

First half 2023 interim announcement

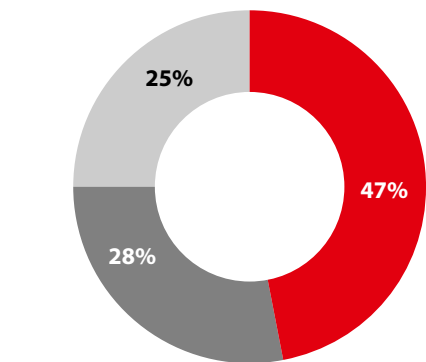
The Danfoss logo, featuring the word "Danfoss" in a white, stylized script font, set against a red rectangular background.

Danfoss

Highlights from the first six months 2023

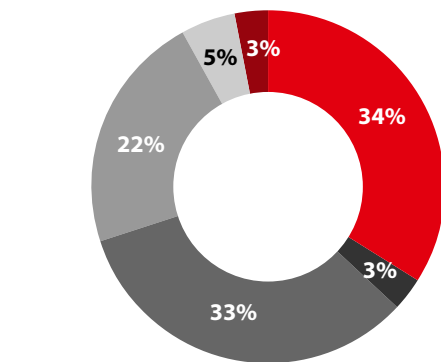
Danfoss is investing to become the preferred partner in helping our customers decarbonize through energy efficiency, machine productivity, lower emissions, and electrification. Our growth strategy is focusing on long-term value creation, and we are investing in significant growth opportunities, for example, technologies for data centers, the growing market for heat pumps, connectivity, and other energy-efficient solutions for the energy transition – in addition to electrification of cars, trucks, ships, and mobile machinery as well as autonomous vehicles.

Sales split by segments



● Danfoss Power Solutions
● Danfoss Climate Solutions
● Danfoss Power Electronics and Drives

Sales split by regions

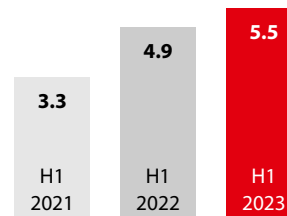


● Western Europe
● Eastern Europe
● North America
● Asia-Pacific
● Latin America
● Africa-Middle East

Sales
EURbn

+13%

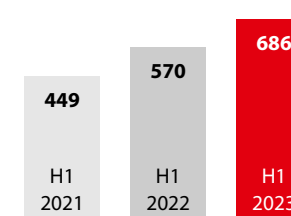
sales growth



Earnings
EURm

+20%

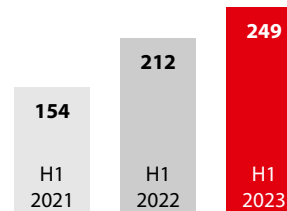
EBITA increase



Innovation
EURm

+17%

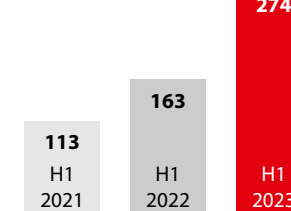
R&D increase



Investments excl. M&A
EURm

+68%

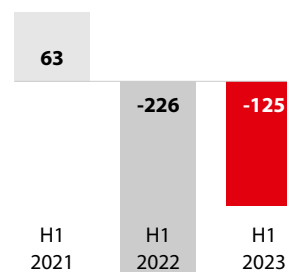
increase



Cash flow
before M&A
EURm

-125m

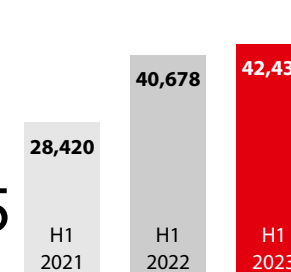
cash generation



Employees
headcount

+1,755

increase



Financial highlights

	EURm H1 2022	EURm H1 2023	Change in %
Profit and loss account			
Net sales	4,906	5,528	13%
EBITDA before OOI/E	759	919	21%
EBITDA	670	889	33%
EBITA	570	686	20%
EBIT	427	623	46%
Financial items, net	-25	-64	156%
Profit before tax	402	559	39%
Net profit	289	402	39%
Financial ratios			
Local currency growth (%)	46	14	-32
EBITDA before OOI/E margin (%)	15.5	16.6	1.1
EBITDA margin (%)	13.7	16.1	2.4
EBITA margin (%)	11.6	12.4	0.8
EBIT margin (%)	8.7	11.3	2.6
Balance sheet			
Total non-current assets	6,871	7,864	14%
Total assets	10,575	11,843	12%
Total shareholders' equity	4,256	5,124	20%
Net interest-bearing debt	3,061	3,620	18%

