

ENGINEERING
TOMORROW

Danfoss

Interim announcement

First quarter 2017



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

Danfoss in brief

Danfoss engineers technologies that enable the world of tomorrow to do more with less. We meet the growing need for infrastructure, food supply, energy efficiency, and climate-friendly solutions. Our products and services are used in areas such as refrigeration, air conditioning, heating, motor control, and mobile machinery. We also operate in the field of renewable energy, as well as district energy infrastructure for cities and urban communities.

The Group is divided into four business segments: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating. Danfoss Power Solutions is a leading player in hydraulic systems and components for powering off-highway mobile machinery. Danfoss Cooling is a market leader in the air-conditioning and refrigeration industry. Danfoss Drives' key expertise lies in low-voltage AC drives, power modules, and stacks for a number of industries. Danfoss Heating enjoys leading positions within residential heating, commercial heating, and district energy.

Danfoss is a privately-owned company, which has grown and improved its skills and expertise in energy-efficient solutions over more than 80 years. Danfoss was founded by Mads Clausen, and today the company is controlled by the Bitten and Mads Clausen Foundation.

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Highlights Q1 2017

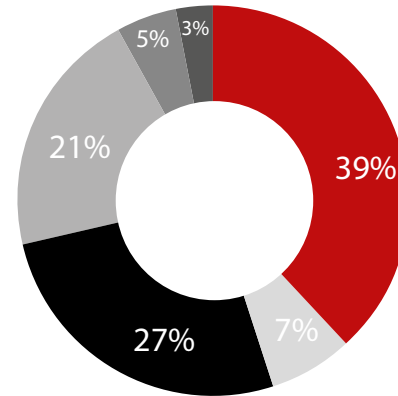
More than
25,000
employees globally

69
factories in 20 countries

Products sold in more than
100
countries worldwide

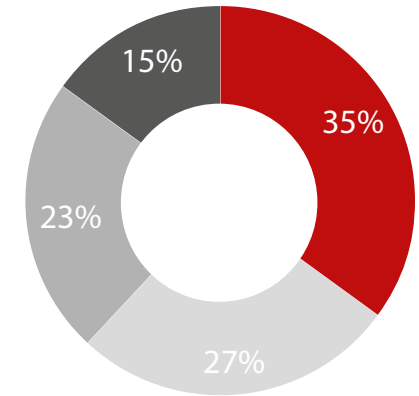
Sales split on regions – Q1 2017

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

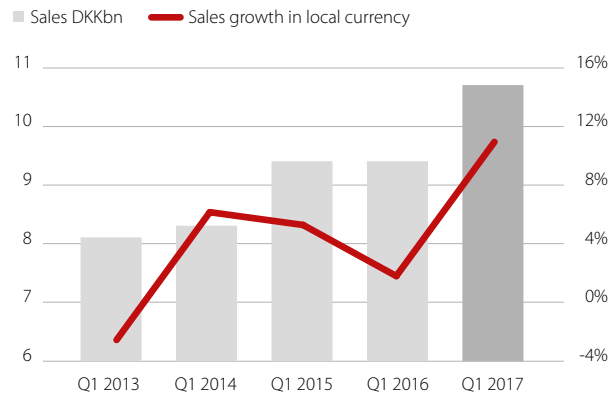


Sales split on segments – Q1 2017

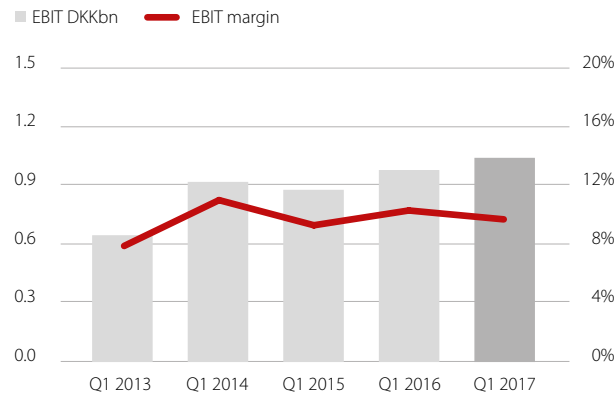
- Danfoss Power Solutions
- Danfoss Cooling
- Danfoss Drives
- Danfoss Heating



