will run dedicated energy-efficiency projects to maximize impact and leverage learnings across sites.

In 2023, more than 150 projects with an energy reduction potential exceeding 100,000 MWh – or 40,000 tons of $CO_2e$ – were identified, translating to financial savings for our segments. A Danfoss energy manager organization will ensure timely execution of prioritized projects and benchmarking of impacts.

Recognizing the need to extend our impact beyond focus factories, we are also introducing a scalable projects approach, such as our Power Reduction Program, geared towards reducing energy consumption during non-production hours across all Danfoss factories and offices.

**Environmental impact**
We take responsibility for preventing pollution and mitigating any adverse environmental effects at our factories. Compliance with environmental regulations is a high priority and is reflected in our day-to-day operations and business continuity plans.

We also acknowledge the importance of conducting environmental due diligence when acquiring or selling property to identify and mitigate environmental risks, e.g., related to pollution and biodiversity. We follow a strict due diligence procedure when dealing with the potential acquisition of land and existing businesses. Thorough reviews of potential land acquisitions are conducted, examining the site and the environmental history of the surroundings. Also, regional hydrogeological and geotechnical conditions are evaluated through field surveys to discover ground pollution or historical deposits.

**Water and waste**
In 2023, Danfoss' water withdrawals increased by 2.5% compared to 2022, excluding the acquisition of the Semikron business. The total water withdrawals were 2.3 million $m^3$ for 2023, used for processes and sanitary purposes. Danfoss will continue to closely monitor water withdrawals and look for opportunities to implement water-reduction measures.

In 2023, Danfoss recycled 63% of the 100,927 tons of waste generated in our factories and office locations, including the acquired businesses. We will continue to optimize waste handling to further reduce the amounts of waste generated and increase the recycling share.

Environmental

# Product safety and compliance

Product compliance is handled through our robust compliance program. We ensure transparency, quality, and safety of our products through our compliance programs and processes. For 2023, 96% of our factories were certified to the ISO9001 quality management system certification.

To deliver world-class solutions, we continuously monitor requirements from our customers and regulators. To minimize adverse effects on the environment and society, our product responsibility stretches across the supply chain.

**Digital solutions and strong data**
In 2023, we further developed our capabilities for monitoring and complying with increasing regulations and standards that govern our products. We strengthened our approach to secure seamless data flows of product compliance data in our supply chains. Our digital and integrated product compliance solutions will enable real-time data, supporting extended producer responsibility schemes in our main markets. They will automate data flows, support reporting requirements, and deliver fast responses to customer requests. In 2024, we will focus on increasing traceability of materials in our supply chain, which will help us to deliver material declarations and meet future legal requirements.

**PFAS and chemical compliance**
Per- and polyfluoroalkyl substances, also known as PFAS, are a family of thousands of chemicals used in products for decades. Exposure to some PFAS pollution in the environment may be linked to harmful health effects in humans.[1] For these reasons, PFAS are being increasingly regulated around the world.

At Danfoss, we closely monitor regulatory initiatives on chemicals and hazardous substances. Through our cross-functional PFAS Task Force, we prepare for upcoming regulatory requirements. In 2023, we initiated a comprehensive mapping of the use of PFAS across our entire product portfolio, in collaboration with our suppliers.

Read more about our work with chemical compliance here →

**Environmental Product Declarations**
Driven by our decarbonization ambitions as well as customer requests and increasing demands in legislation, Danfoss has set up processes and a cross-functional team for developing Environmental Product Declarations (EPDs) based on product Life Cycle Assessments (LCAs).

Our Environmental Product Declaration process was fully deployed in 2023, with Environmental Product Declarations for Danfoss products available in our Danfoss Product Store and on our website. Two pilots for external third-party Environmental Product Declaration verification were finalized, giving us confidence that we have a robust setup in place.

Our Life Cycle Assessment specialists are now also assisting integration of Life Cycle Assessments into our product development processes, supporting our step-change initiatives on circularity and decarbonization by identifying high-impact areas for improving product environmental performance.

In 2024, we will closely follow the development of the EU Eco-Design for Sustainable Products Regulation (ESPR), the EU flagship legislation aiming to set minimum eco-design requirements at product type level, e.g., related to chemical compliance, material composition, recycled content, and carbon footprint.

Read more about our approach to EPDs and LCAs here →

[1] https://www.epa.gov/pfas/pfas-explained

Social

# Our people

Our high-performing, diverse teams across Danfoss are the foundation of our success and crucial for our commitment to be the preferred decarbonization partner for our customers.

We ensure high engagement, individual and professional development, and safe, healthy working conditions in an inclusive environment. Our policies on People, Health, and Safety make sure that our efforts are systematic and supported by processes and action.

## Diversity, Equity, and Inclusion

Diversity, Equity, and Inclusion, one of our three ESG step-change initiatives, leads to greater engagement, performance, and innovation – enabling us to attract and retain talents as well as improve overall employee and customer satisfaction.

Our ambition is to offer equal opportunities to all colleagues, no matter who they are or where they work in the world. We want our colleagues to feel valued, respected, and safe to contribute their best, free from harassment or discrimination of any kind.

Danfoss recognizes that diversity comes in many forms: Visible and non-visible, education, work experience, skills, gender, age, nationality, race and ethnicity, sexual orientation, disability status, religion, and more.

To promote diversity in Danfoss, we focus on delivering an inspiring and inclusive employee experience. We have focused on increasing the share of women in leadership since 2020. In 2023, the share of women managers increased to 22.1% from 21.0% in 2022. We remain committed to reaching the 30% target.

To fuel the pipeline of women managers, Danfoss invests in different development initiatives for women talents. One example is our global women mentoring program conducted by our CEO for women in senior leadership positions. The program offers the participants the opportunity to grow through coaching and building a strong network among each other. In addition, our Employee Resource Groups (ERGs) play a significant role in helping drive efforts to advance women locally, while we also recruit great talent from the external market.

Additionally, we aim for a minimum of two genders and two nationalities in management levels 1 to 4, covering our President and CEO and three levels below. Our target is to reach an index of 80% by 2030, and we are well on the way. In 2023, we reached 75.5%, significantly better than last year's level of 67.4%.

### DE&I definitions

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

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

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

| Targets | | Status 2023 | |
|---|---|---|---|
| 80% | diverse management teams by 2030 | 75.5% | diverse management teams |
| 30% | women in leadership positions by 2025 | 22.1% | women in leadership |

## Danfoss ERGs

To help us identify and remove existing barriers for inclusion at Danfoss around the world, our local ERGs were activated in 2023. Our five global ERG themes cover Abilities; Gender; Generations; Multicultural and Nations; and Pride. Currently, 45 local employee-led groups around the globe actively drive these themes. Each Danfoss ERG provides access to community building, personal and professional growth, mentoring, networking, and more.

To support the leadership of our ERGs, we offer leadership skills training to ERG leads. We want to invest in our people and their development, as well as reward them for demonstrating high engagement in supporting Danfoss on its DE&I journey.

Our regional leadership teams play a significant role in our region-specific Inclusion Councils that contribute cultural perspectives to DE&I in Danfoss.

## Equal pay for work of equal value

Closing the gender pay gap is a vital part of DE&I. The basic foundational principles of fairness, equity, and transparency are fully embedded in our DNA. Our objective is to ensure that we reward all our colleagues fairly and competitively. We strive to make all colleagues feel valued and have equal opportunities to unleash their full potential in a safe and supportive environment.

To ensure equitable and bias-free practices as well as transparency improvements, we initiated a review of the pay equity framework covering colleagues across Danfoss. Additionally, we took steps to investigate how to prevent new pay gaps from opening. As a result, we reviewed all current total rewards policies and processes.

Danfoss is committed to maintaining a gender pay gap below 5%. In preparation for the pay transparency directives, especially in the EU and the US, our methodology on the net gender pay gap calculation will gradually be aligned to the guidelines and statutory obligations. This gradual alignment of methodology, starting in 2023, will impact the consistency of our annually reported figures. As a consequence, the previous year's reported net gender pay gap has been reevaluated from 3.6% to 4.5% based on the new calculation methodology.

The net gender pay gap per job category for 2023 remained at 4.5%. The ratio between genders was 22.4% (22.7%), something we work to improve in becoming a more diverse, equitable, and inclusive workplace.

## Employee engagement

Measuring engagement and responding to feedback help Danfoss to foster an inclusive workplace where our people feel "at home" and motivated to collaborate and perform.

In 2023, we carried out our biannual employee engagement survey, the Voice, in which 92% of our colleagues expressed their opinions. The exceptional participation rate shows a very passionate organization that cares about Danfoss.

Our overall engagement score of 79 indicates that our team members are highly engaged and would recommend Danfoss as an employer. The engagement score marked an increase of 12 points since our first engagement survey in 2007 but was two points lower than in the previous 2021 survey. During times of supply chain issues, increasing inflationary pressures, and post-pandemic challenges, Our Behaviors and Danfoss DNA are key to securing great teamwork that enables our teams to run the business and drive high engagement. However, we can never take high engagement for granted, especially knowing that one-third of our colleagues have joined through M&A during the last two years.

The survey included new questions on DE&I, creating a baseline we can measure against and track perceptions about DE&I at Danfoss. The survey results showed, among other things, that psychological safety is a key driver of inclusion at Danfoss, an insight we bring into our work with DE&I.

## People development

We continue to engage our people in career development and performance evaluations. By sharing, developing, and rotating colleagues across the organization, we foster an inclusive workplace of continuous learning and knowledge sharing. Succession planning and people development are ongoing priorities in our leadership routines along with traditional people and performance reviews. In 2023, we intensified our succession planning, especially for critical positions.

In 2023, we saw record nominations for our flagship global programs for postgraduates, mentoring for mid-level leadership programs, as well as strategic excellence programs for executives. These programs help our teams develop a growth mindset, manage change, and create safe and inclusive environments.

To support our employees to develop, we combine the expertise of international organizations like INSEAD and Institute for Management Development (IMD) with our internal teams to deliver programs that prepare our colleagues, leaders, and executives for their current and future roles.

Social

# Safety

At Danfoss, people come first. Across our global organization, we strive to create a safe work environment and continuously improve the health and wellbeing of our colleagues.

Our Environment, Health, and Safety Policy guides our efforts to continuously ensure the safety of our people. Additionally, our focus is also directed towards external parties, including contractors and suppliers, who are informed of our safety standards and expected to help reduce accidents and prevent negative impacts at work.

In 2023, Danfoss reached another record-low Lost Time Injury Frequency (LTIF) of 1.2. Our Total Recordable Injury Frequency (TRIF), combining the number of Lost Time Injuries and Medical Treatment Injuries, ended at 2.1, equivalent to a 25% reduction from last year.

As part of our Environment, Health, and Safety Policy, all our manufacturing companies will continue to be compliant with the requirements in the ISO45001 standard. In addition, 35% of sites have been certified against the standard.

## Engaging for safety

Engagement was a key focus area for our safety efforts during 2023, when we launched our “Spot the Hazard” campaign during Safety Week 2023 to help our employees and people leaders engage proactively in daily safety activities. The campaign fueled a steady improvement in our safety KPIs, and related discussions reminded everyone to stay focused on safety during daily work tasks.

The initiative gained momentum across locations in 2023 and leaders will continue participating in daily safety walks in 2024 to experience how safe work practices are applied on the shopfloor, sending a strong signal that safety is a business priority. Leaders drove safety discussions on relevant topics, and potential hazards were continuously identified and mitigated.

Case story

## Safety at Grodzisk Campus

Through the determination and hard work of both the local management and colleagues, and the collaboration between factory and segment, the Danfoss campus in Grodzisk, Poland, has reduced their incident levels from eight in 2022 to one in 2023. Grodzisk has been a safety-focus site since 2021, meaning that local management has received support with safety-improvement planning and deployment from our internal specialists in quality, health, and safety management. Through the local “Be Safe” campaign and constant safety vigilance, the Grodzisk campus has shown how we can continue to improve our safety processes.

Social

# Human rights

Respecting human rights has been part of the Danfoss DNA since our foundation in 1933, and we safeguard this value. We believe that human rights are about decency, and it is part of our responsibility as a global company to respect human rights as defined in our human rights statement in the Ethics Handbook.

We firmly support the principles of the UN Global Compact, of which we have been a member since 2002. Furthermore, we are committed to the UN Guiding Principles on Business and Human Rights, which outline the corporate responsibility to conduct due diligence for human rights along value chains, including identifying, preventing, mitigating, and communicating about adverse human rights effects.

Danfoss takes part in the Nordic Business Network for Human Rights, coordinated by the Danish Institute for Human Rights and focused on capacity building and knowledge sharing. In addition, we engage with the UN Global Compact Network Denmark on human rights topics.

## Human rights due diligence

Our human rights due diligence process is risk-based and is focused on embedding human rights considerations in the countries where we operate. Top leaders oversee this process and approve local mitigation plans. Regular follow-up ensures progress and that countries with the highest risk of negative effects on human rights are prioritized. Our identified salient human rights are at the core of this work, while our Ethics Hotline serves as our human rights grievance mechanism.

To prepare for upcoming regulation on sustainability due diligence, in 2023, we initiated a human rights risk assessment pilot to revise and strengthen our human rights risk identification processes across the organization. In the pilot, we assessed human rights risks along the value chain of our Refrigeration & Air-Conditioning Controls division within Danfoss

### 1 Policy commitment

We recognise our responsibility to respect human rights in our own operations and throughout our value chain. Our work with human rights is guided by our human rights policy and our commitments to the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

### 2 Monitoring and performance

We conduct regular follow-up to ensure progress of our risk prevention and risk mitigation activities.

### 3 Risk identification

We identify risks and adverse impacts in the areas we operate through a regional approach, involving all relevant stakeholders, including local management.

### 4 Communication

We communicate our policies, results, and performance annually through our Modern Slavery Act Statement and the Norwegian Transparency Acts Statement, as well as other reporting requirements.

### 5 Impact mitigation and prevention

We take a regional approach to our risk prevention and mitigation efforts to ensure that regions with the highest risk are prioritized. We work closely with local stakeholders on mitigation plans. Regional management approves the local mitigation plans to ensure buy-in from the organization.

### 6 Remediation

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 fulfills the requirement of having a grievance mechanism for human rights.

Climate Solutions. In 2024, we plan to leverage the pilot to initiate scaling and consolidation across our businesses to continuously inform and guide our approach to human rights risks.

## Mitigating modern slavery

Danfoss addresses risks of forced labor in our value chain and own operations. Areas at higher risk of forced labor in our supply chain include outsourced functions and services, such as transport, facility management, and recruitment. To address potential risks, we have initiated third-party SMETA audits (Sedex Members Ethical Trade Audits) focusing on forced labor.

Recruitment remains one of the sectors with the highest risk of forced labor in our supply chain, 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 will continue to focus on this area and will conduct own audits focusing on forced labor.

Read more about this in our Danfoss Modern Slavery Act Statement →

## Conflict and responsible minerals

Conflict minerals are minerals such as tin, tantalum, tungsten, and gold that originate from conflict-affected or high-risk areas. They are known as such because they are mined and used to finance armed conflicts and human rights abuses.

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

We want to make informed sourcing decisions and support the Responsible Minerals Initiative, reviewing whether tin, tantalum, tungsten, and gold in our products originate from conflict-affected and high-risk regions. To ensure regulatory compliance, we engage with our suppliers regularly.

We run recurring campaigns to acquire supplier information on conflict minerals, including smelter/refiner identification and country of origin. In 2023, we approached 1,450 tier one suppliers and saw a rate of response above 70%. This has enabled us to provide conflict mineral reporting templates to our customers.

Danfoss has partnered with a third party to collect conflict minerals reporting templates (CMRT) from suppliers and conduct smelter due diligence campaigns. In the event that a supplier submits a CMRT containing a high-risk smelter, the supplier is encouraged to complete training on smelter risk mitigation and to initiate relevant due diligence activities. In addition, Danfoss joins a biannual smelter outreach initiative and encourages participation in audit programs to smelters currently not enrolled in the Responsible Minerals Assurance Process (RMAP).

Furthermore, we ran a pilot on extended minerals reporting, collecting information from 450 suppliers on the origin of cobalt and mica in our products.

Read more about our approach to conflict minerals in our Danfoss Position on Responsible Minerals Sourcing →

## Living wage

Living wage is an important aspect of respect for human rights, and, specifically, decent work. In 2024, we will analyze our practices on living wage to consider potential further action.

Governance

# Business ethics

As a responsible business partner, Danfoss conducts business in an ethical manner with respect for international human rights. Our policies reflect our values and ensure that human rights, business ethics, and anti-corruption are the core elements of the company's behaviors.

## Ethical guidelines and governance

We have implemented comprehensive compliance programs with mandatory training to minimize the risk of ethical non-compliance. The programs define clear ownership, policies, including the Danfoss Ethics Handbook and Policies on Danfoss Business Conduct, operational procedures, recurring training, and awareness activities.

Mandatory training is conducted on ethics, export control, fair competition, anti-corruption, and data privacy. For each topic, a target group is defined to cover all colleagues who have touchpoints with the respective subjects. In addition, regular compliance awareness communication is provided to refresh colleagues on our ethical guidelines and Ethics Handbook, also covering our whistleblower function.

The Danfoss Board of Directors is responsible for oversight on ethics and compliance, and our Audit Committee assesses the effectiveness of the compliance programs. Responsibility for day-to-day ethics and compliance activities is anchored with the respective business segments and functions.

## Whistleblower function

The Danfoss Ethics Hotline serves as our whistleblower function and grievance mechanism for human rights. It is hosted by an external operator, ensuring that colleagues and external stakeholders can report violations of legislation or internal ethics guidelines anonymously without risk of retaliation. In 2023, our whistleblower setup was updated to meet the requirements of the European Whistleblower Protection Directive. In 2024, we will focus on continuing to lower access barriers to whistleblowing at Danfoss.

## Action on unethical behavior

In 2023, we received 297 whistleblower reports, a significant increase compared to previous years. The increase can be attributed to ongoing awareness and the alignment of the whistleblowing process with other internal reporting processes. Of the reported whistleblower reports, 36 where concluded as substantiated. Subsequently, corrective actions, ranging from stopping inappropriate behavior to termination of employment, were implemented for all substantiated allegations.

Since 2004, we have tracked employee terminations due to unethical or illegal behavior. In 2023, 74 employees left Danfoss due to unethical behavior, compared to 32 in 2022 and 28 in 2021. The figure includes dismissals and voluntary resignations connected with ethical issues. The main reasons for the dismissals have been fraudulent behavior, conflicts of interest, harassment, or other violations of company policies. Some dismissals were handled by the Danfoss Ethics Hotline, while others were handled directly by local management.

## Anti-corruption and bribery

Our compliance program, which includes ethics and corruption risk assessments, ethical guidelines, training, and monitoring, ensured that very few cases were subject to further investigation for anti-corruption or bribery in 2023. While most were concluded as unfounded, two cases related to kickbacks led to the dismissal of employees and the cessation of our relationship with business partners. To keep awareness high regarding our policies and values, we conducted internal communication and targeted training in 2023. We will continue these activities in 2024 to address root causes for potential misconduct.

## Data privacy and data ethics

Following our digital transformation, processes in Danfoss have become increasingly digitalized. This entails 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 all data across the organization, going beyond compliance with data privacy legislation.

We maintain a high focus on data privacy processes and compliance with data privacy regulations. Based on regularly updated Danfoss Binding Corporate Rules, approved by the Danish data protection authorities, we adhere to our Data Privacy Handbook, conduct training, and comply with data privacy legislation where we operate.

Data exploration and data modeling help us to better understand stakeholder needs and insights to improve our services, reduce risks, and improve operational processes. At the same time, we refrain from large-scale collection of data, which may be characterized as data-driven surveillance, and we respect the right to data privacy for our employees, business partners, and the people using our products.

We have additional security measures in place to protect personal data that is also not monetized. When applying artificial intelligence (AI) or automated decision-making, we base the system selection, data quality assurance, and data collection framework definitions on human decisions. Danfoss ensures that stakeholders are informed in line with our legal obligations regarding personal data. 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. The only exception is when individuals have provided their explicit consent, or the processing is necessary for reasons of substantial public interest or applicable law.

For further guidance or to report any concern, employees and other stakeholders are encouraged to contact Group Compliance or the Group Data Protection Office.

Danfoss ensures compliance with the data privacy legislation by applying the same ethical values and guidelines to processing data across the organization.

Governance

# Sustainable procurement

A stable, sustainable, and transparent supply chain is essential for Danfoss to do business and to deliver on our step-change initiatives on decarbonization and circularity. Moreover, ensuring that sustainable and responsible business practices are upheld in our supply chain is a cornerstone of being the preferred decarbonization partner and a responsible business partner to our customers.

## Supplier Code of Conduct

Danfoss has more than 6,700 suppliers of direct materials used in products and approximately 16,600 suppliers of indirect materials and services. All direct suppliers and significant indirect suppliers must comply with Danfoss' Supplier Code of Conduct (CoC), which includes environmental and social requirements. To meet shifting expectations and upcoming regulation, we will review and strengthen our requirements for the Supplier CoC in 2024, with a focus on ensuring our newly acquired businesses are fully included in our framework.

## Onboarding suppliers

Danfoss has an established process for onboarding new suppliers. Potential direct suppliers must pass self-assessment questionnaires and second-party audits, including on ESG-related topics. Suppliers in high-risk countries, as defined in our Code of Conduct Working Rules for Suppliers, are subject to additional third-party audits. Since Danfoss joined the UN Global Compact, this has been a key factor for sustainable procurement approval. As of 2023, more than 87% of suppliers in high-risk countries have additional contractual clauses on environmental, labor, and human rights requirements.

## Supplier audits

70% of suppliers in high-risk countries have gone through a third-party, on-site audit. In 2023, 61 audits in high-risk countries identified three suppliers with severe ESG issues. The issues were related to availability of safety exits in warehouses and factories, young workers, working hours, and chemicals handling. All suppliers have agreed to ensure remediation of the issues according to action plans jointly defined with Danfoss. Follow-up audits were conducted to verify proper action and closure of issues. Overall, more than 325 suppliers were engaged in corrective actions or capacity building after assessments in 2023.

## Supplier decarbonization

In 2023, we conducted interviews and piloted letters of intent to understand how we can best work with suppliers on decarbonization. We aim to scale these activities in 2024. Additionally, training on sustainable procurement is being developed and will become mandatory for all employees from 2024.

Governance

# 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, 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.

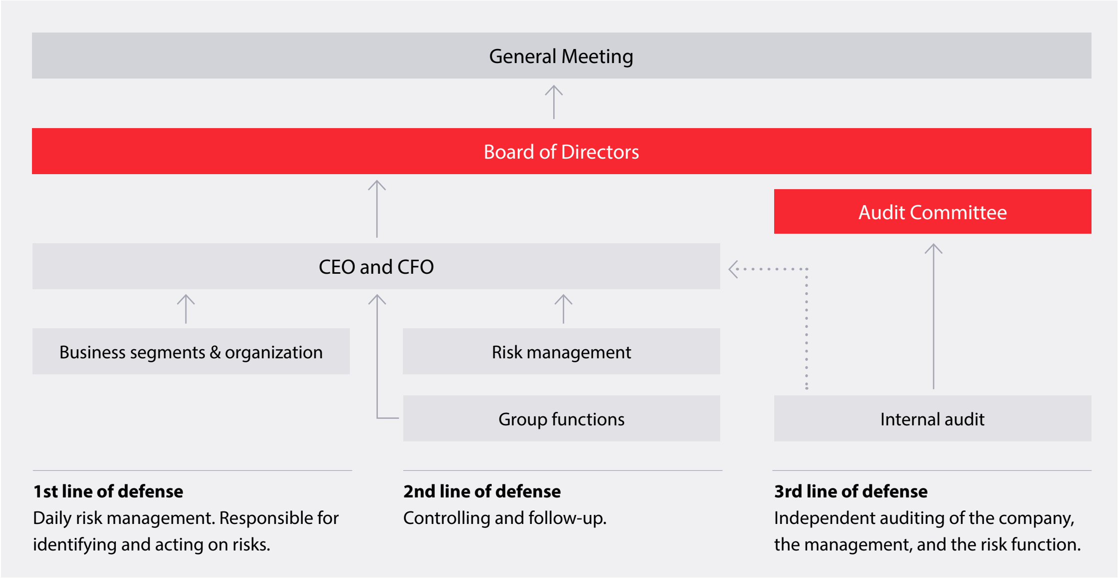
The Board of Directors consists of 12 members. Six of the eight shareholder-elected members are independent. Each member is elected for the term until the following year's Annual General Meeting (AGM) and may be re-elected. The Board of Directors appoints a Chair from among its members. Pursuant to Danish 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.

