



Parent accounts and notes

127 — Management's review for Danfoss A/S

129 — Parent accounts

133 — 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 Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. Danfoss A/S had 2,814 employees at the end of 2022.

In 2022 Danfoss A/S merged as the continuing entity with the following fully owned subsidiaries:

- Sondex A/S
- Danfoss Compressors Holding A/S
- Danfoss Power Solutions II Technology A/S

The mergers have been done with retro perspective effect and comparative information for 2021 has been adjusted accordingly. The effect from the mergers is shown in the table to the right.

The profit before other operating income and expenses was EUR 130m against EUR 84m in 2021. The company's operating profit was EUR 116m against EUR 94m the previous year.

Financial income and expenses decreased to a net income of EUR 128m against a net income of EUR 174m in 2021, mainly due to an increase in received dividends, impact of foreign exchange contracts and increased impairment of subsidiaries.

The profit after tax in 2022 was EUR 200m against EUR 241m the previous year.

Equity was EUR 3,290m at the end of 2022 against EUR 3,273m at the end of 2021. The increase was mainly attributable to recognition of the profit for the year.

Danfoss A/S expects net sales for 2023 to be on a level with the 2022 figures, and the company expects to report a profit in 2023.

Gender split senior leadership positions

Split between gender in senior leadership positions are reported as the two levels under Board of Directors of the Parent Company Danfoss A/S in compliance to the Danish

Financial Statements Act §99b. The two levels under Board of Directors are defined as the level that reports directly to the Board of Directors (1st level) and the level that reports to this level (2nd level). The calculation is based on headcount

and is reported as the ratio of male to female employees in senior leadership positions.

The ratio for 2022 is 83.3/16.7. Danfoss is committed to increase the gender diversity in senior leadership positions.

EURm	Danfoss A/S 2021	Effect from mergers	Danfoss A/S new 2021
Net sales	1,335	94	1,429
Gross profit	276	24	300
Operating profit (EBIT)	96	-2	94
Profit before tax	267	1	268
Net profit	240	1	241

EURm	Danfoss A/S closing 31 December 2021	Effect from mergers	Danfoss A/S new balances 1 January 2022
Intangible assets	243	86	329
Tangible assets	264	33	297
Shares in subsidiaries	2,852	0	2,852
Other non-current assets	1,444	0	1,444
Total current assets	1,122	-72	1,050
Total assets	5,925	47	5,972
Equity	3,272	1	3,273
Non-current liabilities	1,060	4	1,064
Current liabilities	1,593	42	1,635
Total liabilities and shareholders' equity	5,925	47	5,972



Parent accounts and notes

Parent accounts

Income statement	129
Statement of comprehensive income	129
Statement of financial position	130
Statement of cash flows	131
Statement of changes in equity	132

Parent notes

Income statement

1 Net sales, expenses and other operating income	133
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Capital employed

2 Investments	134
3 Intangible assets	136
4 Property, plant and equipment	137
5 Leases	139

Capital structure and financing

6 Financial income and expenses	139
7 Financial risks and instruments	140
8 Change in liabilities arising from financing activities	141

Tax

9 Tax on profit	142
10 Deferred tax	142
11 Corporation tax	143

Other notes

12 Adjustment for non-cash transactions	143
13 Contingent liabilities, assets and securities	144
14 Related parties	144
15 Events after the balance sheet date	144
16 General accounting policies for Danfoss A/S	145
17 Significant accounting estimates for Danfoss A/S	145

Income statement

January 1 to December 31

EURm	Note	2021	2022
Net sales	1	1,429	1,569
Cost of sales	1	-1,129	-1,153
Gross profit		300	416
Research and development costs	1	-64	-123
Selling and distribution costs	1	-95	-96
Administrative expenses	1	-57	-67
Operating profit excluding other operating income and expenses		84	130
Other operating income and expenses	1	10	-14
Operating profit (EBIT)		94	116
Financial income	6	228	447
Financial expenses	6	-54	-319
Profit before tax		268	244
Tax on profit	9	-27	-44
Net profit		241	200
Attributable to:			
Proposed dividends reserve		189	205
Other reserves		52	-5
		241	200

