ENGINEERING
TOMORROW

Danfoss

Annual Report 2019

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CEO letter

We invest **to get ahead**

The green transition is no longer something we just talk about. A significant transformation driven by global megatrends has started, and we continue to see good growth opportunities as our energy-saving solutions play a significant role in the green transition towards lower carbon emissions and more electrification.

The center of our Going Great strategy is an ambition of driving long-term value creation for all our stakeholders. In 2019, we maintained our focus on continued value creation by strengthening our core businesses and investing in electrification and digitalization to ensure that we stay at the technology forefront. We invested EUR 272m in innovation, equal to 4.3% of sales. We also seized four acquisition opportunities to add new cutting-edge technology to our already broad range of solutions. These targeted acquisitions have strengthened our electric offering within on- and off-highway and marine and added competence within artificial intelligence to gain an even stronger foothold in the market via smart solutions for buildings and district heating networks.

2019 was a good year for Danfoss. Sales grew 3% despite rapidly changing growth dynamics. Our robust profitability of 12.3% EBITA margin combined with a strong cash flow and a low net debt to EBITDA ratio of 1.0 reflect a continuous, strong financial performance. This offers us a high degree of flexibility to address growth opportunities, allowing us to continue to expand and develop Danfoss as a leader within our core businesses.

In 2019, this commitment to continued technology leadership was reflected in our active role in accelerating the transformation of the transport sector with the development of new electric and hybrid solutions for cars, buses, construction machines and ships - a concrete example was the fully-electric Danish ferry with the longest range in the world powered by a Danfoss drivetrain. Danfoss also entered into game-changing partnerships with some of the strongest suppliers in the automotive industry to deliver technology to the millions of hybrid and fully electric cars we will soon see on the roads. And most recently, we agreed to acquire Eaton's hydraulics business to create a global leader in the mobile and industrial hydraulics markets.

Finding a sustainable way is a key differentiator for Danfoss, and we continue to support the UN Global Compact and Sustainable Development Goals. We follow our founder's 'action speaks louder than words' mindset and set ourselves new, ambitious sustainability targets: We commit to CO_2 Neutrality by latest 2030 – supporting the Business Ambition for 1.5°C and signing up to the Science-Based Targets initiative. And we set a target for high-performing diverse teams with 30% female leaders by 2025 – as we know that we need the best people with diverse backgrounds to drive innovation and take advantage of the global megatrends.

Our market place is evolving, and we are moving ahead rapidly to capitalize on the opportunities that lie ahead of us. Thank you, our customers and partners for your support on this journey. And thank you all 27,871 colleagues for sharing your frontline passion and team spirit every day and acting as great ambassadors for Danfoss. This is crucial for our continued success.

Kim Fausing
President & CEO

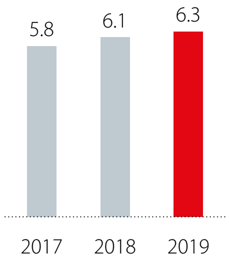
"We continue to see good growth opportunities as our energy-saving solutions play a significant role in the green transition."

Performance **highlights**

Financial highlights

Sales
EURbn

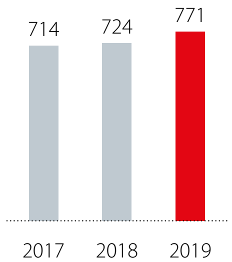
+3%



2019 was a good year. Sales grew to EUR 6.3bn – a result of our ability to win market share through strategic growth initiatives and investments in industry-leading technologies – despite increasing market volatility.

Earnings (EBITA)
EURm

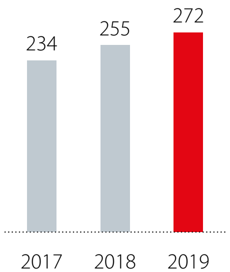
+6%



Another year of continued growth in our earnings. EBITA increased to reach EUR 771m, leading to an EBITA margin of 12.3% against 11.9% last year. Net profit improved 8% to EUR 502m – A continuous, strong financial performance allowing us to continue to expand and develop Danfoss as a leader within our core businesses.

Innovation spend
EURm

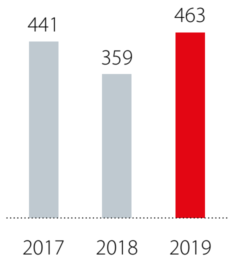
+7%



Increased investments in the future. Innovation spend increased to EUR 272m equal to 4.3% of sales. Besides investing into our core businesses, the innovation activities were concentrated around digitalizing and electrifying our energy-efficient solutions and services to create even more value for our customers.

Cash flow
EURm

+29%



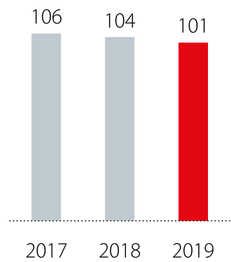
Strong cash flow to finance acquisitions. The free operating cash flow after financial items and tax increased to EUR 463m. To further strengthen the business, Danfoss completed four acquisitions in 2019, adding new digital technologies and electric solutions to the product portfolio.

See information about changes in reporting at page 131.

Sustainability highlights

Energy intensity
MWh consumed energy per EURm net sales

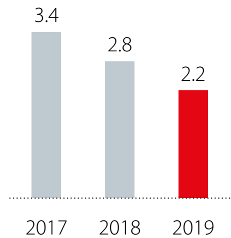
-45%



Since 2007, we have reduced the energy intensity of our operations by 45%. This means that we have almost doubled our production output on the same energy consumption as in 2007.

Lost Time Injury Frequency
Lost time injuries per million hours worked

-35%



Safety First! Our Lost Time Injury Frequency was down 35% over the past two years, reaching a record low level of 2.2 in 2019. We continue our efforts to take good care of our people and improving their health and safety.

Sustainability and diversity **goals**

CO_2 neutral in 2030

We want to be CO_2 neutral by 2030. To decarbonize Danfoss, efforts are continuously put into improving energy efficiency in our own operations. Furthermore, we invest heavily in electrification powered by renewable energy. We also want to transform our own company car fleet to be electric when infrastructure becomes available.

0%

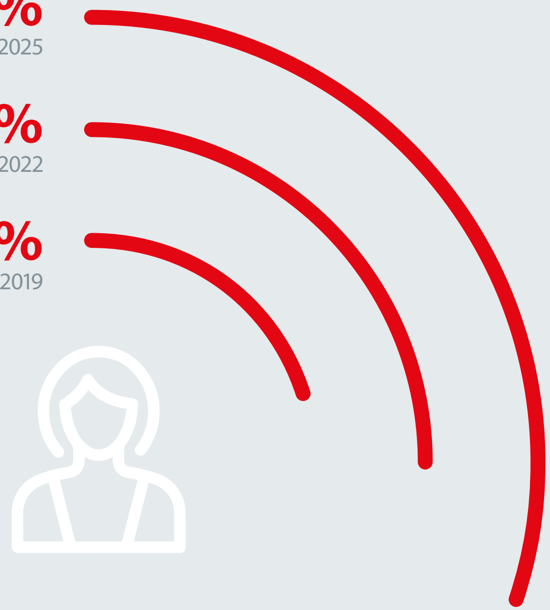
30% female leaders

Our target is 30% female leaders in 2025. We believe that a diverse and inclusive workplace fosters creativity, innovation and a broader perspective in decision-making, optimizing our performance and customer service. We want to break down barriers and consumptions about leadership roles and inspire everyone to achieve their potential.

30%
female leaders in 2025

25%
female leaders in 2022

20%
female leaders in 2019



Read more in the Sustainability Report 2019 at www.danfoss.com

About **Danfoss**

Today, global megatrends are changing the world, making Danfoss more relevant than ever. We have proven and reliable solutions to meet many of the climate, urbanization, and food challenges. Driven by the power of an electrified society and fueled by the opportunities of going digital, Danfoss is dedicated to engineering solutions that can unleash the potential of tomorrow.

With the promise of quality, reliability, and innovation deeply rooted in our DNA, we deliver an extensive range of products and solutions across our business segments of Heating, Cooling, Drives, and Power Solutions.

Across the globe, our sustainable, smart technologies power industries and cities, secure a reliable food supply, and create healthier, more comfortable indoor climates. At the same time, we are developing solutions that integrate renewables into tomorrow's smart energy systems, where on- and off-highway machinery, cars and marine vessels are powered by hybrid and electric motors.

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

Our innovative engineering dates back to 1933. Today, Danfoss holds market-leading positions, employing 27,871 people and serving customers in more than 100 countries. We are privately held by the founding family.

Read more about us at www.danfoss.com

27,871

Employees

30%

Female leaders by 2025

72

Factory sites

23

R&D sites

0% CO_2

Targeting CO_2 neutrality by 2030

Sales in more than **100 countries**

Top 3 markets: **USA, China and Germany**

Markets **we serve**

Every day, we engineer a real difference to the world around us. Tomorrow can be more energy efficient than today.

Future of the Fjords is the world's first fully electric carbon fiber vessel. This tourist vessel guides guests along the spectacular UNESCO World Heritage listed fjord route between Gudvangen and Flåm in Norway. Danfoss has designed the power system and the shore supply, enabling electrification of the vessel and zero emissions.

- Mobile hydraulics
- Automotive
- Refrigeration and air conditioning
- Food and beverage
- Energy and natural resources
- Marine and off-shore
- Industry
- Water and wastewater
- Commercial buildings
- Residential buildings
- District energy

Visit danfoss.com

Learn more about the markets we serve

Outlook 2020

Driving future growth and long-term sustainable value creation.

In 2020, our key focus continues to be on ensuring profitable growth, while maintaining a high level of investments in our core businesses, new digital technologies and electric solutions.

Based on the current market insights, our growth projections for 2020 remain soft. This can mainly be ascribed to the current geopolitical environment - in particular, the ongoing trade conflicts, other conflicts and the impact from Brexit, which have created a higher level of uncertainty globally and are negatively impacting market growth.

The visibility for 2020 is low, and we see a higher level of volatility in several markets. Accordingly, sudden changes in Danfoss' key regions and significant markets and industries could have a negative impact on the demand for Danfoss products and solutions and the Group's performance.

2020 expectations
Despite the current volatility, we expect to continue to expand or maintain our market share, while maintaining the profitability measured as margin at the 2019 level, following continued investments in sustainable value creation.

The outlook excludes any impacts of the acquisition of Eaton's hydraulics business. The transaction is expected to close by the end of the year.

Specific key factors, which could affect the Group's financial performance in 2020:

- The Group's continued strategic initiatives to accelerate profitable growth, organic as well as acquisitive, are expected to generate a positive impact on market share development.
- The solid cash flow performance is expected to continue, enabling a healthy combination of debt reduction and acquisitions to add new technologies to the portfolio and companies, which constitute a strategically good match to our business segments.
- Increasing prices on commodities, such as crops, metals and oil, which are driving demand in the global agriculture, marine and other heavy industry sectors, are associated with considerable volatility, leading to low visibility as well as having a direct impact on our own raw materials.
- Fluctuations in foreign exchange rates may affect top-line growth.
- As a result of the outbreak of the corona virus (COVID-19), factories in China have been closed for a longer period than usual in connection with the Chinese New Year, and supply chains across the globe are disrupted. While the full impact of the outbreak is not yet known, we expect that it will result in a temporary slowdown on the global markets and the Chinese market in particular.

In 2020, Danfoss will change the frequency of financial updates to twice a year. In 2020, Danfoss will publish this Annual Report and a financial announcement for the first six months. Previously, Danfoss also published financial announcements for the first and third quarters of the year, which will be discontinued. See page 131.

Forward-looking statements

This Annual Report includes forward-looking statements on various matters, e.g. expected earnings, future expansion of market share and future profitable growth. Such statements are subject to risks and uncertainties, because various factors, many of which are beyond Danfoss' control, may cause actual developments and results to differ materially from the expectations set out in the Annual Report.

Such factors include, but are not limited to, the geopolitical environment, general economic and business conditions, changes in commodity prices impacting the demand for Danfoss' solutions and services, competition in the industrial sectors, in which the business segments are operating, fluctuations in foreign exchange rates, interest rates or our own raw material prices, changes in climate policy, legislation, regulation or standards, and uncertainty in connection with acquisitions or potential acquisitions and divestments. Unless required by law, Danfoss is under no duty and undertakes no obligation to update or revise any forward-looking statements after the publication of this Annual Report.

The green **transition**

The global climate crisis caused by carbon emissions is a key threat to society and our planet. Danfoss' energy-efficient and climate-friendly solutions enable a cost-effective green transition.

Human activity has already caused an increase in global heating of approximately 1.1°C since the late 19th century, with most of the increase occurring in the past 35 years. If emissions continue at the current rate, global heating is likely to have increased by 1.5°C at the earliest in 2030, crossing the key threshold set by climate science to avoid irreversible climate change.

The challenge requires a profound transformation of the way we use energy. This is no longer a question of technology, it is a question of mindset, will, smart thinking and good governance, as the solutions already exist today and can be adopted immediately.

What we do

Danfoss' energy-efficient technologies, such as thermostats, high-pressure pumps, digital and electric solutions and motors reduce emissions on a global scale. At the same time, our climate-friendly technologies enable the sustainable transition at lowest possible cost with relatively short pay-back times.

We offer ready-to-use energy-efficient solutions that reduce the energy consumption in buildings – which account for 40% of global energy consumption.

One example is our smart Leanheat heating solution that makes buildings more intelligent by using artificial intelligence and IoT, providing up to 20% energy savings on top of conventional solutions, leading to a lower energy bill.

Another example is our sustainable Turbocor® compressor, which can almost halve the energy consumption in chillers that provide air conditioning in commercial and multi-residential buildings, resulting in a better indoor climate.

Electrification of the transport sector is another area, where Danfoss can contribute to higher energy efficiency and lower energy consumption in, for example, electric systems for vehicles and ships.

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

Our work with the **UN Global Compact**

WE SUPPORT

Danfoss contributes to all SDGs in one way or another, but we focus our efforts towards the four SDGs, on which our core businesses have the largest impact. The four prioritized SDGs have a significant impact on climate change and SDG 13.

6 CLEAN WATER AND SANITATION

SDG 6: Clean water and sanitation – Ensure availability and sustainable management of water and sanitation for all.

Example of Danfoss impact:
Danfoss provides solutions for water and wastewater handling to optimize and reduce energy consumption. This leads to increased energy efficiency and lower energy consumption, CO_2 emissions and operating costs in, for example, a wastewater treatment plant, ensuring sustainable management of water for all.

7 AFFORDABLE AND CLEAN ENERGY

SDG 7: Affordable and clean energy – Ensure access to affordable, reliable, sustainable, and modern energy for all.

Example of Danfoss impact:
The demand for energy is growing and the world is engaged in a sustainable energy transition. Danfoss is a world leader in energy-efficient and electric technologies. Improved energy efficiency in combination with the sustainable advantages which electrification brings will help to ensure access to reliable and modern energy, which all can afford.

11 SUSTAINABLE CITIES AND COMMUNITIES

SDG 11: Sustainable cities and communities – Make cities and human settlements inclusive, safe, resilient, and sustainable.

Example of Danfoss impact:
People are moving from rural to urban areas. We help build roads, buildings and energy systems for the world's growing cities. Danfoss provides automation and energy-control solutions enabled by cloud and connectivity. Our solutions help to increase energy efficiency and reduce energy consumption, CO_2 emissions and operational cost in residential, commercial and industrial buildings and district energy networks.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

SDG 12: Responsible consumption and production – Ensure sustainable consumption and production patterns.

Example of Danfoss impact:
The world's growing population is driving an increased demand for food and Danfoss solutions help to ensure food safety and minimal food loss from farm to fork. Our solutions enable efficient and productive farming capabilities for agricultural machines, resulting in greater food production. Furthermore, our energy-efficient cold-room solutions ensure temperature-controlled food storage and help achieve near-zero downtime at lowest operational cost on supermarket applications. We offer solutions, which reduce CO_2 emissions by up to by 60%, by replacing synthetic refrigerants with environmentally friendly refrigerants.

We report on our sustainability efforts and results in the Sustainability Report 2019, which constitutes our annual Communication on Progress to the UN Global Compact. The report highlights areas in which our products, solutions and services can make a real difference for the world's progress on the SDGs. With the report, we live up to the requirements for Corporate Social Responsibility reporting as set out in section 99a of the Danish Financial Statements Act and section 99b on the gender balance at management levels.

Read more about our impact and achievements in the Sustainability Report 2019 at www.danfoss.com > About Danfoss > Sustainability in review.

(https://www.danfoss.com/en/about-danfoss/company/sustainability/sustainability-in-review/).

WWW

Visit danfoss.com

Danfoss food retail solutions are highly efficient and provide a low total cost of ownership – while at the same time lowering the CO_2 footprint.

Smart heating solutions
Saving energy and cost

50%
energy savings with Danfoss heating solutions

Energy-efficient homes

There are lots of ways to save energy in our homes. In fact, simple improvements can help reduce energy waste, cut costs, and make our homes healthier, more comfortable and more productive places to be.

Just by fixing the basics, on average, we can achieve 30% energy savings in our buildings – and on our energy bill – with a payback time of only 2 years. Today, there are still more than 500 million manual, uncontrolled valves installed in European buildings.

By replacing these manual valves with thermostatic radiator valves, households could save an average of up to 18% on their energy bills and have an energy-efficient home. For European citizens, this represents savings of EUR 12 billion annually and a CO_2 emissions reduction of about 24 million tons.

In addition, there are nearly 250 million radiators with thermostatic radiator valves older than 20 years that could be upgraded to digital valves, which would lead to even higher energy and cost savings. Smart home technology, which uses artificial intelligence and sensors, can help us predict our energy consumption – and lower the supply needed to meet the demand.

The smart homes of the future are already here. Danfoss' Leanheat software solution monitors the temperature and humidity of every individual apartment in a residential building, saving additional 10-20% energy consumption on top of the basic solutions.

Play video

Watch the video and learn how Leanheat makes buildings smarter

Air conditioning in buildings – Sustainable and efficient

40%
energy savings with Danfoss Turbocor®, leading to reduced emissions

Oil-free compressor technology

Energy efficiency is the largest contributor to global greenhouse gas reductions towards 2050.

The Danfoss oil-free Turbocor® series of centrifugal compressors use environmentally friendly refrigerants and deliver the highest energy efficiency on the market.

Danfoss' wide portfolio and unique technical expertise in every core component supporting chiller optimization result in energy savings of up to 40%.

Danfoss Cooling is the leading manufacturer of oil-free compressors and is the pioneer of the Danfoss Turbocor® compressor, the world's first oil-free magnetic-bearing compressor for the heating, ventilation and air-conditioning (HVAC) industry.

Danfoss Turbocor® compressors use advanced technology to deliver high efficiency and low sound levels in a compact footprint.

Industry-leading performance is achieved by using oil-free, magnetic bearings that provide world-class efficiency and very low performance degradation over the life of the compressor.

Danfoss Turbocor® technology has been recognized with awards from many prestigious organizations, including the USA EPA, AHRI/ASHRAE USA, Natural Resources Canada and the Institute of Refrigeration – England.

Visit danfoss.com

Learn more about the world's first oil-free magnetic-bearing compressor from Danfoss.

High-precision speed control

Energy-efficient electric motors

8%

of global energy consumption could be saved by 2040 if variable speed drives were used

Saving energy in electric motors

For a better tomorrow we will electrify more. Electric energy and variable speed drives are important in this transformation.

20% of the world's energy consumption is electric energy. 50% of electric energy is used by electric motors, many of which have no speed control devices.

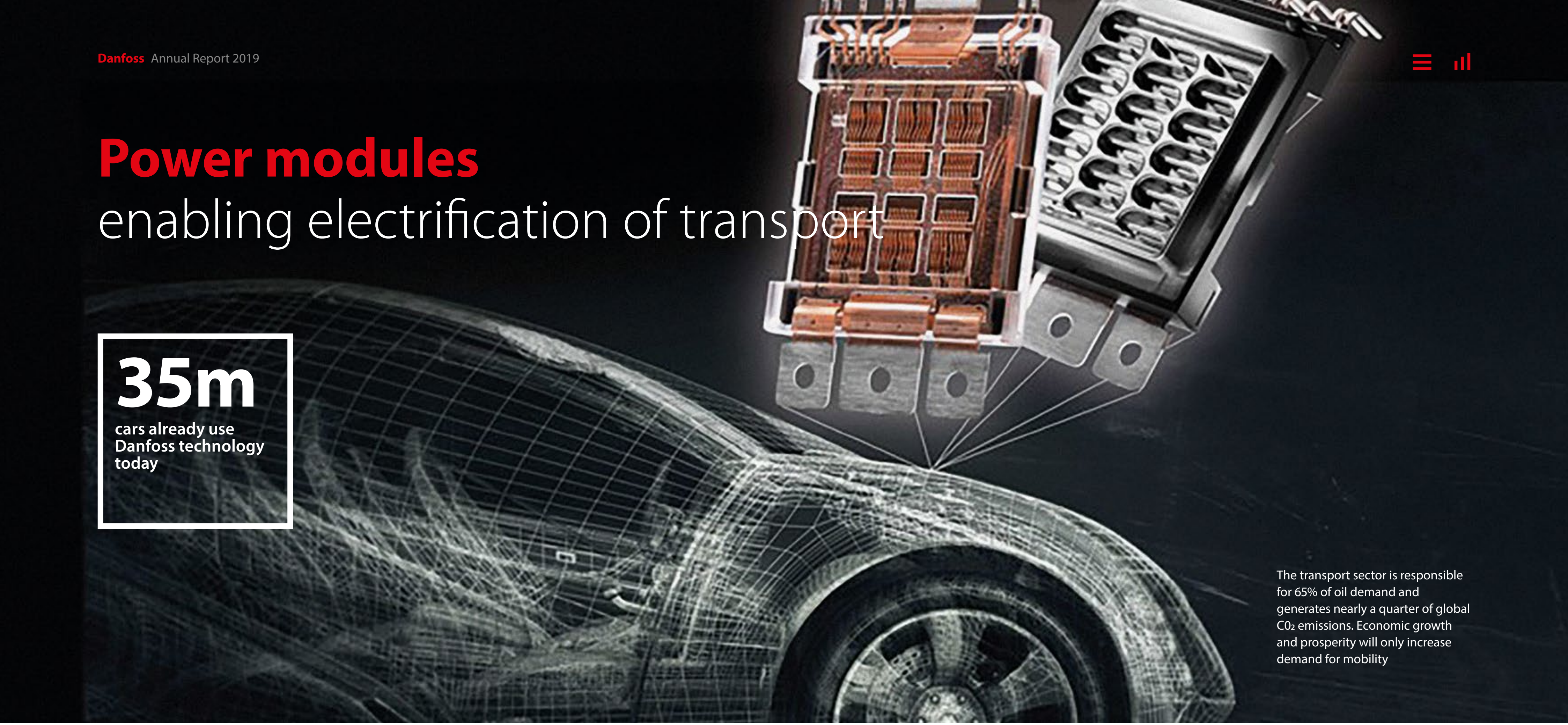
The global electric energy consumption could be reduced by 8% by 2040, if variable speed drives were used in every suitable application, such as pumps, fans, compressors and other applications.

The need for energy conservation in order to save the environment is a key driver in Danfoss Drives' development of speed control devices, and our variable speed drives provide the optimum method for controlling the speed of electrical motors to match load demand.

Our low-voltage and medium-voltage variable speed drives are used in many areas of electrification in all major motor brands and technologies in power sizes from small to large.

Play video

Danfoss Drives delivers better process precision and superior energy efficiency for all electric-motor operations. Watch the video to find out more.



Power modules
enabling electrification of transport

35m
cars already use Danfoss technology today

The transport sector is responsible for 65% of oil demand and generates nearly a quarter of global CO_2 emissions. Economic growth and prosperity will only increase demand for mobility

Emission-free transport

To help enable zero emission driving, Danfoss provides cutting-edge power modules integrated into the drivetrain.

For decades, Danfoss Silicon Power has helped automotive manufacturers and system suppliers meet stringent reliability, design and cost targets, supporting them by designing, developing and manufacturing customized power modules. Power modules are used in power electronics, which serve as electronic controls for electrified drives.

These solutions are transforming the adoption of electric transportation and making hybrid and pure electric vehicles a natural and sustainable choice for everyone.

In 2019, Danfoss entered into game-changing partnerships with some of the strongest suppliers in the automotive industry to deliver technology to the millions of hybrid and fully electric cars we will soon see on the roads.

For example, Danfoss stepped up the existing cooperation with ZF Friedrichshafen AG by entering a new strategic partnership for silicon- and silicon-carbide power modules. Together, we plan to further improve the efficiency of electric drivetrains. This has the potential to be a game changer for the development and innovation of future drivetrains for electrification of vehicles, enabling accelerated transformation of the transport sector.