Cash flow statement

	EURm H1 2022	EURm H1 2023	Change in %
Cash flow from operating activities	-38	172	553%
Cash flow from investing activities	-218	-381	75%
Hereof:			
Acquisition of/Proceeds from disposal of property, plant and equipment	-141	-249	77%
Acquisition of/Proceeds from disposal of subsidiaries and activities	-70	-120	71%
Cash flow from financing activities	72	-26	-136%

Financial key figures

Free operating cash flow	-63	118	287%
Free operating cash flow after financial items and tax	-226	-125	45%
Free cash flow	-296	-245	17%

Financial ratios

Equity ratio (%)	40.2	43.3	3.1
Leverage ratio (%)	71.9	70.6	-1.3
Net interest-bearing debt to EBITDA ratio	2.2	2.0	-0.2

Key figures and financial ratios are calculated as defined in Note 27 in the Annual Report for 2022.

Robust growth of 13% in line with expectations

Danfoss continued its investments in its green growth strategy, innovation, and digitalization, improving our offering of solutions and expanding production capacity to better serve our customers. Net sales increased 13% to EUR 5,528m, with organic growth of 8% and growth from M&A of 6%. After continued high investments in innovation and new technology, operating profit (EBITA) was up 20% to EUR 686m, leading to EBITA margin of 12.4% against 11.6% at the same time last year. Cash generation improved year-over-year. Outlook for 2023 confirmed.

Sales

Group sales increased 13% to EUR 5,528m (H1 2022: 4,906m) with organic growth of 8%. The global megatrends remain strong, driving long-term market demand. After more than two years with very strong momentum, Danfoss started to see growth rates normalizing in the European markets, while China was on par with the first half last year. Strong growth in North America continued. In a segment perspective, Danfoss Power Electronics and Drives stood out with significant growth, whereas Danfoss Power Solutions and Danfoss Climate Solutions were back to more normal growth levels.

Earnings

After continued high levels of strategic investments in innovation, production

capacity, digital transformation, and initiatives to fuel future growth as well as integration costs, operating profit (EBITA) increased 20% to EUR 686m (H1 2022: 570m). The EBITA margin reached 12.4% (H1 2022: 11.6%).

Earnings were driven by the higher topline, M&A synergies, and unwinding of the disruptions in global supply chains. Continued productivity improvements as well as managing price over cost further contributed to the increase in earnings and countered inflationary cost pressure. Net profit increased 39% to EUR 402m (H1 2022: 289m).

Innovation

Danfoss continued to push high investments in innovation across the business segments to improve the performance of our technologies

and solutions and fuel future growth. Research and development expenses increased 17% to EUR 249m (H1 2022: 212m), corresponding to 4.5% of sales (H1 2022: 4.3%).

Balance sheet

On June 30, 2023, total assets were EUR 11,843m (H1 2022: 10,575m). The increase was mainly due to the acquisition of SEMIKRON. Equity increased 20% to EUR 5,124m (H1 2022: 4,256m). The equity ratio, calculated as equity relative to total assets, reached 43.3% (H1 2022: 40.2%).

On June 30, 2023, the net interest-bearing debt amounted to EUR 3,620m (H1 2022: 3,061m), leading to a net interest-bearing debt to EBITDA ratio of 2.0 (H1 2022: 2.2).

To secure long-term funding, Danfoss completed a successful bond issuance on May 26, 2023. The bond issuance was our first sustainability-linked EUR bond, raising EUR 500m.

At the end of June 2023, Danfoss' credit rating assigned by Standard & Poor's was "BBB/A2 with a stable outlook."

Cash flow

The free operating cash flow after financial items and tax (before M&A) amounted to EUR -125m (H1 2022: -226m). This is including the higher level of investments in innovation and production capacity as well as additional trade working capital due to the sales growth.

The free operating cash flow significantly improved to EUR 118m (H1 2022: -63m), driven by higher earnings. Cash flow from investing activities increased to EUR -381m (H1 2022: -218m), driven by M&A activities, investments in machinery and equipment to build capacity globally, and our digital transformation.

Danfoss Power Solutions

Danfoss Power Solutions sales were up 2% to EUR 2,579m (H1 2022: 2,533m) with organic growth of 4%. The strong growth momentum in North America continued but was mixed across Europe and Asia-Pacific, mainly due to lower demand for agriculture and construction applications. Activities to improve product and regional mix continued, and there was a strong focus on productivity improvements in factories as well as procurement savings. The EBITA margin reached 14.5% (H1 2022: 14.2%).