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.

## Risk governance

Overall, the Board of Directors is responsible for 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 management

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

Like our 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 conditions apply towards both our risk and our opportunities:

- 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 sustainable 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

## Specific risk areas

| | Non-fulfilment of ESG regulation and expectations | Disruption of IT systems | Geopolitical risks |
|---|---|---|---|
| **Risk** | Regulatory bodies and corporate stakeholders are setting formal requirements and increasing their expectations on ESG, including disclosures, due diligence, and environmental impact of products and packaging. This risk deals with the inability to live up to market expectations and upcoming regulation related to ESG. | The risk of a disruption of IT systems, as well as operational technology, might have adverse impact on the ability to produce, sell, service, or deliver on time. External cyber-attacks are considered the main potential cause for the risk. Other potential causes include technical malfunction, internal malicious activities, and internal unintended actions. | Danfoss is a global company and is active in more than 120 countries. Geopolitical risks and risks arising out of interactions between countries is a consequence of our global trade. Examples of these risks could, among other things, be related to territorial disputes, trade relationships, supply chains, and security partnerships. Trade wars and heightened international tensions can potentially slow or hinder international cooperation and trade flows, resulting in significant impacts on the global economy and significant uncertainty for markets that are of importance for Danfoss. |
| **Mitigation** | Danfoss has established a clear ESG ambition, with concrete targets and actions. In 2023, Danfoss continued the journey to integrate ESG into our product development and anchor responsibilities and ownership of ESG across the organization. The Danfoss ESG Leadership Team is tasked with guiding and overseeing the execution of the ESG strategy and monitoring and mitigating new and revised ESG relevant regulation in collaboration with relevant internal stakeholders.<br><br>We monitor emerging trends and regulatory developments and escalate issues to higher management bodies, including the Global Executive Team, as required. In 2023, the ESG Leadership Team met quarterly and coordinated a cross-functional prioritization workshop to align efforts and key strategic priorities for the coming year, also considering regulatory developments such as the EU CSRD, Taxonomy, and the coming EU Corporate Sustainability Due Diligence Directive. | Danfoss closely follows the changing threat environment on an ongoing basis.<br><br>Examples of applied mitigation measures:<br>· Continue to strengthen identity and access management controls.<br>· Continue to raise awareness and provide training on cyber security.<br>· Security monitoring for main ERP systems.<br>· Strengthen information security governance. | Danfoss monitors general economic trends, geopolitical conflicts, and changes in national and local legislation, resulting in respective responses to mitigate these risks. Furthermore, Danfoss focuses on regionalization and intends to have its footprint and supplies situated geographically close to Danfoss' customers. By this, dependencies from legislation, sanctions, and supply chain shortages are reduced and resilience from geopolitical or other external risks increases. |

## Gender composition of the Board of Directors

The Danish Financial Statements Act requires that corporate entities of a certain size and type report on the gender composition in management. We refer to pages 45 and 133 for the remainder of this disclosure. Danfoss has a target of 80% management team diversity in the first four management levels by 2030 and 30% women in leadership positions by 2025.

The Board of Directors consists of eight shareholder-elected members. Six members are men (75%) and two members are women (25%), which is equal to our previously set target. Our 2023 revised target is to have as close as possible to 40% women board members by 2025, in line with the Danish Financial Statements Act and related guidance.

Furthermore, the Board of Directors consists of members with different nationalities, ages, backgrounds, and professional skills, ensuring that our Board of Directors is diverse.

## 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 2023.

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.

## Executive remuneration and incentives

The Board of Directors receives a fixed fee each year. The members of Danfoss' Group Executive Team receive a fixed monthly salary. Like all other employees in the Danfoss Group, they have a short-term incentive program. In addition, their total compensation packages consist of long-term incentive programs supporting Danfoss' strategic business targets. Short-term bonuses are based on meeting annual targets for selected financial ratios, whereas long-term bonuses are paid based on value creation, which, among other items, includes achieving specific ESG targets (decarbonization, DE&I). The total remuneration is showed in Note 3.

## 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 Group Executive Team 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.

## Compliance with recommendations on corporate governance

As its code of corporate governance, Danfoss follows the Danish Recommendations on 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' Statutory Report on the Recommendation on Corporate Governance is available here →

## 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 77m 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 99.87% of the votes. At the end of 2023, Danfoss had 2,346 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 2023, the price was set at DKK 14,644 per share against DKK 11,908 per share the previous year.

## Annual General Meeting

Danfoss' AGM will be held virtually from the company's registered office on April 18, 2024. The Board of Directors will recommend that a dividend of 30% of the Group's net profit be paid for 2023, corresponding to EUR 24.6 or DKK 183.6 per DKK 100 share.

Governance

# ESG governance

A solid ESG governance and accountability structure is in place to ensure that we deliver on our 2030 ambitions and drive sustainability transformation across Danfoss.

The Danfoss Board of Directors has the overall responsibility for sustainability and ESG. The Audit Committee oversees ESG reporting and data integrity. The Group Executive Team is accountable for sustainability and ESG, providing strategic guidance and approving targets and policies. An ESG Leadership Team, consisting of 12 members from our segments and corporate functions and chaired by the Vice President, Head of Sustainability & ESG, oversees the implementation of our ESG ambition and aligns cross-functional targets, processes, and communication.

In 2023, we also appointed our first Chief Sustainability Officer and designated ESG specialists in our segments and businesses to further advance and embed sustainable transformation across Danfoss.

Working groups and supporting workstreams have been established for each of our three step-change initiatives, determining metrics and targets, and monitoring the progress of each initiative. The supporting workstreams include ESG Reporting, Life Cycle Assessment, Innovation, and other ESG-relevant topics. In 2023, we also established an ESG Data Steering Committee to oversee and guide implementation of the disclosure requirements of the EU's Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS).

## Sustainability-linked financing

2023 was a pivotal year for Danfoss within sustainable finance. We set out to align our ESG objectives with our funding strategy by publishing our first sustainability-linked bond framework, with a second-party opinion from S&P and subsequently issuing EUR 500 million of sustainability-linked bonds.

Danfoss issued its sustainability-linked bond in May 2023. It is a 6.5-year, EUR 500 million senior unsecured sustainability-linked bond under the company's Euro Medium Term Note (EMTN) program, with a maturation date of December 2029. The sustainability-linked bond is linked to Danfoss achieving our target to reduce our absolute scope 1 and 2 emissions by 75% by 2028, compared to a baseline year of 2019. The longer-term target is to achieve carbon neutrality in our own operations by 2030, equivalent to a minimum of 90% absolute scope 1 and 2 emissions reduction. The sustainability-linked bond was received well by investors.

## Sustainability policies

Our policies on Danfoss Business Conduct provide the link between Our Purpose, our green growth strategy, and how we conduct business at Danfoss, including on ESG parameters. It ensures that our efforts are systematic, supported by documented procedures, and governed by strong accountability and responsibility for action. In 2024, we expect to carry out a full review and update of our ESG-related policies and standards.

Read more about our policies here →

### Sustainability-linked bond progress

| Achieve carbon-neutral operation (scope 1 and 2) by 2030 | 2019 baseline[1] | 2019 recalculated[1,2] | 2023 actual |
|---|---|---|---|
| Absolute scope 1 and 2 greenhouse gas (GHG) emissions | 419,116 metric tons $CO_2e$ | 475,259 metric tons $CO_2e$ | 424,384 metric tons $CO_2e$ equal to 10.7% reduction |

[1]Original baseline 2019 and recalculated baseline 2019 have been reviewed by PwC with limited assurance. Limited assurance reports can be found here →

[2]Baseline 2019 has been recalculated to include the acquisition of Semikron, adding eight factory locations, totaling 148,000 $m^2$, and 19 other light industrial and office locations, totaling 4,300 $m^2$.

Governance

# Board of Directors

## Jens Bjerg Sørensen

Chair

Born: June 1957
Nationality: Danish
Resident: Denmark
Independent

*Board member since 2020. Chairman since 2022.*
*Elected for a term of one year.*

**Special competencies**
Experience within strategy, M&A, portfolio management and business administration. Knowledge of management in a global group and the work in a listed company.

**Board positions**
- *Chair:* F. Salling Holding A/S; F. Salling Invest A/S; HydraSpecma A/S; Købmand Herman Sallings Fond; A. Kirk A/S
- *Vice chair:* Salling Group A/S
- *Member:* Købmand Herman Sallings Mindefond; Aida A/S; Ejendomsselskabet FMJ A/S; F.M.J. A/S.

- **Present position**
CEO in Aktieselskabet Schouw & Co.

## Mads Clausen

Born: October 1984
Nationality: Danish
Resident: Denmark
Non-independent

*Board member since 2022.*
*Elected for a term of one year.*

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

**Board positions**
- *Chair:* MC2 Therapeutics A/S
- *Member:* Bitten & Mads Clausen's Foundation

**Present position**
- Entrepreneur and founder of MC2 Therapeutics A/S

## Mads-Peter Clausen

Born: July 1976
Nationality: Danish
Resident: Denmark
Non-independent

*Board member since 2014.*
*Elected for a term of one year.*

**Special competencies**
Experience from management positions and strategic, organizational, and communication skills. Extensive knowledge of business administration, engineering, and board work.

**Board positions**
- *Board member and Chair:* miniBOOSTER A/S, Denmark
- *Member:* Bitten & Mads Clausen's Foundation

## Karin Dohm

Born: June 1972
Nationality: German
Resident: Germany
Independent

*Board member since 2022.*
*Chair of Audit Committee since 2022.*
*Elected for a term of one year.*

**Special competencies**
Experience in key topics such as strategy, finance, treasury, risk management and compliance as well as Corporate Governance and ESG reporting. 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 Chair of the Audit Committee:* Supervisory Board of CECONOMY AG (Head of Audit Committee)

**Present position**
- CFO of HORNBACH Management AG, the general partner of HORNBACH Holding AG & Co. KGaA
- CFO of Baumarkt AG

## Per Falholt

Born: September 1958
Nationality: Danish
Resident: Denmark
Independent

*Board member since 2017.*
*Elected for a term of one year.*

**Special competencies**
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:* Universe Science Park, Denmark; DHI Foundation; Curasight A/S
- *Member:* Cytovac A/S; Vandstrom; Co-Ro A/S; LIFE foundation; People Ventures

**Present position**
- CSO and co-founder 21stBIO

# Board of Directors continued

## Connie Hedegaard

Born: September 1960
Nationality: Danish
Residence: Denmark
Independent

*Board member since 2016.*
*Elected for a term of one year.*

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

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

**Member**
- Kirkbi A/S
- BBVA
- Villum-Fonden

## Jürgen Reinert

Born: January 1968
Nationality: German
Resident: Germany
Independent

*Board member since 2015.*
*Elected for a term of one year.*

**Special competencies**
Experience with executive management and business administration. Expert on electrical engineering (including drives, electric vehicles, and renewable energy) and knowledge of industrial ESG implementation.

**Board positions**
- *Member:* KraftPowercon AB

**Present position**
- CEO in SMA Technology AG

## Mika Vehviläinen

Born: February 1961
Nationality: Finnish
Resident: Finland
Independent

*Board member since 2018.*
*Elected for a term of one year.*

**Special competencies**
Experience with performance transformation, organizational changes, M&A, and digital technologies. Experience in listed companies as a Board member and CEO.

**Board positions**
- *Vice Chairman*: Wärtsilä Oy

## Henning Bjørklund

Born: December 1964
Nationality: Danish
Resident: Denmark
Non-independent

*Employee-elected Board member since 2022. Elected for a term of four years in accordance with Danish law.*

**Present position**
- Senior Supplier Quality Engineer at Danfoss Climate Solutions

## Marianne Godballe

Born: June 1984
Nationality: Danish
Resident: Denmark
Non-independent

*Employee-elected Board member since 2018. Elected for a term of four years in accordance with Danish law.*

**Board positions**
- *Board member and Chair:* Danfoss Employee Foundation in Denmark; "TL-klubben," South Denmark, Danfoss A/S; Immediate Past President; Junior Chamber International Denmark
- *Board member:* Junior Chamber International Denmark Foundation

**Present position**
- Senior Design Technician and shop steward at Danfoss Climate Solutions

## Henning Andreas Krogh

Born: January 1962
Nationality: Danish
Resident: Denmark
Non-independent

*Employee-elected Board member since 2022. Elected for a term of four years in accordance with Danish law.*

**Present position**
- Director Operations Denmark at Danfoss Climate Solutions

## Bent Lewke

Born: October 1972
Nationality: Danish
Resident: Denmark
Non-independent

*Employee-elected Board member since 2022. Elected for a term of four years in accordance with Danish law.*

**Board positions**
- *Member:* Dansk Metal Sønderjylland

**Present position**
- Skilled worker and shop steward at Danfoss Climate Solutions

The Danfoss Board learns about our full-scale motion platform at Danfoss Power Solutions. The platform enables customers to fully experience, in a virtual 3D environment, how our machine solutions perform. An example of the increasing added value our investments in digital engineering enablers are providing to our customers.

Governance

# Group Executive Team

## Kim Fausing
President & Chief Executive Officer

Born: 1964
Joined Danfoss in 2007

**Board positions**
- *Board member and Vice Chair:* SMA Solar Technology AG, Germany
- *Board member:* Holcim Ltd.

## Jesper V. Christensen
Executive Vice President & Chief Financial Officer

Born: 1969
Joined Danfoss in 1993

**Board positions**
- *Board member and Vice Chair:* Manufacturing Industry, Denmark
- *Board member:* Confederation of Danish Industries, Denmark
- *Board member and Head of Audit Committee:* Danish Crown A/S, Denmark

## Eric Alström
President, Danfoss Power Solutions

Born: 1966
Joined Danfoss in 2012

**Board positions**
- *Board member and Vice Chair:* Hempel A/S, Denmark
- *Board member*: MSx Advisory Board of Stanford Graduate School of Business, USA

## 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, Danfoss Regions

Born: 1960
Joined Danfoss in 2021

## Ilonka Nussbaumer
Executive Vice President & Head of Group Human Resources

Born: 1973
Joined Danfoss in 2019

**Board positions**
- *Board member:* SMA Solar Technology AG, Germany
- *Board member:* Danish-German Chamber of Commerce

The Danfoss Group Executive Team is introduced to the Application Development Center at our new Smart Store, a test environment for equipment manufacturers, contractors, food retailers, and our own engineering teams to co-develop new technologies and solutions that enhance energy and operational efficiency. An example of the increasing added value our investments in Application Development Centers provide to our customers – seeing is believing.

The digital and fully automated warehouse in our Drives factory in Graasten, Denmark, works around the clock. This factory alone produces more than 600,000 AC drives every year, and they are all handled in the no-touch warehouse before being shipped to customers around the globe. Our Drives factory in Graasten is one of our five carbon-neutral factories.

# ESG statements

CONTENT

# ESG review

In 2023, we focused on improving the quality of our data disclosures and including our newly acquired business, Semikron. In preparation for additional disclosure requirements, including the EU Corporate Sustainability Reporting Directive, we added a number of new data points and expanded our ESG notes. To ensure quality in our data, our 2023 data table on page 66 has been obtained with limited assurance from PwC. For 2023, we are also voluntarily reporting on EU Taxonomy eligibility for the first time.

## Consolidated ESG statements

Data availability, quality, comparability, and transparency are important to measure progress on ESG. In 2023, we improved our calculation models to ensure the validity of our numbers. As a consequence, some of our comparables were changed to reflect the updated methodology. We will continue to improve our data collection in the coming years.

## Environment

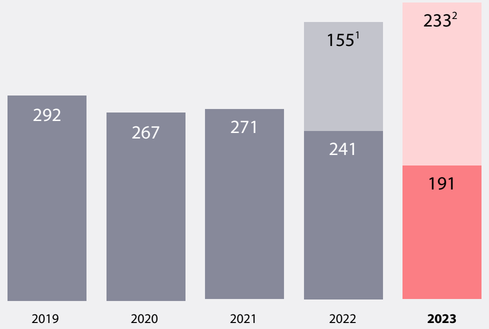
The development of our scope 1, 2, and 3 figures is impacted by the addition of Semikron in 2023. Excluding Semikron, our scope 1 and 2 emissions decreased by 18%, continuing our positive development from 2022. Our scope 3 emissions, excluding Semikron, are on level with last year. In the coming years, we will continue to mature our plans for our scope 3 reductions and start to execute the roadmaps to reduce our footprint.

As a result of our efforts, the energy intensity is developing positively. In 2024 and 2025, our new power purchase agreements in China and the US will come into effect and thereby continue the positive development.

Our circularity and waste intensity factor is improving; however, we see a slightly negative deviation compared to 2022 for water intensity. In the coming years, we will continue to work with waste and water to ensure progress.

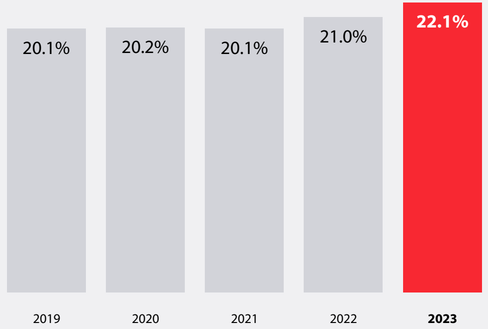
### Decarbonizing operations

Total scope 1 and 2 GHG emissions (kt $CO_2e$)

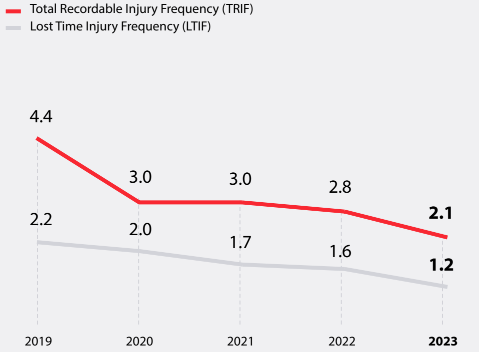



### Gender split

Women in leadership positions (%)




### Health & Safety




[1]Addition of Eaton's hydraulics business
[2]Addition of Eaton's hydraulics business and Semikron. BOCK® Compressors is not included in the Environmental data for 2023

## Social

Increasing the share of diverse talents in all job functions remains a key focus area. We prioritized our focus on improving gender and nationality diversity in our global leadership teams. In 2023, we increased the share of women leaders to 22.1% (2022: 21.0%). We saw a significant improvement in the management team diversity[1] to 75.5% (2022: 67.4%) in leadership levels 1 to 4. Furthermore, Danfoss is committed to maintaining a gender pay gap below 5%, and in 2023, the pay ratio between genders per job category was at 4.5% (2022: 4.5%), while the general pay ratio between genders was 22.4% (2022: 22.7%). The CEO pay ratio was calculated at 191, which is in line with our global peers. We are very proud of our progress on safety with our LTIF reaching a new low of 1.2.

## Governance

A strong governance continues to be of high importance for us. In 2023, the ratio of supplier-signed code of conducts excluding recent acquisitions was on par with last year. During the year, we started onboarding Eaton's hydraulics business to the Danfoss platform for tracking our Code of Conduct. Due to the ongoing integration, the Group reached a ratio of 72.8% compared 93.0% in 2022.

We saw an increase in our whistleblower cases in 2023. The increase can be attributed to the ongoing awareness and the alignment of the whistleblowing process with other internal reporting processes.

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.


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

[1] Management team diversity is measured on manager levels 1-4. Teams of at least five employees (excluding administrative assistants) are diverse if they are composed of at least two genders and two nationalities. The team is considered non-diverse, if only one of these requirements is met.

# Consolidated ESG statements

| | 2019 | 2020 | 2021 | 2022[1] | **2023[1,2]** |
|---|---|---|---|---|---|
| **Environment** | | | | | |
| **Climate (Note 2)** | | | | | |
| Scope 1 GHG emissions (metric tons $CO_2e$) | 88,622 | 79,645 | 82,906 | 110,687 | 162,162 |
| Scope 2 GHG emissions, market based (metric tons $CO_2e$) | - | - | - | 284,917 | 262,222 |
| Scope 2 GHG emissions, location based (metric tons $CO_2e$) | 203,364 | 187,353 | 187,851 | 280,938 | 289,368 |
| Scope 3 GHG emissions (metric tons $CO_2e$) | 66,820,165 | 67,542,795 | 78,661,076 | 84,550,471 | 127,561,817 |
| Total GHG emissions, market based (metric tons $CO_2e$) | - | - | - | 84,946,075 | 127,986,201 |
| Total GHG emissions, location based (metric tons $CO_2e$) | 67,112,151 | 67,809,793 | 78,931,833 | 84,942,096 | 128,013,347 |
| GHG intensity (scope 1 and 2 GHG emissions, market-based, metric tons $CO_2e$ per EURm net sales) | 46.5 | 45.8 | 40.1 | 40.1 | 40.1 |
| **Energy (Note 3)** | | | | | |
| Energy consumption (MWh) | 708,596 | 645,006 | 659,784 | 1,103,141 | 1,107,199 |
| Energy intensity (MWh per EURm net sales) | 112.7 | 110.7 | 97.7 | 111.7 | 104.7 |
| Renewable energy ratio (%) | 13.5 | 15.3 | 19.1 | 21.1 | 21.3 |
| **Circularity and Waste (Note 4)** | | | | | |
| Total waste (metric tons) | - | - | 73,289 | 100,246 | 100,927 |
| Hereof hazardous waste (metric tons) | - | - | 6,947 | 14,305 | 15,797 |
| Hereof recycled waste (metric tons) | - | - | 54,929 | 67,281 | 63,125 |
| Waste intensity (metric tons per EURm net sales) | - | - | 10.9 | 10.2 | 9.5 |
| **Water (Note 5)** | | | | | |
| Water withdrawals ($m^3$) | 1,069,463 | 946,846 | 1,045,908 | 2,107,228 | 2,320,972 |
| Total water withdrawals in areas at material water risk ($m^3$) | - | - | - | - | 646,398 |
| Water intensity ($m^3$ per EURm net sales) | 170.2 | 162.5 | 154.9 | 213.4 | 219.5 |

[1] Acquired Eaton's hydraulics business is included in 2022. Semikron is included from 2023.
[2] 2023 figures are subject to limited assurance.

| | 2019 | 2020 | 2021 | 2022 | **2023[2]** |
|---|---|---|---|---|---|
| **Social** | | | | | |
| **People (Note 6)** | | | | | |
| Number of employees | 27,871 | 27,491 | 40,043 | 41,928 | 42,054 |
| Employee turnover (%) | - | 11.8 | 16.0 | 19.2 | 18.2 |
| Hereof employee voluntary turnover (%) | - | - | - | - | 7.7 |
| Employee engagement score | 80 | - | 81 | - | 79 |
| **Diversity and Inclusion (Note 7)** | | | | | |
| Gender split all employees (women/men/other) (%) | 30/70/0 | 29/71/0 | 28/72/0 | 29/71/0 | 29/70/1 |
| Gender split all leadership positions (women/men/other) (%) | 20/80/0 | 20/80/0 | 20/80/0 | 21/79/0 | 22/78/0 |
| Management team diversity (%) | - | - | 66.8 | 67.4 | 75.5 |
| **Equity (Note 8)** | | | | | |
| Pay ratio between gender, general (%) | - | - | - | 22.7 | 22.4 |
| Pay ratio between gender, within job categories (%) | - | - | - | 4.5 | 4.5 |
| Pay ratio between CEO and average employee (ratio) | - | - | - | 172 | 191 |
| **Health and Safety (Note 9)** | | | | | |
| Lost Time Injury Frequency (LTIF) | 2.2 | 2.0 | 1.7 | 1.6 | 1.2 |
| Total Recordable Injury Frequency (TRIF) | 4.4 | 3.0 | 3.0 | 2.8 | 2.1 |
| **Governance** | | | | | |
| **Board of Directors (Note 10)** | | | | | |
| Gender split Board of Directors (women/men/other) (%) | 13/87/0 | 13/87/0 | 13/87/0 | 25/75/0 | 25/75/0 |
| Attendance rate at Board meetings (%) | 89.0 | 98.0 | 100.0 | 96.0 | 98.0 |
| Board independence (%) | 63.0 | 63.0 | 63.0 | 75.0 | 75.0 |
| **Ethics and Human Rights (Note 11)** | | | | | |
| Whistleblower cases (Ethics Hotline), all | 81 | 55 | 74 | 167 | 297 |
| Whistleblower cases (Ethics Hotline), substantiated | 20 | 8 | 2 | 6 | 36 |
| Ratio of suppliers signed code of conduct (%) | 94.6 | 94.5 | 94.5 | 93.0 | 72.8 |

# Accounting policies to the consolidated ESG statements

## Note 1 Basis of preparation

**Reporting period**
Unless otherwise stated, the consolidated ESG statements cover the period from January 1 to December 31, 2023.