WWW
Visit danfoss.com

Read more about how Danfoss helps to power up future electric drive train applications and achieve the challenging emission goals.

Electric transportation

Cleaner air and less noise

100%

reduction of emissions with electric vehicles

Urban electric buses are the fastest moving part of the market for electric vehicles. According to a study by Bloomberg New Energy Finance, it will account for 81% of global bus sales by 2040. Switching to hybrid and fully-electric solutions will be crucial in the fight against climate change.

Electrical bus revolution

With Asia leading the way on electrifying buses, the city of Taipei in Taiwan turned to Danfoss Editron. They wanted help to power their first all-electric bus line of 12 buses.

Improving efficiency

Danfoss delivered 12 electric drivetrains powering the buses. With zero emissions, the buses are able to run over 260 km when at full passenger capacity. When empty, they can run over 300 km. Each bus can be charged in just five hours. The roof of the charging station is equipped with a 302 square meter single solar panel, generating 130 kilowatt of electricity per day.

In addition, Danfoss' control and monitoring software features a self-diagnosis functionality, constantly monitoring and reporting to the local control center on motor temperature, power situation and remaining mileage. This greatly reduces the risk of sudden bus failure and improves the overall efficiency of the buses.

The buses not only improve Taipei's air quality, but also have a comfortable boarding environment and reduce noise. The Taipei City aims at having 400 electric buses on its roads before 2022.

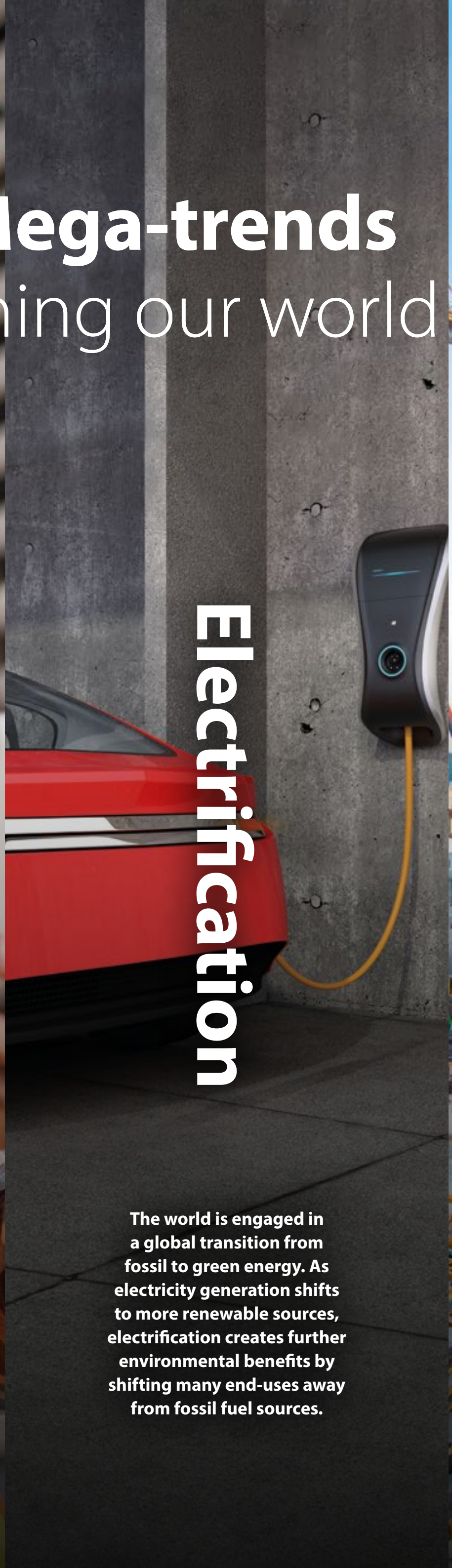
Visit danfoss.com

Learn more about how Danfoss is taking fuel savings and energy efficiency to the next level.

Global Mega-trends
Transforming our world

Digitalization

The world has gone digital. Every day, the digital transformation is picking up speed, transforming our society, our energy systems, and the industries we operate in.



Electrification

The world is engaged in a global transition from fossil to green energy. As electricity generation shifts to more renewable sources, electrification creates further environmental benefits by shifting many end-uses away from fossil fuel sources.

Urbanization

Today, there are 7.6 billion people in the world. By 2050, there will be 9.8 billion people. Each year, around 77 million people move from rural to urban areas, meaning, that by 2050, 70% of the population will be living in cities against 54% today.

Food supply

Our population is growing. By 2050, we'll need to produce 60% more food than we do today. At the same time, one-third of food currently produced is lost or goes to waste before it reaches the table. This is mainly due to an incomplete cold chain.

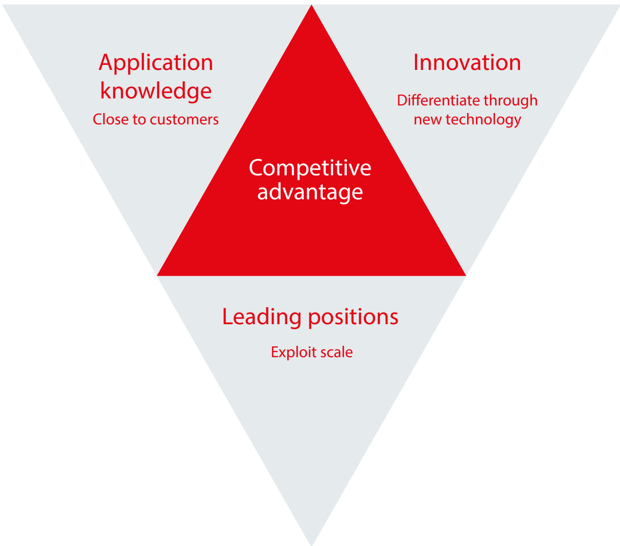
Climate change

The planet's average surface temperature has risen about 1.1 degrees Celsius since the late 19th century, a change driven largely by increased carbon dioxide and other human-made emissions. Most of the heating has occurred in the past 35 years, with 17 of the 18 warmest years on record occurring since 2001.

Our **business model**

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

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



Innovation
Our mechanical, electrical and software engineering enable bold innovation and constant improvement of our technologies, solutions and processes in the core businesses. We innovate to differentiate and create customer value. We invest to take full advantage of innovation and take the lead within IoT, connectivity and electric solutions.

Leading positions
In the global manufacturing industry, global reach, size, and scale matter. It is a key element in our business model that the business segments hold leading positions as either number one or two in their industries. Our shared operating model further helps to drive scale advantages, increased customer value and a world-class supply chain, and we share a unique business system with a strong focus on safety, quality, delivery, and cost.

Our strategy
– We invest to get ahead

Global mega-trends transform our world. Massive urbanization and food supply for a growing population in combination with the increasing global focus on climate change and sustainability fit right into our business context.

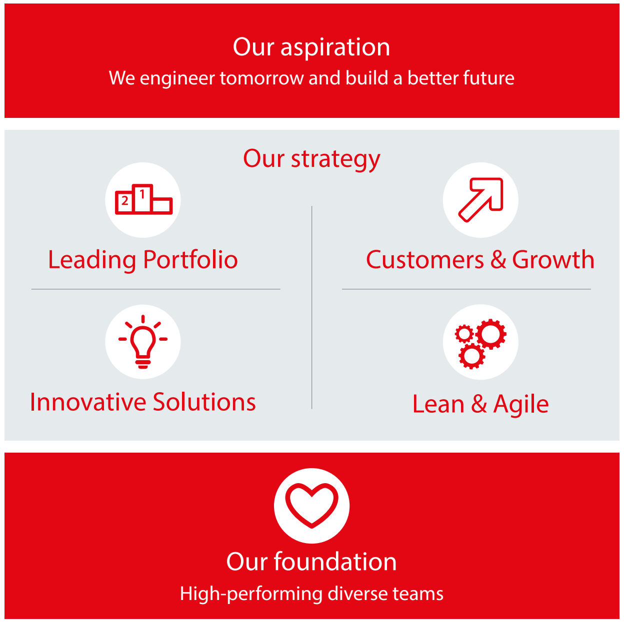
Going Great – Our aspiration
The center of our Going Great strategy is an ambition of driving long-term value creation for all our stakeholders: customers, employees, shareholders and partners.

By combining our application know-how and innovative engineering to create smart sustainable solutions, we play a significant role in the green transition towards lower carbon emissions and more electrification, making the world's energy consumption more sustainable. This is how we work to meet our aspiration: engineering tomorrow and building a better future.

Our work to meet our aspiration is structured in four strategic focus areas: Leading Portfolio, Customers & Growth, Innovative Solutions, and Lean & Agile. These levers serve as drivers to take Danfoss to a higher performance level through our core businesses performing effectively and profitably, investments to stay at the technology forefront, and sustainable growth. All of this is built on Our Foundation, which is our high-performing, diverse teams that make the strategy come alive.

Leading Portfolio
In 2019, Danfoss continued to strengthen its leading positions as number one or two globally in the respective industries of our four business segments. We acquired Artemis Intelligent Power, Hydraulik Nord Fluidtechnik, UQM Technologies and Leanheat. These targeted acquisitions have added new electronic and digital technologies to the product portfolio focused on the core.

Core & Clear – Going Great



Acquisitions in **2019**

Artemis Intelligent Power Ltd.

On February 21, 2019, Danfoss closed the transaction to acquire the majority shares of Artemis Intelligent Power, an R&D and engineering company based in Scotland, specializing in hydraulic system development. The acquisition includes AIP's Digital Displacement® technology, which will provide Danfoss with a competitive advantage in developing innovative products and systems for off-highway mobile machines.

Leanheat

On May 2, 2019, Danfoss expanded its ownership share to 100% of the Finnish company Leanheat – a leading company within artificial intelligence making buildings and heating networks smart and energy-efficient. The acquisition reflects Danfoss' strategic focus on adding more digital products to the portfolio to create even more value for our customers.

Hydraulik Nord Fluidtechnik

On April 1, 2019, Danfoss closed the transaction to acquire Hydraulik Nord Fluidtechnik, a supplier of hydraulic steering based in Germany. The acquisition will further strengthen Danfoss' innovative and efficient product offerings to the agriculture market and confirms our strategic focus on building leading positions.

UQM Technologies Inc

On July 31, 2019, Danfoss closed the transaction to acquire the publicly traded company UQM Technologies located in Colorado, USA. UQM is a leading expert and the technology leader in motors and inverters in the power range of up to 250 kW. With the acquisition, Danfoss adds an important and complementary technology to its current product range, with inverter and motor solutions up to 6 MW of power. The acquisition gives Danfoss the total package of electric solutions for serving the marine, off- and on-highway, and oil and gas markets globally.

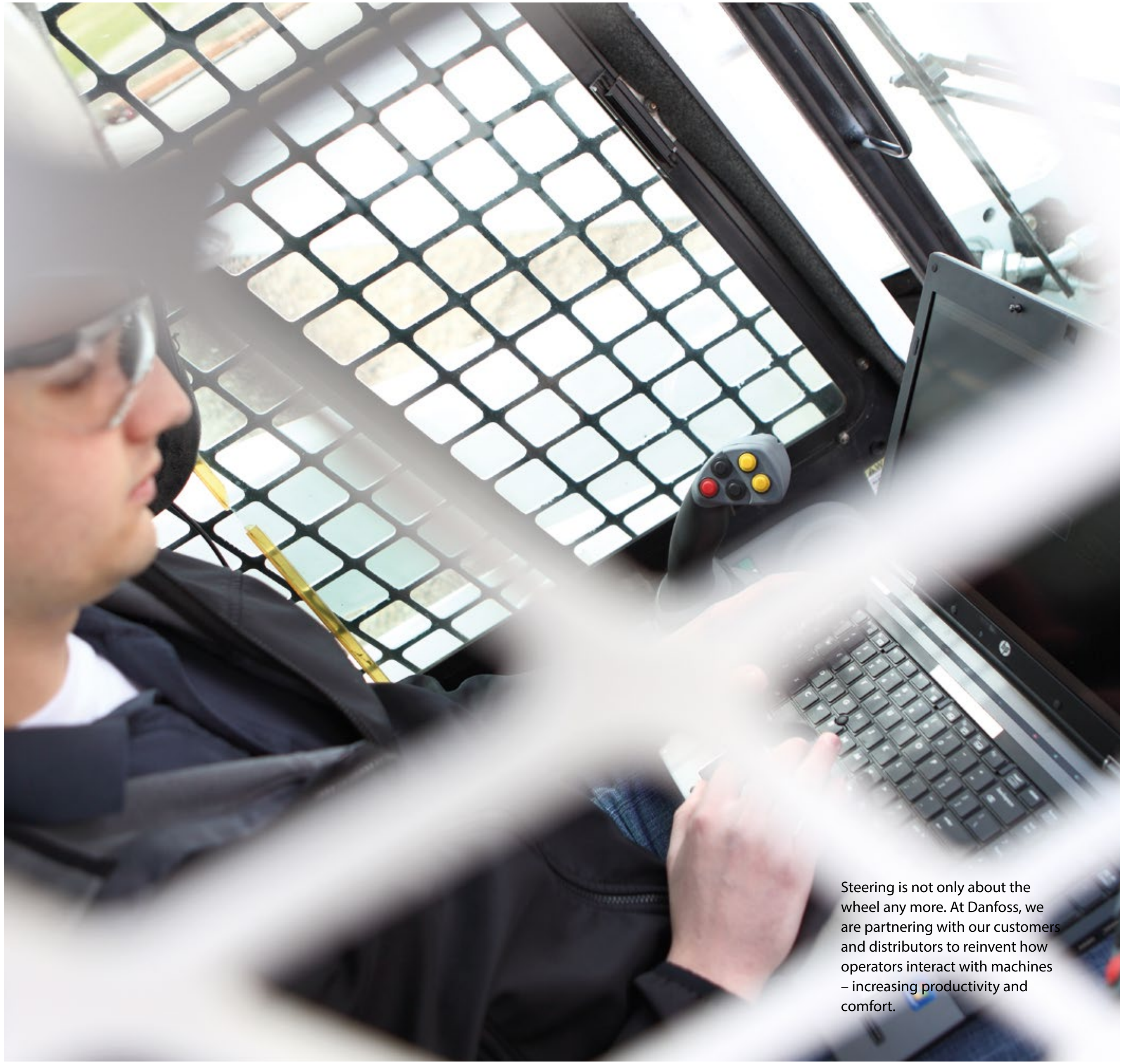
For more information on acquisitions, see Note 19 page 86.

Danfoss delivered the electrification technology to develop this fully battery-operated 25-ton electric excavator. It was the first zero-emissions excavator in Norway. The system includes motor, inverter, battery charger and multi-converter from Danfoss.

Customers & Growth

Danfoss focuses on innovations that help our customers increase their competitiveness through improved efficiency and productivity, reduced costs and improved safety and sustainability. We do that by leveraging the opportunities that are arising with digitalization and electrification.

Municipalities all over the world are increasingly focused on reducing emissions, and Danfoss acts on this trend. One example is our electric-propulsion systems, which are market-ready. In 2019, we have electrified several machine types in on- and off-highway vehicles and various marine applications all over the world — such as ferries and workboats, city buses, excavators, forestry harvesters and more. We believe that electrification will continue to grow, as it is the answer to many of the challenges facing the industries we serve. This is in regard to sustainability, efficiency and productivity. In fact, most of the applications where we install electric drivetrain systems have become more productive as a result. In combination with our conventional core technologies, we are well-positioned to serve our customers' increasing demands in the area of hybrid and electric solutions.



Steering is not only about the wheel any more. At Danfoss, we are partnering with our customers and distributors to reinvent how operators interact with machines – increasing productivity and comfort.

Innovative Solutions

Danfoss is continuously expanding its offering of connectivity solutions and digital services within all four business segments. The heart of the value we deliver to our customers is enhanced productivity, higher uptime, lower energy consumption and costs and in many cases higher comfort and operator safety. We expect significant growth within this area, as IoT adds value to the customer in almost any application.

For example, we use IoT to leverage our long-term experience in mobile control systems. It means we can share our knowledge faster with customers, helping them to design new connected machines that can exchange information with our cloud in real time for optimized performance. We believe the full value of IoT is captured, not only when machines are connected, but when the data generated by machines can be linked to the core business systems of our customer. This enables better business decisions in all areas – whether it is the design stage, the supply chain, operator training programs, or monitoring fleet utilization and equipment health.

Another example is our cold-chain solutions, which help to secure that products remain at the correct temperature and humidity, optimizing food safety and security – while lowering the CO_2 footprint. Take our cost-effective and energy-efficient cold-room solutions, saving up to 20% in energy costs. Yet another example is our food retail solutions, which offer highly efficient refrigeration systems optimized for CO_2 refrigeration and natural refrigerants. They provide a low total cost of ownership, while at the same time reducing the carbon footprint of the supermarket refrigeration system.

In our innovation, we also use digital technology to bring speed into R&D, for example by using simulation and 3D printing to reduce the time-to-market. The number of 3D prints has increased significantly – from only a few hundred five years ago to more than 40,000 in 2019 alone. The fact that Danfoss has now trained more than 500 employees in the usage of 3D printing has been a major contributor to this growth.

Lean & Agile
To create increased competitive advantage and operational excellence, we stay focused on being lean and agile – Harvesting the potential of digital technologies and fighting unnecessary complexity to be the best in the markets we serve within safety, quality, delivery, pricing and cost. We are building a flexible supply chain that reacts fast to the needs of the customer, leading to higher customer as well as employee satisfaction. Key is a strong IT infrastructure and smart factories across Danfoss.

One example is the Danfoss refrigeration and air-conditioning compressor factory in Wuqing, China, where operators are supplied with components by autonomous robot vehicles and use intelligent bluetooth-connected tools, which automatically detect if an assembly process is being incorrectly performed. The outcome has been a significant increase in productivity and halving of customer claims. The factory has been recognized as one of the world's smartest factories by the World Economic Forum.

Furthermore, we are improving the digital customer experience with better end-to-end processes between our supply chain and our customers, enabled by our new IT platform, One ERP, in combination with the global product store at the corporate website, www.danfoss.com.

Our Foundation
Our Foundation is our high-performing, diverse and engaged teams who drive our customer-oriented performance to achieve better results.

Along with growth and expansion of Danfoss, we have focused on people development and performance management, which will continue. Furthermore, we have increased the workforce diversity and created an international culture with 130 nationalities working in Danfoss in 2019.

With our Going Great strategy, we need world-class talents, who live our Behaviors, "Frontline passion", "Run business like

Danfoss' new IT platform, One ERP (Enterprise Resource Planning), is a fundamental part of Danfoss' digital transformation, enabling growth and a best-in-industry customer experience. One ERP is rolled in via several releases, each covering a specific part of the Danfoss organization. In 2019, three releases were finalized, covering 25% of Group sales end of 2019.

Danfoss **Postgraduate Program**

Play video

Danfoss Postgraduate Program opens great opportunities to develop a career by working across functions and borders, exploring different cultures and developing personally as well as professionally.

your own" and "Think Danfoss", to drive our business forward. Our aim is to hire the most talented people and offer the best opportunities for professional growth through attractive on-the-job learning opportunities and dynamic career development.

To support our ambition, in 2019, we have strengthened our employer-branding efforts, talent-development activities and sharpened our focus on our Behaviors and diversity and inclusion. As part of institutionalizing our Behaviors, a series of ambassador programs have been launched, where employees are encouraged to nominate colleagues, who truly live the Behaviors in their everyday working life. In 2019, 260 employees were nominated in 24 countries across our organization.

To drive a more structured approach to attraction, development and retention of high potentials, we drive Postgraduate Programs and Cross-business Mentoring Programs led by senior business executives.

In 2019, Danfoss was recognized as "China Top Employer 2020" by the world-renowned Top Employers Institute. Danfoss received the award for its outstanding performance in talent strategy, career development, and corporate culture.

In 2019, Danfoss was also recognized by *Financial Times* as one of the Leaders in Diversity 2020. We believe that a diverse and inclusive workplace fosters creativity, innovation and a broader perspective in decision-making, optimizing our performance and customer service.

By living out an inclusive culture characterized by diversity, we make sure to develop our own people as well as attracting the very best candidates from various backgrounds. Furthermore, feeling welcome and safe to speak up strengthens employee engagement. Read more about our efforts within Diversity & Inclusion in the Sustainability Report 2019.

Very high employee engagement

In 2019, the bi-annual engagement survey, Voice, was carried out in the Danfoss Group. The overall picture of Danfoss as a workplace was very positive and improved compared to Voice '17. Voice '19 again showed a very high engagement score of 80 on a 100-point scale, up from 79 in 2017. 9 out of 10 – hourly paid as well as salaried – employees (91%) gave their feedback about what we do well and what needs to be improved in areas such as job motivation, performance enablement, strategy, behaviors, leadership and diversity & inclusion.

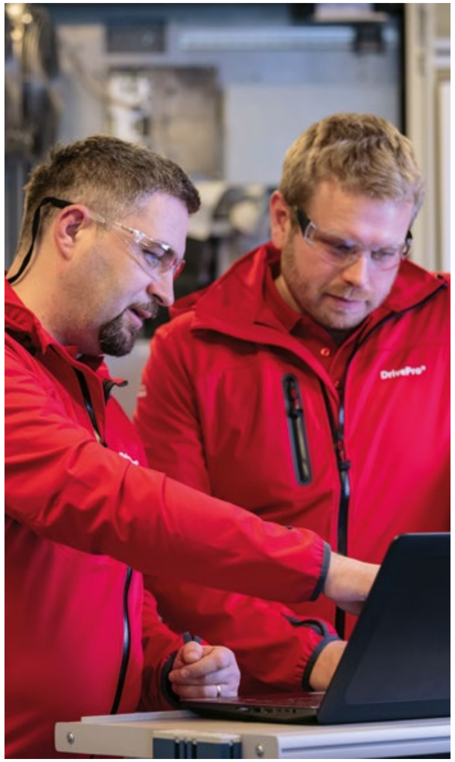
The survey results showed a high level of loyalty and commitment – reaffirming that our people are willing to go the extra mile for Danfoss. Furthermore, the perception of working environment, team work and development opportunities was high, and an increasing number of our employees would actively recommend Danfoss as a workplace.

SHARED with Danfoss

The pictures on the next page were taken by Danfoss employees, customers or partners around the world and shared via social media. Authentic, dedicated and fascinating – take a look at the Danfoss Group's instagram channel.

Instagram channel

www.instagram.com/danfosscareers/



Financial **highlights**

	EURm 2015	EURm 2016	EURm 2017	EURm 2018	**EURm 2019**	DKKm 2018	**DKKm 2019**
Profit and loss account							
Net sales	5,099	5,271	5,827	6,098	6,285	45,452	46,926
EBITDA before OOI/E	824	838	923	929	1,028	6,926	7,673
EBITDA	798	811	882	926	1,026	6,899	7,663
EBITA before OOI/E	636	665	758	758	778	5,649	5,807
EBITA	610	646	714	724	771	5,395	5,757
EBIT	549	572	645	648	695	4,827	5,185
Financial items, net	-47	-44	-49	-45	-33	-332	-243
Profit before tax	502	529	596	603	662	4,495	4,942
Net profit	348	394	445	463	502	3,446	3,746
Balance sheet							
Total non-current assets	3,507	3,788	3,883	3,886	4,217	29,022	31,509
Total assets	4,987	5,457	5,583	5,760	6,096	43,009	45,549
Total shareholders' equity	2,067	2,325	2,569	2,654	2,933	19,822	21,917
Net interest-bearing debt	1,292	1,284	1,050	962	1,048	7,184	7,832
Cash flow statement							
Cash flow from operating activities	626	693	742	673	789	5,014	5,891
Cash flow from investing activities	-217	-494	-405	-227	-407	-1,689	-3,039
Acquisition of intangible assets	-27	-32	-64	-64	-52	-478	-391
Acquisition of property, plant and equipment.	-130	-194	-217	-238	-252	-1,769	-1,879
Acquisition of/Proceeds from disposal of subsidiaries and activities	-30	-251	-103	88	-140	653	-1,045
Acquisition(-) and sale of other investments, etc.	-30	-17	-21	-13	37	-96	276
Free operating cash flow	629	631	627	564	634	4,207	4,732
Free operating cash flow after financial items and tax	452	455	441	359	463	2,676	3,455
Free cash flow	405	196	334	443	323	3,300	2,410
Cash flow from financing activities	-458	-175	-373	-424	-322	-3,165	-2,408

	EURm 2015	EURm 2016	EURm 2017	EURm 2018	**EURm 2019**	DKKm 2018	**DKKm 2019**
Financial ratios							
Local currency growth (%)	2	4	12	7	1	7	1
EBITDA before OOI/E margin (%)	16.2	15.9	15.8	15.2	16.4	15.2	16.4
EBITDA margin (%)	15.7	15.4	15.1	15.2	16.3	15.2	16.3
EBITA before OOI/E margin (%)	12.5	12.6	13.0	12.4	12.4	12.4	12.4
EBITA margin (%)	12.0	12.3	12.2	11.9	12.3	11.9	12.3
EBIT margin (%)	10.8	10.9	11.1	10.6	11.1	10.6	11.1
Return on invested capital ROIC (%)	16.3	16.3	17.8	17.9	18.3	17.9	18.3
Return on invested capital after tax ROIC (%)	11.4	12.0	13.0	13.4	13.4	13.4	13.4
Return on equity (%)	17.6	17.2	17.3	17.0	17.0	17.0	17.0
Equity ratio (%)	41.4	42.6	46.0	46.1	48.1	46.1	48.1
Leverage ratio (%)	62.5	55.2	40.9	36.2	35.7	36.2	35.7
Net interest-bearing debt to EBITDA ratio	1.6	1.6	1.2	1.0	1.0	1.0	1.0
Dividend pay-out ratio (%)	20.4	17.0	18.1	17.4	16.0	17.4	16.0
Dividend per 100 DKK share	6.9	6.7	8.1	8.1	8.1	60.2	60.2

As of January 1, 2019, Danfoss adopted IFRS 16 'Leases'. Rights-of-use assets and lease liabilities have been recognized for leases previously classified as operating leases. In 2019, EBITDA increased by EUR 59m, due to change in reporting of expenses of rights-of-use assets under depreciation. Further information is available in Note 23 on page 91 and Note 26 on page 94.