Statement of comprehensive income

January 1 to December 31

EURm	2021	2022
Net profit	241	200
Other comprehensive income		
Foreign exchange adjustments on translation of DKK into EUR	2	
Items that will be reclassified to income statement	2	
Other comprehensive income after tax	2	
Total comprehensive income	243	200

Statement of financial position

As of December 31

EURm	Note	2021	2022
Non-current assets			
Intangible assets	3	329	316
Property, plant and equipment	4	297	340
Investments	2	4,296	4,765
Total non-current assets		4,922	5,421
Current assets			
Inventories		125	132
Trade receivables external		55	61
Trade receivables from subsidiaries		171	140
Short-term loans to subsidiaries		438	925
Receivable corporation tax	11	10	
Derivative financial instruments (positive fair value)	7		8
Other receivables		46	26
Receivables		720	1,160
Cash and cash equivalents	7	205	240
Total current assets		1,050	1,532
Total assets		5,972	6,953

EURm	Note	2021	2022
Shareholders' equity		3,273	3,290
Non-current liabilities			
Provisions		9	9
Deferred tax liabilities	10	47	54
Borrowings	7	402	667
Borrowings from subsidiaries		564	983
Other non-current debt		42	58
Total non-current liabilities		1,064	1,771
Current liabilities			
Provisions		10	7
Borrowings	7	12	211
Trade payables		206	185
Trade payables to subsidiaries		49	40
Borrowings from subsidiaries		1,239	1,301
Debt to associates and joint ventures		3	2
Corporation tax	11		26
Derivative financial instruments (negative fair value)	7	8	
Other debt		108	120
Total current liabilities		1,635	1,892
Total liabilities		2,699	3,663
Total liabilities and shareholders' equity		5,972	6,953

Statement of cash flows

January 1 to December 31

EURm	Note	2021	2022
Profit before tax		268	244
Adjustments for non-cash transactions	12	-152	-66
Change in working capital		-40	35
Interest received		30	39
Interest paid		-35	-19
Dividends received		164	360
Paid tax	11	-23	1
Cash flow operating activities		212	594
Acquisition of intangible assets		-111	-28
Acquisition of property, plant and equipment		-46	-82
Proceeds from sale of property, plant and equipment		30	-3
Acquisition of subsidiaries and capital increase		-295	-1,249
Proceeds from disposal of subsidiaries		4	18
Cash repayment of (-)/cash proceeds from loans to subsidiaries		-370	23
Cash flow from investing activities		-788	-1,321
Cash repayment of interest-bearing debt	8	-571	-75
Cash proceeds from interest-bearing debt	8		538
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		798	482
Purchase of treasury shares		-2	-2
Sale of treasury shares		2	2
Dividends paid to shareholders in the Parent Company			-183
Cash flow from financing activities		227	762
Net change in cash and cash equivalents		-349	35
Cash and cash equivalents as of January 1		554	205
Cash and cash equivalents as of December 31		205	240

Statement of changes in equity

EURm	Share capital	Share premium	Hedging reserves	Reserve own shares	Reserve for capitalized development projects	Other reserves	Reserves	Proposed dividends	Total equity
Balance as of January 1, 2021	134	10		-309	138	3,057	2,886		3,030
Net profit						52	52	189	241
Software-development costs					-5	5			
Currency-translation adjustments						2	2		2
Total other comprehensive income						2	2		2
Total comprehensive income for the period					-5	59	54	189	243
Purchase of treasury shares				-2			-2		-2
Sale of treasury shares				2			2		2
Total transactions with owners									
Balance as of December 31, 2021	134	10		-309	133	3,116	2,940	189	3,273
Net profit						-5	-5	205	200
Software-development costs					-4	4			
Total other comprehensive income									
Total comprehensive income for the period					-4	-1	-5	205	200
Dividends to shareholders						6	6	-189	-183
Purchase of treasury shares				-2			-2		-2
Sale of treasury shares				2			2		2
Total transactions with owners						6	6	-189	-183
Balance as of December 31, 2022	134	10		-309	129	3,121	2,941	205	3,290