**Consolidation and scope of reporting**
The ESG statements encompass consolidated data from the parent company, Danfoss A/S (Danfoss), and subsidiaries controlled by Danfoss. The reporting covers all Danfoss locations. Any deviations from these principles will be commented on 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 means that emissions data from locations under operational control by Danfoss are included in consolidated scope 1, 2, and 3 numbers.

Data from associates, joint ventures, and other capital interests are not included in the consolidated ESG statements. Environmental data from mergers and acquisitions are included from the reporting year after the closing date of the acquisition, whereas social and governance data are included from the transaction date and onwards. In 2022, Danfoss included environmental performance data from the acquisition of Eaton's hydraulics business, and in 2023, data from the Semikron acquisition. In case of divestments in the reporting year, the data is included up to the closing date of the divestment.

**Restatement**
In instances where we identify material misstated ESG datapoints, due to a change in calculation methodology or improved data quality, Danfoss will update these numbers in subsequent annual reporting.

If a misstatement is deemed material, the restatement will be accompanied with an explanation as to why the data quality has improved and which datapoints are impacted. The restatement applies to the baseline year and all subsequent reported years.

# Environment

## Note 2 Climate

Primary data on scope 1 and 2 GHG emissions constitutes the largest proportion of emissions data. This includes data from digital and manual meter readings and consumption data from invoices. Locations with primary data cover Danfoss factories, currently approximately 2.1 million $m^2$ out of Danfoss' total real estate footprint of 2.5 million $m^2$ corresponding to 85%. 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 2023, this amounted to 10% 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, the most recent available emission factors from IEA are applied. All GHG emissions are converted to $CO_2$ equivalents ($CO_2e$).

**Significant impact on GHG emissions calculation due to recent acquisitions**
From 2022, emissions from Eaton's hydraulics business are included and from 2023 the Semikron business is included.

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

Compared to our reporting from 2022, emissions related to reporting of filling media from 2019 to 2022 increased, due to updated methodology of the data collection.

**Scope 2 GHG emissions (market-based)**
Scope 2 GHG emissions include indirect emissions from purchased heating and electricity. Market-based emissions factors were 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 were applied. For 2023 emissions, 2022 factors were applied as the new factors are not available at the time of publishing this report.

**Scope 2 GHG emissions (location-based)**
Scope 2 GHG emissions include indirect emissions from purchased heating and electricity. Location-based emissions factors from IEA have been applied. For 2023 emissions, 2022 factors are applied as the new factors are not available at the time of publishing this report.

**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.

| | 2021 | 2022 | **2023** |
|---|---|---|---|
| **Scope 1 GHG emissions** | | | Total |
| Gross scope 1 GHG emissions ($tCO_2e$) | 82,906 | 110,687 | 162,162 |
| **Scope 2 GHG emissions** | | | |
| Gross location-based scope 2 GHG emissions ($tCO_2e$) | 187,851 | 280,938 | 289,368 |
| Gross market-based scope 2 GHG emissions ($tCO_2e$) | - | 284,917 | 262,222 |
| **GHG emissions related to recent acquisitions** | | | |
| Danfoss excluding recent acquisitions | 82,906 | 80,565 | 42,093 |
| Impact from acquisition of Eaton's hydraulics business | - | 30,122 | 26,852 |
| Impact from acquisition of Semikron | - | - | 93,217 |
| **Total scope 1** | **82,906** | **110,687** | **162,162** |
| Danfoss excluding recent acquisitions | - | 159,967 | 149,272 |
| Impact from acquisition of Eaton's hydraulics business | - | 124,950 | 106,958 |
| Impact from acquisition of Semikron | - | - | 5,992 |
| **Total market-based scope 2** | - | **284,917** | **262,222** |

# Note 2 Climate continued

**Scope 3 GHG emissions**
During 2023, Danfoss worked intensely with improving calculation methodology and data completeness related the material categories within our scope 3 reporting, which are C1, C2, C4, C9, and C11. This work has been coordinated across our three segments.

Emissions factors for energy and fuels consumption used are from IEA, DEFRA 2023, and suppliers. Materials emissions factors used are from the Sphera database. Transportation emissions are calculated using suppliers' emissions reports.

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 and real estate
- C3 Fuel- and energy-related activities: covers emissions from energy not already included in scope 1 and 2 GHG emissions based on average country emissions factors
- C4 Upstream transportation and distribution: covers intercompany flows, supplier and customer flows paid by Danfoss, 3PL warehouses and supplier flows not paid by Danfoss. Calculation is based on supplier emissions reports, where available, combined with spend-based calculation of remaining volume
- 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 of flight travels
- C7 Employee commuting: calculation method based on average commuting data combined with mode of transportation
- C8 Upstream leased assets: includes emissions from leased locations, mainly Danfoss sales office locations not already included in scope 1 and 2
- C9 Downstream transportation and distribution: covers customer flows not paid by Danfoss. Calculation based on incoterms and volume per transportation mode
- 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 as they are being considered either not material (C10 Processing of sold products and C15 Investments) or not relevant (C13 Downstream leased assets and C14 Franchise) to Danfoss.

| | 2021 | 2022 | **2023** |
|---|---|---|---|
| **Significant scope 3 GHG emissions** | | | Total |
| 1 Purchased goods and services | 1,551,579 | 4,014,366 | 4,026,717 |
| 2 Capital goods | 884,847 | 718,610 | 682,484 |
| 3 Fuel and energy-related activities (not included in scope 1 or scope 2) | 38,982 | 34,181 | 34,173 |
| 4 Upstream transportation and distribution | 501,571 | 399,699 | 387,161 |
| 5 Waste generated in operations | 1,086 | 1,699 | 1,764 |
| 6 Business travel | 5,671 | 28,946 | 38,700 |
| 7 Employee commuting | 25,338 | 31,719 | 34,077 |
| 8 Upstream leased assets | 4,732 | 5,803 | 4,574 |
| 9 Downstream transportation | 13,853 | 41,900 | 40,586 |
| 10 Processing of sold products | - | - | - |
| 11 Use of sold products | 75,613,166 | 79,243,677 | 122,284,354 |
| 12 End-of-life treatment of sold products | 20,341 | 29,871 | 27,227 |
| 13 Downstream leased assets | - | - | - |
| 14 Franchises | - | - | - |
| 15 Investments | - | - | - |
| **Total gross indirect (scope 3) GHG emissions ($tCO_2e$)** | **78,661,076** | **84,550,471** | **127,561,817** |

| **GHG emissions related to recent acquisitions** | 2021 | 2022 | 2023 |
|---|---|---|---|
| Danfoss excluding recent acquisitions | 78,661,076 | 83,405,239 | 84,580,246 |
| Impact from acquisition of Eaton's hydraulics business | - | 1,145,232 | 1,012,119 |
| Impact from acquisition of Semikron | - | - | 41,969,451 |
| **Total scope 3** | **78,661,076** | **84,550,471** | **127,561,817** |

## Note 3 Energy

Includes the total energy consumption of oil, natural gas, electricity, and district heating converted to megawatt hours (MWh). During 2023, we continued our efforts to optimize our use of energy, which resulted in energy reduction in multiple locations. Energy consumption of the Danfoss Group, excluding the acquired Semikron business, shows a reduction compared to 2022 of 6.9%.

Energy intensity is reported as energy consumption (MWh) per EURm net sales. As a consequence of our energy saving activities, our intensity ratio decreased by 6% compared to 2022.

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

| | 2021 | 2022 | **2023** |
|---|---|---|---|
| Energy consumption and mix (MWh) | | | Total |
| Oil | 915 | 897 | 1,147 |
| Natural gas | 130,598 | 313,431 | 310,524 |
| Electricity | 382,346 | 534,577 | 536,184 |
| District heating | 19,688 | 21,812 | 23,510 |
| **Total fossil energy consumption** | **533,547** | **870,717** | **871,365** |
| Share of fossil sources | 81% | 79% | 79% |
| Electricity | 105,368 | 216,245 | 226,205 |
| District heating | 20,869 | 16,179 | 9,629 |
| **Total renewable energy consumption** | **126,237** | **232,424** | **235,834** |
| Share of renewable sources | 19% | 21% | 21% |
| **Total energy consumption (MWh)** | **659,784** | **1,103,141** | **1,107,199** |

| **Energy consumption related to recent acquisitions** | | | |
|---|---|---|---|
| Danfoss excluding recent acquisitions | 659,784 | 615,616 | 590,094 |
| Impact from acquisition of Eaton's hydraulics business | - | 487,525 | 436,860 |
| Impact from acquisition of Semikron | - | - | 80,245 |
| **Total energy consumption (MWh)** | **659,784** | **1,103,141** | **1,107,199** |

## Note 4 Waste

Primary data from waste-handler companies is available for most Danfoss production locations. In production locations where data has not been collected, an average waste generation per m² has been calculated and used as assumption. In remaining locations (Danfoss sales office, light industrial locations, and warehouses), waste generation per employee is calculated (based on survey from Business Resource Efficiency Guide). The estimated part accounts for 10% of the total waste amount reported. Reported waste figures for 2021 and 2022 have been restated due to the improved data collection processes.

| | 2021 | 2022 | **2023** |
|---|---|---|---|
| Waste types (metric tons) | | | Total |
| Oil and chemicals (hazardous waste) | 6,947 | 14,305 | 15,797 |
| Landfill | 6,147 | 8,522 | 9,878 |
| General waste | 3,264 | 7.209 | 8,953 |
| Metal waste – non-recycled | 1,584 | 1,899 | 1,937 |
| Estimated remaining locations | 418 | 1.030 | 1,237 |
| **Total non-recycled waste** | **18,360** | **32,965** | **37,802** |
| Cardboard and paper | 7,092 | 7,593 | 7,190 |
| Plastic | 916 | 4,963 | 4,761 |
| Metal | 35,153 | 36,960 | 36,868 |
| Electronic | 234 | 303 | 359 |
| Other recyclable waste | 11,409 | 11,396 | 7,936 |
| Estimated remaining locations | 125 | 6,066 | 6,011 |
| **Recycled waste** | **54,929** | **67,281** | **63,125** |
| **Total waste** | **73,289** | **100,246** | **100,927** |

| **Waste related to recent acquisitions** | | | |
|---|---|---|---|
| Danfoss excluding recent acquisitions | 73,289 | 69,521 | 69,088 |
| Impact from acquisition of Eaton's hydraulics business | - | 30,725 | 29,701 |
| Impact from acquisition of Semikron | - | - | 2,138 |
| **Total waste** | **73,289** | **100,246** | **100,927** |

## Note 5 Water

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 13% of the total water withdrawals.

Excluding the acquisition of the Semikron business, withdrawals were on par with 2022. Danfoss will continue to closely monitor the water withdrawals in our factory locations and intensify our work with water going forward. For now, the water withdrawals are not adjusted for water discharge. We will be working on improving this from 2024 onwards.

**Water intensity**
Water intensity is measured as water withdrawals in m³ per EURm net sales. With the increased water withdrawals in 2023, we saw water intensity increase from 213.4 in 2022 to 219.5 in 2023.

| Water withdrawals in m³ | 2021 | 2022 | **2023** Total |
|---|---|---|---|
| Production locations | 1,045,908 | 1,900,613 | 2,021,936 |
| Estimated remaining locations | - | 206,615 | 299,036 |
| **Total water withdrawals in m³** | **1,045,908** | **2,107,228** | **2,320,972** |
| **Water related to recent acquisitions** | | | |
| Danfoss excluding recent acquisitions | 1,045,908 | 1,034,586 | 1,058,302 |
| Impact from acquisition of Eaton's hydraulics business | - | 1,072,642 | 1,100,351 |
| Impact from acquisition of Semikron | - | - | 162,319 |
| **Total water withdrawals in m³** | **1,045,908** | **2,107,228** | **2,320,972** |

# Social

## Note 6 People

**Number of employees**
The number of employees is measured by headcount end of year, including employees on leave.

**Employee turnover**
Employee turnover is reported as the percentage of employees who left Danfoss, including voluntary exits, involuntary exits, and retirements, divided by the average headcount over a 12-month period.

**Employee engagement score**
The global Voice employee engagement survey has been performed every two years since 2007. As previously, the 2023 survey was run by an external provider, who ensured that all data and survey results remained anonymous and were treated confidentially.

The 2023 survey showed a high engagement score of 79, which was two points below the previous survey in 2021. We have maintained the high level of engagement despite one-third of our employees having joined through M&A in the last two years.

## Note 7 Diversity and Inclusion

**Gender split all employees**
The split between genders in total workforce is measured by headcount and reported as the percentage of women, men, and other employees.[1] Employees can voluntarily self-identify their gender in the HR system.

**Gender split all leadership positions**
The split between genders in all leadership positions is measured by headcount and reported as the percentage of women, men, and other employees in leadership positions. Leaders are defined as having a team reporting directly to them.

**Management team diversity**
Management team diversity is measured on manager levels 1-4. Teams of at least five employees (excluding administrative assistants) are diverse if they are composed of at least two genders and two nationalities. The team is considered non-diverse if only one of these requirements is met.

## Note 8 Equity

**Pay ratio between genders**
Pay ratio between genders is reported both as the general pay ratio between men and women employees and as the pay ratio within job categories (equal pay for equal work). The general pay ratio between genders is determined as the average salary for men compared to the average salary for women. Pay ratio within job categories shows the average pay ratio between employees in the same job categories.

**Pay ratio between CEO and average employee**
The pay ratio between the salary of the CEO compared to average employee salary (excluding CEO salary) includes bonuses and benefits.

[1]This includes non-binary, undisclosed, and unknown and applies for all genders split within note 7.

## Note 9 Health and Safety

The following two measures cover all 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 Hydro-Gear and the acquired Semikron business is not included in TRIF and LTIF figures.

**Lost Time Injury Frequency (LTIF)**
The number of lost time injuries that 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)**
The total recordable injury frequency (TRIF) includes the number of fatalities, lost time injuries, and other injuries requiring treatment by a medical professional per million hours worked.

# Additional disclosures own workforce

## Employee turnover by gender

| Number – percent | Women | Men | Others | Total |
|---|---|---|---|---|
| Average number of employees | 12,546 | 29,718 | 105 | 42,369 |
| No. employees leaving | 2,435 | 5,262 | 31 | 7,728 |
| **Total (%)** | **19.4%** | **17.7%** | **29.4%** | **18.2%** |

## Employees by age group and gender

| Number – percent | <30 years | | 30-50 Years | | >50 years | | Total |
|---|---|---|---|---|---|---|---|
| Women | 1,941 | 29% | 7,338 | 29% | 3,003 | 29% | 12,282 |
| Men | 4,505 | 68% | 17,535 | 70% | 7,243 | 71% | 29,283 |
| Others | 210 | 3% | 232 | 1% | 47 | 0% | 489 |
| **Total** | **6,656** | | **25,105** | | **10,293** | | **42,054** |

## Employees by region and gender

| Number | Western Europe | Eastern Europe | Asia Pacific | North America | Latin America | Africa - Middle East | Total |
|---|---|---|---|---|---|---|---|
| Women | 4,033 | 1,982 | 2,453 | 2,077 | 1,528 | 209 | 12,282 |
| Men | 10,466 | 2,401 | 6,491 | 5,130 | 2,663 | 2,132 | 29,283 |
| Others | 126 | 34 | 57 | 148 | 97 | 27 | 489 |
| **Total** | **14,625** | **4,417** | **9,001** | **7,355** | **4,288** | **2,368** | **42,054** |

## Employees by country (with 10% representation) and gender

| Number – percent | Germany | | China | | United States | | Denmark | | Total All Countries (53) |
|---|---|---|---|---|---|---|---|---|---|
| Women | 1,311 | 26% | 1,703 | 31% | 2,067 | 28% | 1,669 | 31% | 12,282 |
| Men | 3,736 | 73% | 3,684 | 69% | 5,101 | 70% | 3,716 | 69% | 29,283 |
| Others | 64 | 1% | 21 | 0% | 148 | 2% | 28 | 0% | 489 |
| **Total** | **5,111** | | **5,408** | | **7,316** | | **5,413** | | **42,054** |

## Employees by contract type and gender

| Number – percent | Permanent | | Temporary | | Total |
|---|---|---|---|---|---|
| Women | 11,681 | 29% | 601 | 36% | 12,282 |
| Men | 28,302 | 70% | 981 | 59% | 29,283 |
| Others | 404 | 1% | 85 | 5% | 489 |
| **Total** | **40,387** | | **1,667** | | **42,054** |

## Employees by employment type and gender

| Number – percent | Full-time | | Part-time | | Total |
|---|---|---|---|---|---|
| Women | 11,640 | 28% | 642 | 58% | 12,282 |
| Men | 28,846 | 71% | 437 | 40% | 29,283 |
| Others | 468 | 1% | 21 | 2% | 489 |
| **Total** | **40,954** | | **1,100** | | **42,054** |

# Governance

## Note 10 Board of Directors

**Gender split Board of Directors**
The split between genders in the Board of Directors is reported in accordance with The Danish Financial Statements Act §99b and is reported as the ratio of men to women members of the Board of Directors.

**Board independence**
Board independence shows to what extent Board members elected by the general assembly 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 is accessible here →

## Note 11 Ethics and Human Rights

**Whistleblower cases**
Whistleblower cases are reported as the total number of new whistleblower cases received through Danfoss' own Ethics Hotline.

The increase in the number of cases from 2022 to 2023 can be attributed to an awareness campaign, a workforce expansion due to recent acquisitions of Eaton's hydraulics business and Semikron and adding all cases received through HR to our Ethics Hotline. In the reporting year, 36 cases were concluded as substantiated, 273 cases were closed as unsubstantiated, and 34 cases are still under investigation.

**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 (CoC) in relation to total direct spend. For 2023, the data comprisses the total group excluding Semikron and BOCK® Compressors.

In 2023, the ratio of supplier-signed codes of conduct, excluding recent acquisitions, was on par with last year. During the year, we started onboarding Eaton's hydraulics business to the Danfoss platform for tracking our code of conduct. Due to the ongoing integration, the Group reached a ratio of 72.8% compared 93.0% in 2022.

# EU Taxonomy

## Background and purpose

The EU Taxonomy is a cornerstone of the EU's sustainable finance framework and an important market transparency tool. It provides a classification system for identifying environmentally sustainable economic activities that will drive the transition to a sustainable economy. The purpose is to avoid greenwashing and to channel investments towards sustainable activities. The Taxonomy also gives companies like Danfoss the opportunity to show customers, investors, and other stakeholders how we support the transition and the EU's ambitious climate goals for 2030 and 2050.

To qualify as a sustainable economic activity under Article 9 of the EU Taxonomy regulation 2020/852,[1] an activity must:

- Contribute to at least one of six environmental objectives listed in the Taxonomy; and
- Do no significant harm to any of the other objectives, while respecting basic human rights and labor standards.

## Reporting

The first step in documenting whether an economic activity is environmentally sustainable is determining if the activity is "eligible," i.e., covered by the EU Taxonomy. According to the Taxonomy regulation, companies are required to disclose sales, capital expenditures (CapEx), and operating expenses (OpEx) related to its identified eligible activities.[2] For 2023, Danfoss is voluntary reporting on its "taxonomy-eligible" share of sales, CapEx, and OpEx for the first time. To be aligned with reporting requirements, we have included the full taxonomy table; however, we will not be reporting on alignment for 2023, as we are still in the implementation phase.

## Eligible activities at Danfoss

To identify EU Taxonomy-eligible activities at Danfoss, we conducted an analysis of all our products and activities across the countries where we operate. Danfoss products were mapped by our businesses and industry usage and consolidated at Group level.

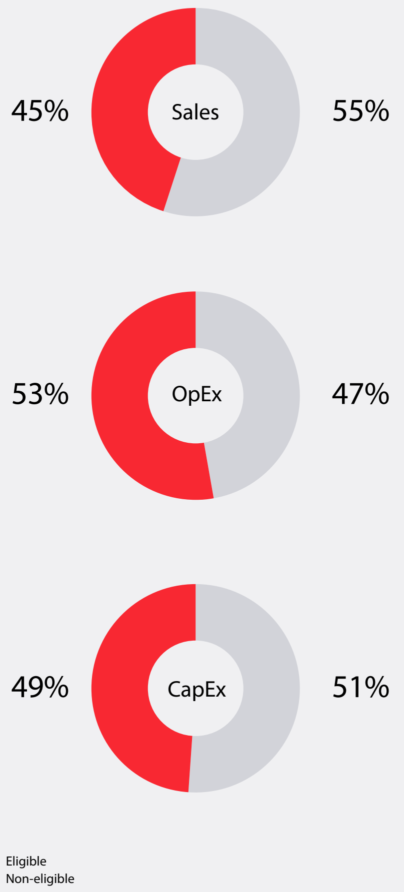
Based on this, we identified a list of activities covered by the EU Taxonomy that are classified as contributing to the environmental objectives, climate change mitigation, and transition to a circular economy.

Danfoss is a leading technology partner for our customers who want to decarbonize through energy efficiency, machine productivity, and electrification, and we consider the EU Taxonomy as an important step towards building a common understanding of sustainable economic activities and highlighting the investments that support the green transition.

Despite the fact that the majority of our products are driving lower emissions through machine productivity and efficiency, a significant part of our products, mainly related to the hydraulics business, are currently not eligible within the EU Taxonomy regulation. We are monitoring the development of the Taxonomy regulation and are working with industry associations to recommend expansions of current activity codes.

[1]Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment.
[2]Commission delegated regulation (EU) 2021/2178 ANNEX II

EU Taxonomy, eligibility



# KPI Sales

| | | | | Substantial contribution criteria | | | | | | DNSH criteria ('Does Not Significantly Harm') | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Economic Activites | Codes | Absolute sales | Proportion of sales | Climate Change Mitigation | Climate Change Adaptation | Water and Marine Resources | Pollution | Circular Economy | Biodiversity and ecosystems | Climate Change Mitigation | Climate Change Adaptation | Water and Marine Resources | Pollution | Circular Economy | Biodiversity and ecosystems | Min. Safeguards | Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) Sales 2022 | Cat. enabling activity | Cat. transitional activity |
| **A. Taxonomy-eligible activities** | | EUR million | % | | | | | | | | | | | | | | | | |
| **A.1 Environmentally sustainable activities (Taxonomy-aligned)** | | | | | | | | | | | | | | | | | | | |
| | | | | % | % | % | % | % | % | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | % | E | T |
| **Sales, Taxonomy-aligned activities** | | 0 | | | | | | | | | | | | | | | | | |
| **A.2 Taxonomy-eligible, but not Taxonomy-aligned activities** | | | | | | | | | | | | | | | | | | | |
| Manufacture of energy efficiency equipment for buildings | 3.5 | 1,823 | 17% | 100% | | | | | | | | | | | | | | | |
| Manufacture of other low carbon technologies | 3.6 | 1,062 | 10% | 100% | | | | | | | | | | | | | | | |
| Manufacture of automotive and mobility components | 3.18 | 206 | 2% | 100% | | | | | | | | | | | | | | | |
| Manufacture medium and low voltage electrical equipment | 3.20 | 1,609 | 15% | 100% | | | | | | | | | | | | | | | |
| Installation, maintenance and repair of energy efficiency equipment | 7.3 | 5 | 0% | 100% | | | | | | | | | | | | | | | |
| Information and communication | 8.2 | 10 | 0% | 100% | | | | | | | | | | | | | | | |
| Repair, refurbishment and remanufacturing | 5.1 | 24 | 0% | | | | | 100% | | | | | | | | | | | |
| Sale of spare parts | 5.2 | 73 | 1% | | | | | 100% | | | | | | | | | | | |
| **Sales, Taxonomy-eligible but not aligned activities** | | **4,813** | **45%** | | | | | | | | | | | | | | | | |
| **Total aligned and eligible activities (A.1 + A.2)** | | **4,813** | **45%** | | | | | | | | | | | | | | | | |
| **B. Taxonomy non-eligible activities** | | | | | | | | | | | | | | | | | | | |
| **B Sales from non-eligible activities** | | **5,842** | **55%** | | | | | | | | | | | | | | | | |
| **Total A+B** | | **10,654** | **100%** | | | | | | | | | | | | | | | | |

## Share of Taxonomy-eligible sales

Total Group sales amounted to EUR 10,654 million,[1] and of this, 45% is considered eligible mainly related to the following activities:

- 3.5 Manufacture of energy efficiency equipment for buildings
- 3.6 Manufacture of other low carbon technologies
- 3.20 Manufacture, installation, and servicing of high, medium and low voltage electrical equipment.