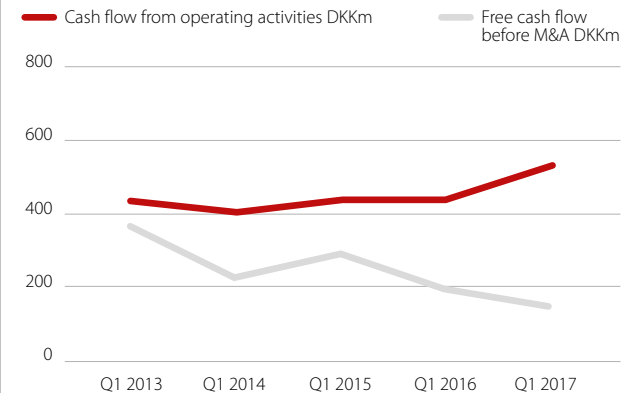
Sales and growth



Earnings



Cash flow



Financial highlights

	DKKm				EURm	
	Q1 2016	Q1 2017	Change in %	2016	Q1 2016	Q1 2017
Profit and loss account:						
Net sales	9,423	10,682	13%	39,247	1,263	1,437
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	1,435	1,574	10%	6,240	192	212
Operating profit before depreciation, amortization and impairment (EBITDA)	1,422	1,499	5%	6,076	191	202
Operating profit excl. other income and expenses, etc.	984	1,112	13%	4,388	132	150
Operating profit (EBIT)	971	1,036	7%	4,262	130	139
Financial items, net	-94	-67	-29%	-324	-13	-9
Profit before tax	877	969	10%	3,938	118	130
Net profit	616	691	12%	2,935	83	93
Balance sheet:						
Total non-current assets	25,560	27,998	10%	28,162	3,430	3,764
Total assets	37,568	42,210	12%	40,567	5,042	5,675
Total shareholders' equity	15,880	18,023	13%	17,286	2,131	2,423
Net interest-bearing debt	9,301	9,340	0%	9,548	1,248	1,256
Net assets	22,733	24,901	10%	24,332	3,051	3,348
Cash flow statement:						
Cash flow from operating activities	439	528	20%	5,161	59	71
Cash flow from investing activities	-244	-386	58%	-3,676	-33	-52
Acquisition of intangible assets and property, plant and equipment.	-240	-367	53%	-1,679	-32	-49
Acquisition of subsidiaries and activities	0	-7	***	-1,872	0	-1
Acquisition(-) and sale of other investments, etc.	-5	-12	140%	-126	-1	-2
Free cash flow	195	143	-27%	1,485	26	19
Free cash flow before M&A	195	151	-23%	3,416	26	20
Cash flow from financing activities	4	-22	***	-1,302	0	-3
Key figures:						
Local currency growth (%)	2	11	9	6	2	11
EBITDA margin excl. other operating income, etc. (%)	15.2	14.7	-0.5	15.9	15.2	14.7
EBITDA margin (%)	15.1	14.0	-1.1	15.5	15.1	14.0
EBIT margin excl. other operating income, etc. (%)	10.4	10.4	0.0	11.2	10.4	10.4
EBIT margin (%)	10.3	9.7	-0.6	10.9	10.3	9.7
Equity ratio (%)	42.3	42.7	0.4	42.6	42.3	42.7
Leverage ratio (%)	58.6	51.8	-6.8	55.2	58.6	51.8
Net interest-bearing debt to EBITDA ratio	1.5	1.5	0.0	1.6	1.5	1.5
Number of employees (end of period)	23,316	25,528	2,212	25,292	23,316	25,528

When the ratios have been defined according to "Recommendations & Key Figures 2015", as prepared by the Danish Association of Financial Analysts, the ratios are computed according to these.