Key figures, financial ratios and below highlighted keyfigures are calculated as defined in Note 26 on page 100.

EBIT:
Operating profit.

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

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

OOI/E:
Other operating income and expenses.

Conversion factor between DKK/EUR:
Profit and loss account and cash flow statement: 0.1339 (2018: 0.1342).
Balance sheet: 0.1338 (2018: 0.1339).

Financial **review**

In 2019, Danfoss delivered a strong financial performance in line with expectations. Sales increased 3% to EUR 6,285m, corresponding to 1% growth in local currency. EBITA increased 6% to EUR 771m, leading to an EBITA margin of 12.3%. Danfoss continued to drive a strong cash flow, allowing a high level of investments in innovation and new technologies.

2019 was a year of significant progress. Despite changed growth dynamics in the market, we saw growth opportunities, as our energy-saving products and solutions translate into the strengthened global focus on sustainability and green transition. This strong trend, combined with continued momentum in mega-trends like electrification, digitalization and urbanization, contributed to making Danfoss and our solutions even more relevant. Along with our targeted investments in acquisitions, growth initiatives, our digital transformation as well as people and talent to strengthen the core businesses, it creates a strong foundation for future growth.

Sales

Sales grew EUR 187m to EUR 6,285m (2018: 6,098m). The reported growth was 3% after a positive currency impact of 2%. Growth in local currency was 1%.

The overall development in sales was in line with expectations. During the year, some of the more cyclical businesses have seen slowing growth rates. Prior to 2019, Danfoss saw very high growth rates for some years, whereas 2019 was characterized by increased volatility, mixed market conditions and lower market growth in cyclical industries.

From a regional perspective, Danfoss grew in Western and Eastern Europe, while North America had a flat sales development. The Asia-Pacific region also saw a flat sales development, driven by the slowdown in China, which is caused by the high level of uncertainty created by the current geopolitical environment and particularly the effects of the trade conflict with the US. Danfoss continued good growth momentum in Latin America, whereas the Africa-Middle East region remained challenged by the geopolitical environment.

Earnings

After continued high levels of investments in innovation, digital transformation and growth initiatives to fuel future growth, the operating profit before acquisition-related amortization (EBITA) improved 6% or EUR 47m to EUR 771m (2018: 724m), leading to an EBITA margin of 12.3% (2018: 11.9%). The improved profitability was driven by productivity improvements in the factories, increased customer prices and cost-down initiatives, which countered the higher level of raw material prices and imposed tariffs.

Profit before tax increased 10% to EUR 662m (2018: 603m), leading to a net profit of EUR 502m (2018: 463m), up 8% on last year. The effective tax rate for 2019 was 24.2% (2018: 23.2%).

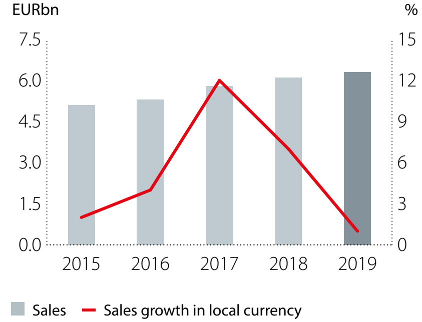
Assets and liabilities

Total assets increased 6% to EUR 6,096m (2018: 5,760m), impacted by new companies, a higher trade working capital and the IFRS 16 changes to accounting principles for leases, which came into effect as of January 1, 2019, accounting for EUR 135m. The change is described in Note 8 on page 70 and Note 23 on page 91.

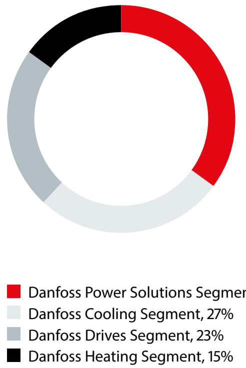
Equity increased 11% to EUR 2,933m (2018: 2,654m), mainly influenced by the profits of the year, dividend payments and share buyback. Consequently, the equity ratio, calculated as equity relative to total assets, was 48.1% (2018: 46.1%), also impacted by the above-mentioned changes to the accounting principles for leases. The return on equity was 17.0% (2018: 17.0%).

Net interest-bearing debt increased by EUR 86m to EUR 1,048m (2018: 962m), mainly due to the above-mentioned changes to accounting principles for leases, leading to a net interest-bearing debt to EBITDA ratio of 1.0 (2018: 1.0). The acquisitions completed in 2019 were financed by the free operating cash flow after financial items and tax.

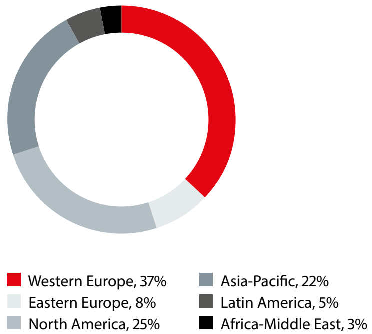
Sales



Sales split by segments



Sales split by regions



As of January 23, 2020, the Group has a BBB credit rating assigned by Standard & Poor's with a negative outlook, see Note 11, page 72, for more information.

The non-current interest-bearing debt maturing after more than 12 months amounted to EUR 1,093m (2018: 1,007m), corresponding to 93% (2018: 95%) of the total interest-bearing debt. At year end, the Group had unutilized and long-term committed credit facilities of EUR 1.1bn (2018: 1.1bn) in addition to cash and cash equivalents and ordinary operating credits.

Cash flow

Ensuring a strong cash performance remains a key priority for Danfoss to finance our acquisitions, repay interest-bearing debt and distribute dividend to owners. See more information on dividends in the corporate governance section on page 39 and Note 11, page 72.

Free cash flow amounted to EUR 323m (2018: 443m). Last year, the cash flow was positively impacted by the divestment of the heat pump business Thermia (Danfoss Värmepumpar AB). In 2019, the cash flow was impacted by investments in new companies, production capacity and our digital transformation, leading to a higher cash flow from investing activities than last year.

The free operating cash flow increased 12% to EUR 634m (2018: 564m), mainly driven by the improved EBIT. The cash flow from investing activities amounted to EUR -407m (2018: -227m), driven by the acquisitions, see page 19. Last year, the cash flow from investing activities was positively impacted by the proceeds from the divestment of the heat pump business. Consequently, the free operating cash flow after financial items and tax increased to EUR 463m (2018: 359m).

Innovation

Ensuring a high level of investments in innovation remains a key priority to drive the long-term sustainable growth for Danfoss. The innovation activities were concentrated around digitalizing and electrifying our energy-efficient solutions to create even more value for our customers. The acquisitions support the innovation activities of Danfoss, and we expect to see continuously innovative solutions resulting from our acquisitions in the short to medium term.

The research and development expense increased 7% to EUR 272m (2018: 255m), corresponding to 4.3% of sales (2018: 4.2%). See Income statement on page 50.

During 2019, Danfoss filed 121 (2018: 156) new patent applications. During the year, 678 (2018: 534) patents were granted to the Group. At year end, Danfoss had a total of 1,558 (2018: 1,543) patent families.

Employees

In 2019, the number of employees increased by 76 people to 27,871 (2018: 27,795).

Events after the balance sheet date

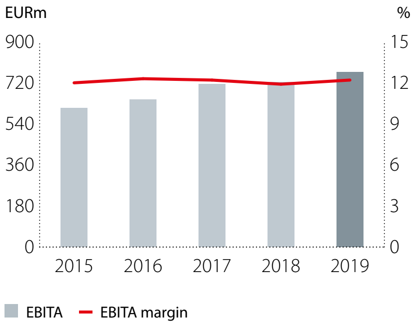
On January 21, 2020, Danfoss announced the agreement to acquire Eaton's hydraulics business for a cash purchase price of 3.3 billion USD (approximately 3.0 billion EUR). The transaction is subject to customary closing conditions and regulatory approvals and it is expected to close by the end of the year.

Danfoss is acquiring Eaton's hydraulics business to combine its complementary portfolios and geographic footprints to create a global leader in the mobile and industrial hydraulics markets. This is fully in line with Danfoss' strategy to strengthen its core businesses, enhancing its market position in mobile hydraulics, entering the industrial hydraulics segment and growing its market presence in North America and Asia Pacific.

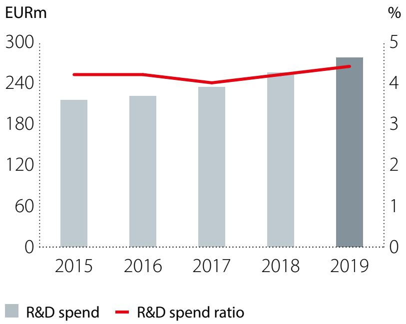
Eaton Hydraulics provides products for customers in markets such as agriculture, construction, and in industrial market segments. The business will be merged into the existing Danfoss business segment, Danfoss Power Solutions, adding approximately 11,000 employees and 2019 sales of 2.2 billion USD (2.0 billion EUR) to the business segment.

We are not aware of any other events after the balance sheet date of December 31, 2019, which could be expected to have a material impact on the Group's financial position.

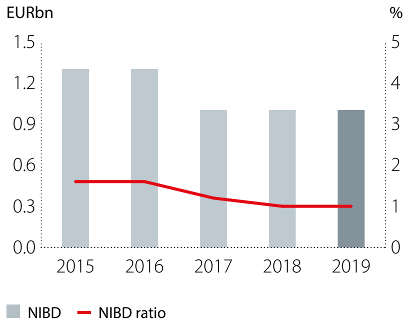
EBITA



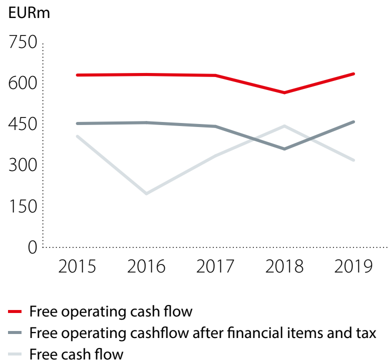
Innovation



Net interest-bearing debt (NIBD)



Cash flow



Financial **highlights, quarterly**

EURm	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	**2019**
Profit and loss account										
Net sales	1,474	1,567	1,528	1,529	6,098	1,563	1,603	1,589	1,530	6,285
EBITDA before OOI/E	232	245	244	208	929	241	266	282	239	1,028
EBITDA	222	266	243	195	926	240	272	282	232	1,026
EBITA before OOI/E	192	202	201	163	758	182	205	217	174	778
EBITA	184	193	200	147	724	181	203	219	168	771
EBIT	166	204	178	100	648	160	190	198	147	695
Financial items, net	-10	-12	-12	-11	-45	-8	-9	-10	-6	-33
Profit before tax	156	192	167	88	603	152	181	187	142	662
Net profit	113	140	122	88	463	110	132	141	119	502
Balance sheet										
Total non-current assets	3,890	3,847	3,862	3,886	3,886	4,056	4,088	4,235	4,217	4,217
Total assets	5,804	5,821	5,853	5,760	5,760	6,181	6,138	6,299	6,096	6,096
Total shareholders' equity	2,679	2,471	2,571	2,654	2,654	2,794	2,764	2,938	2,933	2,933
Net interest-bearing debt	1,037	1,269	1,138	962	962	1,181	1,318	1,252	1,048	1,048
Cash flow statement (YTD)										
Cash flow from operating activities	48	99	334	673	673	-9	115	376	789	789
Cash flow from investing activities	-48	11	-88	-227	-227	-53	-157	-324	-407	-407
Acquisition of intangible assets	-13	-24	-41	-64	-64	-12	-24	-39	-52	-52
Acquisition of property, plant and equipment	-36	-87	-143	-238	-238	-36	-91	-143	-252	-252
Acquisition of/Proceeds from disposal of subsidiaries and activities	0	131	101	88	88	-11	-45	-140	-140	-140
Acquisition(-) and sale of other investments, etc.	1	-9	-5	-13	-13	6	3	-2	37	37
Free operating cash flow	51	97	298	564	564	1	74	284	634	634
Free operating cash flow after financial items and tax	-1	-19	147	359	359	-65	-24	148	463	463
Free cash flow	-1	108	244	443	443	-75	-69	8	323	323
Cash flow from financing activities	2	-115	-237	-424	-424	43	24	-72	-322	-322
Financial ratios										
Local currency growth (%)	9	8	7	4	7	3	0	2	-1	1
EBITDA before OOI/E margin (%)	15.7	15.7	16.0	13.6	15.2	15.4	16.6	17.7	15.6	16.4
EBITDA margin (%)	15.1	17.0	15.9	12.8	15.2	15.3	16.9	17.7	15.2	16.3
EBITA before OOI/E margin (%)	13.0	12.9	13.2	10.7	12.4	11.6	12.8	13.7	11.4	12.4
EBITA margin (%)	12.4	12.3	13.1	9.7	11.9	11.6	12.6	13.8	11.0	12.3
EBIT margin (%)	11.3	13.0	11.7	6.5	10.6	10.3	11.9	12.4	9.6	11.1
Equity ratio (%)	46.2	42.5	43.9	46.1	46.1	45.2	45.0	46.6	48.1	48.1
Leverage ratio (%)	38.7	51.3	44.3	36.2	36.2	42.3	47.7	42.6	35.7	35.7
Net interest-bearing debt to EBITDA ratio	1.2	1.4	1.2	1.0	1.0	1.3	1.4	1.3	1.0	1.0
Number of employees	26,926	27,141	27,753	27,795	27,795	27,704	27,918	28,130	27,871	27,871

The same definitions and explanations apply as stated on page 24

Danfoss Power Solutions

Sales up

4%

to EUR 2.2bn

EBITA up

1%

to EUR 391m EBITA

EBITA margin

17.8%

(2018: 18.3%)

Development in 2019

Danfoss Power Solutions had a strong start to 2019 but saw slowing growth rates during the second half of the year, mainly within the agriculture markets. The Asia-Pacific, Western and Eastern Europe regions saw low growth in local currency, while North America turned negative in 2019. The profitability was slightly below 2018, which was a strong year.

7,826
employees worldwide

28
factories in 12 countries

3
Application Development Centers in USA, China and Denmark

North America, Western Europe and Asia-Pacific
Top markets

Play video

Your strongest partner in mobile hydraulics.

Danfoss Power Solutions

Danfoss Power Solutions is a global manufacturer and supplier of high quality hydraulic, electronic and electric components and solutions for on- and off-highway vehicles and equipment.

Around the world, mobile equipment manufacturers rely on our expertise for the most innovative, propel, control, work function and steering solutions.

In partnership with our customers, we provide high-performance components and solutions with great value for a broad range of mobile equipment applications and applications within marine, oil and gas. These applications include wheel loaders, tractors, harvesters, cranes, electric and hybrid ferries and buses and much more.

Example of product launch in 2019

10 and 12-inch displays
- Tablet, viewable in direct sunlight.
- Wireless connectivity.

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

- Hydrostatic pumps and motors
- Hydraulic and electro-hydraulic proportional valves
- Electronic components and software
- Electric motors, converters and storage
- Orbital motors
- Steering solutions
- Autonomous solutions
- Position sensors and controls
- Digital service tools, such as PLUS+1®
- Electric drivetrains incl. gear box
- Fuel cell compressor systems
- Digital displacement

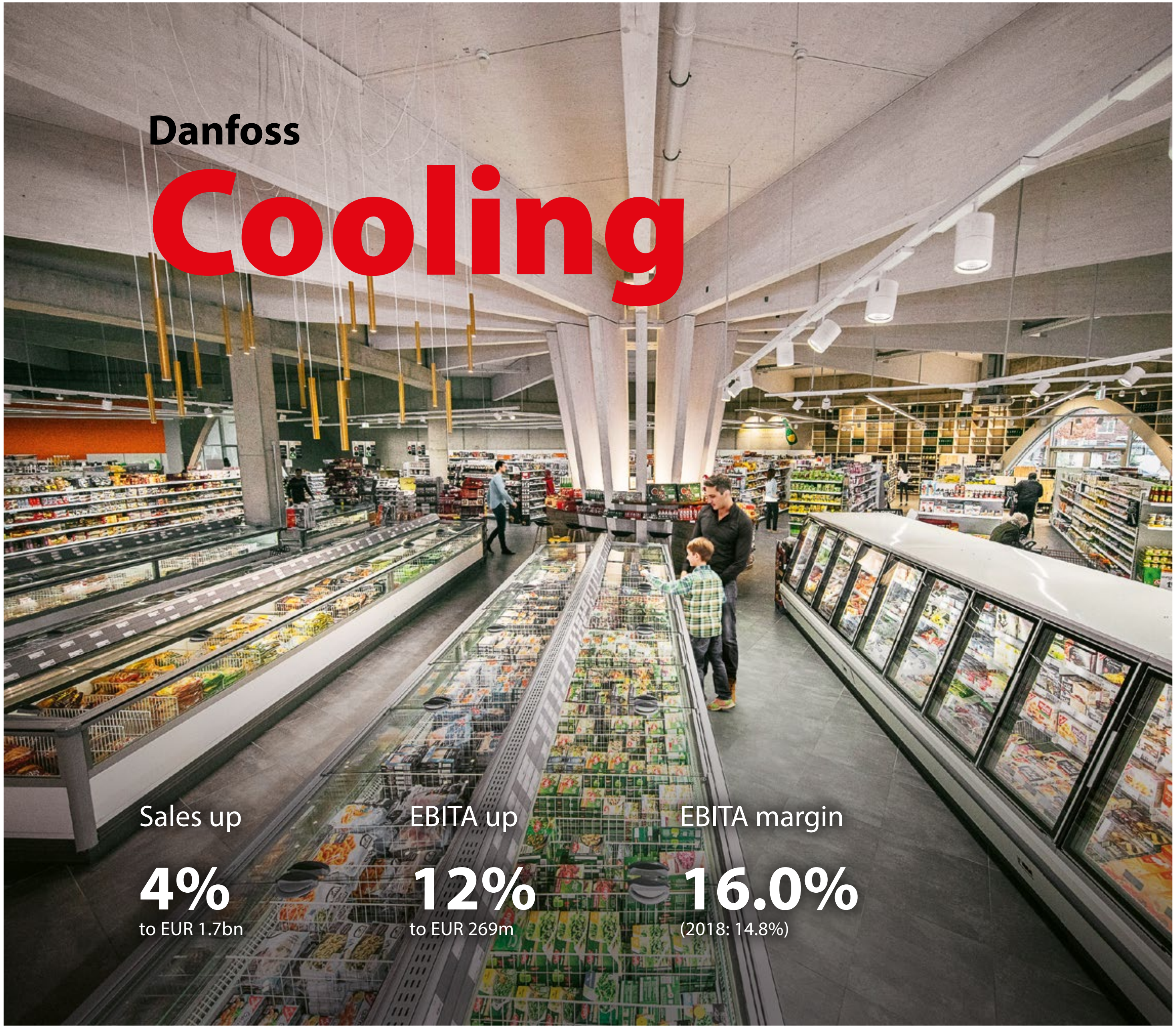
Understanding customer needs is key and Danfoss Power Solutions partners with distributors and OEMs in order to provide the best service, expertise and product knowledge. Our Application Development Centers located in the US, Denmark and China allow us to fully demonstrate our application expertise. The development and testing facilities minimize risks, reduce costs and design cycle times, thus saving our customers money and speeding up the critical time-to-market.

Hydraulics is our core, and we have for years strengthened Power Solutions' business through high customer focus as well as significant investments in technology leadership.

#2

Leading position in the market.

Danfoss Cooling



Sales up
4%
to EUR 1.7bn

EBITA up
12%
to EUR 269m

EBITA margin
16.0%
(2018: 14.8%)

Development in 2019

Danfoss Cooling saw growth in local currency and a profitability which was better than last year. Primary growth drivers were the Latin America and Eastern Europe regions. The Asia-Pacific region was challenged by the geopolitical uncertainty.

6,108
employees worldwide

15
factories in 10 countries

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

Western Europe, Asia-Pacific and North America
Top markets

Play video

This is where the transformation of our food supply starts.

Danfoss Cooling

Our mission is to keep people, products and the planet cool. We are a recognized industry front-runner and engineer and develop cooling technologies, which are energy efficient, environmentally friendly, help to reduce overall emissions, as well as minimizing the impact of cooling on global warming. Sustainable cold chains and energy-efficient supermarkets bring more food to the table, and thereby help to reduce the carbon footprint due to food loss and waste.

Example of product launch in 2019

Turbocor® TTH/TGH compressor
- Operating in demanding high lift applications.
- Use in air-cooled chiller, heat recovery, and heat pump applications.
- Future-proof, environmentally friendly solution complying with evolving refrigerant regulations and standards around the world.

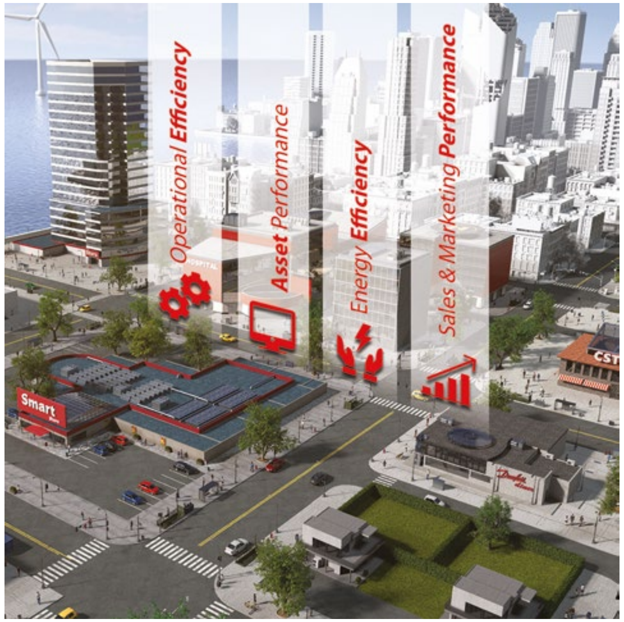
Products and solutions
Danfoss Cooling is a leading supplier of air-conditioning and refrigeration systems for many different applications:

- Compressors, including the pioneering oil-free Turbocor®
- Condensing units
- Valves, controllers, and complete electronic systems
- Pressure transmitters and temperature sensors
- High-pressure pumps
- Heat exchangers
- Digital cloud solutions, such as Alsense™ and Prosa IoT

The solutions are part of applications such as chillers, rooftop air-conditioning systems, and cold-storage solutions used in food retail, industrial, and commercial refrigeration.

Our solutions also play a role in the energy transition. We work to integrate more renewable energy and to decarbonize our energy system, which requires more flexibility and demand-response-ready buildings.

By combining our expertise in both heating and cooling applications, we develop innovative energy-storage solutions, such as the connected supermarket and the Danfoss Smart Store.



In 2019, Danfoss Cooling formed a transformational partnership with Microsoft. Together, we will address the cooling market with next-generation digital services. The Danfoss IoT platform called "Alsense™" is based on the Microsoft™ Azure Cloud, providing a secure and scalable cloud platform for the Danfoss IoT solutions. With the new platform, Danfoss' customers will be able to achieve major energy savings, optimize operational efficiency and increase sales effectiveness. As part of the partnership, Danfoss has received the Microsoft Partner Award 2020 in the category "Enabling Sustainability".

