

ENGINEERING
TOMORROW

Danfoss

Annual Report 2017



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Engineering Tomorrow

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Introduction to the Danfoss Group annual reporting

This Annual Report 2017 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 22, 2018.

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 2017, which focuses on legally required information and includes the financial results for the fiscal year.
2. Sustainability Report 2017, which constitutes the Group's "Communication on Progress" (COP) under the UN Global


Compact and provides an insight into our initiatives within corporate social responsibility and sustainability.


3. Corporate Governance Report 2017, 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.

Visit our website – danfoss.com – to learn more about how Danfoss is helping to realize the vast potential for better infrastructure, improved living standards, higher energy efficiency and food supply for our growing world.

 [Reference to other pages in this Annual Report](#)

 Reference to other reports, which can be downloaded from danfoss.com

 Reference to danfoss.com

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Overview



2017 at a glance

[See the financial highlights on page 18](#)

Key figures

Sales DKKbn

43.3

Sales EURbn

5.8

Growth in local currency

12%

EBIT margin

11.1%

Employees worldwide

26,645

Patent families

1,399

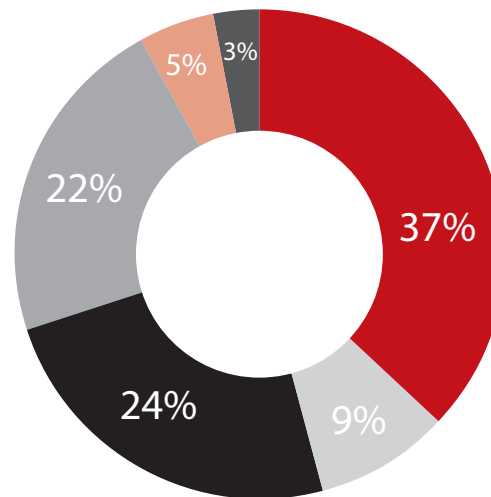
Danfoss in brief

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 off-highway machinery. We also operate in the field of renewable energy, as well as district energy infrastructure for cities and urban communities.

The Group is a technology provider, 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 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.

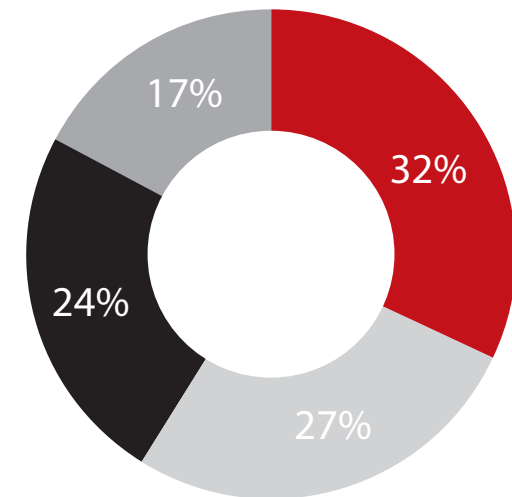
Sales split on regions



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

[Read more about markets on pages 8 and 19](#)

Sales split on segments



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

[Read more about segments on pages 16 and 22](#)

2017 at a glance

[See the financial highlights on page 18](#)

Key figures

Free cash flow before M&A / DKKbn

3.3

Free cash flow before M&A / EURm

445

Leverage ratio

40.9%

Net interest-bearing debt to EBITDA ratio

1.2

Equity ratio

46.0%

Results in line with expectations

In 2017, the Danfoss Group delivered the highest sales growth in local currency in six years, and we achieved strong results in line with expectations after significant investments in digitalization and growth initiatives.

During 2017, Danfoss harvested from our targeted efforts to accelerate growth. In addition, we saw a pick-up in the market in several countries and sectors. Sales increased 10% to DKK 43.3bn, corresponding to a local currency growth of 12%.

Earnings (EBIT) improved 13% to DKK 4.8bn, leading to an EBIT margin of 11.1% and net profit of DKK 3.3bn, up 13% on last year. The cash generation was kept high with a free cash flow before M&A of DKK 3.3bn and a free cash flow of DKK 2.5bn.

The Group's overall strong performance was driven by a broadly-based momentum in all four business segments, led by Danfoss Power Solutions that delivered a very strong performance. All regions contributed with growth, but China and North America stood out with a significant increase in sales.

[See the financial review on page 19](#)

Results compared to outlook

Results in 2017

Sales increased 12% in local currency, corresponding to sales growth above market average.

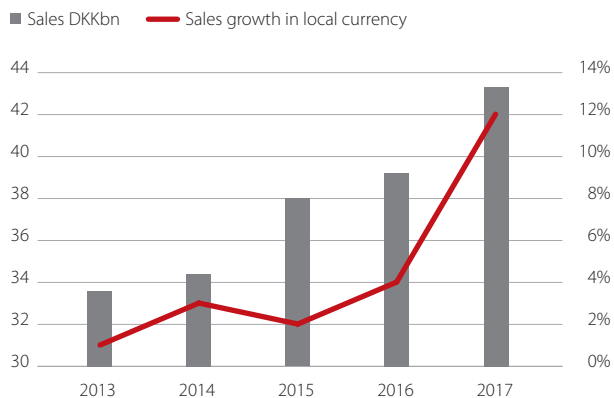
In 2017, the operating profit (EBIT) reached DKK 4.8bn, corresponding to an EBIT margin of 11.1% against 10.9% in 2016.