Financial **update**

The Danfoss Group had a good start to 2017 with strong top line growth and a satisfactory bottom line, despite increased investments in digitalization. Sales increased 13% to DKK 10,682m, corresponding to 11% local currency growth. Earnings (EBIT) improved to DKK 1,036m, corresponding to an EBIT margin of 9.7%. Cash flow from operating activities was up 20%. The results confirm the outlook for 2017.

Sales

The first three months of 2017 were characterized by strong growth in local currency of 11% (Q1 2016: 2%) and 13% reported growth. Sales increased DKK 1,259m to DKK 10,682m (Q1 2016: DKK 9,423m). After several quarters with a negative currency effect, changes in exchange rates resulted in a slightly positive impact on the top line growth in DKK.

All business segments contributed to the growth, which was driven by continued solid momentum in Danfoss Power Solutions and Danfoss Cooling. Danfoss Heating delivered very high growth rates, while Danfoss Drives regained growth traction with a significant improvement in the sales performance.

The overall strong sales performance was driven by targeted growth initiatives, which, among other things, include new application development centers and strategic refocusing

of sales activities towards specific vertical markets, e.g. supermarkets, multi-family houses, and office buildings. Furthermore, the Group sales benefited from the acquisitions of Sondex and White Drive Products, which were completed in the third quarter 2016.

Earnings

Operating profit (EBIT) improved 7% to DKK 1,036m (Q1 2016: DKK 971m), and the EBIT margin was 9.7% (Q1 2016: 10.3%). The lower margin level can be ascribed to the addition of acquired companies, which temporarily dilute margins, in addition to increased investments in digitalization, which will enable future growth.

Net profit increased 12% to DKK 691m (Q1 2016: DKK 616m), primarily driven by the improved EBIT and financial items of DKK -67m (Q1 2016: DKK -94m).

Development in key markets

In the first quarter of 2017, the overall macroeconomic growth showed some improved momentum. Danfoss experienced mixed market conditions across markets and sectors.

In **Europe**, the positive developments from 2016 have continued into 2017. Growth momentum is increasing in North and Central Europe, driven by Danfoss Drives and Danfoss Heating. Indications of a recovery in Russia continue, but the market conditions remain challenging, due to the economic situation of the country.

In **North America**, the mixed market conditions across business segments and product categories have continued into 2017. Danfoss Cooling and Danfoss Drives are driving growth in the region, whereas Danfoss Power Solutions continues to be impacted mainly by the soft agricultural market.

In **Asia-Pacific**, growth is driven by high double-digit growth rates in China, supported by the strong political focus on energy efficiency and reduction of carbon emissions (CO₂). Also other countries in the region continue to grow, such as India, which is continuing the double-digit growth rates seen throughout 2016, in addition to Singapore and Korea. Growth was driven by a strong performance in all business segments, led by Danfoss Drives and Danfoss Power Solutions.

In **Latin America**, the mixed market conditions from 2016 continued into the first quarter of 2017, but growth traction is building in Brazil, mainly driven by Danfoss Power Solutions. Overall, the region continues to be impacted by the soft economic situation in Brazil.

In **Africa-Middle East**, growth was driven by Danfoss Heating, mainly in Turkey, and positive developments in Danfoss Drives.

Balance sheet

At March 31, 2017, total assets were up 12% to DKK 42,210m (Q1 2016: DKK 37,568m). The higher level can primarily be ascribed to the acquisitions completed in the third quarter 2016 and a higher activity level. Equity increased 13% to DKK 18,023m (Q1 2016: DKK 15,880m), mainly due to accumulated profits. Consequently, the equity ratio was 42.7% (Q1 2016: 42.3%).