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

Income statement

1 Net sales, expenses and other operating income

EURm	2021	2022
A. Net sales		
Sale of goods	1,221	1,262
Sale of services and income from royalties, Group members	208	307
	1,429	1,569

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

EURm	2021	2022
B. Personnel expenses		
Salaries and wages	271	277
Severance payments	5	3
Social security	9	9
Pension cost - defined contribution plans	21	22
	306	311

Average number of employees	2,859	2,826
Total number of employees as of end of the year	2,827	2,814

Remuneration to Group Executive Team and Board of Directors:

Salaries	4	4
Pension costs	2	1
Bonuses, short-term	7	5
Bonuses, long-term	14	14
Group Executive Team	27	24
Board of Director's fee	1	1
Total remuneration	28	25

Bonuses, short-term are paid based on meeting annual targets for selected financial ratios and sales growth.

Bonuses, long-term are paid based on value creation over multiple years. Severance payments of EUR 2m.

(2021: 0m) are included in bonuses, long term.

Total remuneration for registered members of Executive Management amounts to EUR 17m (2021: 20m).

EURm	2021	2022
C. Depreciation/amortization and impairment losses		
Classification by nature:		
Amortization of intangible assets	44	42
Depreciation of property, plant and equipment	41	42
Depreciation/amortization and impairment losses	85	84
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	42	41
Selling and distribution costs	2	1
Intangible assets	44	42
Classification of depreciation/impairment of tangible assets by functions:		
Cost of sales	30	32
Administrative expenses	11	10
Tangible assets	41	42

1 Net sales, expenses and other operating income continued

EURm	2021	2022
D. Other operating income and expenses		
Other gains related to acquisitions/disposals	4	
Gain on disposal of property, plant and equipment	19	1
Government grants		1
Other	3	1
Other operating income	26	3
Loss on disp. of intangible fixed assets		-5
Restructuring costs	-5	-3
Other	-11	-9
Other operating expenses	-16	-17
Other operating income and expenses	10	-14

EURm	2021	2022
E. Fees to auditors appointed at the Annual General Meeting		
Audit fee	1	1
Other assurance engagements fee	0	0
Tax and VAT advice	0	0
Other fees	1	1
Total fee to Group Auditor	2	2

Capital employed

2 Investments

EURm	2021				
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Total
Costs as of January 1	2,774	947	315	20	4,056
Foreign exchange adjustments, etc.	1				1
Additions	295	177	1		473
Disposals	-99				-99
Costs as of December 31	2,971	1,124	316	20	4,431
Adjustments as of January 1	-199		-3	-16	-218
Reversed impairment	2		3		5
Impairment for the year	-17				-17
Disposal	95				95
Adjustments as of December 31	-119			-16	-135
Carrying amount as of December 31	2,852	1,124	316	4	4,296

Additions for 2021 to "Investments in subsidiaries" is mainly related to investment in Danfoss B.V., Polimer Kauçuk Sanayi ve Pazarlama A. S. and Eaton Industries (Japan) Ltd.

Impairment losses for 2021 on "Investments in subsidiaries" of EUR 17m mainly relates to Danfoss Power Solutions AS (Norway). The impairment is caused by a lower valuation of the entity due to dividend payments and lower earnings during recent years.

Impairment losses/reversed impairment are reported as financial expenses/financial income.

2 Investments continued

EURm	2022				
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Total
Costs as of January 1	2,971	1,124	316	20	4,431
Additions	1,246				1,246
Disposals	-9	-505			-514
Costs as of December 31	4,208	619	316	20	5,163
Adjustments as of January 1	-119			-16	-135
Reversed impairment	15				15
Impairment for the year	-278				-278
Adjustments as of December 31	-382			-16	-398
Carrying amount as of December 31	3,826	619	316	4	4,765

Additions for the year to "Investments in subsidiaries" is mainly related to investment in Semikron Danfoss Holding A/S, Danfoss Power Solutions S.r.l. (Italy) and Danfoss Deutschland GmbH.