#2

Leading position in the market.

Danfoss Drives

Sales up

3%

to EUR 1.5bn

EBITA up

8%

to EUR 188m

EBITA margin

12.8%

(2018: 12.2%)

Development in 2019

Danfoss Drives saw growth in local currency and a profitability better than last year. Primary growth drivers were the Eastern and Western Europe regions, while North America showed low growth. The Asia-Pacific region had sales below last year.

4,504
employees worldwide

10
factories in 7 countries

3
Application Development Centers in China, Singapore and the Netherlands

Western Europe, Asia-Pacific and North America
Top markets

Play video

We are driven by drives

Danfoss Drives

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

The portfolio of high-quality, application-optimized VACON® and VLT® products maximizes process performance, saves energy and minimizes emissions. Innovating technology, which tackles climate change, helps to cope with rapid urbanization, and provides successful and sustained water and wastewater management is high on our agenda.

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

Danfoss Silicon Power – a technology-leader in customized power modules for automotive, solar, wind and industrial applications - is an independent business and part of the Danfoss Drives segment, enabling electrification to change our world.

Products and solutions
AC drives enable optimal process and speed control of electric motors:

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

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

Example of product launch in 2019

Condition-based monitoring
- DrivePro®

A more energy-efficient water system automatically helps to reduce water leakage. In Danfoss, we engineer technologies for an energy-neutral water sector, by optimizing energy use and minimizing water losses in water treatment applications and irrigation networks. Sensors and variable speed drives coupled with advanced process control can significantly reduce water leakage and energy consumption by at least 25% through cost-effective efficiency actions.

#2

Leading position in the market.

Danfoss
Heating

Sales up
0%
to EUR 0.9bn

EBITA up
42%
to EUR 131m

EBITA margin
14.1%
(2018: 9.9%)

Development in 2019

Danfoss Heating had a flat sales development in local currency and a profitability significantly better than last year. Heating saw increased growth in Eastern Europe, whereas the Western Europe and Asia-Pacific regions had sales below last year.

4,684
employees worldwide

24
factories in 11 countries

1
Application Development Center planned in Denmark

Western Europe, Eastern Europe and Asia-Pacific
Top markets

Play video

This is where a new generation of buildings starts

Danfoss Heating

Danfoss Heating is a leading supplier of advanced components and systems providing comfort and energy efficiency in residential and commercial buildings as well as enhanced heating performance in district energy networks.

We have served the needs of the heating industry for almost 80 years, and our innovative and reliable heating solutions help save energy and meet environmental targets: From open-source district energy infrastructures, smart HVAC solutions to smart heating and room temperature control, there are numerous ways to become as energy efficient as possible. We take climate leadership for a fast and cost-effective energy transition and work with cities, city networks, communities, and governments to facilitate the implementation of the available technology.

Products and solutions
Advanced components, solutions and service for:

- Radiator thermostats
- Smart heating solutions and apps, including Danfoss Link™ and Danfoss Eco™
- Electric and hydronic underfloor heating
- Hydronic balancing and controls
- Decentralized heating systems (flat stations)
- District energy components, substations, and software
- Heating optimization and Software as a Service (SaaS)
- Energy meters
- Heat exchangers

Our solutions and advanced components are used in residential buildings, offices and commercial buildings and in district energy networks.

Example of product launch in 2019

Next generation pressure independent balancing and control valve
- For all types of terminal units and small air handling units in commercial buildings.
- Equipped with Danfoss NovoCon® S digital actuators, enabling hydronic HVAC 4.0 for smart buildings.

Driven by urban growth, the need for construction and refurbishment of residential and commercial buildings is projected to be massive. The radiator thermostat Danfoss Eco™ improves indoor climate and comfort, while reducing the energy bill. Danfoss Eco™ has been recognized with prestigious design awards, such as Red Dot, Danish Design Award, German Design Award and more.

#1

Leading position in the market.

Risk management and compliance

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

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

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

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

Compliance programs
Danfoss has compliance programs in the following areas: Anti-Corruption, Business Ethics, Data Privacy, Export Control and Fair Competition. Our systemized compliance programs contain clear ownership, policy setting, operational procedures as well as recurring training and awareness activities. To ensure progress, all activities are monitored and regularly audited by the internal audit function.

In 2019, Danfoss reviewed its Anti-Corruption, Business Ethics and Fair Competition guidelines to reflect recent developments in legislation and best practice approaches.

We maintain a high focus on data privacy processes and compliance with data privacy regulation. Based on our Binding Corporate Rules, approved by the Danish data protection authorities, we follow a Data Privacy Handbook, conduct and participate in trainings and live up to other requirements of data-privacy legislations.

Furthermore, the organization keeps its concentration on export control including sanctions, countries, business partners and product reviews. Finally, we have defined and implemented rules and guidance to support anti-money-laundering legislation and trained employees, respectively.

Risk management process

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

Compliance hotlines
We operate two hotlines, which are available for our business partners and employees. One such hotline is the whistleblower hotline, the Ethics Hotline, which enables employees and business partners to anonymously report any concern they might have concerning internal standards and legislation. The Ethics Hotline is also set up to serve as a channel for data-privacy complaints. In 2019, a total number of 81 reports were managed by the Ethics Hotline. Corrective actions, including disciplinary action, were taken for all substantiated

allegations, and none of the reports have had a material impact on Danfoss.

Risk overview

Danfoss is exposed to risks, but no single risk can threaten the existence of Danfoss. In general, Danfoss is exposed to the following basic risks:

- Global market conditions, including a sustained stronger focus on energy-efficient and socially sustainable solutions.
- Global mega-trends which affect Danfoss, our technologies and the way we do business.
- Fair and equal access to markets.
- Global economic growth.
- Developments in key markets and cyclical industries.
- Customer relations and reputation, including our ability to build business on trust and integrity.
- Competitive strength and innovation, including the ability to support customers in providing efficient solutions, high product quality and attractive cost levels.
- Financial sustainability, including our ability to fund new growth and innovation.

The Group Executive Team has defined additional three risks, which are currently very important due to their nature. These three specific risks are described in the overview, which does not include financial risks. Financial risks are described in Note 15, page 78.

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

Specific risk areas

	Disruption of IT Systems	One ERP project	Geopolitical conflicts
Risk	A disruption of IT systems, for example caused by a cyber-attack, could restrict the ability of Danfoss to produce, deliver products on time or provide services to customers. Several cases made public by the affected peer companies, show a significant potential impact on business operations. If this occurred at Danfoss, this could harm customer satisfaction, and consequently also damage Danfoss' reputation.	Implementing the IT platform, One ERP (Enterprise Resource Planning), across Danfoss is a fundamental part of our digital transformation, enabling growth and a best-in-industry Digital Customer Experience. The project is migrating several, currently used ERP systems into one platform to reduce complexity, give Danfoss the agility and speed to focus on innovation, and support connected products and services. Migration of Danfoss operations to the new system holds risks of stopping or slowing business services, which could impact our customers and damage Danfoss' reputation.	Increasing geopolitical conflicts create a high level of uncertainty, leading to low visibility and a high level of volatility in some of our significant markets.
Mitigation	Danfoss has completed various activities to manage the risk of a disruption of IT systems. Business continuity and disaster-recovery plans as well as back-up processes and datacenters are regularly reviewed, tested and improved. A continuous monitoring and learning about incidents occurring outside Danfoss, leads to an analysis of related vulnerabilities at Danfoss, potentially followed by corresponding containment and mitigation.	As part of the One ERP project, Danfoss" strong project governance has proven successful during several implementation waves in manufacturing sites and sales entities. A specific project risk-management function identifies project risks, assesses them, and prepares mitigation plans, which are being implemented and monitored regularly, including continuous learning from each implementation phase.	Project teams closely monitor the effects of these geopolitical developments on Danfoss' business preparing mitigation plans to reduce the impact on Danfoss and Danfoss' stakeholders. Below are some examples: • Brexit: A task force focusses on logistic strategies to overcome challenges in the delivery to Great Britain and Ireland • Global trade and other conflicts: A close follow-up on short-term developments is being practiced. Overall, the focus is on more localization and a flexible supply chain to ensure continuous support of Danfoss' customers. • Trade sanctions: Danfoss continues to follow trade sanctions and closely monitors political situations to take appropriate action.

Corporate **governance**

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

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

Management structure

Danfoss has a two-tier management system consisting of the Board of Directors and the Group Executive Team, including the CEO and CFO. The Board of Directors sets out the general direction for the company by approving strategies and targets, and the Group Executive Team develops and executes the strategy and handles the day-to-day management.

The Board of Directors

The Board of Directors consists of seven members and four employee-elected members. Shareholder-elected members of the Board of Directors are elected for the term until the following year's AGM. Pursuant to Danish legislation, employee representatives serve on the Board for four years and may be re-elected. The most recent employee election took place in 2018.

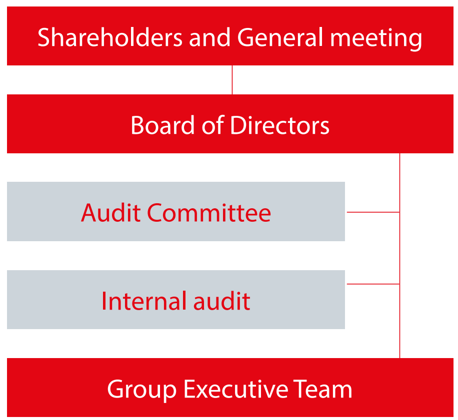
The Board of Directors has the overall responsibility for the company's activities and appoints a Chairman and one or two Vice-Chairmen from among its members.

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

Audit Committee

The entire Board of Directors performs the function of the Audit Committee. The Chairman of the Audit Committee conducts regular meetings with the corporate functions and internal audit outside board meetings. The committee's activities and tasks are set out in its rules of procedure. Four meetings were held in 2019.

Governance model



Internal audit
Danfoss has an internal audit function to carry out independent internal checks. Conclusions are presented directly to the Audit Committee or its chairman. The internal audit function provides independent and objective audits to ensure:

- The Group has a comprehensive set of internal management and control procedures and processes, as well as segregation of duties and functions. This also includes the Group's IT systems.
- The Group follows good administrative practice.

The internal audit function visited several Group companies in 2019. No matters of material importance to the Group's overall risk management and control environment were detected.

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

Shareholders
At the end of 2019, Danfoss had 2,583 registered shareholders. Approximately three in four shareholders were resident in Denmark.

Share capital
Danfoss' share capital amounts to EUR 134m or DKK 997m and is divided into two share classes: Class A shares accounting for EUR 57m or DKK 425m and Class B shares accounting for EUR 78m or DKK 572m. A-shares entitle holders to ten votes for every DKK 100 nominal value of shares held and B-shares entitle holders to one vote for every DKK 100 nominal value of shares held. See more information in Note 11, page 72, and Note 24, page 92.

Class A shareholders have a pre-emption right to A-shares in the event of share capital increases. Apart from this, no shares carry special rights. Bitten & Mads Clausen's Foundation and the Clausen family hold all issued A-shares and several B-shares corresponding to 99.86% of the votes.

Share price
The price of Danfoss shares is set once a year, based on a valuation prepared by Danske Markets immediately before the AGM is held. The calculation of the share price is based on the financial performance of Danfoss, the Group's expectations for the upcoming year, its ability to meet expectations, the financial development of several comparable companies and their expectations for the future, as well as general developments in the stock market. In 2019, the price was set at DKK 7,290 per share.

Dividends and Annual General Meeting
The AGM will be held in Sønderborg, Denmark, on April 17, 2020. The Board of Directors will recommend that a dividend of 16.0% of the Group's net profit be paid for 2019, corresponding to EUR 8.1 or DKK 60.2 per DKK 100 share.

Shareholders with more than 5% of share capital

Shareholder	Shares	Votes
Bitten & Mads Clausen's Foundation, Nordborg, Denmark, and its subsidiaries	47.33%	86.11%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.48%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.31%

For a detailed description of Danfoss' position on the recommendations issued by the Committee on Corporate Governance, reference is made to the Statutory Report on Corporate Governance 2019, which is available at danfoss.com > About Danfoss > Corporate governance
(https://www.danfoss.com/en/about-danfoss/company/financials/corporate-governance/)

Visit danfoss.com

Board of **Directors**

Connie Hedegaard · Sandra Nørgaard Bertelsen · Mika Vehviläinen · Jørgen M. Clausen · Lars Grau · Jürgen Reinert · Jens Peter Rosendahl Nielsen · Per Falholt · Mads-Peter Clausen · William Erwin Hoover Jr. · Marianne Godballe

Board of **Directors**

Jørgen M. Clausen
Chairman of the Board of Directors

Born: 1948
Nationality: Danish
Appointed: 2009

Special competencies:
Professional experience managing a Danish-based global company and extensive knowledge of engineering, strategy, organization and performance, and business administration. Long-time experience from other board memberships.

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

Mads-Peter Clausen
Member of the Board of Directors

Born: 1976
Nationality: Danish
Appointed: 2014

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

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

Per Falholt
Member of the Board of Directors

Born: 1958
Nationality: Danish
Appointed: 2017
Considered independent

Special competencies:
Professional experience from Research & Development, product innovation and development of new biotechnologies for products, applications and processes. Extensive experience with talent development, global partnerships and relations.

Other current positions:
- Chairman of the Board of Governors, Technical University of Denmark (DTU).
- Board member in Cytovac A/S.
- Chairman of the Board of Fonden Universe Science Park.
- Strategy consultant at the Novo Nordisk foundation.
- Chairman of the Board of DHI Foundation.
- Board member Applied Biomemetics.
- Board member in Co-Ro A/S.

Connie Hedegaard
Member of the Board of Directors

Born: 1960
Nationality: Danish
Appointed: 2016
Considered independent

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

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

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

Born: 1949
Nationality: American
Appointed: 2007
Considered independent

Special competencies:
International experience with management, mergers and acquisitions, performance transformation, organizational changes and supply chain. Extensive knowledge of business administration and board work.

Other current positions:
- Chairman of the Board of ReD Associates Holding A/S.
- Deputy Chairman of the Board of GN Store Nord A/S (Great Nordic).
- Member of the Board of Lego Foundation.
- Member of the Board of Specialist People Foundation.
- Member of the Board of Neopost A/S.

Jürgen Reinert
Member of the Board of Directors

Born: 1968
Nationality: German
Appointed: 2015
Considered independent

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

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

Board of **Directors**

Mika Vehviläinen
Member of the Board of Directors

Born: 1961
Nationality: Finnish
Appointed: 2018
Considered independent

Special competencies:
Professional experience with executive management of multinational corporations and extensive experience with performance transformation, organizational changes, mergers and acquisitions, and Internet of Things.

Other current positions:
- President and CEO in Cargotec.

Sandra Nørgaard Bertelsen
Member of the Board of Directors

Born: 1982
Nationality: Danish
Appointed: 2014

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

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

Marianne Godballe
Member of the Board of Directors

Born: 1984
Nationality: Danish
Appointed: 2018

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

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

Lars Grau
Member of the Board of Directors

Born: 1963
Nationality: Danish
Appointed: 2014

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

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

Jens Peter Rosendahl Nielsen
Member of the Board of Directors

Born: 1957
Nationality: Danish
Appointed: 2006

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

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

Group **Executive Team**

Kim Fausing
President & CEO

Born: 1964. Employed at Danfoss since 2007

Registered officer with the Danish Business Authority since 2008

Board activities:
- Deputy Chairman in SMA Solar Technology AG, Germany
- Board member in Hilti AG, Liechtenstein

Vesa Laisi
Segment President, Danfoss Drives

Born: 1957. Employed at Danfoss since 2014

Board activities:
- Board member in Wirepas

Jesper V. Christensen
Executive Vice President & CFO

Born: 1969. Employed at Danfoss since 1993

Registered officer with the Danish Business Authority since 2013

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

Eric Alström
Segment President, Danfoss Power Solutions

Born: 1966. Employed at Danfoss since 2012

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

Jürgen Fischer
Segment President, Danfoss Cooling

Born: 1963. Employed at Danfoss since 2008

Board activities:
- Member of the Steering Board of the European Partnership for Energy and the Environment, EPEE; and member of SEforALL's Global Panel on Access to Cooling

Lars Tveen
Segment President, Danfoss Heating

Born: 1963. Employed at Danfoss since 1989

Board activities:
- Board Chairman in the ProjectZero Foundation, Denmark
- Board member in the Energy Industry, Denmark; The Danish Energy Agency, Synergi, Denmark; Green Energy Denmark; and SKAKO A/S, Denmark

Financial **Statements**

As the demand for sustainable energy increases, there is a growing need for highly efficient, robust and reliable wind turbines. The proven reliability of Danfoss' products helps secure the optimal uptime of the turbines throughout their lifetime. Danfoss provides sensors, transmitters and switches for almost all applications in the nacelles of wind turbines components that are vital for maintenance and in avoiding down-time.

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, 2019.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at December 31, 2019, of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2019.

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, February 27, 2020

CEO and CFO

Kim Fausing

Jesper V. Christensen

Board of Directors

Jørgen M. Clausen, Chairman

Mads-Peter Clausen

Per Falholt

Connie Hedegaard

William Erwin Hoover Jr.

Jürgen Reinert

Mika Vehviläinen

Sandra Nørgaard Bertelsen

Marianne Godballe

Lars Grau

Jens Peter Rosendahl Nielsen

Independent **Auditor's Report**

To the shareholders of Danfoss A/S

Our opinion
In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at December 31, 2019 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year January 1 to December 31, 2019 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

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

What we have audited
The Consolidated Financial Statements and Parent Company Financial Statements of Danfoss A/S for the financial year January 1 to December 31, 2019, pp 50-103 and 106-130 comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the "Financial Statements".

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Appointment
We were first appointed auditors of Danfoss A/S on April 25, 2014 for the financial year 2014. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 6 years including the financial year January 1 to December 31, 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment of intangible assets, including those within the investment in SMA Intangible assets, including those within the investment in SMA, might be impaired due to changes in the global economic situation and changes in the Group's strategy. We focused on this area as the determination of whether or not an impairment charge for intangible assets is necessary involves significant estimates and judgments made by Management, including especially: • estimation of future cash flows and the key assumptions underlying Management's expectations; • expected synergies; • long term growth rates; and • discount rates applied in discounting future cash flows. Refer to Notes 3, 7, 19 and 27 in the Consolidated Financial Statements.	Our audit procedures included assessing the Group's impairment model. We inspected the process of identifying impairment indicators and the process for impairment testing at the cash generating unit level. In addition, we obtained impairment tests prepared by Management and evaluated the reasonableness of estimates and judgments made by Management in preparing these. Special focus was given to the key drivers of the future cash flows, including net revenue growth, cost development, efficiency improvements, capital expenditure and working capital as well as the discount rates and long-term growth rates applied. Additionally, special focus was also given to the key drivers of the future cash flows from the investment in SMA.
Uncertain tax positions The Group operates in a complex multinational tax environment where transfer pricing assessments can be challenged by the tax authorities in the different countries. As a result, the Group is on an ongoing basis part in tax disputes with domestic and foreign tax authorities. We focused on this area as the valuation of tax assets and liabilities is associated with uncertainty and judgment. Refer to Notes 6, 13, 16 and 27 in the Consolidated Financial Statements.	We evaluated relevant controls regarding completeness of records of uncertain tax positions and Management's procedure for estimating the valuation of tax assets and liabilities relating to tax disputes. In understanding and evaluating Management's judgments, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgmental positions taken in tax returns and current estimates and developments in the tax environment. We evaluated the Group's model for valuation of deferred tax assets including the forecast used to estimate the expected future taxable income.

Statement on Management's Review
Management is responsible for Management's Review, pp 3-43 and 105.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee

that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Aarhus, February 27, 2020

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Mads Melgaard
State Authorised Public Accountant
mne34354

Group
Accounts and notes

To help enable zero emission driving, Danfoss provides cutting-edge power modules integrated into the drivetrain, enabling the world's leading automotive manufacturers to deliver electric vehicle solutions designed to meet stringent efficiency and reliability targets. These solutions are transforming the adoption of electric transportation and making hybrid and pure electric vehicles a natural and sustainable choice for everyone.

Income statement

January 1 to December 31

EURm	Note	2018	2019
Net sales	1	6,098	6,285
Cost of sales	2	-4,035	-4,173
GROSS PROFIT		**2,063**	**2,112**
Research and development costs	2	-255	-272
Selling and distribution costs	2	-855	-864
Administrative expenses	2	-268	-275
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**685**	**701**
Other operating income and expenses	2	-4	-2
Share of profit from associates and joint ventures after tax	3	-33	-4
OPERATING PROFIT (EBIT)		**648**	**695**
Financial income	4	3	4
Financial expenses	5	-48	-37
PROFIT BEFORE TAX		**603**	**662**
Tax on profit	6	-140	-160
NET PROFIT		**463**	**502**
Attributable to:			
Shareholders in Danfoss A/S		424	455
Minority interests		39	47
		463	**502**

Statement of comprehensive income

January 1 to December 31

EURm	Note	2018	2019
NET PROFIT		**463**	**502**
OTHER COMPREHENSIVE INCOME			
Actuarial gain/loss (-) on pension and healthcare plans	14	-9	-39
Tax on actuarial gain/loss on pension and healthcare plans	13	1	8
Items that cannot be reclassified to income statement		**-8**	**-31**
Foreign exchange adjustments on translation of foreign currency into EUR		-5	29
Recycling of foreign exchange adjustments on disposal of foreign companies		6	
Fair value adjustment of hedging instruments:			
Hedging of net investments in subsidiaries		-2	
Hedging of future cash flows		-9	13
Hedging transfered to inventory		-4	-10
Tax on hedging instruments		3	-1
Items that can be reclassified to income statement		**-11**	**31**
OTHER COMPREHENSIVE INCOME AFTER TAX		**-19**	**0**
TOTAL COMPREHENSIVE INCOME		**444**	**502**
Attributable to:			
Shareholders of Danfoss A/S		399	453
Minority interests		45	49
		444	**502**

Statement of financial position

As of December 31

EURm	Note	2018	2019
ASSETS			
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	7	**2,311**	**2,426**
PROPERTY, PLANT AND EQUIPMENT	8	**1,169**	**1,409**
Investments	3	292	283
Pension benefit plan assets	14	19	11
Non-current receivables		7	7
Deferred tax assets	13	88	81
OTHER NON-CURRENT ASSETS		**406**	**382**
TOTAL NON-CURRENT ASSETS		**3,886**	**4,217**
CURRENT ASSETS			
INVENTORIES	9	**755**	**742**
Trade receivables	10	864	893
Receivable corporation tax	16	39	30
Derivative financial instruments (positive fair value)	15	1	
Other receivables		165	104
RECEIVABLES		**1,069**	**1,027**
CASH AND CASH EQUIVALENTS	15	**50**	**110**
TOTAL CURRENT ASSETS		**1,874**	**1,879**
TOTAL ASSETS		**5,760**	**6,096**

Statement of financial position

As of December 31

EURm	Note	2018	2019
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Equity, shareholders in Danfoss A/S	11	2,525	2,835
Minority interests		129	98
TOTAL SHAREHOLDERS' EQUITY		**2,654**	**2,933**
LIABILITIES			
Provisions	12	112	112
Deferred tax liabilities	13	228	225
Pension and healthcare benefit plan obligations	14	133	155
Borrowings	15	1,007	1,093
Other non-current debt		53	53
NON-CURRENT LIABILITIES		**1,533**	**1,638**
Provisions	12	49	46
Borrowings	15	56	76
Trade payables		883	820
Debt to associates and joint ventures		2	3
Corporation tax	16	65	68
Derivative financial instruments (negative fair value)	15	9	3
Other debt		509	509
CURRENT LIABILITIES		**1,573**	**1,525**
TOTAL LIABILITIES		**3,106**	**3,163**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,760**	**6,096**

Statement of cash flows

January 1 to December 31

EURm	Note	2018	2019
Profit before tax		603	662
Adjustments for non-cash transactions	17	270	334
Change in working capital	18	-13	-43
Interest received		3	4
Interest paid		-37	-29
Dividends received		4	1
Paid tax	16	-157	-140
CASH FLOW FROM OPERATING ACTIVITIES		**673**	**789**
Acquisition of intangible assets		-64	-52
Acquisition of property, plant and equipment		-247	-258
Proceeds from sale of property, plant and equipment		9	6
Acquisition of subsidiaries	19	-41	-140
Proceeds from disposal of subsidiaries	19	129	
Acquisition of other investments, etc.	20	-13	37
CASH FLOW FROM INVESTING ACTIVITIES		**-227**	**-407**
Cash repayment of interest-bearing debt	21	-816	-1,086
Cash proceeds from interest-bearing debt	21	751	984
Purchase of treasury shares		-249	-60
Proceeds from minority interests			1
Purchase of minority interests		3	
Dividends to shareholders in Danfoss A/S		-80	-78
Dividends to minority interests		-33	-83
CASH FLOW FROM FINANCING ACTIVITIES		**-424**	**-322**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**22**	**60**
Cash and cash equivalents as of January 1		29	50
Foreign exchange adjustment of cash and cash equivalents		-1	
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**50**	**110**

The cash flow statement cannot be derived on the basis of the Annual Report alone.
as of 1 January 2019, Danfoss adopted IFRS 16 'Leases'. Rights-of-use assets and lease liabilities have been recognized for leases previously classified as operating leases. In 2019, EBITDA increased by EUR 59m, due to change in reporting of expenses of rights-of-use assets under depreciation. Further information is available in Note 26 Basis for preparation and accounting policies.