Net interest-bearing debt was maintained at the prior-year level at DKK 9,340m (Q1 2016: DKK 9,301m), leading to a net interest-bearing debt to EBITDA ratio of 1.5 (Q1 2016: 1.5). The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook.

Cash flows

Cash flow from operating activities improved 20% to DKK 528m (Q1 2016: DKK 439m), mainly due to the improvement in EBIT. Cash flow from investing activities totaled DKK -386m (Q1 2016: DKK -244), mainly due to increased investments in digitalization and production capacity.

Free cash flow before mergers and acquisitions was DKK 151m (Q1 2016: DKK 195m), as the EBIT improvement was offset by changes in working capital and increased investments. Thus, free cash flow totaled DKK 143m (Q1 2016: DKK 195m).

Innovation

In the first three months of 2017, the research and development spend increased to DKK 438m (Q1 2016: 404m), corresponding to 4.1% of sales (Q1 2016: 4.3%).

Employees

At March 31, 2017, the Danfoss Group had 25,528 employees against 25,292 at the beginning of 2017.

Management change

On March 22, 2017, it was announced that Niels B. Christiansen has decided to leave Danfoss after nine years as President & CEO. As of July 1, 2017, COO Kim Fausing will take up the position as CEO of Danfoss, and he will continue the Danfoss strategy, focusing on profitable growth and digitalization.

Events occurring after the balance sheet date

No significant events occurred after March 31, 2017.

Outlook for 2017 confirmed

In 2017, the management expects top line growth above market level with a profitability on par with 2016, while fueling significant investments in digitalization to drive long-term sustainable value creation.

Expectations for 2017

We expect to maintain or expand our market share, while maintaining the profitability measured as margin at the 2016 level, following significant investments in digitalization.

The outlook is unchanged relative to the outlook published in the Annual Report 2016, which is available at danfoss.com/about/financial-information.

Forward-looking statements

This quarterly announcement includes forward-looking statements, which 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 quarterly announcement. Reference is made to the forward-looking statements in the Annual Report 2016.

Business segments review

Danfoss **Power Solutions**



Leading player and industry pioneer in the mobile hydraulics market.

Financial performance Q1 2017

Danfoss Power Solutions delivered satisfactory growth, partly due to the acquisition of White Drive Products. Growth combined with a strong focus on continuous improvements in the supply chain led to improved profitability.

Market developments Q1 2017

The mobile hydraulics market continued to be impacted by the soft market situation within global construction and agriculture. However, Danfoss Power Solutions delivered growth throughout most global regions, led by high growth rates in high-potential growth countries such as China and Brazil.

Danfoss **Cooling**



Market leader and industry front-runner in the air-conditioning and refrigeration industry.

Financial performance Q1 2017

Danfoss Cooling delivered strong growth. Growth combined with continuous productivity improvements led to improved profitability.

Market developments Q1 2017

Danfoss Cooling maintained momentum, and Q1 2017 confirmed the strong growth trend in the business. Sales growth was posted in many of the key markets, such as North America, China, and most parts of Europe. The increased focus on growth opportunities in India, the Middle East, and Africa continued to benefit Danfoss Cooling.

Danfoss **Drives**



Leading player in the market for low-voltage AC drives.

Financial performance Q1 2017

Danfoss Drives posted sales and earnings well above the prior-year level and profitability close to the prior-year level.

Market developments Q1 2017

The global drives market shows some signs of improvement within several heavy industry sectors. Danfoss Drives continued the positive trend from the end of 2016, posting sales growth in many of the key markets, such as North America, China, and North Europe. The Silicon Power business continued to contribute with double-digit growth rates.

Danfoss **Heating**



Market leader within residential and commercial heating and district energy.

Financial performance Q1 2017

Danfoss Heating delivered strong growth, including a significant effect from the acquisition of Sondex, and posted profitability close to the prior-year level.

Market developments Q1 2017

Danfoss Heating maintained momentum and realized sales growth in the European and Chinese markets. Sales also increased in Russia, which is showing some signs of improvement of the previously weak market conditions. This business environment continues to impact the activity levels of the construction market, new build, and renovation.