The majority of our products are driving lower emissions through machine productivity and efficiency; however, a significant part of our products, mainly related to the hydraulics business, are currently not eligible within the EU Taxonomy regulation. The majority of our products and activities within Danfoss Climate Solutions and Danfoss Power Electronics and Drives are considered Taxonomy eligible.

[1]Income statement note 2

# KPI OpEx

| Economic Activites | Codes | Absolute OpEx | Proportion of OpEx | Substantial contribution criteria: Climate Change Mitigation | Climate Change Adaptation | Water and Marine Resources | Pollution | Circular Economy | Biodiversity and ecosystems | DNSH criteria ('Does Not Significantly Harm'): Climate Change Mitigation | Climate Change Adaptation | Water and Marine Resources | Pollution | Circular Economy | Biodiversity and ecosystems | Min. Safeguards | Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) OpEx 2022 | Cat. enabling activity | Cat. transitional activity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **A. Taxonomy-eligible activities** | | EUR million | % | | | | | | | | | | | | | | | | |
| **A.1 Environmentally sustainable activities (Taxonomy-aligned)** | | | | | | | | | | | | | | | | | | | |
| | | | | % | % | % | % | % | % | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | % | E | T |
| **OpEx, Taxonomy-aligned activities** | | 0 | | | | | | | | | | | | | | | | | |
| **A.2 Taxonomy-eligible, but not Taxonomy-aligned activities** | | | | | | | | | | | | | | | | | | | |
| Manufacture of energy efficiency equipment for buildings | 3.5 | 91 | 14% | 100% | | | | | | | | | | | | | | | |
| Manufacture of other low carbon technologies | 3.6 | 74 | 11% | 100% | | | | | | | | | | | | | | | |
| Manufacture of automotive and mobility components | 3.18 | 25 | 4% | 100% | | | | | | | | | | | | | | | |
| Manufacture medium and low voltage electrical equipment | 3.20 | 112 | 16% | 100% | | | | | | | | | | | | | | | |
| Renovation of existing buildings | 7.2 | 50 | 7% | 100% | | | | | | | | | | | | | | | |
| Installation, maintenance and repair of energy efficiency equipment | 7.3 | 0 | 0% | 100% | | | | | | | | | | | | | | | |
| Information and communication | 8.2 | 2 | 0% | 100% | | | | | | | | | | | | | | | |
| Repair, refurbishment and remanufacturing | 5.1 | 2 | 0% | | | | | 100% | | | | | | | | | | | |
| Sale of spare parts | 5.2 | 2 | 2% | | | | | 100% | | | | | | | | | | | |
| **OpEx, Taxonomy-eligible but not aligned activities** | | **358** | **53%** | | | | | | | | | | | | | | | | |
| **Total aligned and eligible activities (A.1 + A.2)** | | **358** | **53%** | | | | | | | | | | | | | | | | |
| **B. Taxonomy non-eligible activities** | | | | | | | | | | | | | | | | | | | |
| **B OpEx from non-eligible activities** | | **316** | **47%** | | | | | | | | | | | | | | | | |
| **Total A+B** | | **674** | **100%** | | | | | | | | | | | | | | | | |

## Share of Taxonomy-eligible OpEx

Danfoss' Taxonomy-eligible OpEx is related to the cost categories research and development, building renovation, and repair and maintenance. The cost categories are defined as below.

**Research and development** costs are assessed as Taxonomy-eligible if they are related to activities generating eligible sales. If a share of R&D costs is not directly related to Taxonomy-eligible activities, but connected to emissions reduction activities related to future products, these will be mapped as belonging to Activity 9.1 "Close to market research, development and innovation."

**Building renovation** costs that are captured as part of our real estate activities for each location. These costs are considered as belonging to Activity 7.2 "Renovation of existing buildings."

**Repair and maintenance** costs are mainly related to machinery and equipment within the production area in each segment.

# KPI CapEx

| | | | | Substantial contribution criteria | | | | | | DNSH criteria ('Does Not Significantly Harm') | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Economic Activites | Codes | Absolute CapEx | Proportion of CapEx | Climate Change Mitigation | Climate Change Adaptation | Water and Marine Resources | Pollution | Circular Economy | Biodiversity and ecosystems | Climate Change Mitigation | Climate Change Adaptation | Water and Marine Resources | Pollution | Circular Economy | Biodiversity and ecosystems | Min. Safeguards | Proportion of Taxonomy-aligned (A.1.) or -eligible (A.2.) CapEx 2022 | Cat. enabling activity | Cat. transitional activity |
| **A. Taxonomy-eligible activities** | | EUR million | % | | | | | | | | | | | | | | | | |
| **A.1 Environmentally sustainable activities (Taxonomy-aligned)** | | | | | | | | | | | | | | | | | | | |
| | | | | % | % | % | % | % | % | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | Y/N | % | E | T |
| **CapEx, Taxonomy-aligned activities** | | 0 | | | | | | | | | | | | | | | | | |
| **A.2 Taxonomy-eligible, but not Taxonomy-aligned activities** | | | | | | | | | | | | | | | | | | | |
| Manufacture of energy efficiency equipment for buildings | 3.5 | 74 | 8% | 100% | | | | | | | | | | | | | | | |
| Manufacture of other low carbon technologies | 3.6 | 40 | 4% | 100% | | | | | | | | | | | | | | | |
| Manufacture of automotive and mobility components | 3.18 | 55 | 6% | 100% | | | | | | | | | | | | | | | |
| Manufacture medium and low voltage electrical equipment | 3.20 | 36 | 4% | 100% | | | | | | | | | | | | | | | |
| Transport by motorbikes, passenger cars and other vehicles | 6.5 | 19 | 2% | 100% | | | | | | | | | | | | | | | |
| Construction of new buildings | 7.1 | 233 | 25% | 100% | | | | | | | | | | | | | | | |
| Data driven solutions for GHG emissions reduction | 8.2 | 1 | 0% | 100% | | | | | | | | | | | | | | | |
| Sale of spare parts | 5.2 | 2 | 0% | | | | | 100% | | | | | | | | | | | |
| **CapEx, Taxonomy-eligible but not aligned activities** | | **460** | **49%** | | | | | | | | | | | | | | | | |
| **Total aligned and eligible activities (A.1 + A.2)** | | **460** | **49%** | | | | | | | | | | | | | | | | |
| **B. Taxonomy non-eligible activities** | | | | | | | | | | | | | | | | | | | |
| **B CapEx from non-eligible activities** | | **481** | **51%** | | | | | | | | | | | | | | | | |
| **Total A+B** | | **941** | **100%** | | | | | | | | | | | | | | | | |

## Share of Taxonomy-eligible CapEx

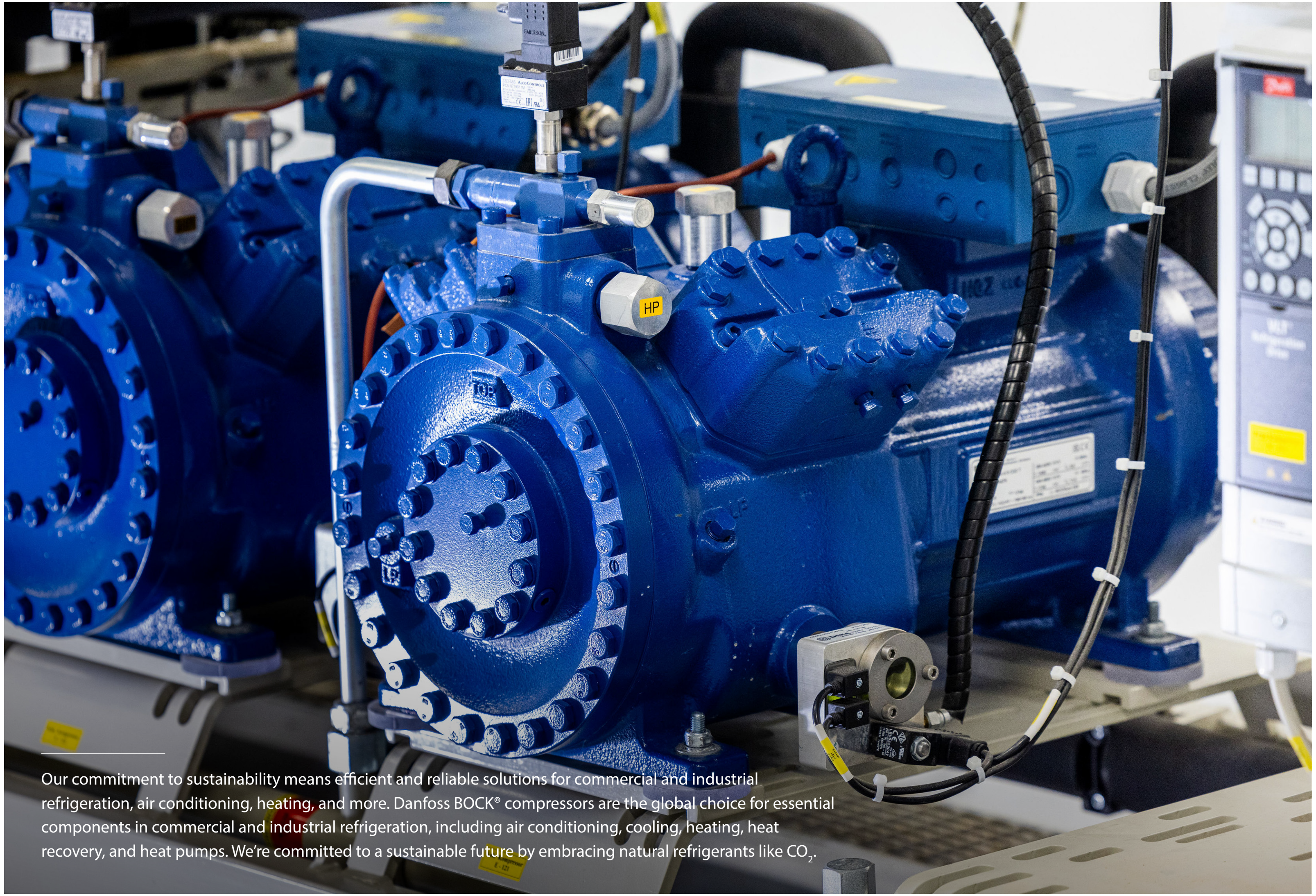
Danfoss' Taxonomy-eligible CapEx is related to fixed assets, intangible assets, and leasing.[1]

**Fixed assets** includes the additions to land & building and machinery & equipment. The additions to land & buildings are mapped into the activities within Construction and Real Estate.

**Intangible assets** includes the additions of software and intangible assets related to acquisition of subsidiaries excluding Goodwill.

**Leasing** includes the additions to land & building and machinery & equipment. The additions to land & buildings are mapped into the activities within Construction and Real Estate. Leasing additions of company cars are mapped into 6.5 Transport by motorbikes, passenger cars, and light commercial vehicles.

[1]Intangible assets note 9 and Property, plant and equipment note 10



Our commitment to sustainability means efficient and reliable solutions for commercial and industrial refrigeration, air conditioning, heating, and more. Danfoss BOCK® compressors are the global choice for essential components in commercial and industrial refrigeration, including air conditioning, cooling, heating, heat recovery, and heat pumps. We're committed to a sustainable future by embracing natural refrigerants like $CO_2$.

# Financial statements

CONTENT

# Financial review

2023 was another strong year for Danfoss, where we successfully captured the market opportunities generated by global megatrends. Despite the global economy slowing down in the second half of the year, we delivered a local currency growth of 7%, demonstrating a continued demand for our products and solutions. Total sales reached EUR 10.7bn and was within our guided range. We continued our high investments in innovation, digitalization, and capacity throughout the year. EBITA grew 10%, to a margin of 12.6%, which was within our range of guidance. The free operating cash flow after financial items and tax reached an all-time high level of EUR 692m. The strong results were achieved despite challenging market conditions and cost of integrating new businesses.

## Sales

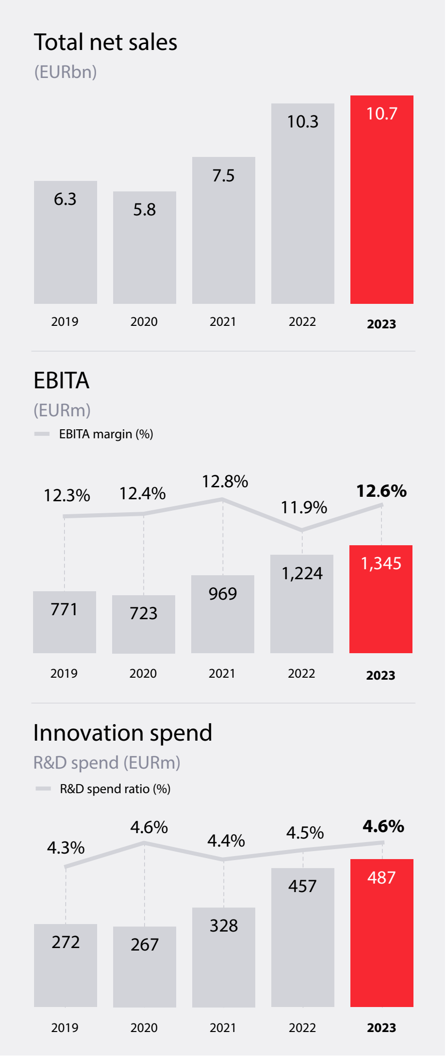
Overall, 2023 marked a year of profitable growth. A strong growth in the first half-year was followed by low, and in some markets negative growth, in the second half-year, due to the decline in the global economy. We continue to see strong sales in several high-growth business areas like data centers, commercial heat pumps, and electrification. 2023 Group sales increased 7% in local currency and 4% reported to EUR 10,654m (2022: 10,256m). The organic growth was 2%. We saw positive growth in North America and Europe, whereas Asia Pacific sales growth was negative, mainly driven by China. Danfoss Power Solutions, our most cyclical business, had a negative organic growth of 1%. Danfoss Climate Solutions had a positive organic growth of 1%. Danfoss Power Electronics and Drives achieved reported organic growth of 17% and reported growth of 41%, driven by the acquisition of Semikron in 2022 and the high demand for electrification. On a global scale, Danfoss continued to see strong demand for our products and solutions that are designed to tackle the challenges from climate change, urbanization, and resource scarcity, while capturing opportunities in digitalization and electrification.

## Earnings

After continued high levels of strategic investments to fuel future growth and cost of integrating acquired companies to harvest synergies, the operating profit before acquisition-related amortizations (EBITA) increased 10% to EUR 1,345m (2022: 1,224m). The EBITA margin reached 12.6% (2022: 11.9%). Earnings were driven by continued focus on operational excellence and managing cost. The effective tax rate for 2023 was 24.0% (2022: 28.0%). Net profit reached a record-high EUR 819m (2022: 683m), 20% higher than the previous year.

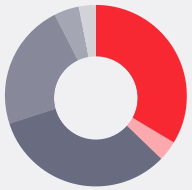
## Innovation

Danfoss continues to invest in innovation across business segments to improve the performance and customer experience of our products and solutions, and to become the preferred partner in helping our customers to decarbonize. In 2023, research and development expenses increased 7% to EUR 487m (2022: 457m), corresponding to 4.6% of sales (2022: 4.5%).



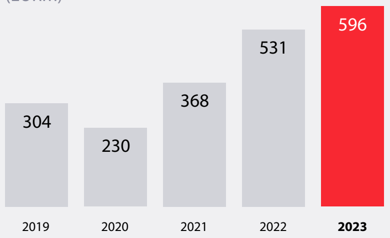
### Sales split by segments


### Sales split by regions




### Net investments in fixed assets excluding M&A

(EURm)




## Assets and liabilities

Total assets were at EUR 11,717m, the same level as last year (2022: 11,728m). Equity increased 8% to EUR 5,443m (2022: 5,048m). The equity ratio, calculated as equity relative to total assets, was 46.4% (2022: 43.0%). The return on equity was 15.3% (2022: 14.8%). Net interest-bearing debt amounted to EUR 2,871m (2022: 3,168m), leading to a net interest-bearing debt to EBITDA ratio of 1.6 (2022: 2.0). The non-current interest-bearing debt maturing after more than 12 months amounted to EUR 2,733m (2022: 2,702m), corresponding to 91% (2022: 86%) of the total interest-bearing debt. At year-end, the Group had a liquidity reserve of EUR 1.5bn (2022: 1.2bn), and 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 amounted to EUR 692m (2022: 465m), confirming the cash generating capability of Danfoss. This despite an increase in investments in innovation and production capacity. The cash flow from operating activities increased to EUR 1,355m (2022: 1,053m), driven by a positive operational performance.

Cash flow from investing activities amounted to EUR -724m (2022: -931m), impacted by higher investments in machinery and equipment and lower M&A investments. The cash flow from financing activities amounted to EUR -590m (2022: -26m), primarily impacted by repayment of interest-bearing debt. In May 2023, as part of the ongoing financing of the Group, Danfoss issued a sustainability-linked bond of EUR 500m. More details related to the sustainability-linked bond performance are available on p 57.

## Employees

The number of employees reached 42,054 end-of-year. In 2022, Danfoss had 41,928 employees.

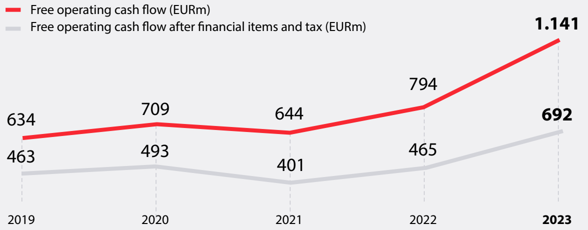
## Acquisition of BOCK GmbH

In 2022, Danfoss announced the acquisition of the German compressor manufacturer BOCK 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 was closed on March 1, 2023.

## Events after the balance sheet date

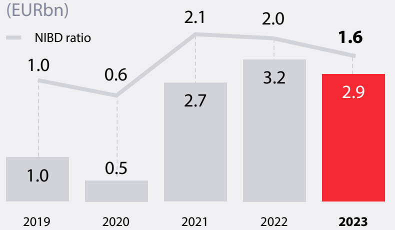
We are not aware of any events after the balance sheet date of December 31, 2023, which could be expected to have a material impact on the Group's financial position.

### Cash flow




### Net interest-bearing debt (NIBD)

(EURbn)



## Danfoss
## Power Solutions

Sales

↓ -1% organic growth

EUR 4,833m

(2022: 5,087m)

Danfoss Power Solutions sales decreased 5% to EUR 4,833m (2022: 5,087m), equal to -1% organic growth, negatively impacted by currency developments and an overall declining market throughout the year, driven by lower demand across Europe and Asia Pacific, while demand in North America remained strong. Despite market headwinds, the solid performance of our core business allows us to continue our investments into the future. We see strong traction in our Editron business, where the high demand for electrification continues. The Integration of Eaton's hydraulics business is progressing well, and there is a positive impact from M&A synergies. Earnings are influenced by a positive development in operational excellence, procurement savings, and product mix; however, this is countered by planned integration costs. EBITA decreased 3% to EUR 701m (2022: 720m). The EBITA margin reached 14.5% against 14.2% the previous year.

## Danfoss
## Climate Solutions

Sales

↑ +1% organic growth

EUR 3,120m

(2022: 3,200m)

Danfoss Climate Solutions sales decreased 3% to EUR 3,120m (2022: 3,200m), equal to +1% organic growth. Growth was negatively impacted by currency developments and by market headwinds, driven by the slowdown of the global economy. However, overall demand remains strong for energy-efficient solutions that can support the energy transition in the coming years, such as refrigeration and commercial compressors for supermarkets, data centers, and the building industry. Throughout the year, component availability has improved significantly, and we see a positive cost development within our own operations. The integration of BOCK® Compressors is progressing well, and the business is starting to win significant new deals by leveraging the Climate Solutions sales network. EBITA decreased 6% to EUR 524m (2022: 556m). The EBITA margin reached 16.8% against 17.4% the previous year.

## Danfoss
## Power Electronics and Drives

Sales

↑ +17% organic growth

EUR 2,718m

(2022: 1,927m)

Danfoss Power Electronics and Drives sales increased 41% to EUR 2,718 (2022: 1,927m), equal to +17% organic growth. A full year of Semikron Danfoss sales during 2023 and a continued high demand for our products and solutions, specifically within electrification and renewables, have supported the growth in 2023. The integration of Semikron is progressing well, and the Semikron Danfoss business, formed last year, has been well received by our customers. The component shortage has eased, leading to better delivery performance across all regions. Earnings have doubled compared to last year, due to the newly formed business and the delivery of a high backlog. EBITA increased 100% to EUR 391m (2022: 196m). The EBITA margin was 14.4% against 10.1% the previous year.

# Group accounts and notes

PAGE 84-87

## Group accounts



PAGE 88-131

## Group notes

# Income statement

January 1 to December 31

| EURm | Note | 2022 | 2023 |
|---|---|---|---|
| Net sales | 2 | 10,256 | 10,654 |
| Cost of sales | 3 | -6,956 | -7,162 |
| **Gross profit** | | **3,300** | **3,492** |
| Research and development costs | 3 | -457 | -487 |
| Selling and distribution costs | 3 | -1,249 | -1,227 |
| Administrative expenses | 3 | -513 | -559 |
| **Operating profit excluding other operating income and expenses** | | **1,081** | **1,219** |
| Other operating income and expenses | 3 | -41 | -18 |
| Share of profit from associates and joint ventures after tax | 8 | 3 | 51 |
| **Operating profit (EBIT)** | | **1,043** | **1,252** |
| Financial income | 15 | 14 | 5 |
| Financial expenses | 15 | -108 | -180 |
| **Profit before tax** | | **949** | **1,077** |
| Tax on profit | 20 | -266 | -258 |
| **Net profit** | | **683** | **819** |
| Attributable to: | | | |
| Shareholders of Danfoss A/S | | 632 | 755 |
| Minority interests | | 51 | 64 |
| | | **683** | **819** |

# Statement of comprehensive income

January 1 to December 31

| EURm | Note | 2022 | 2023 |
|---|---|---|---|
| **Net profit** | | **683** | **819** |
| **Other comprehensive income** | | | |
| Actuarial gain/loss (-) on pension and healthcare plans | 19 | 44 | -9 |
| Tax on actuarial gain/loss on pension and healthcare plans | 21 | -15 | 2 |
| **Items that cannot be reclassified to income statement** | | **29** | **-7** |
| Foreign exchange adjustments on translation of foreign currency into EUR | | 25 | -149 |
| Recycling of foreign exchange adj. on disposal/de-consolidation of companies | | 16 | |
| Adjustment for hyperinflation on equity | | 58 | 36 |
| Fair value adjustment of hedging instruments: | | | |
| Hedging of interest rates (Interest rates and cross currency swaps) | | 130 | -45 |
| Hedging of future cash flows | | 3 | 27 |
| Hedging transferred to inventory | | 12 | -23 |
| Tax on hedging instruments | | -31 | 9 |
| **Items that will be reclassified to income statement** | | **213** | **-145** |
| **Other comprehensive income after tax** | | **242** | **-152** |
| **Total comprehensive income** | | **925** | **667** |
| Attributable to: | | | |
| Shareholders of Danfoss A/S | | 875 | 608 |
| Minority interests | | 50 | 59 |
| | | **925** | **667** |

# Statement of financial position

As of December 31

| EURm | Note | 2022 | 2023 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 9 | 4,860 | 4,709 |
| Property, plant and equipment | 10 | 2,483 | 2,778 |
| Investments in associates and joint ventures | 8 | 287 | 338 |
| Pension benefit plan assets | 19 | 13 | 9 |
| Non-current receivables | | 21 | 19 |
| Deferred tax assets | 21 | 139 | 122 |
| **Total non-current assets** | | **7,803** | **7,975** |
| **Current assets** | | | |
| Inventories | 4 | 1,658 | 1,564 |
| Trade receivables | 5 | 1,648 | 1,535 |
| Receivable corporation tax | 22 | 27 | 23 |
| Derivative financial instruments (positive fair value) | 17 | 8 | 15 |
| Other receivables | | 244 | 236 |
| Receivables | | 1,927 | 1,809 |
| Cash and cash equivalents | 17 | 340 | 369 |
| **Total current assets** | | **3,925** | **3,742** |
| **Total assets** | | **11,728** | **11,717** |

| EURm | Note | 2022 | 2023 |
|---|---|---|---|
| **Shareholders' equity** | | | |
| Equity, shareholders in Danfoss A/S | 16 | 4,720 | 5,130 |
| Minority interests | | 328 | 313 |
| **Total shareholders' equity** | | **5,048** | **5,443** |
| **Liabilities** | | | |
| Provisions | 14 | 86 | 109 |
| Deferred tax liabilities | 21 | 325 | 290 |
| Pension and healthcare benefit plan obligations | 19 | 150 | 149 |
| Borrowings | 18 | 2,702 | 2,733 |
| Derivative financial instruments (negative fair value) | 17 | 232 | 149 |
| Other non-current debt | | 140 | 151 |
| **Non-current liabilities** | | **3,635** | **3,581** |
| Provisions | 14 | 104 | 81 |
| Borrowings | 18 | 442 | 273 |
| Trade payables | | 1,511 | 1,378 |
| Debt to associates and joint ventures | | 2 | 2 |
| Corporation tax | 22 | 164 | 119 |
| Other debt | 6 | 822 | 840 |
| **Current liabilities** | | **3,045** | **2,693** |
| **Total liabilities** | | **6,680** | **6,274** |
| **Total liabilities and shareholders' equity** | | **11,728** | **11,717** |