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, 2018	**134**	**10**	7	21	-68	2,270	**2,230**	**81**	**2,455**	**114**	**2,569**
Net profit						344	**344**	**80**	**424**	**39**	**463**
Foreign exchange adjustments of foreign companies				-5			**-5**		**-5**	**6**	**1**
Fair value adjustment of hedging instruments			-13	-2			**-15**		**-15**		**-15**
Actuarial gain/loss (-) on pension and healthcare plans						-9	**-9**		**-9**		**-9**
Tax on other comprehensive income			2	1		1	**4**		**4**		**4**
Total other comprehensive income			-11	-6		-8	**-25**		**-25**	**6**	**-19**
Total comprehensive income for the period			-11	-6		336	**319**	**80**	**399**	**45**	**444**
Dividends to shareholders						1	**1**	**-81**	**-80**	**-33**	**-113**
Purchase of treasury shares					-249		**-249**		**-249**		**-249**
Capital increase										**3**	**3**
Total transactions with owners					-249	1	**-248**	**-81**	**-329**	**-30**	**-359**
BALANCE AS OF DECEMBER 31, 2018	**134**	**10**	-4	15	-317	2,607	**2,301**	**80**	**2,525**	**129**	**2,654**
Adjustment from the adoption of IFRS 16						-5	**-5**		**-5**		**-5**
RESTATED BALANCE AS OF JANUARY 1, 2019	**134**	**10**	-4	15	-317	2,602	**2,296**	**80**	**2,520**	**129**	**2,649**
Net profit						375	**375**	**80**	**455**	**47**	**502**
Foreign exchange adjustments of foreign companies				27			**27**		**27**	**2**	**29**
Fair value adjustment of hedging instruments			3				**3**		**3**		**3**
Actuarial gain/loss (-) on pension and healthcare plans						-39	**-39**		**-39**		**-39**
Tax on other comprehensive income			-1			8	**7**		**7**		**7**
Total other comprehensive income			2	27		-31	-2		**-2**	**2**	**0**
Total comprehensive income for the period			2	27		344	**373**	**80**	**453**	**49**	**502**
Dividends to shareholders						2	**2**	**-80**	**-78**	**-83**	**-161**
Additions through acquisition of subsidiaries										**2**	**2**
Purchase of treasury shares					-60		**-60**		**-60**		**-60**
Capital increase										**1**	**1**
Total transactions with owners					-60	2	**-58**	**-80**	**-138**	**-80**	**-218**
BALANCE AS OF DECEMBER 31, 2019	**134**	**10**	-2	42	-377	2,948	**2,611**	**80**	**2,835**	**98**	**2,933**

Notes

Note 1 Segment reporting

EURm

BUSINESS SEGMENTS	Danfoss Power Solutions 2018	Danfoss Cooling 2018	Danfoss Drives 2018	Danfoss Heating 2018	Other areas 2018	GROUP 2018	Danfoss Power Solutions 2019	Danfoss Cooling 2019	Danfoss Drives 2019	Danfoss Heating 2019	Other areas 2019	GROUP 2019
INCOME STATEMENT												
Net sales	2,109	1,617	1,420	929	23	6,098	2,197	1,679	1,456	932	21	6,285
Depreciation/amortization/impairment	45	25	26	18	57	171	52	28	25	18	126	249
Operating profit before acquisition-related amortization (EBITA)	385	241	174	92	-168	724	391	269	188	131	-208	771
Acquisition-related amortization	44	4	21	5		73	48	4	21	6		79
Share of profit from associates and joint ventures after tax		1	-34			-33		1	-6	1		-4
Operating profit (EBIT)						648						695
Financial Items						-45						-33
Profit before tax						603						662
STATEMENT OF FINANCIAL POSITION												
Total assets *)	1,370	915	1,690	698	1,087	5,760	1,481	964	1,699	700	1,252	6,096
Net investments, excluding M&A	91	51	33	24	103	302	101	47	38	20	98	304
Investments in associates and joint ventures				3	1	4						
Total liabilities *)	304	219	213	117	2,253	3,106	274	209	212	109	2,359	3,163
OTHER INFORMATION												
Number of employees	7,625	6,179	4,645	4,898	4,448	27,795	7,826	6,108	4,504	4,684	4,749	27,871

For further information on the business segments see page 18.

GEOGRAPHICAL SEGMENTS	Western Europe 2018	Eastern Europe 2018	Asia Pacific 2018	North America 2018	Latin America 2018	Africa - Middle East 2018	GROUP 2018	Western Europe 2019	Eastern Europe 2019	Asia Pacific 2019	North America 2019	Latin America 2019	Africa - Middle East 2019	GROUP 2019
Net sales	2,289	493	1,392	1,488	271	165	6,098	2,326	523	1,406	1,573	302	155	6,285
Total non-current assets **)	2,568	133	313	743	22	18	3,798	2,767	144	320	855	29	21	4,136

Sales in Denmark amounts to EUR 232m (2018: 225m) and non-current assets amounts to EUR 943m (2018: 764m). Sales in North America mainly relate to the US and represent EUR 1,482m (2018: 1,395m) and non-current assets amounts to EUR 855m (2018: 742m). China is part of the Asia Pacific region and sales amounts to EUR 806m (2018: 808m) and non-current assets amounts to EUR 243m (2018: 237m).

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

**) Deferred tax assets are not included.

Note 1 Segment reporting (continued)

EURm

SPECIFICATION OF OTHER AREAS - OPERATING PROFIT BEFORE ACQUISITION-RELATED AMORTIZATION (EBITA)

	2018	2019
Corporate and shared functions and projects, not allocated *)	-168	-193
Other		-15
Operating profit before acquisition-related amortization (EBITA)	-168	-208

SPECIFICATION OF OTHER AREAS - ASSETS

	2018	2019
Cash, current & non-current tax receivables	177	221
Other receivables	120	93
Corporate and shared functions, not allocated tangible, and intangible fixed assets	697	896
Corporate and shared functions and projects, not allocated *)	80	30
Other	13	12
Total assets	1,087	1,252

SPECIFICATION OF OTHER AREAS - LIABILITIES

	2018	2019
Interest-bearing debt, current & non-current tax liabilities	1,356	1,463
Other debt	562	560
Pension and healthcare plans	133	155
Corporate and shared functions and projects, not allocated *)	194	173
Other	8	8
Total Liabilities	2,253	2,359

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

Note 2 Expenses and other operating income

EURm

A. PERSONNEL EXPENSES

	2018	2019
Salaries and wages	1,404	1,434
Severance payments	36	13
Social security	112	116
Pension cost - Defined contribution plans	84	85
Pension cost - Defined benefit plans excluding gains from reductions and redemptions *)	3	3
Gains from reductions and redemptions		-1
	1,639	1,650
Average number of employees	27,313	27,905
Total number of employees as of end of the year	27,795	27,871

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

	2018	2019
Remuneration to the Group Executive Team and the Board of Directors:		
Salaries	5	5
Pension costs	1	1
Bonuses	10	10
Group Executive Team	16	16
Board of Directors' fee	1	1
Total remuneration	17	17

Total remuneration for registered members of the Group Executive Team amounts to EUR 10m (2018: 9m).
A presentation of the Group Executive Team is available on page 43.

Note 2 Expenses and other operating income (continued)

EURm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2018	2019
Classification by nature:		
Amortization of intangible assets	96	109
Depreciation of property, plant and equipment	148	218
Impairment on tangible assets		1
Depreciation/amortization and impairment losses	244	328
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	62	72
Selling and distribution costs	30	31
Administrative expenses	4	6
	96	109
Classification of depreciation/impairment of property, plant and equipment assets by functions:		
Cost of sales	134	174
Selling and distribution costs	9	31
Administrative expenses	5	14
Property, plant and equipment	148	219

C. OTHER OPERATING INCOME AND EXPENSES

	2018	2019
Gain on disposal of activities	31	
Gain on value adjustment on step acquisition of company		9
Gain on disposal of property, plant and equipment	4	2
Government grants	6	10
Reversal of restructuring costs		1
Other	6	9
Other operating income	47	31
Loss on disposal of property, plant and equipment	-2	-1
Restructuring costs	-36	-14
Other	-13	-18
Other operating expenses	-51	-33
Other operating income and expenses	-4	-2

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

Note 2 Expenses and other operating income (continued)

EURm

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2018	2019
Audit fee	3	3
Other assurance engagements fee	0	0
Tax and VAT advice	1	0
Other fees	1	2
Total fee to Group Auditor	5	5

Fees for services other than the statutory audit of the Financial Statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PricewaterhouseCoopers Denmark) amounted to EUR 1.0m (2018: 1.2m). Services other than the statutory audit of the Financial Statements comprise services relating to due diligence and agreed-upon procedures, transfer pricing, tax audits as well as accounting advice.

Note 3 Investments

EURm

	2018			2019		
	Investments in associates and joint ventures	Other investments	TOTAL	Investments in associates and joint ventures	Other investments	TOTAL
Cost as of January 1	353	18	371	353	19	372
Additions	3	1	4			
Disposals	-3		-3	-4		-4
Cost as of December 31	353	19	372	349	19	368
Adjustments as of January 1	-27	-16	-43	-64	-16	-80
Foreign exchange adjustments in foreign companies	-1		-1	1		1
Net profit/value adjustment	-35		-35	-4		-4
Dividends	-4		-4	-1		-1
Disposal / Transfer	3		3	-1		-1
Adjustments as of December 31	-64	-16	-80	-69	-16	-85
Carrying amount as of December 31	289	3	292	280	3	283

Where indicators for impairment were present at the end of 2019, impairment tests were performed on the carrying amount of "Investments in associates and joint ventures". Main indicators are loss-giving activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the present value of cash flows from associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2018.

Further information on associates and joint ventures is provided in Note 15 Financial risks and instruments and Note 24 Related parties.

Note 3 Investments (continued)

EURm

MATERIAL ASSOCIATES AND JOINT VENTURES

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

	SMA Solar Technology AG	
	2018	**2019**
Place of business	Germany	Germany
Share of ownership	20%	20%
SUMMARIZED PROFIT AND LOSS STATEMENT (PROVISIONAL NUMBERS FOR 2019 AND 2018)		
Revenue	761	915
EBIT	-150	-11
Net income	-174	-8
SUMMARIZED BALANCE SHEET (Q3 NUMBERS)		
Non-current assets	344	296
Current assets	797	719
Non-current liabilities	255	257
Current liabilities	277	347
Equity	608	411
OTHER INFORMATION		
Group share of equity as of December 31	85	79
Group share of dividend received	3	

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2019, was EUR 1.2bn (2018: 0.6bn).

IMMATERIAL ASSOCIATES AND JOINT VENTURES

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

			2018			**2019**
Danfoss' proportionate share of:	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Profit or loss from continuing operations		1	1		1	1
Total comprehensive income		1	1		1	1
Carrying amount as of December 31	4	13	17		14	14

RECONCILIATION OF CARRYING AMOUNT

			2018			**2019**
	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Group share of equity of material associates and joint ventures	85		85	79		79
Goodwill concerning material associates and joint ventures	187		187	187		187
Carrying amount of immaterial associates and joint ventures	4	13	17		14	14
Total carrying amount as of December 31 of associates and joint ventures	276	13	289	266	14	280

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

Note 4 Financial income

EURm

	2018	2019
Interest from banks, etc.	3	4
Financial Income	3	4
Interest on financial assets measured at amortized cost	3	4

Note 5 Financial expenses

EURm

	2018	2019
Interest to banks etc.	-35	-22
Interest element on discounted liabilities	-1	
Calculated interest on defined benefit plans	-2	-3
Interest expense for leasing arrangements	-1	-8
Foreign exchange losses, net	-9	-4
Financial expenses	-48	-37
Interest on financial liabilities measured at amortized cost	-37	-30

In Foreign exchange losses, net are included fair value hedge impact of EUR 7m (2018: -18m).

Note 6 Tax on profit

EURm

	2018	2019
Current tax expense	-156	-163
Change in deferred tax	9	7
Adjustments concerning previous years	7	-4
	-140	-160
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Adjustment of tax in foreign subsidiaries calculated at 22.0%	1.5%	1.8%
Tax exempt income/non-deductible expenses	-1.7%	-1.6%
Effect of change in corporate tax rate	-0.1%	
Income from associates and joint ventures after tax	1.2%	0.1%
Adjustment of net tax assets	-0.3%	0.5%
Other taxes	1.8%	0.9%
Adjustments concerning previous years	-1.2%	0.5%
Effective tax rate	23.2%	24.2%

	2018	2019
Tax on profit (income statement)	-140	-160
Tax on fair value adjustment of hedging instruments (other comprehensive income)	3	-1
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	1	8
Total taxes	-136	-153

Note 7 Intangible assets

EURm

	Goodwill	Internally developed software	Brand	Technology	Customer relations	Patents, trademarks and other rights	Development costs	**Total Other**	**TOTAL**
Cost as of January 1, 2018	1,764	240	146	647	376	96	68	1,573	3,337
Foreign exchange adjustments in foreign companies	16	3	4	12	7	-1	1	26	42
Additions through acquisition of subsidiaries	23			9	6			15	38
Additions		62				2		64	64
Disposals		-3				-2	-3	-8	-8
Disposals through sale of subsidiaries	-85	-2		-6	-7			-15	-100
Cost as of December 31, 2018	1,718	300	150	662	382	95	66	1,655	3,373
Amortization and impairment losses as of January 1	149	134	7	331	225	56	65	818	967
Foreign exchange adjustments in foreign companies	3	2	1	9	7	-1	1	19	22
Amortization		14	3	43	28	6	2	96	96
Disposals		-3				-2	-3	-8	-8
Disposals through sale of subsidiaries		-2		-6	-7			-15	-15
Amortization and impairment losses as of December 31, 2018	152	145	11	377	253	59	65	910	1,062
Carrying amount as of December 31, 2018	1,566	155	139	285	129	36	1	745	2,311
Cost as of January 1, 2019	1,718	300	150	662	382	95	66	1,655	3,373
Foreign exchange adjustments in foreign companies	9	1	1	4	3	1	1	11	20
Additions through acquisition of subsidiaries	103	1		39	18			58	161
Transfers		36				-36			
Additions		51				1		52	52
Disposals						-2	-15	-17	-17
Cost as of December 31, 2019	1,830	389	151	705	403	59	52	1,759	3,589
Amortization and impairment losses as of January 1, 2019	152	145	11	377	253	59	65	910	1,062
Foreign exchange adjustments in foreign companies	2	1		3	1	1	1	7	9
Transfers		23				-23			
Amortization		26	2	46	31	3	1	109	109
Disposals						-2	-15	-17	-17
Amortization and impairment losses as of December 31, 2019	154	195	13	426	285	38	52	1,009	1,163
Carrying amount as of December 31, 2019	1,676	194	138	279	118	21		750	2,426

Additions/Disposals through acquisitions/sales of subsidiaries are further described in Note 19 Acquisition and sales of subsidiaries and activities.

Note 7 Intangible assets (continued)

EURm

IMPAIRMENT TESTS

At the end of 2019, 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 2020-2029. 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.

					2018					**2019**
	Danfoss Power Solutions	Danfoss Drives	Danfoss Cooling	Danfoss Heating	Other	Danfoss Power Solutions	Danfoss Drives	Danfoss Cooling	Danfoss Heating	Other
Goodwill as of December 31	253	770	274	267	2	339	770	280	285	2
Brand with indefinite useful life as of December 31	131					132				

The Danfoss Power Solutions brand with a carrying amount EUR 132m (2018: 131m) is not amoritized, but is tested annually for impairment. Global megatrends and industry recognition as one of the market leaders support that the brand will generate cash inflow for the Group for an indefinite period.

The weighted average growth rate until 2029 is based on past performance/management expectation of market development etc. and is estimated to be 2-6% (2018: 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 2018. The net cash flow during the terminal period from 2030 and onwards is estimated at a 2% annual growth, which is assumed to be at or below the expected growth in the markets addressed by Danfoss. The discount rates are set under consideration of a market-based cost of equity and cost of debt, and are 10-11% (2018: 10-11%) before tax for all segments.

Management does not assess that a reasonable change in the fundamental assumptions used in the impairment tests will result in recoverable amounts lower than the carrying amounts. The same conclusion was made for 2018.

Note 7 Intangible assets (continued)

Danfoss Power Solutions

The goodwill allocated to Danfoss Power Solutions derives primarily from the Danfoss Group's acquisition of the additional 38.2% of the share capital in Sauer-Danfoss Inc. (USA) in 2008, Visedo Oy (Finland) in 2017, UQM Technologies Inc. (USA) in 2019. At the end of 2019, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to EUR 315m (2018: 314m), or approximately 59% (2018: 57%) of the corresponding Group carrying amount . The carrying amount of Technology and Customer relations is amortized until 2032.

Danfoss Drives

The goodwill allocated to Danfoss Drives Segment derives primarily from the acquisition of Vacon (Finland) in December 2014. At the end of 2019, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 148m (2018: 169m), or approximately 28% (2018: 31%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2026 and 2029, respectively.

Danfoss Cooling

The goodwill allocated to Danfoss Cooling Segment derives primarily from the acquisitions of Scroll Technologies (USA) in 2006 and Danfoss Turbocor Compressors (USA) in 2012. At the end of 2019, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 25m (2018: 29m), or approximately 5% (2018: 5%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2032 and 2030, respectively.

Danfoss Heating

The goodwill allocated to Danfoss Heating Segment derives primarily from the acquisition of the DEVI Group (Denmark) in 2003 and Sondex Holding A/S (Denmark) in 2016. At the end of 2019, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 46m (2018: 41m), or approximately 8% (2018: 7%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2028 and 2031, respectively.

Other intangible assets

At the end of 2019, Danfoss had Software in progress amounting to EUR 36m (2018: 66m) and EUR 0m (2018: 0m) capitalized development expenditure in progress. Capitalized software in progress is mainly developed internally.

In 2019, the Group performed impairment tests on the carrying amount of software in progress. The actual expenses and achieved milestones has been evaluated according to the approved project and business plans. This led to no impairment of current software assets (2018: 0m).

Note 8 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2018	878	1,429	241	166	2,714
Foreign exchange adjustments in foreign companies	-5	-1			-6
Additions through acquisition of subsidiaries		1			1
Transfers	50	100	2	-152	
Additions	21	50	27	165	263
Disposals	-11	-26	-12		-49
Disposals through sale of subsidiaries	-8	-5			-13
Cost as of December 31, 2018	925	1,548	258	179	2,910
Depreciation and impairment losses as of January 1, 2018	400	1,097	153		1,650
Foreign exchange adjustments in foreign companies	-1	-3	-1		-5
Transfers		1	-1		
Depreciation	34	95	19		148
Disposals	-7	-25	-11		-43
Disposals through sale of subsidiaries	-5	-4			-9
Depreciation and impairment losses as of December 31, 2018	421	1,161	159		1,741
Carrying amount as of December 31, 2018	504	387	99	179	1,169
Cost as of January 1, 2019	925	1,548	258	179	2,910
Accounting policy change	107	1	27		135
Foreign exchange adjustments in foreign companies	6	9	1	1	17
Additions through acquisition of subsidiaries	8	1	1		10
Transfers	16	98	5	-119	
Additions	56	63	35	157	311
Disposals	-12	-17	-18		-47
Cost as of December 31, 2019	1,106	1,703	309	218	3,336
Depreciation and impairment losses as of January 1, 2019	421	1,161	159		1,741
Foreign exchange adjustments in foreign companies	2	6	1		9
Transfers	1	1	-2		
Depreciation	71	106	41		218
Impairment	1				1
Disposals	-11	-14	-17		-42
Depreciation and impairment losses as of December 31, 2019	485	1,260	182		1,927
Carrying amount as of December 31, 2019	621	443	127	218	1,409

Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 19 Acquisition and sale of subsidiaries and activities.

Note 8 Property, plant and equipment (continued)

EURm

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

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

Note 9 Inventories

EURm

	2018	**2019**
Raw materials and consumables	338	345
Work in progress	88	79
Finished goods and goods for resale	329	318
Inventories	755	742
Write-downs of inventories	61	62
Carrying amount of write-down inventories stated at net realizable value	46	52
Expensed adjustment of inventories to net realizable value included in cost of sales	11	9
Cost of goods sold included in cost of sales	3,143	3,214

Note 10 Trade Receivables

EURm

	2018	2019
Trade receivables before provision for bad debts	883	910
Provision for bad debts	-25	-25
Trade receivables	858	885
Receivables from associates and joint ventures	6	8
Total trade receivables	864	893
Hereof trade receivables due after 1 year	2	1
Provision for bad debts as of January 1	-26	-25
Foreign exchange adjustments in foreign companies	1	-1
Accrual of new provisions	-6	-6
Reversal of provisions accrued	4	3
Realized loss	2	4
Provision for bad debts as of December 31	-25	-25

Note 11 Share capital

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARES OR 5% OF THE VOTES

	SHARES	VOTES
The Bitten & Mads Clausen's Foundation, Nordborg, Denmark	47.33%	86.11%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.48%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.31%

DISTRIBUTION OF SHARES	A shares		B shares		Total	
	Number	DKKm	Number	DKKm	Number	DKKm
Balance as of January 1, 2018	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2018	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2019	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0

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 100 DKK.

DIVIDEND PER SHARE		2018		2019
	DKK	EUR	DKK	EUR
Proposed dividend per 100 DKK share	60.2	8.1	60.2	8.1
Dividend from last year paid per 100 DKK share	60.2	8.1	60.2	8.1

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

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

	2018	2019
Holding as of January 1	85,043	350,698
Acquired in the year	2,082	1,924
Acquired from The Bitten & Mads Clausen's Foundation	263,573	59,500
Holding as of December 31	350,698	412,122

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 2019 for acquiring own shares amounts to EUR 60m (2018: 249m). The Group's holding of of treasury shares represents 4.1% (2018: 3.5%) 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 a financial metric that is commensurate with such credit rating over the cycle. Danfoss is currently rated "BBB/A2 by Standard and Poor's. End of 2019 the net-interest-bearing debt to EBITDA ratio was 1.0 (2018: 1.0) 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.

Further information on Danfoss' credit rating is provided in Note 25 Events after the balance sheet date.

Note 12 Provisions

EURm

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

					2019
	Warranty	Contingent consideration	Employee-related	Other	**TOTAL**
Provisions as of January 1	46	53	32	30	161
Foreign exchange adjustments in foreign companies	1				1
Provisions used	-26		-4	-8	-38
Reversal of unused provisions	-5	-2		-4	-11
Additional provisions recognized	24		8	13	45
Provisions as of December 31	40	51	36	31	158

					2019
Estimated maturity of above provisions:	Warranty	Contingent consideration	Employee-related	Other	**TOTAL**
Within 1 year	28	1	4	13	46
Between 1 and 5 years	12	41	9	15	77
After more than 5 years		9	23	3	35
Provisions as of December 31	40	51	36	31	158

Note 13 Deferred tax

EURm

CHANGES IN DEFERRED TAXES

	2018	2019
Deferred taxes as of January 1 (net) *)	-145	-140
Adjustment from the adoption of IFRS 16		2
Foreign exchange adjustment in foreign companies	-2	
Additions through acquisition of subsidiaries	-1	-5
Adjustments concerning previous years	-2	-16
Deferred tax recognized in the income statement	9	7
Deferred tax recognized in other comprehensive income	1	8
Deferred taxes as of December 31 (net) *)	-140	-144

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2018	2019
	Deferred tax asset	Deferred tax asset
Intangible assets	5	4
Property, plant and equipment and financial assets	32	49
Current assets	24	18
Liabilities	92	127
Tax loss carry-forwards	41	40
Non-capitalized tax assets regarding tax losses	-33	-34
	161	204
Set-off within the same legal entities and jurisdiction	-73	-123
Deferred tax assets	88	81
	Deferred tax liability	Deferred tax liability
Intangible assets	119	142
Property, plant and equipment and financial assets	92	129
Current assets	14	10
Liabilities	71	62
Deferred tax regarding Danish joint taxation	5	5
	301	348
Set-off within the same legal entities and jurisdiction	-73	-123
Deferred tax liabilities	228	225

The tax asset related to tax loss carry-forwards of EUR 6m net (2018: 8m) 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% (2018: 91%) 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 34m (2018: 33m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized. 19% of the amount (2018: 3%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 70% (2018: 63%).