Outlook for 2017

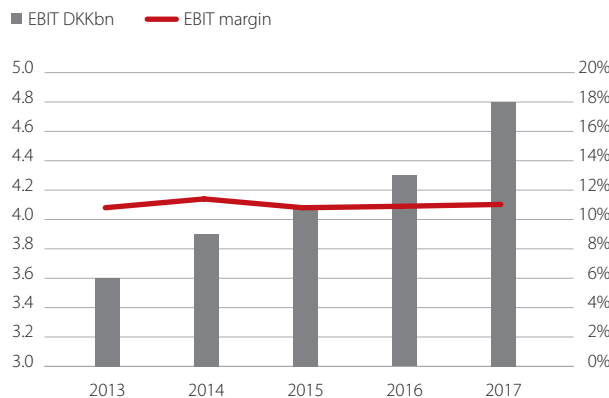
Market share expected to be maintained or expanded

Profitability expected to be at level with 2016

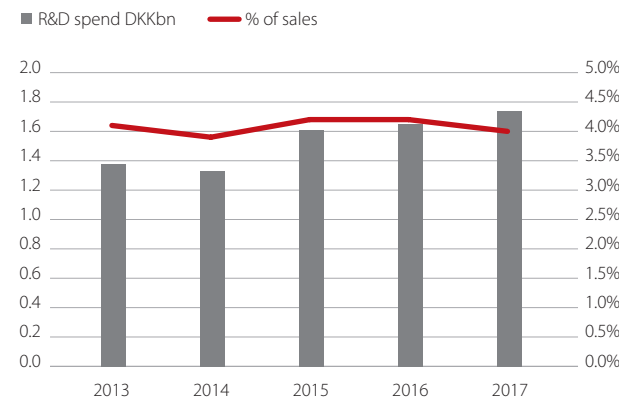
Sales and growth



Earnings



Innovation spend



Selected key events in 2017

05.19.17 Opening software development hub

Danfoss opens another competence center for developing software solutions, which Danfoss will be using for future connected products, cloud-based solutions and applications. The new hub is located in the science park, Scion, at the Technical University of Denmark (DTU).

07.03.17 Launching Danfoss City

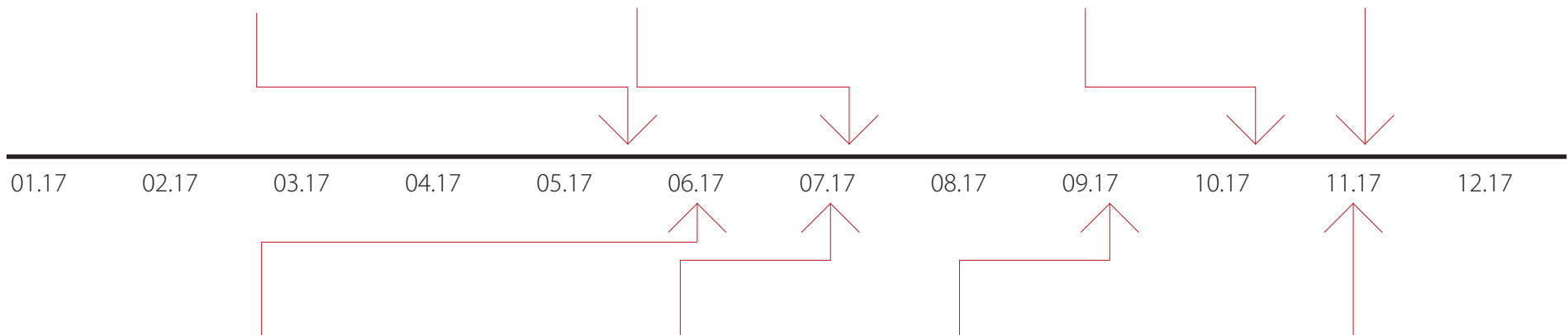
To save energy, Danfoss solutions find their way into our homes, offices, supermarkets and elsewhere. To show customers and society how Danfoss products touch their lives, the website *city.danfoss.com* is launched. Danfoss City comprises four main themes – Food Life, Work Life, Travel Life, and Urban Life.

10.10.17 Producing power modules in NY

Danfoss Silicon Power welcomes the first employees to its factory in Utica, New York, where silicon-carbide (SiC) power modules will be produced. SiC power modules can reduce the power consumption in electric cars by 10%, the energy consumption in data centers by 5%, and significantly lower the weight of an airplane. The factory will be fully operational by mid-2018 and is expected to create hundreds of jobs in the coming years.

11.02.17 New world-class facilities in China

Danfoss opens a new Application Development Center (ADC) for its Power Solutions business and inaugurates the first assembly line for the Cooling technology, Turboco®, in China. The two new facilities represent the latest technology development and help us meet the needs of our customers in China and other countries in the Asia-Pacific region.