# Statement of cash flows

January 1 to December 31

| EURm | Note | 2022 | **2023** |
|---|---|---|---|
| Profit before tax | | 949 | 1,077 |
| Adjustments for non-cash transactions | 23 | 643 | 701 |
| Change in working capital | 7 | -226 | 30 |
| Interest received | | 4 | 4 |
| Interest paid | | -84 | -132 |
| Income tax paid | 22 | -233 | -325 |
| **Cash flow operating activities** | | **1,053** | **1,355** |
| Acquisition of intangible assets | | -45 | -44 |
| Acquisition of property, plant and equipment | | -504 | -558 |
| Proceeds from sale of property, plant and equipment | | 18 | 6 |
| Acquisition of subsidiaries and activities | 12 | -441 | -120 |
| Proceeds from disposal of subsidiaries and activities | 12 | 32 | -11 |
| De-consolidation of Russian activities | 12 | -20 | |
| Change in financial receivables | 13 | 24 | 4 |
| Other investments, sale and acquisitions | 13 | 5 | -1 |
| **Cash flow from investing activities** | | **-931** | **-724** |
| Cash repayment of interest-bearing debt | 18 | -390 | -838 |
| Cash proceeds from interest-bearing debt | 18 | 603 | 519 |
| Purchase of treasury shares | | -2 | -3 |
| Sale of treasury shares | | 2 | 3 |
| Dividends to shareholders in Danfoss A/S | | -183 | -198 |
| Dividends to minority interests | | -56 | -73 |
| **Cash flow from financing activities** | | **-26** | **-590** |
| **Net change in cash and cash equivalents** | | **96** | **41** |
| Cash and cash equivalents as of January 1 | | 249 | 340 |
| Foreign exchange adjustment of cash and cash equivalents | | -5 | -12 |
| **Cash and cash equivalents as of December 31** | | **340** | **369** |

**Accounting Policy**

**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, 2022** | **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** |
| Net profit | | | | | | 509 | **509** | **246** | **755** | **64** | **819** |
| Foreign exchange adjustments of foreign companies | | | | -144 | | | **-144** | | **-144** | **-5** | **-149** |
| Fair value adjustment of hedging instruments | | | -41 | | | | **-41** | | **-41** | | **-41** |
| Adjustment for hyperinflation on equity | | | | 36 | | | **36** | | **36** | | **36** |
| Actuarial gain/loss (-) on pension and healthcare plans | | | | | | -9 | **-9** | | **-9** | | **-9** |
| Tax on other comprehensive income | | | 9 | | | 2 | **11** | | **11** | | **11** |
| Total other comprehensive income | | | -32 | -108 | | -7 | **-147** | | **-147** | **-5** | **-152** |
| Total comprehensive income for the period | | | -32 | -108 | | 502 | **362** | **246** | **608** | **59** | **667** |
| Dividends to shareholders | | | | | | 7 | **7** | **-205** | **-198** | **-73** | **-271** |
| Purchase of treasury shares | | | | | -3 | | **-3** | | **-3** | | **-3** |
| Sale of treasury shares | | | | | 3 | | **3** | | **3** | | **3** |
| Adjustment to minority interest | | | | | | | | | | **-1** | **-1** |
| Total transactions with owners | | | | | | 7 | **7** | **-205** | **-198** | **-74** | **-272** |
| **Balance as of December 31, 2023** | **134** | **10** | 91 | -9 | -309 | 4,967 | **4,740** | **246** | **5,130** | **313** | **5,443** |

# Basis of reporting and critical accounting estimates

## Note 1 Basis of preparation

**Introduction**

Danfoss A/S is a company domiciled in Denmark. The Annual Report for the period January 1 - December 31, 2023, 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 IFRS Accounting Standards 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 and Argentinian subsidiaries.

**Changes in accounting policies**

Danfoss A/S has implemented the standards and interpretations that have taken effect for 2023. None of those standards and interpretations have material effect on recognition and measurement in 2023, nor are they expected to have a material effect on Danfoss A/S in the future.

**Critical accounting estimates and assessments**

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

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

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

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

**New financial reporting regulations**

Danfoss A/S has implemented a number of amendments and improvements to IFRS for the financial year 2023.

The Group has assessed these interpretations and concluded they do not have material impact on the Group in 2023 or previous years.

- Amendments to IAS 1 Presentation of Financial Statements. Clarifies certain disclosure of Accounting Policies.
- Amendments to IAS 8 Accounting policies etc. Clarification of definition of Accounting Estimates.
- Amendments to IAS 12 Deferred tax. Related to Assets and Liabilities arising from a Single Transaction.

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 2023 Annual Report.

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

- Amendments to IAS 1. Classification of Liabilities as Current or Non-current.
- Amendment to IFRS16 Leases. Clarifies how to measure the lease liability in a sale and leaseback transaction.
- Amendments to IAS 7 Cash Flow Statement and IFRS 7 Financial Instruments: Disclosures. Introduces disclosure requirements for supplier finance arrangements (reverse factoring), regarding terms and conditions in the agreements.
- Amendments to IAS 12, Income taxes. A temporary exemption for recognition of deferred taxes from the effects of implementation of Pillar II and disclosure requirements for companies affected by Pillar II.
- Amendment to IAS 21, Foreign exchange rates. Regards the effect of changes in foreign exchange rates when a currency lacks exchangeability.

# Income statement

## Note 2 Segment reporting

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 |

*) 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".
**) Exclusive acquisition-related amortization

EURm **2023**

| Business segments | Danfoss Power Solutions | Danfoss Climate Solutions | Danfoss Power Electronics and Drives | Other areas | Group |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Net sales | 4,833 | 3,115 | 2,685 | 21 | 10,654 |
| Depreciation/amortization/impairment**) | 130 | 65 | 68 | 162 | 425 |
| EBITA | 701 | 524 | 391 | -271 | 1,345 |
| Acquisition-related amortization | 88 | 11 | 43 | | 142 |
| Share of profit from Ass./JV. after tax | | | | | 51 |
| Operating profit (EBIT) | | | | | 1,252 |
| Financial Items | | | | | -175 |
| Profit before tax | | | | | 1,077 |
| Total assets *) | 4,546 | 2,120 | 3,008 | 2,043 | 11,717 |
| Net investments, excluding M&A | 181 | 125 | 140 | 150 | 596 |
| Total liabilities *) | 610 | 466 | 354 | 4,844 | 6,274 |
| Number of employees | 17,694 | 11,289 | 8,365 | 4,706 | 42,054 |

For further information on the business segments, see page 23, 25 and 27.

# Note 2 Segment reporting continued

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 |

EURm **2023**

| Geographical segments | Western Europe | Eastern Europe | Asia Pacific | North America | Latin America | Africa - Middle East | Group |
|---|---|---|---|---|---|---|---|
| Net sales | 3,558 | 383 | 2,369 | 3,481 | 536 | 327 | 10,654 |
| Total non-current assets *) | 4,003 | 255 | 626 | 2,694 | 144 | 131 | 7,853 |

Sales in Denmark amount to EUR 279m (2022: 265m) and non-current assets amount to EUR 1,042m (2022: 998m). Sales in North America mainly relate to the US, which represent EUR 3,261m (2022: 3,040m) and non-current assets amount to EUR 2,694 m (2022: 2,781m). China is part of the Asia Pacific region and sales amount to EUR 1,288m (2022: 1,378m) and non-current assets amount to EUR 374m (2022: 374m).

*) Deferred tax assets are not included.

| EURm | 2022 | **2023** |
|---|---|---|
| **Specification of other areas - EBITA** | | |
| Corporate and shared functions and projects, not allocated *) | -241 | -281 |
| Other | -7 | 10 |
| EBITA | -248 | -271 |
| **Specification of other areas - Assets** | | |
| Cash, current & non-current tax receivables | 506 | 514 |
| Other receivables | 232 | 236 |
| Corporate and shared functions, not allocated tangible, and intangible fixed assets *) | 1,131 | 1,267 |
| Other | 36 | 26 |
| Total assets | 1,905 | 2,043 |
| **Specification of other areas - Liabilities** | | |
| Interest-bearing debt, current & non-current tax liabilities | 3,633 | 3,415 |
| Other debt | 1,132 | 1,075 |
| Pension and healthcare plans | 150 | 149 |
| Corporate and shared functions and projects, not allocated *) | 221 | 199 |
| Other | 11 | 6 |
| Total liabilities | 5,147 | 4,844 |

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

# Note 2 Segment reporting continued

## Accounting Policy

### Segment information

The Group's registered members of Executive Management examines the Group's performance both from a product and geographic perspective and has identified 3 reportable segments: Danfoss Power Electronics and Drives, Danfoss Climate Solutions and Danfoss Power Solutions.

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.

# Note 3 Expenses and other operating income

| EURm | 2022 | **2023** |
|---|---|---|
| **A. Personnel expenses** | | |
| Salaries and wages | 2,207 | 2,392 |
| Severance payments | 20 | 49 |
| Social security | 234 | 267 |
| Pension cost - defined contribution plans | 125 | 129 |
| Pension cost - defined benefit plans excl. gains from reductions and redemptions *) | 8 | 8 |
| | 2,594 | 2,845 |
| Average number of employees | 41,324 | 42,369 |
| Total number of employees as of end of the year | 41,928 | 42,054 |
| *) Expenses for defined benefit plans are described in Note 19 Pension and healthcare obligations. | | |
| Remuneration to the Group Executive Team and the Board of Directors: | | |
| Salaries | 5 | 6 |
| Pension costs | 2 | 2 |
| Bonuses, short-term | 6 | 5 |
| Bonuses, long-term | 16 | 20 |
| Group Executive Team | 29 | 33 |
| Board of Directors' fee | 1 | 1 |
| Total remuneration | 30 | 34 |

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. Long-term bonuses equal rights earned, but not necessarily paid out in the year. Severance payments of EUR 0m (2022: 2m) are included in bonuses, long-term.

Total remuneration for registered members of the Group Executive Team amounts to EUR 20m (2022: 17m).

A presentation of the Group Executive Team is available on page 61.

| EURm | 2022 | **2023** |
|---|---|---|
| **B. Depreciation/amortization and impairment losses** | | |
| Classification by nature: | | |
| Amortization of intangible assets | 194 | 194 |
| Depreciation of property, plant and equipment | 342 | 378 |
| Reversal of impairment losses on property, plant and equipment | | -5 |
| Depreciation/amortization and impairment losses | 536 | 567 |
| Classification of amortization/impairment of intangible assets by functions: | | |
| Cost of sales | 124 | 125 |
| Selling and distribution costs | 63 | 64 |
| Administrative expenses | 7 | 5 |
| Intangible assets | 194 | 194 |
| Classification of depreciation/impairment of tangible assets by functions: | | |
| Cost of sales | 296 | 327 |
| Selling and distribution costs | 31 | 32 |
| Administrative expenses | 15 | 14 |
| Tangible assets | 342 | 373 |

# Note 3 Expenses and other operating income continued

| EURm | 2022 | **2023** |
|---|---|---|
| **C. Other operating income and expenses** | | |
| Gain on disposal of activities | 51 | 3 |
| Gain from disposal of property, plant and equipment | 4 | 7 |
| Government grants | 18 | 24 |
| Reversal of restructuring costs | | 1 |
| Other | 27 | 8 |
| Other operating income | 100 | 43 |
| Loss on disposal of activities | -85 | -1 |
| Loss on disposal of intangible fixed assets | | -1 |
| Loss on disposal of property, plant and equipment | -4 | -3 |
| Restructuring costs | -20 | -50 |
| Other | -32 | -6 |
| Other operating expenses | -141 | -61 |
| Other operating income and expenses | -41 | -18 |

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

The Group has received government grants of EUR 24m in total. This is among other items related to investment incentives and support for research and development programs.

In 2022, Danfoss disposed of part of Orbital Motors, which was part of the Danfoss Power Solution activities in Zhejiang, China, resulting in a net gain of EUR 49m. Danfoss de-consolidated its Russian activities as end of August 2022 resulting in a loss of approximately EUR 85m.

| EURm | 2022 | **2023** |
|---|---|---|
| **D. Fees to auditors appointed at the Annual General Meeting** | | |
| Audit fee | 5 | 5 |
| Other assurance engagements fee | 0 | 0 |
| Tax and VAT advice | 0 | 0 |
| Other fees | 1 | 1 |
| Total fee to Group Auditor | 6 | 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.

## Note 3 Expenses and other operating income continued

**Other operating income and expenses**
Other operating income and expenses comprise items secondary to the principal activities of the Group, including gains/losses on disposal of non-current assets and companies, 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.

# Net working capital

## Note 4 Inventories

| EURm | 2022 | **2023** |
|---|---|---|
| Raw materials and consumables | 853 | 791 |
| Work in progress | 206 | 204 |
| Finished goods and goods for resale | 599 | 569 |
| Inventories | 1,658 | 1,564 |
| | | |
| Write-downs of inventories | 120 | 126 |

**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.

## Note 5 Trade receivables

| EURm | 2022 | **2023** |
|---|---|---|
| Not overdue at the reporting date | 1,548 | 1,454 |
| Overdue less than 30 days | 74 | 51 |
| Overdue from 30 to 90 days | 36 | 36 |
| Overdue more than 90 days | 37 | 39 |
| Trade receivables before provision for bad debts | 1,695 | 1,580 |
| Provision for bad debts as of December 31 | -47 | -45 |
| Net carrying amount | 1,648 | 1,535 |
| | | |
| Provision for bad debts as of January 1 | -31 | -47 |
| Foreign exchange adjustments in foreign companies | | 2 |
| Additions through acquisition of subsidiaries | -13 | |
| Accrual of new provisions | -13 | -13 |
| Reversal of provisions accrued | 5 | 8 |
| Realized loss | 5 | 5 |
| Provision for bad debts as of December 31 | -47 | -45 |

Out of the EUR 45m write-down, EUR 27m 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.
Refer to Note 17, Financial risks and instruments, Credit risk, for further descriptions on accounting for expected credit losses.

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

## Note 6 Other debt

| EURm | 2022 | **2023** |
|---|---|---|
| Accrued salaries and wages | 435 | 480 |
| Accrued expenses and sundry creditors | 387 | 360 |
| Other debt | 822 | 840 |

## Note 7 Change in working capital

| EURm | 2022 | **2023** |
|---|---|---|
| Change in inventories | -125 | 63 |
| Change in receivables | -178 | 47 |
| Change in trade payables and other debt | 77 | -80 |
| Change in working capital | -226 | 30 |

# Capital employed

## Note 8 Investments in associates and joint ventures

| EURm | | | 2022 |
|---|---|---|---|
| | Investments in associates and joint ventures | Other investments | **Total** |
| Cost as of January 1 | 325 | 20 | 345 |
| Additions through acquisition 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 |
| Adjustments as of December 31 | -43 | -16 | -59 |
| Carrying amount as of December 31 | 282 | 5 | 287 |

| EURm | | | **2023** |
|---|---|---|---|
| | Investments in associates and joint ventures | Other investments | **Total** |
| Cost as of January 1 | 325 | 21 | 346 |
| Cost as of December 31 | 325 | 21 | 346 |
| Adjustments as of January 1 | -43 | -16 | -59 |
| Net profit/value adjustment | 51 | | 51 |
| Adjustments as of December 31 | 8 | -16 | -8 |
| Carrying amount as of December 31 | 333 | 5 | 338 |

**Impairment test**
Where indicators for impairment were present at the end of 2023, impairment tests were performed on the carrying 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 2022.

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

# Note 8 Investments in associates and joint ventures continued

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

| **SMA Solar Technology AG** | 2022 | **2023** |
|---|---|---|
| Place of business | Germany | Germany |
| Share of ownership | 20% | 20% |
| Summarized profit and loss statement, EURm *) | | |
| Revenue | 1,066 | 1,800-1,900 |
| EBITDA | 70 | 285-325 |
| Net income | 56 | N/A |
| Summarized balance sheet, EURm *) | | |
| Non-current assets | 349 | 426 |
| Current assets | 757 | 1,136 |
| Non-current liabilities | 280 | 273 |
| Current liabilities | 403 | 647 |
| Equity | 423 | 642 |
| Other information, EURm | | |
| Group share of equity as of December 31 | 82 | 130 |

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2023, was EUR 2,101m (2022: 2,320m).

*) 2022 numbers as reported from SMA Solar Technology AG. 2023 numbers as of guidance from SMA Solar Technology AG from Quarter 3 2023.

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 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 |

# Note 8 Investments in associates and joint ventures continued

| EURm | | | 2023 |
|---|---|---|---|
| **Immaterial associates and joint ventures** | Associates | Joint Ventures | **Total** |
| Danfoss' proportionate share of: | | | |
| Profit or loss | | 1 | 1 |
| Total comprehensive income | | 1 | 1 |
| Carrying amount as of December 31 | | 16 | 16 |

| **Reconciliation of carrying amount** | Associates | Joint Ventures | **Total** |
|---|---|---|---|
| Group share of equity of material Ass/JV. | 130 | | 130 |
| Goodwill concerning material Ass/JV. | 187 | | 187 |
| Carrying amount of immaterial Ass/JV. | | 16 | 16 |
| Total carrying amount as of December 31 of associates and joint ventures | 317 | 16 | 333 |

For further information on associates and joint ventures, refer to 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.

# Note 9 Intangible assets

| EURm | **Goodwill** | Internally developed software | Brand | Technology | Customer relations | Patents, trademarks and other rights | Development costs | **Total Other** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Cost as of January 1, 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 | 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 |
| Cost as of January 1, 2023 | 3,311 | 458 | 274 | 1,210 | 984 | 36 | 39 | 3,001 | 6,312 |
| Foreign exchange adjustments in foreign companies | -75 | -4 | -6 | -21 | -27 | | | -58 | -133 |
| Additions through acquisition of subsidiaries | 60 | | 5 | 29 | 13 | | | 47 | 107 |
| Transfers | | -1 | | | | | | -1 | -1 |
| Additions | | 44 | | | | | | 44 | 44 |
| Disposals | | -21 | | | | -1 | | -22 | -22 |
| Cost as of December 31, 2023 | 3,296 | 476 | 273 | 1,218 | 970 | 35 | 39 | 3,011 | 6,307 |
| Amortization and impairment losses as of January 1, 2023 | 150 | 261 | 35 | 594 | 351 | 23 | 38 | 1,302 | 1,452 |
| Foreign exchange adjustments in foreign companies | -3 | -3 | -1 | -11 | -7 | -1 | | -23 | -26 |
| Amortization | | 49 | 12 | 79 | 51 | 3 | | 194 | 194 |
| Disposals | | -21 | | | | -1 | | -22 | -22 |
| Amortization and impairment losses as of December 31, 2023 | 147 | 286 | 46 | 662 | 395 | 24 | 38 | 1,451 | 1,598 |
| Carrying amount as of December 31, 2023 | 3,149 | 190 | 227 | 556 | 575 | 11 | 1 | 1,560 | 4,709 |

Of the "Internally developed software", approximately 50% relates to the One ERP program.

Additions through acquisitions of subsidiaries are mainly due to the BOCK® Compressors acquisition. Refer to Note 12 Acquisition and sales of subsidiaries and activities for further details.

Impact on goodwill, due to hyperinflation in Türkiye, amounts to EUR 8m (2022: 13m), and is included in above "Foreign exchange adjustments in foreign companies".

# Note 9 Intangible assets continued

**Impairment tests**
At the end of 2023, 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 2024-2033. 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 | 2022 | | | | **2023** | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 1,536 | 572 | 1,050 | 3 | 1,475 | 619 | 1,052 | 3 |
| Brand with indefinite useful life as of December 31 | 136 | | | | 134 | | | |

The Danfoss Power Solutions brand with a carrying amount EUR 134m (2022: 136m) is not amortized, 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 2033 is based on past performance/Management expectation of market development etc. and is estimated to be 2-7% (2022: 2-7%) 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 2022. The net cash flow during the terminal period from 2034 and onwards is estimated at a 2% (2022: 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% (2022: 11-12%) 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 2022.

*Danfoss Power Solutions*
The goodwill allocated to Danfoss Power Solutions derives primarily from Eaton's hydraulics business 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 2023, the carrying amount of brand, technology and customer relations acquired in connection with business combinations amounts to EUR 899m (2022: 1,021m), or approximately 66% (2022: 69%) 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, Sondex Holding A/S (Denmark) in 2016 and BOCK® Compressors (Germany) in 2023. At the end of 2023, the carrying amount of technology and customer relations acquired in connection with business combinations amounts to EUR 81m (2022: 48m), or approximately 6% (2022: 3%) of the corresponding Group carrying amount. The carrying amount of technology and customer relations is amortized until 2035 and 2038, respectively.

# Note 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 2023, the carrying amount of technology and customer relations acquired in connection with business combinations amounts to EUR 378m (2022: 419m), or approximately 28% (2022: 28%) 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 2023, Danfoss had software in progress amounting to EUR 42m (2022: 38m). Capitalized software in progress is mainly developed internally.

In 2023, 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 (2022: 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 to10 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 assessed 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.

# Note 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.

# Note 10 Property, plant and equipment

| EURm | Land and buildings | Plant and machinery | Equipment | Assets under construction | **Total** |
|---|---|---|---|---|---|
| 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 through sale 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 |
| Cost as of January 1, 2023 | 1,646 | 2,369 | 351 | 469 | 4,835 |
| Foreign exchange adjustments in foreign companies | -34 | -36 | -6 | -10 | -86 |
| Additions through acquisition of subsidiaries | 23 | 4 | 18 | | 45 |
| Transfers | 56 | 219 | 16 | -290 | 1 |
| Additions | 137 | 110 | 57 | 377 | 681 |
| Disposals | -20 | -48 | -36 | | -104 |
| Cost as of December 31, 2023 | 1,808 | 2,618 | 400 | 546 | 5,372 |
| Depreciation and impairment losses as of January 1, 2023 | 648 | 1,476 | 228 | | 2,352 |
| Foreign exchange adjustments in foreign companies | -7 | -24 | -5 | | -36 |
| Transfers | | -1 | 1 | | |
| Depreciation | 115 | 213 | 50 | | 378 |
| Impairment | -5 | | | | -5 |
| Disposals | -16 | -45 | -34 | | -95 |
| Depreciation and impairment losses as of December 31, 2023 | 735 | 1,619 | 240 | | 2,594 |
| Carrying amount as of December 31, 2023 | 1,073 | 999 | 160 | 546 | 2,778 |

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 Türkiye, amounts to net EUR 0m (2022: 27m), and is included in above "Foreign exchange adjustments in foreign companies".

# Note 10 Property, plant and equipment continued

| EURm | Land and buildings | Plant and machinery | Equipment | **Total** |
|---|---|---|---|---|
| The right-of use assets included in Property, plant and equipment are presented below. | | | | |
| Carrying amount related to right-of-use assets as of January 1, 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 |
| Carrying amount related to right-of-use assets as of January 1, 2023 | 235 | 2 | 26 | 263 |
| Foreign exchange adjustments in foreign companies | -4 | | | -4 |
| Additions through acquisition of subsidiaries | 3 | | | 3 |
| Additions | 89 | | 34 | 123 |
| Depreciation | -59 | -1 | -20 | -80 |
| Disposals | -1 | | | -1 |
| Carrying amount related to right-of-use assets as of December 31, 2023 | 263 | 1 | 40 | 304 |

Further information on leases is provided in Note 11 Leases.

# Note 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 assets and for self-produced assets as well as indirect construction costs. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, and depreciated separately.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognized in the carrying amount of the asset, if it is probable that the costs will result 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.

## Note 11 Leases

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

| EURm | 2022 | **2023** |
|---|---|---|
| Current | 63 | 75 |
| Non-current | 207 | 241 |

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 21m (2022: 15m).

At December 31, 2023, the Group had committed to leases not yet commenced. The total future cash outflows for leases that had not yet commenced are EUR 54m (2022: 55m), which are mainly for buildings.

Total cash outflow for leases for the financial year ended December 31, 2023 was EUR 103m (2022: 101m).