Financial highlights, Quarterly

	DKKm					
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017
Profit and loss account						
Net sales	9,423	9,972	9,729	10,123	39,247	10,682
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	1,435	1,697	1,731	1,377	6,240	1,574
Operating profit before depreciation, amortization and impairment (EBITDA)	1,422	1,680	1,695	1,279	6,076	1,499
Operating profit excl. other income and expenses, etc.	984	1,257	1,262	885	4,388	1,112
Operating profit (EBIT)	971	1,241	1,250	800	4,262	1,036
Financial items, net	-94	-88	-71	-71	-324	-67
Profit before tax	877	1,152	1,180	729	3,938	969
Net profit	616	812	822	685	2,935	691
Balance sheet						
Total non-current assets	25,560	25,663	27,473	28,162	28,162	27,998
Total assets	37,568	38,184	40,517	40,567	40,567	42,210
Total shareholders' equity	15,880	15,851	16,574	17,286	17,286	18,023
Net interest-bearing debt	9,301	9,484	10,244	9,548	9,548	9,340
Net assets	22,733	22,813	24,319	24,332	24,332	24,901
Cash flow statement (YTD)						
Cash flow from operating activities	439	1,596	3,412	5,161	5,161	528
Cash flow from investing activities	-244	-643	-2,889	-3,676	-3,676	-386
Acquisition of intangible assets and property, plant and equipment	-240	-588	-949	-1,679	-1,679	-367
Acquisition of subsidiaries and activities	0	4	-1,868	-1,872	-1,872	-7
Acquisition(-) and sale of other investments, etc.	-5	-59	-72	-126	-126	-12
Free cash flow	195	953	523	1,485	1,485	143
Free cash flow before M&A	195	976	2,428	3,416	3,146	151
Cash flow from financing activities	4	-622	-239	-1,302	-1,302	-22
Key figures						
Local currency growth (%)	2	6	5	9	6	11
EBITDA margin excl. other operating income, etc. (%)	15.2	17.0	17.8	13.6	15.9	14.7
EBITDA margin (%)	15.1	16.8	17.4	12.6	15.5	14.0
EBIT margin excl. other operating income, etc. (%)	10.4	12.6	13.0	8.7	11.2	10.4
EBIT margin (%)	10.3	12.4	12.9	7.9	10.9	9.7
Equity ratio (%)	42.3	41.5	40.9	42.6	42.6	42.7
Leverage ratio (%)	58.6	59.8	61.8	55.2	55.2	51.8
Net interest-bearing debt to EBITDA ratio	1.5	1.5	1.6	1.6	1.6	1.5



Financial highlights, Quarterly

	DKKkm					
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017
Geographical segments						
Total net sales						
Western Europe	3,814	3,903	3,702	3,793	15,212	4,119
Eastern Europe	658	810	969	929	3,366	742
Asia-Pacific	1,698	2,062	2,193	2,293	8,246	2,219
North America	2,585	2,434	2,119	2,212	9,350	2,830
Latin America	414	445	492	499	1,850	504
Africa-Middle East	254	318	254	397	1,223	268
Total	9,423	9,972	9,729	10,123	39,247	10,682
Number of employees						
Western Europe	9,471	9,483	9,677	9,858	9,858	9,972
Eastern Europe	3,874	3,900	4,450	4,426	4,426	4,456
Asia-Pacific	5,157	5,212	5,899	5,809	5,809	5,644
North America	3,402	3,411	3,671	3,675	3,675	3,960
Latin America	1,207	1,301	1,274	1,281	1,281	1,276
Africa-Middle East	205	210	263	243	243	220
Total	23,316	23,517	25,234	25,292	25,292	25,528

When the ratios have been defined according to "Recommendations & Key Figures 2015", as prepared by the Danish Association of Financial Analysts, the ratios are computed according to these.

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

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