Of the deferred tax liability of EUR 225m (2018: 228m), EUR 5m (2018: 5m) can be attributed to taxes relating to joint taxation with foreign subsidiaries in previous years. The Group has deferred tax liabilities concerning temporary differences in foreign subsidiaries, associates and joint ventures of EUR 15m (2018: 19m). The liabilities are not recognized, because the Group decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

Note 14 Pension and healthcare obligations

EURm

In most countries, Danfoss offers defined contribution plans which are fully funded. However, a few of the foreign subsidiaries have obligations concerning defined benefit plans which are unfunded or only partly funded.
It is the Group's policy that pension and healthcare plans within the Group should, generally, be arranged as defined contribution plans. However, in countries like the USA, the UK and Germany, there is a tradition for defined benefit plans. The geographical split of defined benefit plans is as follows:

	2018		2019	
	Gross liability	Net Liability	Gross liability	Net Liability
Germany	24%	68%	25%	67%
USA	39%	35%	38%	29%
UK	33%	-17%	33%	-7%
Other	4%	14%	4%	11%
Total	100%	100%	100%	100%

The pension plans are based on the individual employee´s salary and years of service in the company. The plans have varying requirements for risk diversification and for matching assets strategies. The majority of the liabilities are either due to deferred members and pensioners, or they are linked to minimum-return guarantees. However, some of the defined benefit plans in the UK and the USA are still linked to final salary for a closed, limited group of less than 200 (2018: 200) active employees. Danfoss is working on minimizing the defined benefit risk by integrated risk management and by changing the nature of existing plans.
All material defined benefit plans have been computed by independent actuaries.

THE GROUP'S DEFINED BENEFIT PLAN OBLIGATIONS

	2018	2019
Present value of defined benefit plan obligations	479	550
Fair value of plan assets	-365	-406
	114	144
Defined benefit plan obligations are presented in the statement of financial position as follows:		
Pension benefit plan assets	19	11
Pension and healthcare plan obligations	133	155
	114	144

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

	2018	2019
Provision as of January 1	501	479
Foreign exchange adjustments in foreign companies	8	12
Pension costs for the year	3	3
Calculated interest on plan liabilities	13	15
Actuarial gains(-)/losses from changes in demographic assumptions	1	-3
Actuarial gains(-)/losses from changes in financial assumptions	-20	66
Gains from reductions and redemptions	-6	-1
Plan participants' contribution liabilities	2	2
Disbursed benefits from the Group	-5	-5
Disbursed benefits from plan assets	-21	-18
Net transfer from provisions	3	
Provision as of December 31	479	550

Note 14 Pension and healthcare obligations (continued)

EURm

DEVELOPMENT IN THE FAIR VALUE OF PLAN ASSETS

	2018	2019
Plan assets as of January 1	387	365
Foreign exchange adjustments in foreign companies	5	11
Calculated interest on plan assets	11	12
Plan participants' contribution asset	2	2
Return for the year on plan assets, excluding calculated interest	-28	25
Gains from reductions and redemptions	-6	
Payments by the Group	14	9
Disbursed benefits	-21	-18
Net transfer from provisions	1	
Plan assets as of December 31	365	406

A few countries may require that the liability is funded, but this is not the case in most countries. Defined benefit plans that are unfunded are mainly related to pension plans in some of the German subsidiaries and the healthcare plan in the USA. Unfunded plans amount to approximately EUR 72m (2018: 67m).

EXPENSES RELATING TO PENSION AND HEALTHCARE OBLIGATIONS

	2018	2019
Pension costs for the year	3	3
Calculated interest on liabilities	13	15
Calculated interest on assets	-11	-12
Gains from reductions and redemptions		-1
Expensed in the income statement	5	5
Pension cost stated under cost of sales	1	1
Pension cost stated under administrative expenses	2	2
Other operating income and expenses		-1
Interest concerning pension and healthcare obligations posted under financial items	2	3
	5	5

ESTIMATED MATURITY OF PROVISIONS

	2018	2019
Within 1 year	21	24
Between 1 and 5 years	86	93
After more than 5 years	372	433
	479	550

Note 14 Pension and healthcare obligations (continued)

EURm

PENSION PLAN ASSETS ARE SPECIFIED AS FOLLOWS:

	2018		2019	
Shares and similar securities	114	31%	132	33%
Listed corporate bonds	135	37%	136	34%
Bonds	96	26%	71	18%
Other	20	6%	67	15%
	365	100%	406	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 33% (2018: 31%) of the funds are invested in shares, which have historically been subject to value fluctuations.

SIGNIFICANT ASSUMPTIONS FOR CALCULATION OF PENSION AND HEALTHCARE OBLIGATIONS AND RELATED COSTS

	2018		2019	
	Range	Weighted average	Range	Weighted average
Discount rate	1.9-4.2%	3.1%	0.1-3,2%	2.2%
Estimated future salary increase	1.8-4.5%	3.5%	1.5-4.2%	3.5%

Life expectancy is based on relevant statistics available on the individual countries included in the calculation. 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 13m to defined benefit plans in 2020 (2019: 17m).

SENSITIVITY ANALYSIS

	2018	2019
Reported defined benefit plan obligations	479	550
Increase in discount rate of a 0.5 percentage point affects the defined benefit plan obligations by	-32	-40
Decrease in discount rate of a 0.5 percentage point affects the defined benefit plan obligations by	+37	+44
Increase in future salary increase of a 0.5 percentage point affects the defined benefit plan obligations by	+2	+2
Decrease in future salary increase of a 0.5 percentage point affects the defined benefit plan obligations by	-2	-2
Increase in average life expectancy of 1 year affects the defined benefit plan obligations by	+15	+20
Decrease in average life expectancy of 1 year affects the defined benefit plan obligations by	-15	-19

Note 15 Financial risks and instruments

EURm

FINANCIAL RISKS

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

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

For a description of accounting policies and procedures such as applied recognition criteria and basis of measurement, please see the disclosure under Note 26 Basis for preparation and accounting policies.

CURRENCY EXPOSURE

Currency exposure consists of three elements:

1. Transaction risk: This covers both the balance sheet risk, i.e. the risk related to assets and liabilities denominated in foreign currency, and the risk related to future cash flows in foreign currency. Both risk types have direct cash flow and earnings impact and therefore are the primary focus of Danfoss' currency hedging strategy. The hedging policy is to cover all balance sheet risk and all significant future cash flow risk for a 12-month period on a rolling and layered basis. The policy for future cash flow hedge ratios for 2019 and 2018 has been as follows:

0-3 months' exposure	90%
3-6 months' exposure	85%
6-9 months' exposure	80%
9-12 months' exposure	75%

The hedging ratio for balance sheet risk was 100% in both 2019 and 2018.

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

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

				2018				2019
NOMINAL POSITION OF SIGNIFICANT CURRENCIES	EUR	USD	GBP	**Total**	EUR	USD	GBP	**Total**
Receivables and payables	-93	-18	-5	-116	-101	-25	5	-121
Cash and loans 1)	-31	41	5	15	37	-75	-3	-41
Derivative financial instruments for hedging of fair value 2)	118	-22	0	96	66	101	-3	164
Derivative financial instruments for hedging of future cash flow	-407	-153	-35	-595	-412	-120	-38	-570

1) Besides the loans included, loans of EUR 627m (2018: 634m) are used for hedging of net investments (equity hedge). The impact on the Group's equity is EUR -0.4m (2018: -2m).
2) Financial instrument for hedging of fair value also includes the exposure related to inventories in countries applying foreign currency price lists.

SENSITIVITY

Probable increase in exchange rate	1%	10%	10%		1%	10%	10%	
Hypothetical impact on profit and loss for the year	0	0	0	0	0	0	0	0
Hypothetical impact on equity	-10	-15	-4	-29	-10	-12	-4	-26

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 includes impact from derivatives.

Note 15 Financial risks and instruments (continued)

EURm

COMMODITY RISK

Movements in commodity prices can affect the Group's earnings and cash flow. It is Danfoss' policy to ensure that significant risks related to raw materials are reduced through a combination of fixed price agreements with suppliers, active price adjustment and in some cases financial hedging. If commodity exposure is considered material, the price should be fixed for a period of between 6 months and 12 months.
Danfoss has not undertaken financial hedging of commodities in 2019 or 2018.

CREDIT RISK

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

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward-looking information. Out of the EUR 25m write down, EUR 19m relates to that which is more than 180 days overdue.

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

Ageing of trade receivables as of December 31:	2018	2019
Overdue less than 30 days	39	41
Overdue from 30 to 90 days	16	16
Overdue more than 90 days	24	33
Neither impaired nor overdue at the reporting date	810	828
Total gross carrying amount	889	918
Provision for bad debts as of December 31	25	25
Net carrying amount	864	893

The carrying amount of trade receivables is estimated to represent their fair value as well as the maximum credit risk.

INTEREST RATE RISK

The Group's interest rate risk derives primarily from interest-bearing debt, cash funds and pension obligations. The Group makes use of both fixed and floating-rate loans, as well as interest rate derivatives to manage this risk.
As per Danfoss' Treasury Policy, the interest rate risk on its debt portfolio should not exceed a maximum of 0.1% of Group annual revenue in case of a one-percentage-point parallel shift in interest rates across the interest rate curve.
All things being equal, an increase in the interest rate of one percentage-point compared to the interest rate level on the balance sheet date, would not have had any material impact on the profit for a year and equity at the end of the year. These sensitivities are based on the recognized financial assets and liabilities at December 31.

Note 15 Financial risks and instruments (continued)

EURm

LIQUIDITY RISK

It is Danfoss' policy to maintain a robust capital structure and to aim for a capital and financing structure that is compatible with a BBB credit rating, a liquidity reserve of minimum EUR 0.4bn, in terms of accessible cash and non-terminable creditfacilities with an average maturity profile of at least 3 years.

At the end of 2019, Danfoss' credit rating from Standard and Poor's was "BBB/A2" and the liquidity reserve equaled EUR 1.1bn (2018: 1.1bn). In addition to this, Danfoss had cash and significant amounts of short-term credit lines. The Group considers the liquidity reserve to be adequate in relation to current plans and the market conditions in general. The average maturity profile on non-terminable credit facilities was above 3 years at the end of 2019. The Danfoss Group's loan agreements contain no financial covenants.
Further information on Danfoss' credit rating is provided in Note 25 Events after the balance sheet date.

The major part of the Group's cash and cash equivalents of EUR 110m (2018: 50m) is placed on short-term deposits.

THE GROUP'S DEBT CATEGORIES AND MATURITIES

	2018					2019				
			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	939	986	60	538	388	906	941	39	650	252
Mortgage debt	70	73	2	1	70	69	74		1	73
Lease liabilities	54	58	7	42	9	194	219	55	124	40
Trade payables	883	883	883			820	820	820		
Debt to associates and joint ventures	2	2	2			3	3	3		
Derivative financial liabilities	9	9	9			3	3	3		
	1,957	2,011	963	581	467	1,995	2,060	920	775	365

*) Maturity is evenly spread over the period.

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 banks sole discretion. Danfoss is not directly or indirectly a party to these agreements. End of December, the Group is aware of around EUR 45m (2018: 45m) of trade payables that are part of such agreements.

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2018	2019
Non-current liabilities	1,007	1,093
Current liabilities	950	902
	1,957	1,995

Note 15 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS BY CATEGORY

	2018 Carrying amount	2018 Fair value	2019 Carrying amount	2019 Fair value
FINANCIAL ASSETS:				
Other investments	3	3	3	3
Financial assets measured at fair value via the income statement	3	3	3	3
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	1	1		
Financial assets used as hedging instruments	1	1		
Trade receivables	864	864	893	893
Other receivables	165	165	104	104
Cash and cash equivalents	50	50	110	110
Loans, receivables, cash and cash equivalents measured at amortized cost	1,079	1,079	1,107	1,107
FINANCIAL LIABILITIES:				
Contingent consideration measured at fair value via the income statement	53	53	51	51
Interest-bearing debt	1,063	1,085	1,169	1,197
Trade payables and other debt	1,447	1,447	1,385	1,385
Financial liabilities measured at amortized cost	2,510	2,532	2,554	2,582
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	4	4	1	1
Derivative financial instruments for the hedging of future cash flows	5	5	2	2
Financial liabilites used as hedging instruments	9	9	3	3

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap curves and exchange rates. The market value of the interest-bearing debt is recognized as the present value of expected future instalment and interest payments. The discount rate applied is the Group's current borrowing rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2018.

Note 15 Financial risks and instruments (continued)

EURm

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR THE GROUP

	2018				2019			
	Quoted prices	Observable input	Non-observable input		Quoted prices	Observable input	Non-observable input	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:								
Other investments			3	3			3	3
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		1		1				
Total financial assets		1	3	4			3	3
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		4		4		1		1
Derivative financial instruments for the hedging of future cash flows		5		5		2		2
Contingent consideration			53	53			51	51
Interest-bearing debt		1,085		1,085		1,197		1,197
Total financial liabilities		1,094	53	1,147		1,200	51	1,251

Note 15 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2018	2019
Carrying amount as of January 1, assets/liabilities (-)	-50	-50
Acquisitions	-5	
Disposals/Reversals	5	2
Carrying amount as of December 31, assets/liabilities (-)	-50	-48

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

DERIVATIVES AS OF DECEMBER 31 FOR THE GROUP

	2018						2019					
	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
USD	-205	-11	-6	-5			-99	-2	-1	-1		
EUR	-352		1	-1			-232	-1		-1		
Other currencies	98	3	3				-117					
Forward exchange contracts		-8	-3	-5				-3	-1	-2		
Derivatives end of year		-8	-3	-5				-3	-1	-2		

At the end of 2019, unrealized gain/loss(-) on derivatives hedging foreign currency risk recognized in equity amounted to EUR -2.2m (2018: -5.1m).
For the open foreign exchange contracts, used for USD cash flow hedges, at the end of 2019, weighted average hedge rate for USD/DKK is 6.5276 (2018: 6.2504).

Note 16 Corporation tax

EURm

	2018	2019
Corporation tax payable/receivable (-) as of January 1	37	26
Foreign exchange adjustment in foreign companies	3	
Paid during the year	-157	-140
Adjustments concerning previous years	-9	-12
Disposals through sale of subsidiaries	-1	
Current tax expenses in income statement	156	163
Current tax expenses in other comprehensive income	-3	1
Corporation tax payable/receivable (-) as of December 31	26	38
The above corporation tax is recorded as follows:		
Assets	39	30
Liabilities	65	68
	26	38

Note 17 Adjustment for non-cash transactions

EURm

	2018	2019
Depreciation/amortization and impairment	244	328
Gain(-)/loss on disposal of tangible assets and business activities	-33	-1
Gain(-)/loss from step-acquisitions		-9
Share of profit from associates and joint ventures after tax	33	4
Financial income	-3	-4
Financial expenses	48	37
Other	-19	-21
Adjustment for non-cash transactions	270	334

Depreciation/amortization and impairment includes depreciation on leased right-of-use assets. Further information on depreciation charge and lease payment is provided in Note 8 Property, plant and equipment and Note 21 Change in liabilities arising from financing activities.
The Group's other adjustments for non-cash transactions mainly consist of provisions, derivatives and defined benefit plans.

Note 18 Change in working capital

EURm

	2018	2019
Change in inventories	-103	30
Change in receivables	-41	14
Change in trade payables and other debt	131	-87
Change in working capital	-13	-43

Note 19 Acquisition and sale of subsidiaries and activities

EURm

Company/activity:		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid
							2018
IKUSI Telecontrol (business unit of IKUSI Electrónica, S.L.)	Acquisition	Spain	August	100%	13	73	**
AXCO-Motors	Acquisition	Finland	September	100%	2	10	**
OE3i Holding ApS	Acquisition	Denmark	November	100%	0	4	**
AAIM Controls Inc.	Acquisition	US	November	100%	7	26	**
Thermia (Heat Pump business)	Disposal	Sweden	April	100%	70	223	**

*) Net sales in the financial year prior to the acquisition or sale.

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

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

2018 acquisitions and disposals:
The Group only carried out minor acquisitions in 2018. Ikusi and AXCO related to the Power Solutions Segment, AAIM related to the Cooling Segment and OE3i related to the Heating Segment. The net sales included in the consolidated income statement of the acquired companies in 2018 was less than EUR 10m and impact on profit before tax was around EUR -2m.

The largest disposal was the sale of the Heat Pump business, which was previously part of the Heating Segment. The Heat Pump business is mainly active in Scandinavia. The gain on the disposal was included in other operating income, cf. Note 2.

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

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

Note 19 Acquisition and sale of subsidiaries and activities (continued)

EURm

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

	2018 Acquisitions	2019 Acquisitions	2018 Disposals	2019 Disposals
Intangible assets, except goodwill	-15	-58		
Property, plant and equipment	-1	-10	4	
Other non-current assets, including deferred tax assets		-2		
Inventories	-3	-8	10	
Receivables *)	-5	-11	7	
Cash and cash equivalents	-1	-7	6	
Interest-bearing debts		14		
Provisions, including deferred tax liabilities	2	8	-1	
Trade and other payables	1	13	-13	
Net assets acquired	-22	-61	13	
Recycling of foreign exchange adjustments on disposal of foreign companies			6	
Goodwill /profit on disposal	-23	-103	116	
Net assets, including goodwill(-)/profit on disposal	-45	-164	135	
Cash and cash equivalents	1	7	-6	
Consideration, net of cash	-44	-157	129	
Change in short-term payables/ receivables / provisions	3	1		
Previously acquired shares (associated)		5		
Adjustment related to step-acquisition		9		
Minority interests		2		
Net cash paid(-)/received	-41	-140	129	

*) receivables in acquisitions includes provision for bad debt of EUR 0.2m (2018: 0.5m)

Note 20 Acquisition / Sale of other investments

EURm

	2018	2019
Purchase of shares and other securities	-4	
Increase/decrease in lending	-9	37
	-13	37

Purchase of shares and other securities in 2018 is primarily related to the purchase of shares in the associated company Leanheat Oy. In 2019 Danfoss acquired the remaining shares of Leanheat Oy, further information is provided in Note 19 Acquisition and sale of subsidiaries and activities.

Note 21 Change in liabilities arising from financing activities

EURm

	Short-term borrowings	Long-term borrowings	TOTAL
Carrying amount as of January 1, 2018	92	1,023	1,115
Cash repayment	-395	-421	-816
Cash proceeds	341	410	751
Acquisitions and disposal of lease liabilities	5	11	16
Other	13	-16	-3
Carrying amount as of December 31, 2018	56	1,007	1,063
Adoption of IFRS 16	52	90	142
Cash repayment	-423	-604	-1,027
Lease payments	-59		-59
Cash proceeds	383	601	984
Acquisitions of subsidiaries	10	4	14
Acquisitions and disposal of lease liabilities	28	25	53
Reclassification	30	-30	
Other	-1		-1
Carrying amount as of December 31, 2019	76	1,093	1,169

Lease payments are the principal portion of lease liabilities and presented under cash flows from financing activities in the Statement of Cash Flows.
The Group's other change in liabilities arising from financing activities in 2018 mainly consists of foreign exchange adjustments and short-term and long-term borrowings reclassification..

Note 22 Contingent liabilities, assets and security

EURm

SECURITY

	2018	2019
Carrying amount of land and buildings pledged as security for bank loans and mortgages	123	140
Leasing assets pledged as security for leasing commitments	53	184
Carrying amount of interest-bearing liabilities with security in assets	126	265

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

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

	2018	2019
Service contract commitment other than leases	47	85
Inventories	140	166
Property, plant and equipment	44	37
Purchase commitments	231	288

Note 23 Leases

EURm

LESSEE

Lease liabilities are presented in borrowings of the Statement of Financial Position as follows:	2018	2019
Current	6	48
Non-current	48	146

The Group mainly leases buildings and cars. Lease payments are generally fixed. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the Statement of Financial Position as a right-of-use asset and a lease liability. The Group classifies its right-of-use assets in a consistent manner to property, plant and equipment, see Note 8 Property, plant and equipment. Each lease contract generally restricts the use of the right-of-use assets to the Group. Some lease contracts contain an option to extend the lease period or terminate the lease before the lease term. Management assesses weather or not it is reasonably certain that the option will be exercised after considering all relevant facts and circumstances.

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

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

Total cash outflow for leases for the financial year ended December 31, 2019, was EUR 66m (2018: 66m).

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

Note 24 Related parties

EURm

Danfoss A/S' related parties comprise the Bitten & Mads Clausen's Foundation and other shareholders with significant ownership interests, cf. Note 11 Share capital, as well as subsidiaries, associates, joint ventures, the Board of Directors and the Group Executive Team. Further, related parties comprise companies, in which the above-mentioned persons have controlling interest, joint controlling interests, or significant influence.

BITTEN & MADS CLAUSEN's FOUNDATION, OTHER SHAREHOLDERS AND OTHER RELATED COMPANIES

The Bitten & Mads Clausen's Foundation, which holds 47.33% of the shares in Danfoss A/S and controls 86.11% of the voting power, has the controlling influence.

In the financial year, a limited number of transactions have taken place between the Bitten & Mads Clausen's Foundation, its other subsidiaries and certain shareholders of the Clausen family. The transactions comprise of 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 (2018: 3.3m).
In the financial year, the Bitten & Mads Clausen's Foundation sold shares in Danfoss A/S at a value of EUR 58m back to the company (2018: 246m).
Around 95% 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, except for the following:

The Group has a rental agreement for a property in Italy with Chairman of the Board Jørgen M. Clausen. The rental agreement runs until and including 2023. The rent payment amounted to EUR 0.2m in 2019 (2018: 0.2m).
Besides that, companies in which Mads-Peter Clausen and Jørgen M. Clausen have significant ownership interests, have sold goods and services of less than EUR 0.7m (2018: 0.7m) to the Danfoss Group.
All transactions were performed on an arm's length basis.

For further information about the salaries of the Board and Group Executive Team, see Note 2 Expenses and other operating income, section A. Personnel expenses.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2018	2019
Sales of goods and services	44	40
Purchases of goods and services	15	16

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

Note 25 Events after the balance sheet date

Subsequent to December 31, 2019, on January 21, 2020, Danfoss announced the agreement to acquire Eaton's hydraulics business for a cash purchase price of USD 3,3bn. The transaction is subject to customary closing conditions and regulatory approvals and it is expected to close toward the end of the year. The Eaton's hydraulics business has approximately 11.000 employees and had 2019 sales of approximately EUR 2bn.
The acquisition will be fully financed with debt. An acquisition credit facility has been established with a group of Danfoss' core banks for that purpose and subsequent to closing, Danfoss intends to refinance a part of this credit facility in the debt capital markets. Danfoss intends to maintain a robust capital structure and aims for a capital and financing structure that is compatible with a BBB credit rating. Following the announcement Danfoss' BBB credit rating was reaffirmed but with a negative outlook from a stable outlook prior to the announcement.

Note 26 Basis for preparation and accounting policies

Danfoss A/S is a company domiciled in Denmark. The Annual Report for the period January 1 - December 31, 2019, comprises the Consolidated Financial Statements of Danfoss A/S and its subsidiaries (the Group).

The Consolidated Financial Statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

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

The Annual Report has been prepared on the basis of the historical cost convention except for the following assets and liabilities, which are measured at fair value: derivative financial instruments, financial instruments classified as available for sale, liabilities related to share options and warrants, contingent considerations from business combinations as well as pension and healthcare obligations. Non-current assets and disposal groups held for sale are measured at the lower carrying amount before the reclassification and fair value less costs to sell.

Changes in accounting policies
Danfoss A/S has implemented the standards and interpretations that have taken effect for 2019.

IFRS 16 Leases: The Group as a lessee recognizes a right-of-use asset and a lease liability for lease contracts entered into on or after 1 January 2019.

The Group depreciates the right-of-use assets on a straight-line basis and assesses the right-of-use asset for impairment when such indicators exist. The Group measures the lease liability at the present value of unpaid lease payments at that date, discounted using the incremental borrowing rate.

Subsequent to initial measurement, the liability will be reduced with payments made and increased with interest. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset or profit and loss if the right-of-use asset is already reduced to zero.

The Group has decided to recognize short-term leases and leases of low-value assets as an expense in profit or loss.

In the Statement of Financial Position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in borrowings.