Impairment losses for the year on "Investments in subsidiaries" of EUR 278m mainly relates to Sondex Holding A/S, Danfoss Scotland Ltd. and Danfoss Editron Oy. The impairment is caused by a lower valuation of the entity due to lower earnings during recent years and expected lower earnings in future years.

Impairment losses/reversed impairment are reported as financial expenses/financial income.

The principle for calculating recoverable amounts is basically the same as described in Note 9 Intangible assets in the Group section, with the main difference that the focus is on a stand-alone company basis.

In the calculation of recoverable amounts discount rates of around 11% to 15%, before tax, are used.

Impairment tests

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

Further information on subsidiaries, associates and joint ventures is provided in Note 6 Financial income and expenses, Note 7 Financial risks and instruments, and Note 14 Related parties.

3 Intangible assets

EURm	Goodwill	Internally developed software	Patents, trademarks and other rights	Development costs	Total Other	Total
Cost as of January 1, 2021	83	284	26	10	320	403
Additions		33	78		111	111
Disposals		-26	-2	-8	-36	-36
Cost as of December 31, 2021	83	291	102	2	395	478
Amortization and impairment losses as of January 1, 2021		107	21	10	138	138
Amortization		39	5		44	44
Impairments for the year	3					3
Disposals		-26	-2	-8	-36	-36
Amortization and impairment losses as of December 31, 2021	3	120	24	2	146	149
Carrying amount as of December 31, 2021	80	171	78		249	329
Cost as of January 1, 2022	83	291	102	2	395	478
Additions		33			33	33
Disposals		-6	-3		-9	-9
Cost as of December 31, 2022	83	318	99	2	419	502
Amortization and impairment losses as of January 1, 2022	3	120	24	2	146	149
Amortization		35	7		42	42
Disposals		-2	-3		-5	-5
Amortization and impairment losses as of December 31, 2022	3	153	28	2	183	186
Carrying amount as of December 31, 2022	80	165	71		236	316

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

Impairment tests

Goodwill in Danfoss A/S of EUR 80m (2021: 80m) is mainly a consequence of Danfoss A/S having merged with other Danish subsidiaries, in particular the merger with DEVI A/S in 2010.

At the end of 2022, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were 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 Danfoss Group accounts.

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

4 Property, plant and equipment

EURm	Land and buildings	Plant and machinery	Equipment	Assets under construction	Total
Cost as of January 1, 2021	321	339	118	49	827
Transfers	14	16		-30	
Additions	18	3	2	27	50
Disposals	-34	-59	-4		-97
Cost as of December 31, 2021	319	299	116	46	780
Depreciation and impairment losses as of January 1, 2021	194	291	43		528
Transfers	1		-1		
Depreciation	11	14	16		41
Disposals	-34	-48	-4		-86
Depreciation and impairment losses as of December 31, 2021	172	257	54		483
Carrying amount as of December 31, 2021	147	42	62	46	297
Cost as of January 1, 2022	319	299	116	46	780
Addition through acquisition of subsidiaries/activities		1			1
Transfers	5	5	9	-19	
Additions	5	7	1	72	85
Disposals	-2	-27	-5		-34
Cost as of December 31, 2022	327	285	121	99	832
Depreciation and impairment losses as of January 1, 2022	172	257	54		483
Transfers		-5	5		
Depreciation	14	12	16		42
Disposals	-2	-26	-5		-33
Depreciation and impairment losses as of December 31, 2022	184	238	70		492
Carrying amount as of December 31, 2022	143	47	51	99	340

4 Property, plant and equipment continued

EURm	Land and buildings	Equipment	Total
The right-of-use assets included in property, plant and equipment are presented below.			
Carrying amount related to right-of-use assets as of January 1, 2021	5	19	24
Additions		1	1
Depreciation	-1	-8	-9
Carrying amount related to right-of-use assets as of December 31, 2021	4	12	16
Carrying amount related to right-of-use assets as of January 1, 2022	4	12	16
Additions	1	2	3
Depreciation	-1	-8	-9
Carrying amount related to right-of-use assets as of December 31, 2022	4	6	10

Further information on leases is provided in Note 5 Leases.