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

## Note 12 Acquisition and sale of subsidiaries and activities

EURbn 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 | ** |

EURbn **2023**

| Company/activity: | | Country | Consolidated from/until | Holding acquired/sold | Net sales per year *) | No. of employees | Consideration paid/received |
|---|---|---|---|---|---|---|---|
| BOCK® Compressors | Acquisition | DE | Mar | 100% | 0.1 | 400 | 0.1 |
| 1500 VDC converter technology | Acquisition | FI | Dec | 100% | 0.0 | 7 | 0.0 |

*) Net sales in the financial year prior to the acquisition or sale.
**) According to non-disclosure obligations, purchase prices are not stated.

**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.

# Note 12 Acquisition and sale of subsidiaries and activities continued

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.

On 31 October, 2022, Danfoss disposed part of Orbital Motors, which was part of the Danfoss Power Solutions activities in Zhejiang, China. The divestment resulted in 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 jurisdictions, including USA and Europe, have imposed several economic sanctions on Russia. As a result Danfoss 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 and repatriate funds. Thus Danfoss de-consolidated its Russian activities as of end of August 2022. This resulted in a loss of approximately EUR 85m, which is recorded under "Other Operating Expenses".

**2023 acquisitions and disposals:**

On 1 March, 2023 Danfoss acquired BOCK® Compressors, a world leader in $CO_2$ and low-GWP (Global Warming Potential) compressors utilized in cooling and heating applications. The acquisition expands Danfoss' position as a full-service provider for greener cooling and heating solutions. BOCK® Compressors has been incorporated into the existing Danfoss Commercial Compressors' business. Net cash consideration paid was around EUR 114m.

The acquisition has been included in the consolidated financial statements from March 1, 2023. From the acquisition date to December 31, 2023, BOCK® Compressors' business contributed with a revenue of EUR 82m and a profit before tax of EUR 2m. 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, 2023, the impact on the Group's revenue would have been additional EUR 16m whereas there would have been no material effect on profit before tax. Acquisition-related transaction costs are EUR 1m and have been included in "Other operating expenses" in the consolidated income statement. Integration costs are ongoing and amount to EUR 6m, impacting EBIT negatively. The preliminary purchase price allocation (PPA) accounting has total goodwill of EUR 58m. 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 14 December, 2023 Danfoss completed the acquisition of the 1500 VDC converter technology and the takeover of the product team from Finland-based company Ampner Oy. The product will be integrated within Danfoss Drives' portfolio of Electrification Solutions with primary focus on Smart Grids and energy storage. The acquisition has an insignificant impact on Danfoss' revenue and profit before tax.

In 2023, the Russian activities were discontinued. This had no impact on P&L as the loss was recognized in 2022 at the time of de-consolidation.

There were no disposals in 2023. The reported figures are mainly adjustments to the partial divestment of Orbital Motors in 2022.

# Note 12 Acquisition and sale of subsidiaries and activities continued

| EURm | 2022 | 2022 | 2022 | **2023** | **2023** |
|---|---|---|---|---|---|
| | Acquisitions | Disposals | De-consolidated | Acquisitions | Disposals |
| Intangible assets, except goodwill | -386 | 2 | 5 | -47 | |
| Property, plant and equipment | -177 | 4 | 20 | -45 | |
| Other non-current assets, including deferred tax assets | -51 | | 1 | | |
| Inventories | -137 | 4 | 29 | -24 | |
| Receivables *) | -142 | | 17 | -12 | |
| Cash and cash equivalents | -42 | | 19 | -6 | |
| Interest-bearing debts | 99 | | -2 | 3 | |
| Provisions, including deferred tax liabilities | 128 | | -1 | 31 | |
| Trade and other payables | 81 | -7 | -28 | 39 | |
| Net assets acquired | -627 | 3 | 60 | -61 | |
| Goodwill/profit on disposal | -265 | 59 | -77 | -60 | 2 |
| Net assets, including goodwill(-)/profit on disposal | -892 | 62 | -17 | -121 | 2 |
| Cash and cash equivalents | 41 | | -19 | 6 | |
| Consideration, net of cash | -851 | 62 | -36 | -115 | 2 |
| Change in short-term payables/receivables/provisions | -1 | -30 | | -3 | -13 |
| Adjustments minority interest | 231 | | | -2 | |
| Gain on sale of part of subsidiary (Semikron Danfoss merger) | 180 | | | | |
| Adjustments for recycling of translation impact | | | 16 | | |
| Net cash paid(-)/received | -441 | 32 | -20 | -120 | -11 |

In the figures for Acquisitions for 2023, are included reclassifications for final adjustments to the opening balance of the Semikron Group. These adjustments have no cash impact. Main adjustments are EUR -21m related to fixed-asset revaluation and EUR +23m on other payables.

*) Receivables in acquisitions includes provision for bad debt of EUR 1m (2022: 2m).

## 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.

## Note 12 Acquisition and sale of subsidiaries and activities continued

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.

## Note 13 Acquisition / Sale of other investments

| EURm | 2022 | **2023** |
|---|---|---|
| Sale and acquisition of shares and other securities | 5 | -1 |
| Increase/decrease in lending | 24 | 4 |
| | 29 | 3 |

# Note 14 Provisions

EURm

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

| | | | | **2023** |
|---|---|---|---|---|
| | Warranty | Employee-related | Other | **Total** |
| Provisions as of January 1 | 64 | 65 | 61 | 190 |
| Foreign exchange adjustments in foreign companies | -1 | -1 | -1 | -3 |
| Additions through acquisition of subsidiaries and activities | | | 2 | 2 |
| Provisions used | -17 | -8 | -17 | -42 |
| Reversal of unused provisions | -12 | -2 | -2 | -16 |
| Additional provisions recognized | 35 | 18 | 6 | 59 |
| Provisions as of December 31 | 69 | 72 | 49 | 190 |

| | | | | **2023** |
|---|---|---|---|---|
| Estimated maturity of above provisions: | Warranty | Employee-related | Other | **Total** |
| Within 1 year | 50 | 10 | 21 | 81 |
| Between 1 and 5 years | 19 | 31 | 26 | 76 |
| After more than 5 years | | 31 | 2 | 33 |
| Provisions as of December 31 | 69 | 72 | 49 | 190 |

**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

## Note 15 Financial income and expenses

| EURm | 2022 | **2023** |
|---|---|---|
| **Financial income** | | |
| Gain on other investments | 4 | 1 |
| Foreign exchange gains, net | 6 | |
| Interest from banks, etc. | 4 | 4 |
| Financial income | 14 | 5 |
| | | |
| Interest on financial assets measured at amortized cost. | 4 | 4 |
| | | |
| **Financial expenses** | | |
| Interest to banks etc. | -78 | -116 |
| Calculated interest on defined benefit plans | -4 | -6 |
| Interest expense for leasing arrangements | -8 | -11 |
| Monetary loss on adjustments for hyperinflation | -18 | -20 |
| Foreign exchange losses, net | | -26 |
| Loss on other investments | | -1 |
| Financial expenses | -108 | -180 |
| | | |
| Interest on financial liabilities measured at amortized cost | -86 | -127 |

A fair-value hedge impact of EUR -7m (2022: -1m) is included in Foreign exchange losses, net.
Further information on leases is provided in Note 11 Leases.
Further information on Monetary loss on adjustments for hyperinflation is provided in Note 27 General accounting policies.

**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.

## Note 16 Share capital and capital structure

| **Distribution of shares** | **A shares** | | **B shares** | | **Total** | |
|---|---|---|---|---|---|---|
| | Number | DKKm | Number | DKKm | Number | DKKm |
| Balance as of December 31, 2022 | 4,250,000 | 425.0 | 5,719,625 | 572.0 | 9,969,625 | 997.0 |
| | | | | | | |
| Balance as of December 31, 2023 | 4,250,000 | 425.0 | 5,719,625 | 572.0 | 9,969,625 | 997.0 |

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

The Bitten & Mads Clausen's Foundation holds 48% of the shares corresponding to 86% of the votes.

| **Dividend per share** | 2022 | | **2023** | |
|---|---|---|---|---|
| | DKK | EUR | DKK | EUR |
| Proposed dividend per 100 DKK share | 153.1 | 20.6 | 183.6 | 24.6 |
| Dividend from last year paid per 100 DKK share | 136.4 | 18.3 | 147.9 | 19.8 |

# Note 16 Share capital and capital structure continued

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

| | 2022 | **2023** |
|---|---|---|
| Holding as of January 1 | 340,153 | 340,174 |
| Acquired in the year | 1,254 | 1,597 |
| Sold to The Bitten & Mads Clausen's Foundation | -1,233 | -1,602 |
| Holding as of December 31 | 340,174 | 340,169 |

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 2023 for acquiring own shares amounts to EUR 3m (2022: 2m). The total selling price in 2023 for selling own shares amounts to EUR 3m (2022: 2m). The Group's holding of treasury shares represents 3.4% (2022: 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 2023, the net-interest-bearing debt to EBITDA ratio was 1.6 (2022: 2.0) 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.

# Note 17 Financial risks and instruments

**Financial risks**

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

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

**Currency risk**

Currency exposure consists of three elements:
*1. Transaction risk:* This covers both the fair value risk, i.e. the risk related to assets and liabilities denominated in foreign currency, and the cash flow risk, i.e. the risk related to future cash flows in foreign currency. Both risk types have direct cash flow and earnings impact and therefore are the primary focus of Danfoss’ currency hedging strategy. The hedging policy is to cover all fair value risk and all significant future cash flow risk for a 12-month period on a rolling and layered basis. The policy for future cash flow hedge for 2023 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 2023 and 2022.

*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.

# Note 17 Financial risks and instruments continued

**Nominal position of significant currencies**

| EURm | 2022 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | EUR | USD | GBP | **Total** | EUR | USD | GBP | **Total** |
| Receivables and payables | -69 | 23 | 1 | -45 | 42 | 88 | -3 | 127 |
| Cash and loans 1) | -252 | 65 | 58 | -129 | -520 | -162 | 65 | -617 |
| Derivative financial instruments for hedging of fair value 2) | 318 | -88 | -59 | 171 | 474 | 74 | -62 | 486 |
| Derivative financial instruments for hedging of future cash flow | -289 | -75 | -25 | -389 | -175 | -285 | -17 | -477 |
| **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 | -4 | -7 | -3 | -14 | -3 | -28 | -2 | -33 |

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 74m (2022: 87m) are used for hedging of net investments. The impact on the Group's equity is EUR 0m (2022: 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.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use 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 2m, while equity would be impacted by a gain of EUR 31m, 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. The target financial gearing is 2 x EBITDA before special items. The ratio may exceed this level following significant acquisitions.

At the end of 2023, Danfoss' credit rating from Standard and Poor’s was "BBB with a stable outlook" and the liquidity reserve equalled EUR 1.5bn (2022: 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 4.3 years at the end of 2023. The Danfoss Group's loan agreements contain no financial covenants.

# Note 17 Financial risks and instruments continued

### The Group's debt categories and maturities

| EURm | 2022 | | | | | **2023** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 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 | 2,782 | 2,853 | 393 | 1,362 | 1,098 | 2,602 | 2,768 | 221 | 1,509 | 1,038 |
| Mortgage debt | 64 | 79 | | 4 | 75 | 64 | 64 | | | 64 |
| Contingent considerations | 26 | 26 | 2 | 24 | | 22 | 22 | 5 | 17 | |
| Lease liabilities | 270 | 295 | 69 | 160 | 66 | 316 | 372 | 85 | 177 | 110 |
| Trade payables | 1,511 | 1,511 | 1,511 | | | 1,378 | 1,378 | 1,378 | | |
| Debt to ass./ JV. | 2 | 2 | 2 | | | 2 | 2 | 2 | | |
| Derivative financial liabilities | 232 | 232 | | 86 | 146 | 149 | 149 | | 149 | |
| | 4,887 | 4,998 | 1,977 | 1,636 | 1,385 | 4,533 | 4,755 | 1,691 | 1,852 | 1,212 |

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

In 2023, Danfoss issued EUR Bonds in total EUR 0.5 bn as part of a general refinancing program.
The 2023 bonds financing costs are linked to certain sustainability targets. If Danfoss does not meet these targets, accumulated financing costs will increase by a maximum of 4 mEUR with payment at maturity.

The maturity analysis is based on all non-discounted cash flows, including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flows from derivative financial instruments are presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements. The Group generally accepts that vendors sell off their receivables arising from the sales to the Group, to a third party. Danfoss has established a supply-chain financing program where vendors can sell off their receivables from Danfoss at attractive terms, but at the bank's sole discretion. Danfoss is not directly or indirectly a party to these agreements. End of December, the Group is aware of EUR 64m (2022: 65m) of trade payables that are part of such agreements.

### Financial instruments by category

| EURm | 2022 | | **2023** | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets:** | | | | |
| Investments in associates and joint ventures | 282 | 478 | 333 | 436 |
| Financial assets measured at equity method | 282 | 478 | 333 | 436 |
| Other investments **) | 5 | 5 | 5 | 5 |
| Financial assets measured at fair value via the income statement | 5 | 5 | 5 | 5 |
| Derivative financial instruments for the hedging of the fair value of recognized assets *) | 4 | 4 | 5 | 5 |
| Derivative financial instruments for the hedging of future assets cash flows 1) | 163 | 163 | 121 | 121 |
| Financial assets used as hedging instruments | 167 | 167 | 126 | 126 |
| Trade receivables | 1,648 | 1,648 | 1,535 | 1,535 |
| Other receivables | 244 | 244 | 236 | 236 |
| Cash and cash equivalents | 340 | 340 | 369 | 369 |
| Loans, receivables, cash and cash equivalents measured at amortized cost | 2,232 | 2,232 | 2,140 | 2,140 |
| **Financial liabilities:** | | | | |
| Contingent consideration measured at fair value via the income statement **) | 27 | 27 | 23 | 23 |
| Interest-bearing debt | 3,117 | 3,112 | 2,983 | 2,983 |
| Trade payables and other debt | 2,475 | 2,475 | 2,371 | 2,371 |
| Financial liabilities measured at amortized cost | 5,592 | 5,587 | 5,354 | 5,354 |

# Note 17 Financial risks and instruments continued

### Financial instruments by category

| EURm | 2022 Carrying amount | 2022 Fair value | **2023** Carrying amount | **2023** Fair value |
|---|---|---|---|---|
| **Financial liabilities:** | | | | |
| Derivative financial instruments for the hedging of the fair value of recognized liabilities *) | 391 | 391 | 260 | 260 |
| Financial liabilities used as hedging instruments | 391 | 391 | 260 | 260 |

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 instalment and interest payments. The discount rate applied is the Group's current borrowing rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied in 2023 remain unchanged compared to 2022.

1) Out of EURm 121, the 111 is offset in derivative financial instruments under liabilities in the statement of financial position (2022: EURm 159).

### Derivatives as of December 31 for the Group

| EURm | 2022 Notional amount | 2022 Net fair value | 2022 Gain/Loss(-) recognized in income statement | **2023** Notional amount | **2023** Net fair value | **2023** Gain/Loss(-) recognized in income statement |
|---|---|---|---|---|---|---|
| USD | -202 | 5 | -2 | -290 | 8 | 2 |
| EUR | 31 | 5 | 5 | 336 | | |
| Other currencies | -116 | -2 | 1 | -102 | 1 | -2 |
| Forward exchange contracts | | 8 | 4 | | 9 | |
| Interest rate swaps | -1,266 | -41 | -205 | -1,380 | -5 | -121 |
| Cross currency hedge | 1,603 | -191 | -183 | 1,558 | -137 | -128 |
| Derivatives end of year | | -224 | -384 | | -133 | -249 |

**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 0m (2022: 4m). Refer to section below: "Derivative contracts related to the bond issuance" for fair value hedges related to cross-currency swaps.

# Note 17 Financial risks and instruments continued

**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 2023, unrealized gain/loss(-) on derivatives on hedging that of foreign currency risk in equity amounted to EUR 9m (2022: 4m). For the open foreign exchange contracts, used for USD cash flow hedges, at the end of 2023, the weighted average hedge rate for USD/DKK is 6.78 (2022: 7.24).

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, the majority is swapped into usd via cross-currency swaps while a significant part of the interest rate risk is hedged via interest rate swaps (from fixed EUR to fixed USD rates). For the issued bonds in 2023 a minor part of the interest rate risk is hedged via interest rate swaps (from fixed to variable EUR rate). The maturity of the 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 of offset is expected.

**Derivative related to Virtual Power Purchase Agreement (VPPA)**
As part of Danfoss' sustainability strategy to achieve our climate targets, a virtual power purchase agreement (VPPA) was signed in the USA in 2023. The solar facility underlying the agreement is to be managed by the operator. Danfoss will have no rights of determination or control over the use of the facility. The benefits accruing from the VPPA come in the form of two components: A financial flow that depends, among other things, on the development of the respective spot electricity price, and certificates that Danfoss receives as proof of origin for electricity from renewable energies. The difference between the contractually fixed price per MWh of electricity produced and the respective spot electricity price when the electricity is fed into the grid is settled between Danfoss and the operator on a monthly basis is expected to begin from 2025. Due to the derivatives embedded in the agreements, the agreement is accounted for at fair value through profit or loss. The fair value allocated to level 3 is derived from the present value of the expected cash flows from the agreement. A positive impact of EUR 1m in fair value is recognized in cost of sales in the statement of income for 2023. Notional amount is EUR 67m based on a contract of 12 years and expected yearly utilization of 185.000 MWh. If the anticipated electricity prices had been 10% lower on the valuation date, the fair value of the agreement would have been EUR 3m lower. In our effort to pursue renewable energy Danfoss also has physical PPAs not subject to derivative accounting.

**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 2023 or 2022.

**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.
ESG linked bonds is also accounted for as above (Amortized cost method), with the exception that any change in expected cash flow of not fulfilling the ESG requirements will be accounted for as a change in financial liability and corresponding impact in 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.

## Note 18 Change in liabilities arising from financing activities

| EURm | Short-term borrowings | Long-term borrowings | **Total** |
|---|---|---|---|
| Carrying amount as of January 1, 2022 | 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 |
| Addition 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 |
| Cash flows: | | | |
| Cash repayment | -418 | -350 | -768 |
| Lease payments | -70 | | -70 |
| Cash proceeds | 17 | 502 | 519 |
| Non-cash transactions: | | | |
| Acquisitions of subsidiaries | 2 | 1 | 3 |
| Addition and disposal of lease liabilities | 38 | 84 | 122 |
| Adjustment of Euro borrowings *) | | 128 | 128 |
| Reclassification | 281 | -281 | |
| Other | -19 | -53 | -72 |
| Carrying amount as of December 31, 2023 | 273 | 2,733 | 3,006 |

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.

## Note 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 2023, Danfoss acquired BOCK® Compressors 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:

| | 2022 | | **2023** | |
|---|---|---|---|---|
| | Gross liability | Net Liability | Gross liability | Net Liability |
| Germany | 27% | 56% | 30% | 62% |
| USA | 39% | 21% | 38% | 18% |
| UK | 25% | -8% | 24% | -5% |
| Other | 9% | 31% | 8% | 25% |
| 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 250 (2022: 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.

# Note 19 Pensions and healthcare obligations continued

### The Group's defined-benefit plan obligations

| EURm | 2022 | **2023** |
|---|---|---|
| Present value of defined-benefit plan obligations | 475 | 471 |
| Fair value of plan assets | -338 | -331 |
| | 137 | 140 |
| Defined-benefit plan obligations are presented in the statement of financial position as follows: | | |
| Pension benefit plan assets | 13 | 9 |
| Pension and healthcare plan obligations | 150 | 149 |
| | 137 | 140 |

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 | 2022 | **2023** |
|---|---|---|
| Provision as of January 1 | 634 | 475 |
| Foreign exchange adjustments in foreign companies | 3 | -14 |
| Additions through acquisition of subsidiaries and activities | 1 | 13 |
| Pension costs for the year | 9 | 8 |
| Calculated interest on plan liabilities | 14 | 22 |
| Actuarial gains(-)/losses from changes in demographic assumptions | 1 | -2 |
| Actuarial gains(-)/losses from changes in financial assumptions | -155 | -1 |
| Plan participants' contribution liabilities | 1 | 1 |
| Disbursed benefits from the Group | -9 | -13 |
| Disbursed benefits from plan assets | -18 | -18 |
| Net transfer from provisions | -6 | |
| Provision as of December 31 | 475 | 471 |

### Development in the fair value of plan assets

| EURm | 2022 | **2023** |
|---|---|---|
| Plan assets as of January 1 | 449 | 338 |
| Foreign exchange adjustments in foreign companies | 3 | -3 |
| Calculated interest on plan assets | 10 | 16 |
| Plan participants' contribution asset | 1 | 1 |
| Return for the year on plan assets, excluding calculated interest | -112 | -9 |
| Payments by the Group | 7 | 6 |
| Disbursed benefits | -18 | -18 |
| Net transfer from provisions | -2 | |
| Plan assets as of December 31 | 338 | 331 |

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 122m (2022: 112m).

### Expenses relating to pension and healthcare obligations

| EURm | 2022 | **2023** |
|---|---|---|
| Pension costs for the year | 9 | 8 |
| Calculated interest on liabilities | 14 | 22 |
| Calculated interest on assets | -10 | -16 |
| Expensed in the income statement | 13 | 14 |
| Pension costs distributed by function: | | |
| Pension cost stated under cost of sales | 4 | 3 |
| 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 | 4 | 6 |
| | 13 | 14 |

# Note 19 Pensions and healthcare obligations continued

**Estimated maturity of provisions**

| EURm | 2022 | 2023 |
|---|---|---|
| Within 1 year | 25 | 24 |
| Between 1 and 5 years | 103 | 108 |
| After more than 5 years | 347 | 339 |
| | 475 | 471 |

**Pension plan assets are specified as follows:**

| EURm | 2022 | | 2023 | |
|---|---|---|---|---|
| Shares and similar securities | 95 | 28% | 104 | 31% |
| Listed corporate bonds | 116 | 34% | 130 | 39% |
| Bonds | 80 | 24% | 52 | 16% |
| Other | 47 | 14% | 45 | 14% |
| | 338 | 100% | 331 | 100% |

Plans in which the pension funds are invested in financial instruments are exposed to risk. 31% (2022: 28%) 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**

| | 2022 | | 2023 | |
|---|---|---|---|---|
| | Range | Weighted average | Range | Weighted average |
| Discount rate | 3.6-5.2% | 4.8% | 3.1-5.3% | 5.2% |
| Estimated future salary increase | 2.0-4.7% | 3.8% | 2.2-4.5% | 4.1% |

| | 2022 | | 2023 | |
|---|---|---|---|---|
| | Male Range | Female Range | Male Range | Female Range |
| Life expectancy for a pensioner retiring at the end of the reporting period | 86-87 | 87-89 | 86-87 | 87-89 |
| Life expectancy for a pensioner retiring 20 years after the end of the reporting period | 87-90 | 89-91 | 87-89 | 89-91 |

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 12m to defined-benefit plans in 2024 (2023: 11m).

**Sensitivity analysis**

| EURm | 2022 | 2023 |
|---|---|---|
| Reported defined-benefit plan obligations | 475 | 471 |
| Impact of increase in discount rate of a 0.5 percentage point | -26 | -24 |
| Impact of decrease in discount rate of a 0.5 percentage point | +29 | +26 |
| Impact of increase in future salary increase of a 0.5 percentage point | +4 | +7 |
| Impact of decrease in future salary increase of a 0.5 percentage point | -4 | -6 |
| Impact of increase in average life expectancy of 1 year | +13 | +12 |
| Impact of decrease in average life expectancy of 1 year | -13 | -12 |

**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).

## Note 19 Pensions and healthcare obligations continued

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

## Note 20 Tax on profit

| EURm | 2022 | **2023** |
|---|---|---|
| Current tax expense | -314 | -289 |
| Change in deferred tax | 46 | 35 |
| Adjustments concerning previous years | 2 | -4 |
| Tax on profit (income statement) | -266 | -258 |
| 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% | 2.8% | 1.9% |
| Tax exempt income/non-deductible expenses | -2.2% | -1.1% |
| Adjustment of net tax assets | 1.1% | 0.9% |
| Repatriation taxes | 1.6% | 1.1% |
| Income from associates and joint ventures after tax | -0.1% | -1.0% |
| Hyperinflation restatements | 1.4% | |
| De-consolidation of Russian activities | 2.0% | |
| Other Taxes | -0.3% | -0.2% |
| Adjustments concerning previous years | -0.3% | 0.4% |
| Effective tax rate | 28.0% | 24.0% |

| EURm | 2022 | **2023** |
|---|---|---|
| Tax on profit (income statement) | -266 | -258 |
| Tax on fair-value adjustment of hedging instruments (other comprehensive income) | -31 | 9 |
| Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income) | -15 | 2 |
| Total taxes | -312 | -247 |

# Note 20 Tax on profit continued

**Pillar II disclosure**
The Group is within the scope of the OECD Pillar II model rules. Pillar II legislation was enacted in Denmark in December 2023, the jurisdiction in which the Ultimate Parent of the Group is incorporated, and will be effective from January 1, 2024. Since the Pillar II legislation was not effective as of the reporting date, the Group has no related current tax exposure in 2023. The Group applies the mandatory exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar II income taxes, as provided in the amendments to IAS 12 issued in May 2023.