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognizing a right-of-use asset and related lease liability in relation to all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Group has decided to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has decided not to include initial direct costs in the measurement of the right-of-use asset for existing operating leases at the date of initial application of IFRS 16, being 1 January 2019. At this date, the Group has decided to measure the right-of-use assets of buildings as if the standard had been applied since the commencement date of the lease, the present value for leased buildings had been calculated as per commencement date and the right-of-use asset had been depreciated until implementation date 1 January 2019. For leased assets other than buildings, the Group has decided to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets, the Group has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 5.0%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at January 1, 2019:

	December 31, 2018	**Re-measure-ment**	**January 1, 2019**
Property, plant and equipment	1,169	135	1,304
Borrowings	1,063	142	1,205
Other reserves	2,301	5	2,296
Deferred tax assets	88	2	90

The following is a reconciliation of total operating lease commitments at December 31, 2018 (as disclosed in the Financial Statements to December 31, 2018) to the lease liabilities recognized at January 1, 2019:

	December 31, 2018
Operating lease commitments disclosed as at December 31, 2018	153
Recognition exemptions:	
Leases of low-value assets	-1
Leases with remaining lease term of less than 12 months	-1
Uncommitted lease payments	13
Operating lease liabilities before discounting	164
Discounted using incremental borrowing rate	-22
Operating lease liabilities	142
Finance lease liabilities recognized as at December 31, 2018	54
Total lease liabilities recognized under IFRS 16 at January 1, 2019	**196**

Note 26 Basis for preparation and accounting policies (continued)

New financial reporting regulations
IFRIC 23 Uncertainty over income tax treatments: The interpretation clarifies that it must be determined whether each tax position is to be considered individually or collectively with other uncertain tax positions. The assessment should be based on the assumption that tax authorities have full knowledge of all relevant circumstances and, therefore, the assessment should assume full detection risk. This determination may be based on e.g. how tax statements are prepared, or how the enterprise expects tax authorities to treat the uncertain tax positions. The uncertain tax position must be recognized if it is probable that the uncertain tax position will affect the enterprise's future tax payments or refunds. The uncertain tax position must be measured so as to better reflect the receivable/liability and the related uncertainty. The Management has assessed that IFRIC 23 will not have any material impact for the Group.

A number of issued, but not yet effective, standards and interpretations have been published, which have not been adopted early by Danfoss A/S in the preparation of the 2019 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 IFRS 3 Definition of a Business
- Amendments to IAS 1 and IAS 8 Definition of Material
- Conceptual Framework for Financial Reporting

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

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

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

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

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

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

Business combinations
Newly acquired or established companies are recognized in the Consolidated Financial Statements from the acquisition date, and divested companies are recognized in the consolidated income statement until the time of divestment. Comparative figures are not restated for newly acquired companies. Unless divested companies are classified as discontinued operations, comparative figures are not restated.

When the Danfoss Group takes over control of acquired companies, the purchase method is applied. This means that the identifiable assets and liabilities, including contingent liabilities, of the acquired companies are stated at fair value at the acquisition date.

Identifiable intangible assets are recognized if they can be separated or arise from a contractual right. The tax effect of revaluations is recognized. The time of takeover is the day when the Danfoss Group de facto obtains control of the acquired company.

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

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

Any excess of the cost over the fair value of the identifiable assets and liabilities, including contingent liabilities, is recognized as goodwill under intangible assets. Goodwill is not amortized, but is subject to annual impairment tests. The initial impairment test is carried out before the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which form the basis for subsequent impairment tests. Identification of cash-generating units is based on the Group's cash flow, in accordance with the structure in the internal financial reporting. Such cash flow does not always follow the legal structure of the Group.

Goodwill and fair value adjustments related to the acquisition of a foreign unit with a functional currency other than the Danfoss Group's presentation currency are treated as assets and liabilities belonging to the foreign unit and converted to the functional currency of the foreign unit at the exchange rate on the transaction day.

Gain or loss on disposal of subsidiaries, associates or joint ventures are stated as the difference between the sales amount or the disposal amount and the carrying amount of net assets, including goodwill at the date of disposal, less disposal costs.

Minority interests
On initial recognition, minority interests are measured either at fair value or at their

Note 26 Basis for preparation and accounting policies (continued)

proportionate share of the fair value of the acquired company's identifiable assets, liabilities and contingent liabilities. In the case of the former, goodwill is recognized in respect of the minority interests' ownership share in the acquired company, whereas in the latter case, goodwill is not recognized as a part of minority interests.

The measurement of minority interests is determined for each transaction and stated in the notes under the description of acquired companies.

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

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

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

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

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

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

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

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

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

Income Statement

Net sales from contracts with customers
The Group is selling products and services in areas such as refrigeration, air conditioning, heating, motor control, and off-highway machinery. Net sales of products for resale and finished goods are recognized in the income statement when control of the products has been transferred to the customer. Control is transferred when the products are delivered, which occurs when the Group has objective evidence that all criteria for transfer of risk has been satisfied. Sales are only recognized to the extent that it is highly probable that a significant reversal will not occur. Products are often sold with retrospective volume discounts. Net sales are measured at the fair value of the consideration agreed, excluding VAT, duties and discounts in relation to the sale. Accumulated experience is used to estimate variable considerations (expected value method). The validity of assumptions and estimates are reassessed at each reporting date. Because of historical accurate estimates, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur.

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

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

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

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

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

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

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

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

Note 26 Basis for preparation and accounting policies (continued)

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 related to purchase of property, plant and equipment are deducted at the carrying amount of the asset.

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

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

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

Balance sheet

Intangible assets

Goodwill
Goodwill is initially recognized in the balance sheet at cost and allocated to cash-generating units as described under "Business combinations".

Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

Development projects, software, patents and licenses
Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or utilization opportunity within the company is demonstrated, and where the company intends to produce, market or use the project, are recognized as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net selling price can cover cost of sales, selling and distribution costs and administrative expenses and development costs. Other development costs are recognized in the income statement when incurred.

Recognized development projects are measured at cost less accumulated amortization and impairment. Cost includes direct and indirect expenses, including salaries and borrowing costs incurred from specific and general borrowing directly pertaining to the development of development projects.

Completed development projects, including software, are generally amortized on a straight-line basis over 4 to 8 years. Development projects in progress are not amortized, but annually tested for impairment.

Patents and licenses are measured at cost less accumulated amortization and impairment. Patents are amortized on a straight-line basis over the patent period and licenses are amortized over the shorter of the contract period and the useful life. Patent and contract periods are normally 5-10 years.

Other intangible assets
Other intangible assets, including intangible assets acquired in a business combination, which typically comprise technology and customer relations, are amortized on a straight-line basis over the expected useful life, which is typically a period of 10 to 20 years.

Intangible assets, including trademarks, with indefinite useful lives are not amortized, but are tested annually for impairment.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less costs to sell and the carrying amount at the selling date. Gains or losses are recognized in the income statement under 'Other operating income and expenses'.

Property, plant and equipment
Land and buildings, plant and machinery and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price, expenses for materials, components, sub-suppliers, direct salary expenses, borrowing costs incurred from specific and general borrowing, which directly pertain to the construction of the individual asset and for self-produced assets as well as indirect construction costs. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, and depreciated separately.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognized in the carrying amount of the asset, if it is probable that the costs will result in future economic benefits. All costs incurred for ordinary repairs and maintenance are recognized in the income statement as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives, which are as follows:

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

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

Gains and losses on disposal of property, plant and equipment are determined as the difference between the selling price less costs to sell and the carrying amount at the selling date. Gains or losses are recognized in the income statement under 'Other operating income and expenses'.

The cost of leased assets capitalized is recognized at the lease commencement date at the present value of the future lease payments. For the calculation of the net present value, the incremental borrowing rate is used as discount rate. They are depreciated and amortized like other property, plant and equipment. Leased assets with low value or lease term less than 12 months are expensed over the lease period on a straight-line basis.

Impairment of non-current assets
Goodwill and intangible assets with indefinite useful lives are tested annually for impairment, initially before the end of the acquisition year. Similarly, development projects in progress are subject to an annual impairment test. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized.

The carrying amount of other non-current assets is tested annually for evidence of impairment. When there is evidence that assets may be impaired, an impairment test is made. Impairment is tested by

Note 26 Basis for preparation and accounting policies (continued)

calculating the recoverable amount. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. The value in use is determined as the present value of expected future cash flows from the asset or the cash-generating unit (CGU). If the fair value or value in use cannot be determined on individual assets, the recoverable amount is determined as the fair value of expected future cash flows from activities or the cash-generating unit (CGU) to which the asset belongs.

Impairment losses are recognized in the income statement if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.

Impairment of assets is reversed to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after depreciation or amortization, had the asset not been impaired. However, impairment of goodwill is never reversed.

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

Inventories
Inventories are measured at cost. Where the estimated selling price less any costs of completion and selling (net realizable value) is lower than cost, inventories are written down to this lower value. Cost is calculated on the basis of the weighted average method or the FIFO method. The cost of work in progress and finished goods comprises the cost of raw materials and consumables, conversion costs and other costs directly or indirectly attributable to the goods. Indirect production overheads comprise maintenance and depreciation of production facilities and plant as well as administration and management of factories.

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

The discount rate is the effective interest rate used at the time of initial recognition of the receivable.

Equity

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

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

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

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

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

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

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

Provisions
A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event in the financial year or previous years, and it is probable that the settlement of the obligation may lead to an outflow of the Group's financial resources, which can be reliably measured at the balance sheet date. The amount recognized as a provision is Management's best estimate of the expenses required to settle the obligation. In measuring provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

For the measurement, a pre-tax discount factor is used which reflects the current market interest rate level and the specific risks related to the liability. Changes in present values for the financial year are recognized under financial expenses.

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

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

Note 26 Basis for preparation and accounting policies (continued)

Employee shares
On the granting of employee shares, any bonus element is recognized as an expense under personnel costs. The counter entry is recognized directly in equity. The bonus element is determined at the subscription date as the difference between the fair value and the subscription price of the shares.

Pension obligations and defined benefit healthcare plans
The Group has entered into pension schemes and similar arrangements with the majority of the Group's employees. In addition, the Group has healthcare plans contributing with payment for medical expenses for certain employee groups in the USA after their retirement.

Contributions to defined contribution plans, where the Group currently pays fixed pension payments to independent pension funds, are recognized in the income statement in the period to which they relate, and any contributions outstanding are recognized in the balance sheet as other debt.

For defined benefit pension and healthcare plans, the Group is under an obligation to pay a specific benefit upon retirement (e.g. a fixed amount or a percentage of the exit salary). For these plans, an annual actuarial calculation (Projected Unit Credit method) is made of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension and healthcare obligations.

Pension and healthcare costs for the year are recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in assets and liabilities and realized amounts determined at year end constitutes actuarial gains or losses and is recognized directly in other comprehensive income. If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognized as past service costs. Past service costs are recognized immediately, provided that the benefits have already vested. If the benefits have not vested, the past service costs are expensed in the income statement over the period in which the changed benefits vest.

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

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

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

Derivative financial instruments
Derivative financial instruments, such as forward exchange contracts or options and commodity contracts, are recognized and measured at fair value. Positive and negative fair values of derivative financial instruments are shown as separate items in the balance sheet. Set-off of positive and negative values is only made when the Company has the right and the intention to settle several financial instruments net.

Provided that the documentation requirements etc. are met, hedge accounting is applied to the instruments. In connection with hedging of future sales and purchase transactions (cash flows), changes in the fair value of instruments qualifying for hedge accounting are recognized in the statement of comprehensive income under the hedging reserve until the hedged transaction is occurs in the balance sheet.

At this point, gains or losses relating to such hedging transactions are transferred from the statement of comprehensive income and are recognized in the same item as the hedged transaction. If the instruments do not qualify for hedge accounting, changes in market value are recognized directly in the income statement under financial items.

Corporation tax and deferred tax
Companies belonging to Danfoss A/S are generally liable to pay tax in the countries where they are domiciled. The current tax includes both Danish and foreign income taxes.

Income statement
The current and deferred taxes for the year are recognized in the income statement, except for tax related to transactions recognized in the statement of comprehensive income or directly in equity.

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

Balance sheet
Current tax payable and receivable are recognized in the balance sheet as tax computed on the taxable income for the year, adjusted for tax paid under the tax prepayment scheme. In the course of conducting business globally, transfer pricing disputes with tax authorities may occur and management judgment is applied to assess the possible outcome of such disputes. The most probable outcome is used as measurement method.

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

Statement of Cash flows
The statement of cash flows shows the cash flows from operating, investing and financing activities for the year, and cash equivalents at the beginning and the end of the year. The cash-flow effect of acquisitions and disposals of companies is shown separately under cash flows from investing activities.

Cash flows relating to acquired companies are recognized in the statement of cash flows at the

Note 26 Basis for preparation and accounting policies (continued)

acquisition date, and cash flows relating to divested companies are included until the disposal date.

Cash flows from operating activities
Cash flows from operating activities are calculated according to the indirect method on the basis of profit before tax/profit before tax from continuing operations and adjusted for non-cash operating items, changes in working capital, paid financial items, received dividend and paid corporation taxes.

Cash flows from investing activities
Cash flows from investing activities comprise payment in connection with the acquisition and disposal of companies and activities, intangible assets and property, plant and equipment as well as securities classified as investing activities. Acquisitions of assets under leases capitalized are treated as non-cash transactions.

Cash flows from financing activities
Cash flows from financing activities comprise changes in the size or composition of the share capital, the raising and repayment of long-term and short-term bank debt, lease payment, acquisition of minority interests, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents
Cash and cash equivalents comprise bank account deposits and cash balances.

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

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

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

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

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

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

Financial ratios and key figures
Earnings per share (EPS) and diluted earnings per share (DEPS) are calculated in accordance with IAS 33. EBITA is used as the primary performance measure by the Group.

The financial ratios in the Annual Report are calculated in the following manner:

Local currency growth
Sales growth adjusted for exchange rate translation effects

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

EBITDA margin
Operating profit (EBIT) before depreciation, amortization, impairment and profit from associates & joint ventures /Net sales

EBITDA margin excluding other operating income, etc.
Operating profit (EBIT) before depreciation, amortization, impairment and other operating income and expenses and profit from associates & joint ventures /Net sales

EBITA margin excluding other operating income, etc.
Operating profit (EBIT) before acquisition-related amortization other operating income and expenses and profit from associates & joint ventures /Net sales

EBITA margin
EBITA /Net sales

EBIT margin
Operating profit (EBIT)/Net sales

Return on Invested Capital (ROIC)
Operating profit (EBIT)/average invested capital

Invested Capital
Net interest bearing debt added to Shareholders' Equity

Return on Invested Capital (ROIC) after tax
EBIT after tax/average invested capital excluding tax

Invested capital excluding tax
Net interest bearing debt and tax balance sheet items (net) added to shareholders' equity

EBIT after tax
Operating profit (EBIT) reduced with tax on profit

Return on equity
Net profit after minority interests' share/average equity excluding minority interests

Equity ratio
Equity/total assets

Leverage ratio
Interest bearing debt/equity at year-end

Net interest-bearing debt to EBITDA ratio
Interest-bearing debt less interest-bearing assets/ EBITDA

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

Dividend ratio per share
Total dividends distributed to shareholders/total shares

Free operating cash flow
Cash flow from operating and investing activities before acquisition of subsidiaries, proceeds from disposal of subsidiaries and acquisitions/sales of other investments, financial items, taxes, but including lease payments (IFRS16).

Free operating cash flow after financial items and tax
Cash flow from operating and investing activities before acquisition of subsidiaries, proceeds from disposal of subsidiaries and acquisitions/sales of other investments but including lease payments (IFRS16).

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

Note 27 Critical accounting estimates

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

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

Accordingly, Danfoss is subject to risks and uncertainties, which may cause actual results to differ from these estimates. For the Group, the measurement of intangible assets could be materially affected by significant changes in estimates and assumptions on which the measurement is based.

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

Due to the nature of the Group's operations, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty due to changes in the global economic situation and changes in the strategy of the Group. This uncertainty is reflected in the chosen discount rate. The impairment test of goodwill and the particularly sensitive parts of the test are described in detail in Note 7 Intangible assets.

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

Due to the nature of the operations of the investments, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty. The investments in associates and joint ventures are described in more detail in Note 3 Investments.

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

The amortization and depreciation periods used are described in the accounting policies in Note 25, and the value of non-current assets is disclosed in Note 7 Intangible assets and Note 8 Property, plant and equipment.

Measurement of recognized tax assets and liabilities
Deferred taxes, including the tax value of tax loss carryforwards, are recognized at their expected value. The assessment of deferred tax assets regarding tax loss carryforwards is based on the expected future taxable income of the respective units and the expiration date of the losses. Please see Note 13 Deferred tax assets and liabilities for unrecognized deferred tax assets.

In the course of conducting business globally, transfer pricing disputes with tax authorities may occur and Management judgment is applied to assess the possible outcome of such disputes. The most probable outcome is used as measurement method, and Management believes that the provision made for uncertain tax positions not yet settled with local authorities is adequate. However, the actual obligation may deviate and is dependent on the results of the litigation and settlement with the relevant tax authorities. Corporation tax is disclosed in Note 16 Corporation tax.

Defined benefit plans and healthcare obligations
The Group has established defined benefit plans with certain employees at some of the Group's foreign companies. The plans place the Group under an obligation to pay a certain benefit in connection with retirement (e.g. in the form of a fixed amount at retirement or a share of the employee's exit salary). The pension obligations are determined by discounting the pension obligations at the present value. The present value is determined on the basis of assumptions about the future development in economic variables such as interest rates, inflation, mortality and disability probabilities, which are subject to some degree of uncertainty. External actuaries are used for the measurement of all significant defined benefit plans. The assumptions used are disclosed in Note 14 Pension plans and healthcare obligations.

Note 28 Group companies

As per December 31, 2019
The companies are owned 100% by Danfoss unless otherwise stated after the company name.

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

• Subsidiary
• Associate or joint venture

EUROPE

Austria
• Danfoss Gesellschaft m.b.H.

Belgium
• Danfoss N.V./S.A.
• Danfoss Power Solutions BVBA
• Hydro-Gear Europe BVBA

Bulgaria
• Danfoss EOOD

Croatia
• Danfoss d.o.o.

Czech Republic
• Danfoss s.r.o.

Denmark
• BetterHome ApS – 33%
• Danfoss Compressors Holding A/S
• Danfoss Distribution Services A/S
• Danfoss Fire Safety A/S
• Danfoss International A/S
• Danfoss IXA A/S – 73%
• Danfoss Power Electronics A/S
• Danfoss Power Solutions ApS
• Danfoss Power Solutions Holding ApS
• Danfoss Power Solutions Holding II ApS
• Danfoss Redan A/S
• Gemina Termix Production A/S
• Issab Holding ApS
• Sondex A/S
• Sondex Holding A/S

Estonia
• Danfoss AS

Finland
• Danfoss Power Solutions Oy Ab
• Oy Danfoss Ab
• Leanheat Oy
• Sondex Tapiro Oy Ab
• Vacon Oy
• Danfoss Editron Oy

France
• Danfoss Commercial Compressors S.A.
• Danfoss Power Solutions SAS
• Danfoss S.a.r.l.

Germany
• BD Kompressor Holding GmbH & Co. KG – 50% (joint venture) – in liquidation
• Danfoss Esslingen GmbH
• Danfoss GmbH
• Danfoss Power Solutions GmbH & Co. OHG
• Danfoss Power Solutions Holding GmbH
• Danfoss Power Solutions Informatic GmbH
• Danfoss Power Solutions Parchim GmbH
• Danfoss Power Solutions Parchim GmbH & Co. KG
• Danfoss Power Solutions Telekontrol GmbH
• Danfoss Sensors GmbH
• Danfoss Silicon Power GmbH
• Danfoss Werk Offenbach GmbH
• Hydraulik Nord Fluidtechnik Verwaltungs GmbH
• SMA Solar Technology AG – 20%
• Sondex Deutschland GmbH
• White Drive Products GmbH - in liquidation

Great Britain
• Artemis Intelligent Power Ltd. – 75%
• Danfoss Limited
• Danfoss Power Solutions Ltd.
• Danfoss Scotland Limited
• Senstronics Holding Ltd. – 50% (joint venture)
• Sondex (UK) Limited

Hungary
• Danfoss Kft.
• Sondex Höcserélök Magyarország Kft. – under voluntary liquidation

Iceland
• Danfoss hf.

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

Kazakhstan
• Danfoss LLP

Latvia
• Danfoss SIA

Lithuania
• Danfoss UAB

The Netherlands
• Advitronic Engineering B.V.
• Danfoss B.V.
• Danfoss Power Solutions B.V.
• Sondex B.V.
• Sondex Holding Netherlands B.V.
• Danfoss Editron B.V.

Norway
• Danfoss AS
• Danfoss Power Solutions AS

Poland
• Danfoss Poland Sp. z.o.o.
• Danfoss Power Solutions Sp .z.o.o.
• Danfoss Saginomiya Sp. z.o.o. – 50% (joint venture)
• Elektronica S.A. – 50% (joint venture)
• Sondex Braze Sp. z.o.o.
• Sondex Poland Sp. z.o.o.
• Sondex Polska Sp. z.o.o.
• Sondex Sp. z.o.o.

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

Russia
• AO Ridan
• Danfoss Dzerzhinsk LLC
• Danfoss LLC
• Danfoss Power Solutions LLC

Serbia
• Danfoss d.o.o.

Slovakia
• Danfoss Power Solutions a.s.
• Danfoss spol. s.r.o.
• Sondex PHE s.r.o. – in liquidation

Slovenia
• Danfoss Trata d.o.o.

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

Note 28 Group companies (continued)

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

Switzerland
- Danfoss AG

Ukraine
- Danfoss T.o.v.

AFRICA-MIDDLE EAST

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

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

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

NORTH AMERICA

Canada
- Danfoss Inc.

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

LATIN AMERICA

Argentina
- Danfoss S.A.

Brazil
- Danfoss do Brasil Indústria e Comércio Ltda.
- Danfoss Power Solutions Indústria e Comércio Electrohidráulica Ltda.
- Sondex ICP Latin America

Chile
- Danfoss Industrias Ltda.

Colombia
- Danfoss S.A.

Mexico
- Danfoss Industries S.A. de C.V.

ASIA-PACIFIC

Australia
- Danfoss (Australia) Pty. Ltd.
- Danfoss Power Solutions Pty. Ltd.
- Sondex Australia Pty. Ltd.
- Sondex Engineering Pty. Ltd.

P. R. of China
- Danfoss Automatic Controls Management (Shanghai) Co. Ltd.
- Danfoss (Anshan) Controls Co. Ltd.
- Danfoss Industries Limited
- Danfoss (Tianjin) Limited
- Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd.
- Danfoss (Jiaxing) Plate Heat Exchanger Co., Ltd.
- Danfoss Power Solutions (Jiangsu) Co., Ltd.
- Danfoss Power Solutions Trading (Shanghai) Co., Ltd.
- Danfoss Power Solutions (Zhejiang) Co., Ltd.
- Danfoss (Tianjin) Fire Protection Equipment Co., Ltd.
- Danfoss Shanghai Hydrostatic Transmission Co. Ltd. – 60%
- Sondex (Ningbo) Plate Heat Exchanger Co., Ltd.
- Sondex Heat Exchangers (Taicang) Co. Ltd.
- Tau Energy Holdings (HK) Limited – in voluntary liquidation
- UQM Technologies Asia Ltd.
- UQM Technologies (Shanghai) Co., Ltd.
- Vacon (China) Drives Co. Ltd.
- Visedo (Asia) Ltd.
- Zheijang Holip Electronic Technology Co. Ltd.

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

Indonesia
- PT Danfoss Indonesia
- PT Sondex Indonesia

Iran
- Danfoss Pars Private Joint Stock Company – in liquidation

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

Malaysia
- Danfoss Industries Sdn. Bhd.
- Sondex Heat Exchangers Malaysia Sdn. Bhd.

New Zealand
- Danfoss (New Zealand) Ltd.

Philippines
- Danfoss Inc.

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

South Korea
- Danfoss Korea Ltd.
- Danfoss Power Solutions Ltd.

Taiwan
- Danfoss Co. Ltd.

Thailand
- Danfoss (Thailand) Co. Ltd.

Parent
Accounts and notes

In the future, intelligent buildings will play an active part in the energy system, consuming less energy when energy is expensive to produce. The outcome is high energy efficiency, a lower energy bill and reduced carbon emissions from buildings. Danfoss is part of the EnergyLab Nordhavn in Denmark. The mission is to demonstrate and analyze the technical and economic advantages of intelligent control of the components and systems that provide heating and cooling inside the buildings.

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 2,869 employees at the end of 2019.