5 Leases

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

EURm	2021	2022
Current	8	6
Non-current	8	4

Danfoss A/S mainly leases buildings and cars. Lease payments are generally fixed. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the Statement of Financial Position as a right-of-use asset and a lease liability. Danfoss A/S classifies its right-of-use assets in a consistent manner to property, plant and equipment, see Note 4. Each lease contract generally restricts the use of the right-of-use asset to Danfoss A/S. Some lease contracts contain an option to extend the lease period or terminate the lease before the lease term. Management assesses whether or not it is reasonably certain that the option will be exercised after considering all relevant facts and circumstances.

Danfoss A/S has decided not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis. The expenses related to payments not included in the measurement of the lease liability are below EUR 5m.

Total cash outflow for leases for the financial year ending December 31, 2022, was EUR 10m (2021: 9m).

Further information on lease payments, interest expense on lease liabilities, additions, depreciation charge, carrying amount of right-of-use assets and maturity analysis of lease liabilities is provided in Note 6 Financial income and expenses, Note 4 Property, plant and equipment, Note 7 Financial risks and instruments and Note 8 Change in liabilities arising from financing activities.

Capital structure and financing

6 Financial income and expenses

EURm	2021	2022
Financial income		
Dividend from subsidiaries and associates/joint ventures	164	360
Interest from subsidiaries	35	54
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	5	24
Foreign exchange gains, net	23	
Interest from banks, etc.	1	3
Reversal of impairment on loans		6
Financial income	228	447
Interest on financial assets measured at amortized cost	36	57
Financial expenses		
Interest to banks, etc.	-27	-20
Foreign exchange losses, net		-4
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-17	-278
Interest to subsidiaries	-5	-17
Impairment/loss on loans	-5	
Financial expenses	-54	-319
Interest on financial liabilities measured at amortized cost	-32	-37

The impact of derivatives/foreign exchange contracts of EUR 8m is included in Foreign exchange losses, net. (2021: 27m included in Foreign exchange gains, net).

Further information on leases is provided in Note 5 Leases.

7 Financial risks and instruments

Financial instruments

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

Danfoss A/S' debt categories and maturities

EURm	2021					2022				
	Carrying amount	Contractual cash flow	Maturity			Carrying amount	Contractual cash flow	Maturity		
			0-1 year	1-5 years*)	Over 5 years			0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	299	309	4	305		777	793	209	584	
Mortgage debt	69	73		1	72	64	79	1	3	75
Contingent consideration	29	29	3	26		27	27	3	24	
Borrowings from subsidiaries	1,803	1,803	1,239	564		2,284	2,284	1,301	983	
Finance lease liabilities	17	17	9	8		10	10	6	4	
Trade payables	206	206	206			185	185	185		
Trade payables to subsidiaries	49	49	49			40	40	40		
Debt to ass./ JV.	3	3	3			2	2	2		
Derivative financial liabilities	8									
	2,483	2,489	1,513	904	72	3,389	3,420	1,747	1,598	75

*) Maturity is evenly spread over the period.

Further information on leases is provided in Note 5 Leases.

The maturity analysis is based on all non-discounted cash flow, including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flow from derivative financial instruments is presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements.

Financial instruments by category

EURm	2021		2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Investments in associates and joint ventures	316	272	316	478
Financial assets measured at equity method	316	272	316	478
Other investment (**)	4	4	4	4
External derivatives *)			8	8
Financial assets measured at fair value in the income statement	4	4	12	12
Trade receivables	55	55	61	61
Trade receivables from subsidiaries	171	171	140	140
Short-term loans to subsidiaries	438	438	925	925
Other receivables	46	46	26	26
Cash and cash equivalents	205	205	240	240
Loans, receivables, cash and cash equivalents measured at amortized cost	915	915	1,392	1,392
Financial liabilities:				
Contingent consideration measured at fair value via the income statement (**)	29	29	27	27
Interest-bearing debt *)	385	443	851	846
Debt to subsidiaries	49	49	40	40
Borrowing from subsidiaries	1,803	1,803	2,284	2,284
Trade payables and other debt	359	359	365	365
Financial liabilities measured at amortized cost	2,596	2,654	3,540	3,535
Financial liabilities measured at fair value in the income statement *)	8	8		

7 Financial risks and instruments continued

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

Level 1: Observable market prices for identical instruments.

