



Financial review

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

Sales

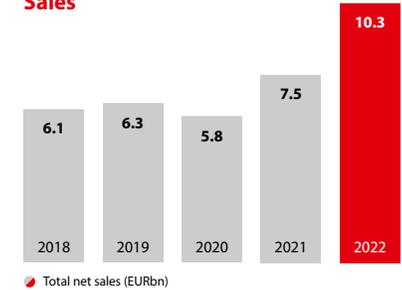
2022 was another very strong year for Danfoss with significant organic and inorganic growth, continuing the company's sound growth journey. Group sales increased 36% to EUR 10,256m (2021: 7,539m), with organic growth of 15%. Acquisitions added 23% to sales growth, while the exit of Russia and divestments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

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

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

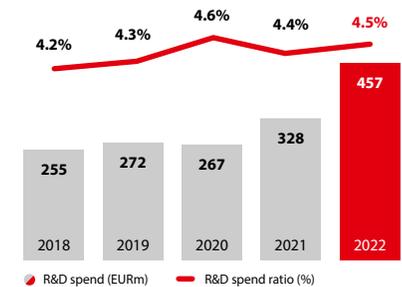
Danfoss continued to see strong demand for our technologies and solutions that are driving the green transition towards lower CO₂ emissions through energy efficiency, machine productivity, low emissions, and electrification.

Sales



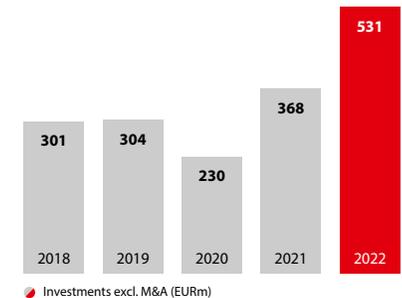
Total net sales (EURbn)

Innovation spend



R&D spend (EURm) R&D spend ratio (%)

Net investments in fixed assets excluding M&A



Investments excl. M&A (EURm)

Earnings

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

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

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

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

Innovation

Danfoss continues to invest in innovation across the business segments to improve the

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

Assets and liabilities

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

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

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

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

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

Cash flow

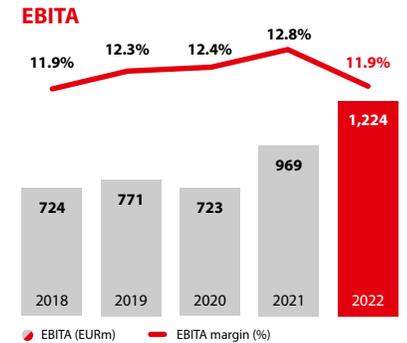
Securing a continued solid cash performance remains a priority for Danfoss to finance our M&A activities, strategic growth initiatives and repay interest-bearing debt.

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

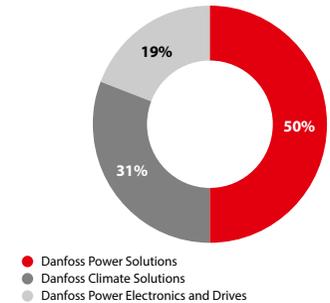
The cash flow from operating activities increased to EUR 1,053m (2021: 838m), driven by a positive operational performance but negatively impacted by a higher level of inventory and receivables following the growth in activity levels.

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

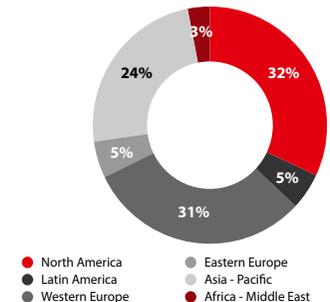
The cash flow from financing activities amounted to EUR -26m (2021: 1,596m). Last year's level reflected the bond issuance related to the acquisition of Eaton's hydraulics business.



Sales split by segments



Sales split by regions





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



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



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

M&A activities

Semikron Danfoss joint venture

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

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

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

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

Divestment of orbital motor business in China

On July 5, 2022, an agreement to sell the Danfoss Power Solutions orbital motor business and assets in Zhenjiang (Jiangsu), China, was signed with buyer Impro Fluidtek Limited, an indirectly wholly owned subsidiary by Impro Precision Industries Limited. As previously announced, the divestment

was a necessary condition by the State Administration for Market Regulation in China (SAMR) to reach approval to close the 2021 acquisition of Eaton's hydraulics business. The transaction was closed on October 31, 2022. See Note 12 for more information.

Exit from Russia

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

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

Employees

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

Acquisition of BOCK GmbH

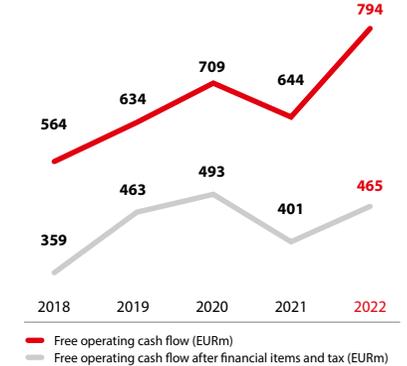
On October 10, 2022, Danfoss announced the acquisition of the German compressor manufacturer BOCK GmbH from NORD Holding GmbH. BOCK GmbH is headquartered in Germany and is a technology and innovation leader in its field, offering one of the world's largest portfolios of semi-hermetic compressors for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

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

Events after the balance sheet date

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

Cash flow



Net interest-bearing debt (NIBD)