Under the legislation, the Group is liable to pay a top-up tax for the difference between its GloBE effective tax rate per jurisdiction and the 15% minimum rate.

The Group is in the process of assessing its exposure to the Pillar II legislation for when it comes into effect in 2024. The preliminary assessment, which is based on the most recent tax filings, country-by-country reporting and financial statements for the companies in the Group, indicates that only a few jurisdictions, will have an effective tax rate below 15%. As these jurisdictions typically only have a relatively small share of the total Group profits, we do not expect a material exposure to Pillar II income taxes related to those or other jurisdictions.

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

# Note 21 Deferred tax

**Changes in deferred taxes**

| EURm | 2022 | **2023** |
|---|---|---|
| Deferred taxes as of January 1 (net) *) | -92 | -186 |
| Foreign exchange adjustment in foreign companies | -3 | -4 |
| Additions through acquisition of subsidiaries | -78 | -16 |
| Adjustments concerning previous years | -10 | -10 |
| Disposals through sale of subsidiaries | -1 | |
| Deferred tax recognized in the income statement | 46 | 35 |
| Deferred tax recognized in other comprehensive income | -48 | 13 |
| Deferred taxes as of December 31 (net) *) | -186 | -168 |

*) Liability (-)

**Specification of deferred tax assets**

| EURm | 2022 | **2023** |
|---|---|---|
| Intangible assets | 12 | 4 |
| Property, plant and equipment and financial assets | 68 | 79 |
| Current assets | 36 | 33 |
| Debt and provisions | 160 | 167 |
| Tax loss carry-forwards | 100 | 108 |
| Non-capitalized tax assets regarding tax losses | -54 | -64 |
| | 322 | 327 |
| Set-off within the same legal entities and jurisdiction | -183 | -205 |
| Deferred tax assets | 139 | 122 |

# Note 21 Deferred tax continued

**Specification of deferred tax liabilities**

| EURm | 2022 | 2023 |
|---|---|---|
| Intangible assets | 293 | 266 |
| Property, plant and equipment and financial assets | 97 | 123 |
| Current assets | 18 | 16 |
| Debt and provisions | 99 | 89 |
| Deferred tax regarding Danish joint taxation | 1 | 1 |
| | 508 | 495 |
| Set-off within the same legal entities and jurisdiction | -183 | -205 |
| Deferred tax liabilities | 325 | 290 |

The tax asset related to tax-loss carry-forwards of EUR 44m net (2022: 46m) 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% (2022: 100%) can still be utilized after 3 years or later.

The tax value of unrecognized tax assets related to tax-loss carry-forwards amounts to EUR 64m (2022: 54m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized. 4% of the amount (2022: 13%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 91% (2022:82%).

Of the deferred tax liability of EUR 290m (2022: 325m), EUR 1m (2022: 1m) 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 31m (2022: 42m). 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 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 carry forwards, are recognized at their expected value. The assessment of deferred tax assets regarding tax-loss carry forwards 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 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 is adequate. However, the actual obligation may deviate and is dependent on the results of the litigation and settlement with the relevant tax authorities.

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

## Note 22 Corporation tax

| EURm | 2022 | **2023** |
|---|---|---|
| Corporation tax payable/receivable (-) as of January 1 | 62 | 137 |
| Foreign exchange adjustment in foreign companies | | -2 |
| Additions through acquisition of subsidiaries | 8 | 1 |
| Paid during the year | -233 | -325 |
| Adjustments concerning previous years | -12 | -6 |
| Disposals through sale of subsidiaries | -1 | |
| Current tax expenses in income statement | 314 | 289 |
| Current tax expenses in other comprehensive income | -1 | 2 |
| Corporation tax payable/receivable (-) as of December 31 | 137 | 96 |
| The above corporation tax is recorded as follows: | | |
| Assets | 27 | 23 |
| Liabilities | 164 | 119 |
| | 137 | 96 |

**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

## Note 23 Adjustment for non-cash transactions

| EURm | 2022 | **2023** |
|---|---|---|
| Depreciation/amortization and impairment | 536 | 567 |
| Gain(-)/loss on disposal of tangible assets and business activities | 36 | -5 |
| Share of profit from associates and joint ventures after tax | -3 | -51 |
| Financial income | -14 | -5 |
| Financial expenses | 108 | 180 |
| Other | -20 | 15 |
| Adjustment for non-cash transactions | 643 | 701 |

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

# Note 24 Contingent liabilities, assets and securities

**Securities**

| EURm | 2022 | **2023** |
|---|---|---|
| Carrying amount of land and buildings pledged as security for bank loans and mortgages | 138 | 172 |
| Leasing assets pledged as security for leasing commitments | 262 | 304 |
| Carrying amount of interest-bearing liabilities with security in assets | 335 | 381 |

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 | 2022 | **2023** |
|---|---|---|
| Service contract commitment other than leases | 281 | 258 |
| Inventories | 246 | 589 |
| Property, plant and equipment | 226 | 215 |
| Purchase commitments | 753 | 1,062 |

# Note 25 Related parties

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

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

In the financial year, a limited number of transactions have taken place between the Bitten & Mads Clausen's Foundation, its other subsidiaries and certain shareholders from 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 (2022: 3.3m). In the financial year, the Bitten & Mads Clausen's Foundation purchased shares in Danfoss A/S at a value of EUR 3m from the company (2022: 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 2023, 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 (2022: 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.

## Note 25 Related parties continued

**Transactions with associates and joint ventures**

| EURm | 2022 | **2023** |
|---|---|---|
| Sales of goods and services | 9 | 23 |
| Purchases of goods and services | 17 | 16 |

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

## Note 26 Events after the balance sheet date

Subsequent to December 31, 2023, 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.

## Note 27 General accounting policies

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

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

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

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

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

The companies included in the Group are disclosed in Note 28 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.

# Note 27 General accounting policies continued

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

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

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

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

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

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

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

## 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 on translation of foreign currency into EUR".

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.

# Note 27 General accounting policies continued

**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.

**Hyperinflation accounting**
Danfoss has implemented IAS 29 on financial reporting in hyperinflationary economies regarding the Group's subsidiaries in Türkiye (from 2022) and Argentina (from 2023).

Türkiye and Argentina are 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.

The implementation of IAS 29 means that the accounting figures for subsidiaries in Türkiye and Argentina, in material respect, are restated so that they reflect the current purchasing power at the end of the accounting period. In this regard, both material 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.

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 be converted into the Group's presentational currency, EUR, using the exchange rate on the balance sheet date. All Turkish and Argentinian material transactions in the financial year have thus been converted to EUR using the exchange rate on 31 December, 2023, 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 Türkiye and Argentina is based on the development in the available general price index in those countries, which consists of the Consumer Price Index (CPI).

The price index for Türkiye has changed so that the inflation amounted to 65% in 2023 (2022: 63%) . The exchange rate between TRY and EUR has fallen from 0.050 at the beginning of the year to 0.031 at the end of the year. This constitutes a decrease of 38% (2022: 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, 2023, or until the date of any departure or consumption of goods during 2023. The adjustments have been made from the first recognition of the items in the accounts, however, from January 1, 2022, at the earliest. Equity in Türkiye is adjusted for inflation, based on the accumulated development of the price index until December 31, 2023, to reflect purchasing power on the balance sheet date. In the income statement, all transactions in 2023 are adjusted for changes in the price index from the month of recognition in the income statement to the price index per December 31.

Adjustments for Argentina follows the same principles as described for Türkiye, however beginning from January 1, 2023 at the earliest.

**Time and practice for recognition**
Implementation of IAS 29 was made retroactively with Türkiye, starting 1 January, 2022 and Argentina, starting January 1, 2023. The total impact is stated below:

**Impact on key figures**

| EURm | 2022 | **2023** |
|---|---|---|
| **Income statement** | | |
| External net sales | 12 | -16 |
| Profit before tax | -15 | -25 |
| Tax | -11 | 4 |
| Profit | -26 | -21 |
| **Statement of financial position** | | |
| Non-monetary assets | 43 | 52 |
| Equity | 32 | 47 |

# Note 27 General accounting policies continued

## Financial measures

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

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

**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:

| EURm | 2022 | **2023** |
|---|---|---|
| **EBITA** | | |
| Operating profit (EBIT) | 1,043 | 1,252 |
| Share of profit from associates and joint ventures | -3 | -51 |
| Amortizations: | | |
| Brand | 13 | 12 |
| Technology | 80 | 79 |
| Customer relations | 51 | 51 |
| Gains/losses and costs related to acquisitions and divestments | 40 | 2 |
| **EBITA** | 1,224 | **1,345** |

**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.

**EBITDA margin**
Operating profit (EBIT) before depreciation, amortization, impairment 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.

# Note 27 General accounting policies continued

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

**Net interest-bearing debt**
Interest-bearing debt, including fair value of derivatives hedging the underlying debt, less interest-bearing assets.

| EURm | 2022 | **2023** |
|---|---|---|
| **Net interest-bearing debt** | | |
| Borrowings | 3,144 | 3,006 |
| Cash and cash equivalents | -340 | -369 |
| Other receivables | -20 | -15 |
| Fair value of derivatives hedging the underlying debt | 384 | 249 |
| **Net interest-bearing debt** | 3,168 | **2,871** |

**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).

**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 | 2022 | **2023** |
|---|---|---|
| **Free operating cash flow after financial items and tax** | | |
| Cash flow from operating activities | 1,053 | 1,355 |
| Cash flow from investing activities | -931 | -724 |
| Acquisition of subsidiaries and activities | 441 | 120 |
| Proceeds from disposal of subsidiaries and activities | -12 | 11 |
| Proceeds from sale of other investments | -5 | 1 |
| Lease payments | -81 | -71 |
| **Free operating cash flow after financial items and tax** | 465 | **692** |

# Note 28 Group companies

**Per December 31, 2023**

The companies are owned 100% by Danfoss unless otherwise stated after the company name.[1]

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

- Subsidiary
- Associate or joint venture

## Europe

**Austria**
- Danfoss Gesellschaft m.b.H.

**Belgium**
- Danfoss NV/SA
- Danfoss Power Solutions BVBA
- Hydro-Gear Europe BVBA – 60%

**Bulgaria**
- Danfoss EOOD

**Croatia**
- Danfoss d.o.o.

**Czech Republic**
- BOCK Compressors Czech s.r.o.
- Danfoss s.r.o.
- Danfoss Power Solutions II s.r.o – in liquidation

**Denmark**
- Aneo Retail Denmark A/S – 33% (associate)
- 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
- Gemina Termix Production A/S
- Issab Holding ApS
- Semikron Danfoss Holding A/S – 61%
- Sondex Holding A/S

**Estonia**
- Danfoss AS

**Finland**
- Danfoss Drives Oy
- Danfoss Editron Oy
- Danfoss Power Solutions Oy Ab
- Leanheat Oy
- Oy Danfoss Ab
- Semikron Danfoss Oy – 61%
- Sondex Tapiro Oy Ab

**France**
- Danfoss S.a.r.l.
- Danfoss Commercial Compressors S.A.
- Danfoss Power Solutions S.A.S.
- Danfoss Power Solutions II S.A.S.
- Semikron Danfoss S.a.r.l. – 61%

**Germany**
- BOCK GmbH
- BOCK Blue GmbH
- 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 - Werk Offenbach GmbH – in liquidation
- Semikron Danfoss GmbH – 61%
- Semikron Danfoss Elektronik GmbH & Co. KG – 61%[2]
- Semikron Danfoss Elektronik Verwaltungs GmbH – 61%
- Semikron Danfoss International GmbH – 61%
- SMA Solar Technology AG – 20% (associate)
- Sondex Deutschland GmbH

**Great Britain**
- Artemis Intelligent Power Ltd.
- Danfoss Ltd.
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions II Ltd. – in liquidation
- Danfoss Scotland Ltd.
- Semikron Danfoss Limited – 61%
- Senstronics Holding Ltd. – 50% (joint venture)
- Senstronics Ltd. – 50% (joint venture)

**Hungary**
- Danfoss Kft.

**Iceland**
- Danfoss hf.

**Italy**
- Danfoss S.r.l.
- Danfoss Distribution Services S.r.l.
- Danfoss Power Solutions S.r.l.
- Danfoss Power Solutions II S.r.l.
- Semikron Danfoss S.r.l. – 61%

**Kazakhstan**
- Danfoss LLP

**Latvia**
- SIA Danfoss

**Lithuania**
- Danfoss UAB

**The Netherlands**
- Danfoss B.V.
- Danfoss Finance I B.V.
- Danfoss Finance II B.V.
- Danfoss Power Solutions B.V.
- Danfoss Power Solutions II B.V.
- Semikron Danfoss 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 Danfoss Sp. z.o.o. – 61%
- Sondex Braze Sp. z.o.o.
- Sondex Poland Sp. z.o.o. - in liquidation

**Romania**
- Danfoss S.r.l.

**Serbia**
- Danfoss d.o.o.

**Slovakia**
- Danfoss Power Solutions a.s.
- Danfoss, spol. s.r.o.
- Semikron Danfoss, s.r.o. – 61%

**Slovenia**
- Danfoss Trata, d.o.o.

**Spain**
- Danfoss S.A.
- Danfoss Power Solutions S.A.
- Danfoss Power Solutions Telecontrol, S.L.U.
- Semikron Danfoss, S.L – 61%

**Sweden**
- Aneo Retail Sweden AB – 33% (associate)
- Danfoss AB
- Danfoss Power Solutions AB
- EP Technology AB

[1] No companies in Russia are included, as they are without activity and considered insignificant.
[2] This enterprise has exercised its right of exemption under Section 264b of the German Handelsgesetzbuch (HGB). The consolidated financial statements are published in Deutsche Bundesanzeiger.

# Note 28 Group companies continued

**Switzerland**
- Danfoss AG
- Semikron Danfoss AG – 61%

**Ukraine**
- Danfoss T.o.v.

## Africa – Middle East

**Egypt**
- Danfoss Egypt LLC

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

**Türkiye**
- DAF Enerji Sanayi Ve Ticaret A. Ş.
- 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**
- 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 Danfoss Inc. – 61%
- Sondex Equipment Holding, LLC
- Sondex Properties, Inc.
- White Hydraulics, Inc.

## Latin America

**Argentina**
- Danfoss S.A.

**Brazil**
- Aeroquip do Brasil Ltda.
- Danfoss do Brasil Indústria e Comércio Ltda.
- Danfoss Power Solutions Comércio e Indústria Ltda.
- Semikron Danfoss Ltda. – 61%

**Chile**
- Danfoss Industrias Ltda.

**Colombia**
- Danfoss S.A.S.

**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
- Danfoss Power Solutions, S. de R.L. de C.V.

## Asia-Pacific

**Australia**
- BOCK Compressors Australia Pty. Ltd.
- Danfoss (Australia) Pty. Ltd.
- Danfoss Power Solutions Pty. Ltd.
- Danfoss Power Solutions II Pty. Ltd.
- Semikron Danfoss Pty. Ltd. – 61%
- Sondex Australia Pty. Ltd.
- Sondex Engineering Pty. Ltd.

**P. R. of China**
- BOCK Compressors (Suzhou) Co., Ltd.
- Danfoss (Anshan) Controls Co., Ltd.
- Danfoss Brakes (Shanghai) Co., Ltd.
- Danfoss (China) Investment Co., Ltd.
- Danfoss (Jiaxing) Plate Heat Exchanger Co., Ltd.
- Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd.
- Danfoss (Tianjin) 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 (Shanghai) Co., Ltd.
- Danfoss Power Solutions Trading (Shanghai) Co.
- Danfoss Power Solutions (Zhejiang) Co., Ltd.
- Danfoss Shanghai Hydrostatic Transmission Co., Ltd. – 60%
- Danfoss ( Tianjin) Fire Safety Co., Ltd.
- Semikron Danfoss Electronics (Nanjing) Co., Ltd. – 61%
- Semikron Danfoss Electronics (Zhuhai) Co., Ltd. – 61%
- Sondex Heat Exchanger (Taicang) Co., Ltd.
- Vacon (China) Drives Co., Ltd.
- Zhejiang Holip Electronic Technology Co., Ltd.

**Hong Kong**
- Danfoss Industries Limited - In liquidation
- Semikron Danfoss (Hong Kong) Co., Ltd. – 61%

**India**
- BOCK Compressors India Pvt. Ltd.
- Danfoss Fluid Power Pvt. Ltd.
- Danfoss Industries Pvt. Ltd.
- Danfoss Power Solutions India Pvt. Ltd.
- Danfoss Systems Ltd. – 98%
- Semikron Danfoss 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 Danfoss K.K. – 61%

**Malaysia**
- Danfoss Malaysia Sdn. Bhd.
- Danfoss Power Solutions II Sdn. Bhd.

**Philippines**
- Danfoss Philippines, Inc.

**Singapore**
- BOCK Compressors Singapore Pte. Ltd.
- Danfoss Power Solutions Pte. Ltd.
- Danfoss Power Solutions II Pte. Ltd.
- Danfoss Singapore Pte. Ltd.

**South Korea**
- Danfoss Korea Ltd.
- Danfoss Power Solutions Ltd.
- Danfoss Power Solutions 2 Ltd.
- Semikron Danfoss Co., Ltd. – 61%

**Taiwan**
- Danfoss Co. Ltd.

**Thailand**
- Danfoss (Thailand) Co. Ltd.

**New Zealand**
- Danfoss (New Zealand) Ltd.
- Danfoss Power Solutions II Ltd.

**Vietnam**
- Danfoss Vietnam Co., Ltd.

# Parent accounts and notes

PAGE 133

## Management's review for Danfoss A/S

PAGE 134-137

## Parent accounts



PAGE 138-151

## Parent 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 the Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. Danfoss A/S had 2,714 employees at the end of 2023.

The profit before other operating income and expenses was EUR 20m against EUR 130m in 2022. The company's operating profit was EUR 11m against EUR 116m the previous year.

Financial income and expenses increased to a net income of EUR 636m against a net income of EUR 128m in 2022, mainly due to an increase in received dividends, impact of foreign exchange contracts and decreased impairment of subsidiaries.

The profit after tax in 2023 was EUR 622m against EUR 200m the previous year.

Equity was EUR 3,707m at the end of 2023 against EUR 3,290m at the end of 2022. The increase was mainly attributable to recognition of the profit for the year.

Danfoss A/S expects net sales for 2024 to be on a level with the 2023 figures, and the company expects to report a profit in 2024.

## Gender composition of leadership positions

Danfoss A/S is the Parent Company of the Danfoss Group and is an important company and factor in achieving the Group's target of 30% women in leadership positions by 2025. To meet the Group target, Danfoss A/S is part of the Group initiatives in this area. Refer to the Management Review, "Our people" for further details.

For the Board of Directors, we refer to Management's Review, "Corporate governance" for further details.

| | |
|---|---|
| Number of board members, shareholder-elected | 8 |
| Women in percentage of members | 25% |
| Target in percentage | 40% |
| Target year | 2025 |

As for the Group, Danfoss A/S has the same target for next Leadership levels (level 1 and 2), with the following status:

| | |
|---|---|
| Number of leadership members | 14 |
| Women in percentage of leadership members | 14% |
| Target in percentage | 30% |
| Target year | 2025 |

# Income statement

January 1 to December 31

| EURm | Note | 2022 | 2023 |
|---|---|---|---|
| Net sales | 1 | 1,569 | 1,452 |
| Cost of sales | 1 | -1,153 | -1,139 |
| **Gross profit** | | **416** | **313** |
| Research and development costs | 1 | -123 | -125 |
| Selling and distribution costs | 1 | -96 | -95 |
| Administrative expenses | 1 | -67 | -73 |
| **Operating profit excluding other operating income and expenses** | | **130** | **20** |
| Other operating income and expenses | 1 | -14 | -9 |
| **Operating profit (EBIT)** | | **116** | **11** |
| Financial income | 6 | 447 | 776 |
| Financial expenses | 6 | -319 | -140 |
| **Profit before tax** | | **244** | **647** |
| Tax on profit | 9 | -44 | -25 |
| **Net profit** | | **200** | **622** |
| Attributable to: | | | |
| Proposed dividends reserve | | 205 | 246 |
| Other reserves | | -5 | 376 |
| | | **200** | **622** |

# Statement of comprehensive income

January 1 to December 31

| EURm | 2022 | 2023 |
|---|---|---|
| **Net profit** | **200** | **622** |
| **Other comprehensive income** | | |
| Foreign exchange adjustments on translation of DKK into EUR | | -7 |
| **Items that will be reclassified to income statement** | | **-7** |
| **Other comprehensive income after tax** | | **-7** |
| **Total comprehensive income** | **200** | **615** |

# Statement of financial position

As of December 31

| EURm | Note | 2022 | 2023 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 3 | 316 | 333 |
| Property, plant and equipment | 4 | 340 | 392 |
| Investments | 2 | 4,765 | 5,150 |
| **Total non-current assets** | | **5,421** | **5,875** |
| **Current assets** | | | |
| Inventories | | 132 | 129 |
| Trade receivables external | | 61 | 48 |
| Trade receivables from subsidiaries | | 140 | 218 |
| Short-term loans to subsidiaries | | 925 | 607 |
| Derivative financial instruments (positive fair value) | 7 | 8 | 14 |
| Other receivables | | 26 | 35 |
| Receivables | | 1,160 | 922 |
| Cash and cash equivalents | 7 | 240 | 297 |
| **Total current assets** | | **1,532** | **1,348** |
| **Total assets** | | **6,953** | **7,223** |

| EURm | Note | 2022 | 2023 |
|---|---|---|---|
| **Shareholders' equity** | | **3,290** | **3,707** |
| **Non-current liabilities** | | | |
| Provisions | | 9 | 10 |
| Deferred tax liabilities | 10 | 54 | 61 |
| Borrowings | 7 | 667 | 199 |
| Borrowings from subsidiaries | | 983 | 1,132 |
| Other non-current debt | | 58 | 65 |
| **Total non-current liabilities** | | **1,771** | **1,467** |
| **Current liabilities** | | | |
| Provisions | | 7 | 7 |
| Borrowings | 7 | 211 | 81 |
| Trade payables | | 185 | 167 |
| Trade payables to subsidiaries | | 40 | 76 |
| Borrowings from subsidiaries | | 1,301 | 1,584 |
| Debt to associates and joint ventures | | 2 | 2 |
| Corporation tax | 11 | 26 | 4 |
| Other debt | | 120 | 128 |
| **Total current liabilities** | | **1,892** | **2,049** |
| **Total liabilities** | | **3,663** | **3,516** |
| **Total liabilities and shareholders' equity** | | **6,953** | **7,223** |

# Statement of cash flows

January 1 to December 31

| EURm | Note | 2022 | **2023** |
|---|---|---|---|
| Profit before tax | | 244 | 647 |
| Adjustments for non-cash transactions | 12 | -66 | -526 |
| Change in working capital | | 35 | -40 |
| Interest received | | 39 | 16 |
| Interest paid | | -19 | -30 |
| Dividends received | | 360 | 660 |
| Paid tax | 11 | 1 | -40 |
| **Cash flow operating activities** | | **594** | **687** |
| Acquisition of intangible assets | | -28 | -61 |
| Acquisition of property, plant and equipment | | -82 | -73 |
| Proceeds from sale of property, plant and equipment | | -3 | |
| Acquisition of subsidiaries and capital increase | | -1,249 | -122 |
| Proceeds from disposal of subsidiaries | | 18 | 2 |
| Cash repayment of (-)/cash proceeds from loans to subsidiaries | | 23 | -9 |
| **Cash flow from investing activities** | | **-1,321** | **-263** |
| Cash repayment of interest-bearing debt | 8 | -75 | -606 |
| Cash proceeds from interest-bearing debt | 8 | 538 | |
| Cash repayment of (-)/cash proceeds from borrowings from subsidiaries | | 482 | 438 |
| Purchase of treasury shares | | -2 | -3 |
| Sale of treasury shares | | 2 | 3 |
| Dividends paid to shareholders in the Parent Company | | -183 | -198 |
| **Cash flow from financing activities** | | **762** | **-366** |
| **Net change in cash and cash equivalents** | | **35** | **58** |
| Cash and cash equivalents as of January 1 | | 205 | 240 |
| Foreign exchange adjustment of cash and cash equivalents | | | -1 |
| **Cash and cash equivalents as of December 31** | | **240** | **297** |

# Statement of changes in equity

| EURm | **Share capital** | **Share premium** | Reserve own shares | Reserve for capitalized development projects | Other reserves | **Reserves** | **Proposed dividends** | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2022** | **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** |
| Net profit | | | | | 376 | **376** | **246** | **622** |
| Currency-translation adjustments | | | | | -7 | **-7** | | **-7** |
| Total other comprehensive income | | | | | -7 | **-7** | | **-7** |
| Total comprehensive income for the period | | | | | 369 | **369** | **246** | **615** |
| Dividends to shareholders | | | | | 7 | **7** | **-205** | **-198** |
| Purchase of treasury shares | | | -3 | | | **-3** | | **-3** |
| Sale of treasury shares | | | 3 | | | **3** | | **3** |
| Total transactions with owners | | | | | 7 | **7** | **-205** | **-198** |
| **Balance as of December 31, 2023** | **134** | **10** | -309 | 129 | 3,497 | **3,317** | **246** | **3,707** |

For further information on Equity and Share capital, see Statement of changes in equity and Note 16 Share capital, in Group section.