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

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

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap prices and exchange rates. The market value of the interest-bearing debt is recognized at the present value of expected future instalment and interest payments. The discount rate applied was the Group's current borrowing rate on loans for corresponding terms. The short-term floating-rate bank debt is stated at the par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2021.

Derivates as of December 31 for Danfoss A/S

EURm	2021			2022		
	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement	Notional amount	Net fair value	Gain/Loss(-) recognized in income statement
USD	-159	-4	-4	-202	5	5
EUR	-1,046			31	5	5
Other currencies	-98	-4	-4	-116	-2	-2
Forward exchange contracts		-8	-8		8	8
Derivatives end of year		-8	-8		8	8

8 Change in liabilities arising from financing activities

EURm	Short-term borrowings	Long-term borrowings	Total
Carrying amount as of January 1, 2021	16	946	962
Cash flows:			
Cash repayment	-63	-501	-564
Lease payments	-7		-7
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	1	1	2
Reclassification	69	-69	
Other	-4	25	21
Carrying amount as of December 31, 2021	12	402	414
Cash flows:			
Cash repayment	-64	-5	-69
Lease payments	-6		-6
Cash proceeds	200	338	538
Non-cash transactions:			
Acquisitions and disposal of lease liabilities	1	1	2
Reclassification	69	-69	
Other	-1		-1
Carrying amount as of December 31, 2022	211	667	878

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

Further information on leases is provided in Note 5 Leases.

Tax

9 Tax on profit

EURm	2021	2022
Current tax expense	-24	-39
Change in deferred tax	-5	-4
Adjustments concerning previous years	2	-1
Tax on profit (income statement)	-27	-44
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Tax-exempt income/non-deductible expenses	0.6%	25.6%
Dividends exempt of tax	-13.5%	-32.5%
Other taxes	1.6%	2.7%
Adjustments concerning previous years	-0.6%	0.2%
Effective tax rate	10.1%	18.0%

EURm	2021	2022
Tax on profit (income statement)	-27	-44
Total taxes	-27	-44

10 Deferred tax

Changes in deferred taxes

EURm	2021	2022
Deferred taxes as of January 1 (net) *)	-38	-47
Adjustments concerning previous years	-4	-3
Deferred tax recognized in the income statement	-5	-4
Deferred taxes as of December 31 (net) *)	-47	-54

*) Liability (-)

Specification of deferred taxes

EURm	2021	2022
	Deferred tax asset	Deferred tax asset
Property, plant and equipment and financial assets	6	5
Liabilities	13	10
	19	15
Set-off within the same legal entities and jurisdiction	-19	-15
Deferred tax assets	0	0

	Deferred tax liability	Deferred tax liability
	Intangible assets	33
Property, plant and equipment and financial assets	12	11
Current assets	2	2
Liabilities	14	22
Deferred tax regarding Danish joint taxation	5	1
	66	69
Set-off within the same legal entities and jurisdiction	-19	-15
Deferred tax liabilities	47	54

10 Deferred tax continued

Of the deferred tax liability of EUR 54m (2021: 47m), EUR 1m (2021: 5m) can be attributed to tax relating to joint taxation with foreign subsidiaries in previous years. Danfoss A/S has deferred tax liabilities concerning temporary differences in foreign subsidiaries and associates and joint ventures of EUR 20m (2021: 18m). The liabilities are not recognized, because Danfoss A/S decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