Danfoss Climate Solutions

Danfoss Climate Solutions sales reached EUR 1,567m (H1 2022: 1,560m) with organic growth of 5%. The general market trends remained intact. North America grew strongly, driven by public and industrial decarbonization projects. Growth was offset by the mixed picture in other parts of the world, where demand was curbed by high inflation. Inflation triggered lower building activity levels in Europe as well as reduced activity levels in the complete food chain. The EBITA margin reached 16.2% (H1 2022: 16.4%).



Danfoss Power Electronics and Drives

Danfoss Power Electronics and Drives sales grew by 74% to EUR 1,385m (H1 2022: 794m), helped by the acquisition of SEMIKRON in August 2022. Organic growth was 31%. The demand for AC drives and power electronics hardware, stacks, and systems was very high, triggered by the general electrification trend. All regions grew with high double-digit growth rates in North America, Asia-Pacific, and Europe. The EBITA margin increased significantly to 15.3% (H1 2022: 10.5%).



Executing our ESG ambitions

To reinforce our commitment to becoming a leader in the green transition, sustainability and ESG are integrated in our Core & Clear 2025 strategy. It is key to execute on our three step-change initiatives: Decarbonization, Circularity, and Diversity, Equity & Inclusion.

Reducing our customers' emissions is at the core of the Danfoss business. Danfoss walks the talk by decarbonizing our own operations, energy sources, and manufacturing processes while continuously improving our ESG data foundation. Danfoss made a further step towards carbon neutrality in our global operations (scope 1 & 2) by 2030 when we signed a power purchase agreement for solar power in the US; the agreement will become operational in 2025 and will allow Danfoss to fully replace its annual electricity usage in North America with green energy and reduce Danfoss' carbon footprint in the region by 75% and globally by 21%.

Furthermore, we continued to bring our new and refurbished buildings as close to carbon neutrality as possible by applying our own energy efficiency technologies to reduce energy consumption, reuse excess heat, and electrify heating sources.

On diversity, equity, and inclusion, our 44 local employee resource groups (ERGs) are

maturing with events that provide meaningful knowledge-sharing and collaboration. A few examples of local ERGs include women engineers, women excel in digitalization, senior and still engaged, and youngsters. Across the business, our ERGs bring together colleagues, providing mentoring for personal and professional career development and support for newly joined colleagues and expats. This is fostering high engagement, innovation, and productive working environment for our high-performing teams.

M&A activities

The transaction to acquire the German compressor manufacturer BOCK GmbH was closed on March 1, 2023. BOCK GmbH is a technology leader in semi-hermetic compressors for natural refrigerants. With the acquisition, Danfoss is investing significantly in broadening its scope of sustainable technologies to speed up the green transition in commercial refrigeration systems – thus building a more sustainable, energy efficient, and decarbonized future.

People

On June 30, 2023, the number of employees was 42,433. Our people continue to

demonstrate that diverse teams, skills, knowledge, and agility are crucial to deliver on our green growth strategy.

Events after the balance sheet date

We are not aware of any events after the balance sheet date of June 30, 2023, that could be expected to have a material impact on the Group's financial position.

Outlook for 2023 confirmed

Danfoss has a continued ambition to expand or maintain market share. Sales are expected to be in the range of EUR 10.4-11.9bn for the full year. The EBITA margin is expected to be in the range of 11.5-13.0%, following the continued integration of

already acquired businesses as well as investments in the development of new products and solutions. The expected growth and profitability performance is dependent on the development of global supply chain disruptions, the war in Ukraine, inflation, and the pandemic, as well as the general growth rates in the world economy.

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

Forward-looking statements

This interim announcement includes forward-looking statements, which are subject to risks and uncertainties, some of which are outside of Danfoss' control. Various factors could cause actual developments and results to differ from the expectations set out in this announcement. Reference is made to the forward-looking statements in the Annual Report 2022. We do not assume any obligation to update these forward-looking statements.



New benchmark for energy-efficient supermarkets

Danfoss technologies are part of decarbonizing many sectors, and one of them is food retail.

A new “Smart Store” supermarket opened in June close to the Danfoss headquarters in Nordborg, Denmark. The supermarket will operate as a normal supermarket and, at the same time, as Danfoss’ application development center for testing new energy efficiency technology.

The supermarket is expected to be approximately 50% more energy efficient than typical supermarkets with a first-generation CO₂ refrigeration system. It runs with sustainable energy sources and reuses the excess heat created by the cooling cases, reducing supermarket heating costs by up to 90%.

Climate-friendly, super-efficient, and loaded with automation solutions, the “Smart Store” sets a new benchmark for sustainability in food retail – providing inspiration for food retailers in our world of rising emissions and energy costs.

→ [Read more on whyenergyefficiency.com](https://www.whyeenergyefficiency.com)



Further information available
on Danfoss' website: www.danfoss.com

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