# Income statement

## Note 1 Net Sales, expenses and other operating income

| EURm | 2022 | **2023** |
|---|---|---|
| **A. Net sales** | | |
| Sale of goods | 1,262 | 1,111 |
| Sale of services and income from royalties, Group members | 307 | 341 |
| | 1,569 | 1,452 |

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

| EURm | 2022 | **2023** |
|---|---|---|
| **B. Personnel expenses** | | |
| Salaries and wages | 277 | 272 |
| Severance payments | 3 | 6 |
| Social security | 9 | 9 |
| Pension cost - defined contribution plans | 22 | 23 |
| | 311 | 310 |
| Average number of employees | 2,826 | 2,757 |
| Total number of employees as of end of the year | 2,814 | 2,714 |
| Remuneration to Group Executive Team and Board of Directors: | | |
| Salaries | 4 | 4 |
| Pension costs | 1 | 1 |
| Bonuses, short-term | 5 | 5 |
| Bonuses, long-term | 14 | 17 |
| Group Executive Team | 24 | 27 |
| Board of Director's fee | 1 | 1 |
| Total remuneration | 25 | 28 |

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. Long-term bonuses equal rights earned, but not necessarily paid out in the year. Severance payments of EUR 0m (2022: 2m) are included in bonuses, long-term.
Total remuneration for registered members of Executive Management amounts to EUR 20m (2022: 17m).

| EURm | 2022 | **2023** |
|---|---|---|
| **C. Depreciation/amortization and impairment losses** | | |
| Classification by nature: | | |
| Amortization of intangible assets | 42 | 44 |
| Depreciation of property, plant and equipment | 42 | 36 |
| Depreciation/amortization and impairment losses | 84 | 80 |
| Classification of amortization/impairment of intangible assets by functions: | | |
| Cost of sales | 41 | 41 |
| Selling and distribution costs | 1 | 3 |
| Intangible assets | 42 | 44 |
| Classification of depreciation/impairment of tangible assets by functions: | | |
| Cost of sales | 32 | 27 |
| Selling and distribution costs | | 1 |
| Administrative expenses | 10 | 8 |
| Tangible assets | 42 | 36 |

# Note 1 Net Sales, expenses and other operating income continued

| EURm | 2022 | **2023** |
|---|---|---|
| **D. Other operating income and expenses** | | |
| Gain on disposal of property, plant and equipment | 1 | |
| Government grants | 1 | 1 |
| Other | 1 | |
| Other operating income | 3 | 1 |
| Loss on disp. of intangible fixed assets | -5 | |
| Restructuring costs | -3 | -6 |
| Other | -9 | -4 |
| Other operating expenses | -17 | -10 |
| Other operating income and expenses | -14 | -9 |

| EURm | 2022 | **2023** |
|---|---|---|
| **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 | 0 |
| Total fee to Group Auditor | 2 | 1 |

# Capital employed

## Note 2 Investments

| EURm | Investments in subsidiaries | Receivables from subsidiaries | Investments in associates and joint ventures | Other investments | **Total** |
|---|---|---|---|---|---|
| **2022** | | | | | |
| 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 2022 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 2022 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.

| EURm | Investments in subsidiaries | Receivables from subsidiaries | Investments in associates and joint ventures | Other investments | **Total** |
|---|---|---|---|---|---|
| **2023** | | | | | |
| Costs as of January 1 | 4,208 | 619 | 316 | 20 | 5,163 |
| Foreign exchange adjustments, etc. | -9 | | -1 | | -10 |
| Additions | 119 | 315 | | | 434 |
| Disposals | -8 | | | | -8 |
| Costs as of December 31 | 4,310 | 934 | 315 | 20 | 5,579 |
| Adjustments as of January 1 | -382 | | | -16 | -398 |
| Impairment for the year | -35 | | | | -35 |
| Disposal | 4 | | | | 4 |
| Adjustments as of December 31 | -413 | | | -16 | -429 |
| Carrying amount as of December 31 | 3,897 | 934 | 315 | 4 | 5,150 |

Additions for the year to "Investments in subsidiaries" is mainly related to investment in Danfoss Deutschland GmbH.

Impairment losses for the year on "Investments in subsidiaries" of EUR 35m mainly relates to Sondex Holding A/S, Danfoss Power Solutions Ltd. 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.

# Note 2 Investments continued

**Impairment tests**

Where indicators for impairment were present at the end of 2023, 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 2022.

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.

# Note 3 Intangible assets

| EURm | **Goodwill** | Internally developed software | Patents, trademarks and other rights | Development costs | **Total Other** | **Total** |
|---|---|---|---|---|---|---|
| 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 |
| Cost as of January 1, 2023 | 83 | 318 | 99 | 2 | 419 | 502 |
| Additions | | 35 | 26 | | 61 | 61 |
| Disposals | | -16 | | | -16 | -16 |
| Cost as of December 31, 2023 | 83 | 337 | 125 | 2 | 464 | 547 |
| Amortization and impairment losses as of January 1, 2023 | 3 | 153 | 28 | 2 | 183 | 186 |
| Amortization | | 35 | 9 | | 44 | 44 |
| Disposals | | -16 | | | -16 | -16 |
| Amortization and impairment losses as of December 31, 2023 | 3 | 172 | 37 | 2 | 211 | 214 |
| Carrying amount as of December 31, 2023 | 80 | 165 | 88 | | 253 | 333 |

Of the "internally developed software" approximately 60% relates to the One ERP Program.

**Impairment tests**

Goodwill in Danfoss A/S of EUR 80m (2022: 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 2023, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were performed 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 Group section.

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 2022.

# Note 4 Property, plant and equipment

| EURm | Land and buildings | Plant and machinery | Equipment | Assets under construction | **Total** |
|---|---|---|---|---|---|
| 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 |
| Cost as of January 1, 2023 | 327 | 285 | 121 | 99 | 832 |
| Transfers | 30 | 25 | | -55 | |
| Additions | 24 | 8 | 10 | 46 | 88 |
| Disposals | | -23 | -20 | | -43 |
| Cost as of December 31, 2023 | 381 | 295 | 111 | 90 | 877 |
| Depreciation and impairment losses as of January 1, 2023 | 184 | 238 | 70 | | 492 |
| Depreciation | 11 | 14 | 11 | | 36 |
| Disposals | | -23 | -20 | | -43 |
| Depreciation and impairment losses as of December 31, 2023 | 195 | 229 | 61 | | 485 |
| Carrying amount as of December 31, 2023 | 186 | 66 | 50 | 90 | 392 |

# Note 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, 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 |
| Carrying amount related to right-of-use assets as of January 1, 2023 | 4 | 6 | 10 |
| Additions | 8 | 8 | 16 |
| Depreciation | -2 | -6 | -8 |
| Carrying amount related to right-of-use assets as of December 31, 2023 | 10 | 8 | 18 |

Further information on leases is provided in Note 5 Leases.

## Note 5 Leases

Lease liabilities are included as borrowings in the statement of financial position as follows:

| EURm | 2022 | **2023** |
|---|---|---|
| Current | 6 | 4 |
| Non-current | 4 | 15 |

Danfoss A/S mainly leases buildings and cars. Lease payments are generally fixed. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the Statement of financial position as a right-of-use asset and a lease liability. Danfoss A/S classifies its right-of-use assets in a consistent manner to property, plant and equipment, see Note 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, 2023, was EUR 10m (2022: 10m).

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

## Note 6 Financial income and expenses

| EURm | 2022 | **2023** |
|---|---|---|
| **Financial income** | | |
| Dividend from subsidiaries and associates/joint ventures | 360 | 660 |
| Interest from subsidiaries | 54 | 86 |
| Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures | 24 | |
| Foreign exchange gains, net | | 29 |
| Interest from banks, etc. | 3 | 1 |
| Reversal of impairment on loans | 6 | |
| Financial income | 447 | 776 |
| Interest on financial assets measured at amortized cost | 57 | 87 |
| **Financial expenses** | | |
| Interest to banks, etc. | -20 | -26 |
| Foreign exchange losses, net | -4 | |
| Impairment/loss on disposal of subsidiaries and associates/joint ventures | -278 | -37 |
| Interest to subsidiaries | -17 | -70 |
| Impairment/loss on loans | | -7 |
| Financial expenses | -319 | -140 |
| Interest on financial liabilities measured at amortized cost | -37 | -96 |

The impact of derivatives/foreign exchange contracts of EUR 25m is included in Foreign exchange gains, net. (2022: 8m included in Foreign exchange losses, net).

Further information on leases is provided in Note 5 Leases.

# Note 7 Financial risks and instruments

### Financial instruments

Below are relevant financial instrument specifications regarding Danfoss A/S. A description of financial risks can be found in the Group section, see Note 17 Financial risks and instruments, to which reference is made.

### Danfoss A/S' debt categories and maturities

| EURm | 2022 | | | | | **2023** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 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 | 777 | 793 | 209 | 584 | | 174 | 174 | 71 | 103 | |
| Mortgage debt | 64 | 79 | 1 | 3 | 75 | 64 | 64 | | | 64 |
| Contingent consideration | 27 | 27 | 3 | 24 | | 23 | 23 | 6 | 17 | |
| Borrowings from subsidiaries | 2,284 | 2,284 | 1,301 | 983 | | 2,716 | 2,716 | 1,584 | 1,132 | |
| Finance lease liabilities | 10 | 10 | 6 | 4 | | 19 | 22 | 5 | 13 | 4 |
| Trade payables | 185 | 185 | 185 | | | 167 | 167 | 167 | | |
| Trade payables to subsidiaries | 40 | 40 | 40 | | | 76 | 76 | 76 | | |
| Debt to ass./ JV. | 2 | 2 | 2 | | | 2 | 2 | 2 | | |
| | 3,389 | 3,420 | 1,747 | 1,598 | 75 | 3,241 | 3,244 | 1,911 | 1,265 | 68 |

*) 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 | 2022 | | **2023** | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets:** | | | | |
| Investments in associates and joint ventures | 316 | 478 | 315 | 436 |
| Financial assets measured at equity method | 316 | 478 | 315 | 436 |
| Other investment **) | 4 | 4 | 4 | 4 |
| External derivatives *) | 8 | 8 | 14 | 14 |
| Financial assets measured at fair value in the income statement | 12 | 12 | 18 | 18 |
| Trade receivables | 61 | 61 | 48 | 48 |
| Trade receivables from subsidiaries | 140 | 140 | 218 | 218 |
| Short-term loans to subsidiaries | 925 | 925 | 607 | 607 |
| Other receivables | 26 | 26 | 35 | 35 |
| Cash and cash equivalents | 240 | 240 | 297 | 297 |
| Loans, receivables, cash and cash equivalents measured at amortized cost | 1,392 | 1,392 | 1,205 | 1,205 |
| **Financial liabilities:** | | | | |
| Contingent consideration measured at fair value via the income statement **) | 27 | 27 | 23 | 23 |
| Interest-bearing debt *) | 851 | 846 | 257 | 257 |
| Debt to subsidiaries | 40 | 40 | 76 | 76 |
| Borrowing from subsidiaries | 2,284 | 2,284 | 2,716 | 2,716 |
| Trade payables and other debt | 365 | 365 | 362 | 362 |
| Financial liabilities measured at amortized cost | 3,540 | 3,535 | 3,411 | 3,411 |

# Note 7 Financial risks and instruments continued

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

Level 1: Observable market prices for identical instruments.

Level 2 *): Derivatives that are not traded on an active market based on quoted prices, are measured using valuation techniques, where all significant inputs are based on observable market data such as exchange rates and swap curves.

Level 3 **): Valuation techniques primarily based on unobservable prices.

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap prices and exchange rates. The market value of the interest-bearing debt is recognized at the present value of expected future instalment and interest payments. The discount rate applied was the Group's current borrowing rate on loans for corresponding terms. The short-term floating-rate bank debt is stated at the par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2022.

**Derivates as of December 31 for Danfoss A/S**

| EURm | 2022 | | | **2023** | | |
|---|---|---|---|---|---|---|
| | Notional amount | Net fair value | Gain/Loss(-) recognized in income statement | Notional amount | Net fair value | Gain/Loss(-) recognized in income statement |
| USD | -202 | 5 | 5 | -290 | 8 | 8 |
| EUR | 31 | 5 | 5 | 336 | | |
| Other currencies | -116 | -2 | -2 | -102 | | |
| Forward exchange contracts | | 8 | 8 | | 8 | 8 |
| Interest rate swaps | | | | -150 | 6 | 6 |
| Derivatives end of year | | 8 | 8 | | 14 | 14 |

# Note 8 Change in liabilities arising from financing activities

| EURm | Short-term borrowings | Long-term borrowings | **Total** |
|---|---|---|---|
| Carrying amount as of January 1, 2022 | 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 |
| Cash flows: | | | |
| Cash repayment | -263 | -338 | -601 |
| Lease payments | -5 | | -5 |
| Non-cash transactions: | | | |
| Acquisitions and disposal of lease liabilities | 5 | 12 | 17 |
| Reclassification | 142 | -142 | |
| Other | -9 | | -9 |
| Carrying amount as of December 31, 2023 | 81 | 199 | 280 |

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

## Note 9 Tax on profit

| EURm | 2022 | **2023** |
|---|---|---|
| Current tax expense | -39 | -20 |
| Change in deferred tax | -4 | -1 |
| Adjustments concerning previous years | -1 | -4 |
| Tax on profit (income statement) | -44 | -25 |
| Tax on profit is defined as: | | |
| Tax on profit before tax | 22.0% | 22.0% |
| Tax-exempt income/non-deductible expenses | 25.6% | 2.3% |
| Dividends exempt of tax | -32.5% | -22.5% |
| Other taxes | 2.7% | 1.4% |
| Adjustments concerning previous years | 0.2% | 0.6% |
| Effective tax rate | 18.0% | 3.8% |

| EURm | 2022 | **2023** |
|---|---|---|
| Tax on profit (income statement) | -44 | -25 |
| Total taxes | -44 | -25 |

## Note 10 Deferred tax

**Changes in deferred taxes**

| EURm | 2022 | **2023** |
|---|---|---|
| Deferred taxes as of January 1 (net) *) | -47 | -54 |
| Adjustments concerning previous years | -3 | -6 |
| Deferred tax recognized in the income statement | -4 | -1 |
| Deferred taxes as of December 31 (net) *) | -54 | -61 |

*) Liability (-)

**Specification of deferred taxes**

| EURm | 2022 | **2023** |
|---|---|---|
| | Deferred tax asset | Deferred tax asset |
| Property, plant and equipment and financial assets | 5 | 6 |
| Liabilities | 10 | 8 |
| | 15 | 14 |
| Set-off within the same legal entities and jurisdiction | -15 | -14 |
| Deferred tax assets | 0 | 0 |
| | Deferred tax liability | Deferred tax liability |
| Intangible assets | 33 | 38 |
| Property, plant and equipment and financial assets | 11 | 11 |
| Current assets | 2 | 2 |
| Liabilities | 22 | 23 |
| Deferred tax regarding Danish joint taxation | 1 | 1 |
| | 69 | 75 |
| Set-off within the same legal entities and jurisdiction | -15 | -14 |
| Deferred tax liabilities | 54 | 61 |

## Note 10 Deferred tax continued

Of the deferred tax liability of EUR 61m (2022: 54m), EUR 1m (2022: 1m) 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 8m (2022: 20m). 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 foreseeable future.

## Note 11 Corporation tax

| EURm | 2022 | **2023** |
|---|---|---|
| Corporation tax payable/receivable (-) as of January 1 | -10 | 26 |
| Paid during the year | 1 | -40 |
| Adjustments concerning previous years | -4 | -2 |
| Current tax expenses in income statement | 39 | 20 |
| Corporation tax payable/receivable (-) as of December 31 | 26 | 4 |
| | | |
| The above corporation tax is recorded as follows: | | |
| Liabilities | 26 | 4 |
| | 26 | 4 |

# Other notes

## Note 12 Adjustment for non-cash transactions

| EURm | 2022 | **2023** |
|---|---|---|
| Depreciation/amortization and impairment | 84 | 80 |
| Gain(-)/loss on disposal of tangible assets and business activities | 4 | |
| Financial income | -447 | -776 |
| Financial expenses | 319 | 140 |
| Other, including provisions | -26 | 30 |
| Adjustment for non-cash transactions | -66 | -526 |

# Note 13 Contingent liabilities, assets and securities

**Securities**

| EURm | 2022 | **2023** |
|---|---|---|
| Carrying amount of land and buildings pledged as security for bank loans and mortgages | 138 | 172 |
| Leasing assets pledged as security for leasing commitments | 10 | 18 |
| Carrying amount of interest-bearing liabilities with security in assets | 74 | 83 |

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 | 2022 | **2023** |
|---|---|---|
| Service contract commitment other than leases | 169 | 141 |
| Inventories | 72 | 66 |
| Property, plant and equipment | 72 | 43 |
| Purchase commitments | 313 | 250 |

# Note 14 Related parties

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

**Transactions with associates and joint ventures**

| EURm | 2022 | **2023** |
|---|---|---|
| Purchases of goods and services | 19 | 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 | 2022 | **2023** |
|---|---|---|
| Sales of goods and services | 1,556 | 1,475 |
| Purchases of goods and services | 696 | 760 |
| Purchases of intangible assets and property, plant and equipment | | 26 |
| Disposal of intangible assets and property, plant and equipment | 3 | 2 |

Transactions besides the above transactions with joint ventures and associates are described in Note 6 Financial income and expenses, Note 2 Investments and Note 7 Financial risks and instruments.

# Note 15 Events after the balance sheet date

Subsequent to December 31, 2023, 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.

## Note 16 General accounting policies for Danfoss A/S

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2023, comprises the Financial Statements of Danfoss A/S.

The Financial Statements of Danfoss A/S have been prepared in accordance with the International Accounting 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 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 is treated as goodwill.

**Corporation tax and deferred tax**
Danfoss A/S is jointly taxed with its Danish subsidiaries and sister companies. Current tax and deferred tax is allocated between the jointly taxed companies. The jointly taxed companies are taxed under the tax prepayment scheme.

**Reserve for capitalized development projects**
Danfoss A/S has established a non-distributable reserve in equity regarding capitalized development projects.
This reserve will be reversed as the development projects have effect on the income statements. The amount is presented net of deferred tax.

## Note 17 Material accounting estimates for Danfoss A/S

Material 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

CONTENT

# 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, 2023.

The Annual Report has been prepared in accordance with IFRS Accounting 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, 2023, of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2023.

In our opinion, the consolidated ESG statements included in the Management's Report represents a reasonable, fair, and balanced representation of the Group's sustainability performance and are prepared in accordance with the stated accounting policies.

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 6, 2024*

**CEO and CFO**

Kim Fausing

Jesper V. Christensen

**Board of Directors**

Jens Bjerg Sørensen, Chair

Jürgen Reinert

Mads Clausen

Mika Vehviläinen

Mads-Peter Clausen

Henning Bjørklund

Karin Dohm

Marianne Godballe

Per Falholt

Henning Andreas Krogh

Connie Hedegaard

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 31 December 2023 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2023 in accordance with IFRS Accounting 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 1 January – 31 December 2023, pp. 84-131 and 134-151, which comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes, including material accounting policy information, 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. 3-78 and p. 133.

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 IFRS Accounting 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 judgement and maintain professional scepticism 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, 6 March, 2024*

**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

**Lars Baungaard**
State Authorised Public Accountant
mne23331

**Mads Melgaard**
State Authorised Public Accountant
mne34354

# Independent limited assurance report on the ESG data points included in the consolidated ESG statements

## To the Stakeholders of Danfoss A/S

Danfoss engaged us to provide limited assurance on the ESG data points included in the consolidated ESG statements for the period 1 January - 31 December 2023 stated on p. 66 (the "ESG data points").

## Our conclusion

Based on the procedures we performed and the evidence we obtained, nothing came to our attention that causes us not to believe that the ESG data points for the period 1 January - 31 December 2023 for Danfoss A/S are prepared, in all material respects, in accordance with the applied accounting policies developed by Danfoss A/S as stated on pp. 67-72 and 74 (the "ESG accounting policies").

This conclusion is to be read in the context of what we state in the remainder of our report.

## What we are assuring

The scope of our work was limited to assurance over the ESG data points for the period 1 January - 31 December 2023 stated in the 2023 Annual Report of Danfoss A/S on p. 66.

We express limited assurance in our conclusion.

## Corresponding information

With effect from the current financial year, the ESG data points have become subject to a limited assurance engagement. Please note that the comparative ESG data points stated in the consolidated ESG statements for the years prior to 2023 have not been subject to assurance, which also appears in the consolidated ESG statements.

## Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements'. The quantification of greenhouse gas emissions is subject to inherent uncertainty because of incomplete scientific knowledge used to determine the emissions factors and the values needed to combine emissions of different gasses.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks; consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

## Our independence and quality control

We have complied with the independence requirements and other ethical requirements in the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour and ethical requirements applicable in Denmark.

PricewaterhouseCoopers applies International Standard on Quality Management 1, ISQM 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent multidisciplinary team with experience in sustainability reporting and assurance.

## Understanding reporting and measurement methodologies

The ESG data points need to be read and understood together with the ESG accounting policies. The ESG accounting policies used for the preparation of the ESG data points are the accounting policies developed by the company, which Management is solely responsible for selecting and applying.

The absence of a significant body of established practice on which to draw to evaluate and measure sustainability data allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

## Work performed

We are required to plan and perform our work in order to consider the risk of material misstatement of the ESG data points. In doing so and based on our professional judgement, we:

- Evaluated the appropriateness of the ESG accounting policies used, their consistent application in the ESG data points;
- Made inquiries and conducted interviews with management with responsibility for management and reporting of the ESG data points to assess reporting and consolidation process, use of company-wide systems and controls performed;
- Performed limited substantive testing on a sample basis to underlying documentation and evaluated the appropriateness of quantification methods and compliance with the ESG accounting policies used for preparing the ESG data points at corporate head office and in relation to selected Danfoss' reporting sites;
- Performed analytical review and trend explanation of the ESG data points; and
- Evaluated the obtained evidence.

## Management's responsibilities

Management of Danfoss A/S is responsible for:

- Designing, implementing and maintaining internal control over information relevant to the preparation of the ESG data points in the 2023 Annual Report that are free from material misstatement, whether due to fraud or error;
- Establishing objective ESG accounting policies for preparing the ESG data points;
- Measuring and reporting the information in the ESG data points based on the ESG accounting policies; and
- The content of the consolidated ESG statements.

## Our responsibility

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the ESG data points for the period 1 January – 31 December 2023 are prepared, in all material respects, in accordance with the ESG accounting policies;
- Forming an independent conclusion, based on the procedures performed and the evidence obtained; and
- Reporting our conclusion to the stakeholders of Danfoss A/S.

*Hellerup, 6 March 2024*

**PricewaterhouseCoopers**
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

**Lars Baungaard**
State Authorised Public Accountant
mne23331

**Mads Melgaard**
State Authorised Public Accountant
mne34354

Further information available
on Danfoss' website: www.danfoss.com

Date of publication: March 6, 2024

Contact address:
**Danfoss A/S**
Nordborgvej 81
6430 Nordborg
Denmark
Tel.: +45 7488 2222
CVR no. 20165715 (registration number with the Danish Business Authority)
Email: danfoss@danfoss.com

Explore our solutions
www.danfoss.com