11 Corporation tax

EURm	2021	2022
Corporation tax payable/receivable (-) as of January 1	-5	-10
Paid during the year	-23	1
Adjustments concerning previous years	-6	-4
Current tax expenses in income statement	24	39
Corporation tax payable/receivable (-) as of December 31	-10	26
The above corporation tax is recorded as follows:		
Assets	10	
Liabilities		26
	-10	26

Other notes

12 Adjustment for non-cash transactions

EURm	2021	2022
Depreciation/amortization and impairment	85	84
Gain(-)/loss on disposal of tangible assets and business activities	-19	4
Financial income	-228	-447
Financial expenses	54	319
Other, including provisions	-44	-26
Adjustment for non-cash transactions	-152	-66

Depreciation/amortization and impairment includes depreciation on leased right-of-use assets. Further information on depreciation charge and lease payments is provided in Note 4 Property, plant and equipment and Note 8 Change in liabilities arising from financing activities.

13 Contingent liabilities, assets and securities

Securities

EURm	2021	2022
Carrying amount of land and buildings pledged as security for bank loans and mortgages	115	138
Leasing assets pledged as security for leasing commitments	16	10
Carrying amount of interest-bearing liabilities with security in assets	85	74

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

Contingent liabilities

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

Contractual obligations

EURm	2021	2022
Service contract commitment other than leases	61	169
Inventories	44	36
Property, plant and equipment	4	72
Purchase commitments	109	277

14 Related parties

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

Transactions with associates and joint ventures

EURm	2021	2022
Purchases of goods and services	20	19

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

Transactions between Danfoss A/S and the subsidiaries

EURm	2021	2022
Sales of goods and services	1,397	1,556
Purchases of goods and services	590	696
Disposal of intangible assets and property, plant and equipment	24	3

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

15 Events after the balance sheet date

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

16 General accounting policies for Danfoss A/S

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2022, comprises the Financial Statements of Danfoss A/S.

The Financial Statements of Danfoss A/S have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for listed companies. Unless otherwise indicated, the Annual Report is presented in EUR rounded to the nearest million.

Besides the following section, the accounting policies for Danfoss A/S are the same as for the Danfoss Group. Please refer to Note 27 in the Consolidated Financial Statements for the Danfoss Group. The impact of new accounting standards, as described in Note 1 in the Consolidated Financial Statements for the Danfoss Group are also assessed as immaterial to Danfoss A/S.

Investments in subsidiaries, associates and joint ventures

In Danfoss A/S' Financial Statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is performed. If the recoverable amount is lower than cost, investments are written down to this lower value. Impairments are recognized in Danfoss A/S' income statement under financial expenses. Reversal of impairments are recognized under financial income.

Dividends from investments in subsidiaries, associates and joint ventures are recognized in Danfoss A/S' income statement under financial income in the year, when the dividends are declared.

Significant subsidiaries, that are merged into Danfoss A/S are accounted for according to the "Group-method" (Koncernmetoden), which means it has retro perspective effect and comparative information is adjusted accordingly. Any difference between accumulated cost price (after any impairments) and merged net assets (January 1, 2021) is treated as goodwill.

In 2022 Danfoss merged with certain subsidiaries, refer to "Management's review for Danfoss A/S", where the impact on main comparative figures is also stated.

Corporation tax and deferred tax

Danfoss A/S is jointly taxed with its Danish subsidiaries and sister companies. Current tax and deferred tax is allocated between the jointly taxed companies. The jointly taxed companies are taxed under the tax prepayment scheme.

Reserve for capitalized development projects

Danfoss A/S has established a non-distributable reserve in equity regarding capitalized development projects. This reserve will be reversed as the development projects have effect on the income statements. The amount is presented net of deferred tax.

17 Significant accounting estimates for Danfoss A/S

Significant accounting estimates for Danfoss A/S concern investments in subsidiaries, associates and joint ventures.

In Danfoss A/S' Financial Statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is performed. If the recoverable amount is lower than cost, investments are written down to this lower value.

Due to the nature of the operations of the investments, estimates of expected cash flows have to be made many years into the future, which will be subject to some degree of uncertainty. The investments in subsidiaries, associates and joint ventures are described in more detail in Note 2 Investments.