The profit before other operating income and expenses was EUR 78m against EUR 72m in 2018. The company's operating profit was EUR 68m against EUR 65m the previous year.

Financial income and expenses decreased from a net income of EUR 93m against a net income of EUR 212m in 2018, mainly because 2018 was positively impacted by a gain on disposal of subsidiaries.

The profit after tax in 2019 was EUR 149m against EUR 259m the previous year.

Equity was EUR 2,896m at the end of 2019 against EUR 2,886m at the end of 2018. The increase was mainly attributable to recognition of the profit for the year less dividends paid to the owners.

Danfoss A/S expects net sales for 2020 to be on a level with the 2019 figures, and the company expects to report a profit in 2020.

Income statement

January 1 to December 31

EURm	Note	2018	2019
Net sales	1	1,248	1,283
Cost of sales	1	-1,004	-1,016
GROSS PROFIT		**244**	**267**
Research and development costs	1	-35	-35
Selling and distribution costs	1	-87	-94
Administrative expenses	1	-50	-60
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**72**	**78**
Other operating income and expenses	1	-7	-10
OPERATING PROFIT (EBIT)		**65**	**68**
Financial income	2	258	148
Financial expenses	3	-46	-55
PROFIT BEFORE TAX		**277**	**161**
Tax on profit	4	-18	-12
NET PROFIT		**259**	**149**
Attributable to:			
Proposed dividends reserve		80	80
Other reserves		179	69
		259	**149**

Statement of comprehensive income

January 1 to December 31

EURm	2018	2019
NET PROFIT	**259**	**149**
OTHER COMPREHENSIVE INCOME		
Foreign exchange adjustments on translation of DKK into EUR	-10	-1
Fair value adjustment of hedging instruments:		
Hedging transferred to financial expenses in the income statement	-1	
Items that can be reclassified to profit or loss	**-11**	**-1**
OTHER COMPREHENSIVE INCOME AFTER TAX	**-11**	**-1**
TOTAL COMPREHENSIVE INCOME	**248**	**148**

Statement of financial position

As of December 31

EURm	Note	2018	2019
ASSETS			
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	5	**218**	**240**
PROPERTY, PLANT AND EQUIPMENT	6	**251**	**277**
Investments	7	3,831	3,281
OTHER NON-CURRENT ASSETS		**3,831**	**3,281**
TOTAL NON-CURRENT ASSETS		**4,300**	**3,798**
CURRENT ASSETS			
INVENTORIES		**90**	**104**
Trade receivables external		38	36
Trade receivables from subsidiaries		91	90
Short-term loans to subsidiaries		313	878
Other receivables		30	19
RECEIVABLES		**472**	**1,023**
CASH AND CASH EQUIVALENTS	9	**25**	**83**
TOTAL CURRENT ASSETS		**587**	**1,210**
TOTAL ASSETS		**4,887**	**5,008**

Statement of financial position

As of December 31

EURm	Note	2018	2019
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY		**2,886**	**2,896**
LIABILITIES			
Provisions	9	49	46
Deferred tax liabilities	8	31	38
Pension and healthcare benefit plan obligations		2	2
Borrowings	9	951	959
Other non-current debt		18	21
NON-CURRENT LIABILITIES		**1,051**	**1,066**
Provisions		10	9
Borrowings	9	11	16
Trade payables		183	163
Trade payables to subsidiaries		15	41
Borrowings from subsidiaries		615	709
Debt to associates and joint ventures		2	3
Corporation tax	10	10	2
Derivative financial instruments (negative fair value)	9	9	2
Other debt		95	101
CURRENT LIABILITIES		**950**	**1,046**
TOTAL LIABILITIES		**2,001**	**2,112**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,887**	**5,008**

Statement of cash flows

January 1 to December 31

EURm	Note	2018	2019
Profit before tax		277	161
Adjustments for non-cash transactions	11	-150	-49
Change in working capital		20	18
Interest received		55	18
Interest paid		-24	-13
Dividends received		124	124
Paid tax	10	-20	-13
CASH FLOW FROM OPERATING ACTIVITIES		**282**	**246**
Acquisition of intangible assets		-54	-42
Acquisition of property, plant and equipment		-28	-43
Proceeds from sale of property, plant and equipment		1	
Acquisition of subsidiaries		-114	-35
Proceeds from disposal of subsidiaries		153	
Cash repayment of (-)/cash proceeds from loans to subsidiaries		730	-13
Acquisition (-)/sale of other investments, etc.		-1	
CASH FLOW FROM INVESTING ACTIVITIES		**687**	**-133**
Cash repayment of interest-bearing debt	12	-751	-985
Cash proceeds from interest-bearing debt	12	692	974
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		-556	94
Repurchase of treasury shares		-249	-60
Dividends paid to shareholders in the Parent Company		-80	-78
CASH FLOW FROM FINANCING ACTIVITIES		**-944**	**-55**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**25**	**58**
Cash and cash equivalents as of January 1			25
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**25**	**83**

The cash flow statement cannot be derived on the basis of the Annual Report alone.

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, 2018	**134**	**10**	1	-68	61	2,747	**2,741**	**81**	**2,966**
Net profit						179	**179**	**80**	**259**
Software development costs					32	-32			
Currency translation adjustments						-10	**-10**		**-10**
Fair value adjustment of hedging instruments			-1				**-1**		**-1**
Total other comprehensive income			-1			-10	**-11**		**-11**
Total comprehensive income for the period			-1		32	137	**168**	**80**	**248**
Dividends to shareholders						1	**1**	**-81**	**-80**
Purchase of treasury shares				-248			**-248**		**-248**
Total transactions with owners				-248		1	**-247**	**-81**	**-328**
BALANCE AS OF DECEMBER 31, 2018	**134**	**10**		-316	93	2,885	**2,662**	**80**	**2,886**
Net profit						69	**69**	**80**	**149**
Software development costs					37	-37			
Currency translation adjustments						-1	**-1**		**-1**
Total other comprehensive income						-1	**-1**		**-1**
Total comprehensive income for the period					37	31	**68**	**80**	**148**
Dividends to shareholders						2	**2**	**-80**	**-78**
Purchase of treasury shares				-60			**-60**		**-60**
Total transactions with owners				-60		2	**-58**	**-80**	**-138**
BALANCE AS OF DECEMBER 31, 2019	**134**	**10**		-376	130	2,918	**2,672**	**80**	**2,896**

For further information on Share capital, see Note 11 Share capital, in Group section.

Notes

Note 1 Net Sales, expenses and other operating income

EURm

A. NET SALES

	2018	2019
Sale of goods	1,000	1,046
Sale of services to Group members	248	237
	1,248	1,283

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

B. PERSONNEL EXPENSES

	2018	2019
Salaries and wages	251	256
Severance payments	8	1
Social security	2	2
Pension cost - Defined contribution plans	20	21
	281	280
Average number of employees	2,841	2,863
Total number of employees as of end of the year	2,905	2,869

	2018	2019
Remuneration to Group Executive Team and Board of Directors:		
Salaries	4	4
Pension costs	1	1
Bonuses	7	8
Group Executive Team	12	13
Board of Director's fee	1	1
Total	13	14

Total remuneration for registered members of Executive Management amounts to EUR 10m (2018: 9m).

Note 1 Net Sales, expenses and other operating income

EURm

C. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2018	2019
Classification by nature:		
Amortization of intangible assets	15	23
Depreciation of property, plant and equipment	27	37
Depreciation/amortization and impairment losses	42	60
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	12	21
Selling and distribution costs	2	2
Administrative expenses	1	
Other operating expenses	15	23

D. OTHER OPERATING INCOME AND EXPENSES

	2018	2019
Other	2	1
Other operating income	2	1
Restructuring costs	-8	-1
Other	-1	-10
Other operating expenses	-9	-11
Other operating income and expenses	-7	-10

E. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2018	2019
Audit fee	1	1
Other assurance engagements fee	0	0
Tax and VAT advice	0	0
Other fees	1	1
Total fee to Group Auditor	2	2

Fees for services other than the statutory audit of the Financial Statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PricewaterhouseCoopers Denmark) amounted to EUR 0.9m (2018: 1.2m). Services other than statutory audit of the Financial Statements comprise services relating to transfer pricing, tax audits, due diligence and agreed-upon procedures, as well as accounting advice.

Note 2 Financial income

EURm

	2018	2019
Dividend from subsidiaries and associates/joint ventures	124	124
Interest from subsidiaries	62	22
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	71	1
Interest from banks, etc.	1	1
	258	148
Interest on financial assets measured at amortized cost	63	23

Note 3 Financial expenses

EURm

	2018	2019
Interest to banks, etc.	-24	-12
Foreign exchange losses, net	-8	-7
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-6	-17
Interest to subsidiaries	-8	-6
Impairment/loss on loans		-12
Interest expense for leasing arrangements		-1
	-46	-55
Interest on financial liabilities measured at amortized cost	-32	-18

In Foreign exchange losses, net are included fair value hedge impact of EUR 4m (2018: -21m).

Note 4 Tax on profit

EURm

	2018	2019
Current tax expense	-31	-15
Change in deferred tax	8	-2
Adjustments concerning previous years	5	5
	-18	-12
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Tax-exempt income/non-deductible expenses	-4.9%	4.1%
Dividends exempt of tax	-9.8%	-16.8%
Other taxes	0.9%	1.6%
Adjustments concerning previous years	-1.7%	-3.1%
Effective tax rate	6.5%	7.8%

	2018	2019
Tax on profit (income statement)	-18	-12
Total taxes	-18	-12

Note 5 Intangible assets

EURm

	Goodwill	Internally developed software	Patents, trademarks and other rights	Development costs	Total Other	TOTAL
Cost as of January 1, 2018	64	168	32	14	214	278
Transfers		-35	35			
Additions		54			54	54
Disposals		-1		-3	-4	-4
Cost as of December 31, 2018	64	186	67	11	264	328
Amortization and impairment losses as of January 1, 2018		63	22	14	99	99
Transfers		-20	20			
Amortization		11	4		15	15
Disposals		-1		-3	-4	-4
Amortization and impairment losses as of December 31, 2018		53	46	11	110	110
Carrying amount as of December 31, 2018	64	133	21		154	218
Cost as of January 1, 2019	64	186	67	11	264	328
Addition through merger with subsidiaries	3					3
Transfers		35	-35			
Additions		42			42	42
Disposals		-2			-2	-2
Cost as of December 31, 2019	67	261	32	11	304	371
Amortization and impairment losses as of January 1, 2019		53	46	11	110	110
Transfers		22	-22			
Amortization		21	2		23	23
Disposals		-2			-2	-2
Amortization and impairment losses as of December 31, 2019		94	26	11	131	131
Carrying amount as of December 31, 2019	67	167	6		173	240

Of the "internally developed software" approximately 60% relates to the One ERP Program described in the Management's review for Group, page 37.

IMPAIRMENT TESTS

Goodwill in Danfoss A/S of EUR 67m (2018: 64m) 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 2019, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were perfomed on Danfoss A/S representing the base level of cash-generating units (CGUs), to which the carrying amount of goodwill can be allocated with reasonable accuracy. The impairment test method is similar to the impairment test performed at Group level described in Note 7 Intangible assets in the Danfoss Group accounts.

Management does not assess that a reasonable change in the fundamental assumptions used in the impairment tests will result in a recoverable amount lower than the carrying amount. The same conclusion was made for 2018.

Note 6 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2018	269	300	97	40	706
Foreign exchange adjustments	-1	-1			-2
Transfers	10	18	2	-30	
Additions	3		18	23	44
Disposals		-5	-1		-6
Cost as of December 31, 2018	281	312	116	33	742
Depreciation and impairment losses as of January 1, 2018	171	265	35		471
Foreign exchange adjustments		-1			-1
Depreciation	8	10	9		27
Disposals		-5	-1		-6
Depreciation and impairment losses as of December 31, 2018	179	269	43		491
Carrying amount as of December 31, 2018	102	43	73	33	251
Cost as of January 1, 2019	281	312	116	33	742
Accounting policy change	7		6		13
Transfers	4	7		-11	
Additions	8	8	13	22	51
Disposals	-6	-8	-8		-22
Cost as of December 31, 2019	294	319	127	44	784
Depreciation and impairment losses as of January 1, 2019	179	269	43		491
Depreciation	8	13	16		37
Disposals	-6	-8	-7		-21
Depreciation and impairment losses as of December 31, 2019	181	274	52		507
Carrying amount as of December 31, 2019	113	45	75	44	277

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

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

Note 7 Investments

EURm

	2018					2019				
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**TOTAL**	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**TOTAL**
Costs as of January 1	2,623	665	316	18	3,622	2,646	934	314	19	3,913
Foreign exchange adjustments, etc.	-8		-2		-10	-2				-2
Additions	114	269		1	384	35				35
Disposals	-83				-83	-2	-565			-567
Costs as of December 31	2,646	934	314	19	3,913	2,677	369	314	19	3,379
Adjustments as of January 1	-56		-5	-16	-77	-61		-5	-16	-82
Reversed impairment	1				1			1		1
Impairment for the year	-6				-6	-17				-17
Adjustments as of December 31	-61		-5	-16	-82	-78		-4	-16	-98
Carrying amount as of December 31	2,585	934	309	3	3,831	2,599	369	310	3	3,281

Where indicators for impairment were present at the end of 2019, impairment tests were performed on the carrying amount of "Investments in subsidiaries, associates and joint ventures". Main indicators are loss-giving activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the valuation of the subsidiaries, associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2018.

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

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

Additions for 2018 to "Investments in subsidiaries" is mainly the acquisition of Danfoss Power Solutions companies relating to the simplification of Danfoss Group legal structure. Disposal for the year of "Investments in subsidiaries" mainly relates to the sales of Danfoss Värmepumpar AB.

Impairment losses for 2018 on "Investments in subsidiaries" of EUR 6m mainly relates to Danfoss IXA A/S and Advitronics Engineering B.V. The impairment losses are mainly due to low earnings in the entities during recent years. Impairment losses/reversed impairment are reported as financial expenses/financial income.

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

Note 8 Deferred tax

EURm

CHANGES IN DEFERRED TAXES

	2018	2019
Deferred taxes as of January 1 (net) *)	-39	-31
Adjustments concerning previous years		-5
Deferred tax recognized in the income statement	8	-2
Deferred taxes as of December 31 (net) *)	-31	-38

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2018	2019
	Deferred tax asset	Deferred tax asset
Property, plant and equipment and financial assets		12
Liabilities	12	15
Set-off within the same legal entities and jurisdiction	-12	-27
Deferred tax assets	0	0
	Deferred tax liability	Deferred tax liability
Intangible assets	3	32
Property, plant and equipment and financial assets	16	13
Current assets	3	2
Liabilities	16	13
Deferred tax regarding Danish joint taxation	5	5
	43	65
Set-off within the same legal entities and jurisdiction	-12	-27
Deferred tax liabilities	31	38

Of the deferred tax liability of EUR 38m (2018: 31m), EUR 5m (2018: 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 5m (2018: 3m). The liabilities are not recognized, because Danfoss A/S decides on their utilization and it is likely that the liabilities will not be recognized in the forseeable future.

Note 9 Financial risks and instruments

EURm

FINANCIAL INSTRUMENTS

Below are relevant financial instrument specifications regarding Danfoss A/S. A description of financial risks can be found in the Group section see Note 15 Financial risks and instruments, to which reference is made.

DANFOSS A/S' DEBT CATEGORIES AND MATURITIES

	2018					2019				
			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	888	935	17	530	388	882	917	18	648	251
Mortgage debt	59	61		1	60	69	74		1	73
Borrowings from subsidiaries	615	615	615			709	709	709		
Finance lease liabilities	15	16	5	11		24	25	11	14	
Trade payables	183	183	183			163	163	163		
Trade payables to subsidiaries	15	15	15			41	41	41		
Debt to associates and joint ventures	2	2	2			3	3	3		
Derivative financial liabilities	9	9	9			2				
	1,786	1,836	846	542	448	1,893	1,932	945	663	324

*) Maturity is evenly spread over the period.

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

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2018	2019
Non-current liabilities	951	959
Current liabilities	835	934
	1,786	1,893

Note 9 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS BY CATEGORY

	2018		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS:				
Other investment	3	3	3	3
Financial assets measured at fair value in the income statement	3	3	3	3
Trade receivables	38	38	36	36
Trade receivables from subsidiaries	91	91	90	90
Short-term loans to subsidiaries	1,246	1,246	878	878
Other receivables	30	30	19	19
Cash and cash equivalents	25	25	83	83
Loans, receivables, cash and cash equivalents measured at amortized cost	1,430	1,430	1,106	1,106
FINANCIAL LIABILITIES:				
Contingent consideration measured at fair value via the income statement	40	40	37	37
Interest-bearing debt	962	986	975	1,002
Debt to subsidiaries	15	15	41	41
Borrowing from subsidiaries	615	615	709	709
Trade payables and other debt	298	298	288	288
Financial liabilities measured at amortized cost	1,890	1,914	2,013	2,040
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	9	9	2	2
Financial liabilities measured at fair value in the income statement	9	9	2	2

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 2018.

Note 9 Financial risks and instruments (continued)

EURm

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

	2018				2019			
	Quoted prices	Observable input	Non-observable input		Quoted prices	Observable input	Non-observable input	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:								
Other investments			3	3			3	3
Total financial assets			3	3			3	3
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		9		9		2		2
Contingent consideration			40	40			37	37
Interest-bearing debt		986		986		1,002		1,002
Total financial liabilities		995	40	1,035		1,004	37	1,041

Note 9 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2018	2019
Carrying amount as of January 1, assets/liabilities (-)	-38	-37
Acquisitions	-2	
Disposals/Reversals	3	3
Carrying amount as of December 31	-37	-34

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

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

DERIVATIVES AS OF DECEMBER 31 FOR DANFOSS A/S

	2018						2019					
	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
USD	-156	-11	-11				-56	-2	-2			
EUR	-329	-1	-1				-214	-1	-1			
Other currencies	98	3	3				-117	1	1			
Forward exchange contracts		-9	-9					-2	-2			
Derivatives end of year		-9	-9					-2	-2			

Note 10 Corporation tax

EURm

	2018	2019
Corporation tax payable/receivable (-) as of January 1	4	10
Paid during the year	-20	-13
Adjustments concerning previous years	-5	-10
Current tax expenses in income statement	31	15
Corporation tax payable/receivable (-) as of December 31	10	2
The above corporation tax is recorded as follows:		
Liabilities	10	2
	10	2

Note 11 Adjustment for non-cash transactions

EURm

	2018	2019
Depreciation/amortization and impairment	42	60
Gain(-)/loss on disposal of tangible assets and business activities	-1	
Financial income	-258	-148
Financial expenses	46	55
Other, including provisions	21	-16
Adjustment for non-cash transactions	-150	-49

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

Note 12 Change in liabilities arising from financing activities

EURm

	Short-term borrowings	Long-term borrowings	**TOTAL**
Carrying amount as of January 1, 2018	37	968	1,005
Cash repayment	-335	-416	-751
Cash proceeds	287	405	692
Acquisitions of lease liabilities	4	11	15
Reclassification	18	-18	
Other		1	1
Carrying amount as of December 31, 2018	11	951	962
Adoption of IFRS 16	6	8	14
Cash repayment	-386	-592	-978
Lease payments	-7		-7
Cash proceeds	373	601	974
Acquisitions and disposal of lease liabilities	-5	-2	-7
Reclassification	12	-12	
Other	12	5	17
Carrying amount as of December 31, 2019	16	959	975

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

Note 13 Contingent liabilities, assets and security

EURm

SECURITY

	2018	2019
Carrying amount of land and buildings pledged as security for bank loans and mortgages	101	118
Leasing assets pledged as security for leasing commitments	16	26
Carrying amount of interest-bearing liabilities with security in assets	75	93

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

CONTINGENT LIABILITIES

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

CONTRACTUAL OBLIGATIONS

	2018	2019
Service contract commitment other than leases	36	75
Inventories	43	48
Property, plant and equipment	5	5
Hereof commitments relating to succeeding year	72	87

Note 14 Leases

EURm

LESSEE

Lease liabilities are included as borrowings in the Statement of Financial Position as follows:

	2018	2019
Current	5	9
Non-current	11	16

Danfoss A/S mainly leases buildings and cars. Lease payments are generally fixed. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the Statement of Financial Position as a right-of-use asset and a lease liability. Danfoss A/S classifies its right-of-use assets in a consistent manner to property, plant and equipment, see Note 6. Each lease contract generally restricts the use of the right-of-use asset to Danfoss A/S. Some lease contracts contain an option to extend the lease period or terminate the lease before the lease term. Management assesses whether or not it is reasonably certain that the option will be exercised after considering all relevant facts and circumstances.

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

Total cash outflow for leases for the financial year ending December 31, 2019, was EUR 14m (2018: 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 3 Financial expenses, Note 6 Property, plant and equipment, Note 9 Financial risks and instruments and Note 12 Change in liabilities arising from financing activities

Note 15 Related parties

For more information about related parties, see Note 24 Related parties, in Group section.

EURm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2018	2019
Purchases of goods and services	16	19

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

TRANSACTIONS BETWEEN DANFOSS A/S AND THE SUBSIDIARIES

	2018	2019
Sales of goods and services	1,148	1,179
Purchases of goods and services	407	440
Disposal of intangible assets and property, plant and equipment	4	

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

Note 16 Events after the balance sheet date

Subsequent to December 31, 2019, on January 21, 2020, Danfoss announced the agreement to acquire Eaton's hydraulics business, for further information refer to Note 25 in the Group section.

Note 17 General accounting policies for Danfoss A/S

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2019, comprises the Financial Statements of Danfoss A/S.

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

The Board of Directors and the Group Executive Team reviewed and approved the Annual Report 2019 on February 26, 2020, and it will be presented for approval at the Annual General Meeting to be held on April 17, 2020. The Annual General Meeting has the power to amend and reissue the Financial Statements.

CHANGES IN ACCOUNTING POLICIES
IFRS 16 Leases: Danfoss A/S as a lessee recognizes a right-of-use asset and a lease liability for lease contracts entered into on or after January 1, 2019.
The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at January 1, 2019:

	December 31, 2018	Remeasurement	January 1, 2019
Property, plant and equipment	251	13	264
Borrowings	962	13	975

Besides the following section, the accounting policies for Danfoss A/S are the same as for the Danfoss Group. Please refer to Note 26 in the Consolidated Financial Statements for the Danfoss Group.

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

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

DEFERRED TAX
Danfoss A/S is jointly taxed with its Danish subsidiaries and sister subsidiaries. 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
Danfoss A/S has established a non-distributable reserve in equity regarding development projects capitalized. This reserve will be reversed as the development projects have effect on the income statements. The amount is presented net of deferred tax.

Note 18 Significant accounting estimates for Danfoss A/S

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

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

Due to the nature of the operations of the investments, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty. The investments in subsidiaries, associates and joint ventures are described in more detail in Note 7 Investments.

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About this report

This Annual Report 2019 is published as an electronic publication only and made available at www.danfoss.com. The Annual Report has been prepared and published in English and is released on February 27, 2020.

The Annual Report has been presented in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Tailored annual reporting
Danfoss has tailored the annual reporting towards the needs of our various stakeholders with three annual publications:

1. Annual Report 2019, which focuses on legally required information and includes the financial results for the fiscal year.

2. Sustainability Report 2019, which constitutes the Group's "Communication on Progress" (COP) under the UN Global Compact and provides an insight into our initiatives within sustainability and corporate social responsibility.

3. Corporate Governance Report 2019, which comprises the Group's compliance on the recommendations of corporate governance.

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

Change in reporting
As of 2020, Danfoss will reduce the number of financial updates during the year. Consequently, in 2020 and going forward, Danfoss will publish a financial announcement covering the first six months and an annual report covering the fiscal year.

As a result of the increased activity of acquisitions and divestments of companies, Danfoss has decided to use the financial key figure Operating profit before acquisition-related amortization (EBITA) as the measurement of profitability performance. EBITA is defined as the profit before interest, taxes, and amortization, gains and losses related to acquisitions and divestments. EBITA measured against sales leads to the EBITA margin. EBITA is also used by many companies, which Danfoss compares itself to.

Danfoss has also introduced the financial key figure "Free operating cash flow". The Free operating cash flow is defined as the cash flow from operating and investing activities before mergers and acquisitions, financial items, taxes, but including lease payments (IFRS16).

Furthermore, Danfoss has replaced the formerly used "Cash flow before M&A" with the financial key figure "Free operating cash flow after financial items and tax", defined as "Free operating cash flow" including financial items, taxes and lease payments (IFRS16), but before mergers and acquisitions.

"Free cash flow" excludes lease payments (IFRS16), as lease payments are classified as operational impact.

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