06.01.17 Acquisition of software expert

Acquiring new technology and digital competencies is an important part of our digital transformation, and the acquisition of Prosa – with strong expertise in IoT, smart equipment and user-interface design – was yet another great step on that exciting journey. Combining Prosa's software competencies with Danfoss' application expertise will enable us to provide more connected products and services to our customers.

07.01.17 Management change

As of July 1, 2017, Kim Fausing takes over as President & CEO of Danfoss. He will continue the Core & Clear strategy, focusing on profitable growth and digitalization. Prior to this, he served as COO in Danfoss for nine years.

09.07.17 Acquisition of sensor technology

Danfoss continues to invest in growth initiatives. In 2017, an example is the acquisition of the Kavlico thin-film technology used in sensors for higher application temperature and pressure. With this step, Danfoss focuses on specific customer needs and strengthens the portfolio with new technology.

11.01.17 Acquisition of electric solutions

Danfoss continues to invest in innovation to enable further growth. In 2017, we acquired Visedo, a world-leading expert in electric solutions for the off-highway and marine markets. With this step, Danfoss is responding to the growing customer demand for electric solutions to reduce emissions and pollution, and to increase productivity. Electrification is a fast-developing area and holds tremendous potential for Danfoss.

Products sold in more than 100 countries around the world

Western Europe

23 factories
Sales companies in **17** countries
10,360 employees



Western Europe represents the largest share of Group sales and continues to hold interesting growth opportunities, as the EU is pushing for improved energy systems. Germany is our largest market in the region, but countries like Italy, France, Denmark, and the United Kingdom are also among our top markets in the region.

Eastern Europe

16 factories
Sales companies in **12** countries
4,769 employees



Russia, Poland, and the Czech Republic are the top three markets in Eastern Europe. The fairly cold climate and a large number of district energy systems represent growth opportunities for Danfoss, supported by the EU's plans to improve energy systems in Europe, including the Eastern European countries.

North America

14 factories
Sales companies in **2** countries
3,957 employees



The US is our largest country in terms of sales. We have a strong position and presence in this mature market, where many of Danfoss' global key customers are located. Energy efficiency in buildings, a changing refrigerant landscape and reshoring together with infrastructure investments are major trends in North America, representing a growth potential for Danfoss.

Asia-Pacific

15 factories
Sales companies in **11** countries
5,911 employees



China is our top market in the Asia-Pacific region. Countries like India, Japan, and South Korea are also among our large markets in the region, which is also a significant region in terms of sourcing and production. The region holds significant growth opportunities for Danfoss, especially within urban district energy projects, build-up of the food chain and air-conditioning markets as well as construction markets.

Latin America

3 factories
Sales companies in **5** countries
1,367 employees



Brazil and Mexico are the two largest countries in terms of sales in Latin America. In this region, Danfoss delivers solutions for the air-conditioning market and for the food chain, ranging from production and processing to refrigerated transportation and storage. The region represents a growth opportunity for Danfoss, especially within improvement and expansion of the infrastructure and food chain.

Africa-Middle East

1 factory
Sales companies in **3** countries
281 employees



Generally, the Africa-Middle East region is characterized by a growing population, increasing urbanization, and focus on more efficient energy systems. Key challenges, such as scarcity in power supply and an almost non-existent food cold chain, represent growth opportunities. However, the political and economic situation in some parts of the region are leading to volatile market conditions characterized by low visibility.

Innovation around the world

The right technology can keep the world cool, hot, and powered up with the least amount of energy. Danfoss partners with customers and universities to boost research, optimize solutions, and help educate the skilled engineers of tomorrow. Annual investments in innovation are kept at a high level of 4% of sales, which is above industry average.

23 R&D sites

Innovative ideas are brought to life at the many Danfoss Research and Development (R&D) sites.



65 university partnerships

Danfoss works closely with universities, e.g. within innovative research and support to the education of engineers and technicians.



22 customer test facilities

New solutions are explored and optimized for customer applications in Application Development Centers (ADC) and test laboratories.



Examples of Danfoss innovative solutions



Danfoss awarded for its Turbocor® compressors

In 2017, Danfoss was awarded for its innovative Turbocor® technology: Bronze Winner in the Edison Awards and an Innovation Award at the China Refrigeration Expo. Danfoss is the pioneer and leader of oil-free, magnetic bearing, variable speed centrifugal compressors for high-efficiency air-conditioning chillers. Because Turbocor® compressors are frictionless, with no wearing parts, the compressors maintain high performance over time, helping end-users to lower maintenance costs and achieve significant energy-savings compared with traditional systems.



Smarter heating with Danfoss Link™

Energy efficiency saves money, reduces air pollution, strengthens competitiveness and delivers short payback time on investments. Well-proven Danfoss technologies help increase energy efficiency. For example, Danfoss Link™ is the easiest way to smart heating, saves up to 30% on home heating costs, and enables people to control home heating from anywhere – directly on a smartphone with the Danfoss Link™ app. Danfoss Link™ is the only system that effortlessly helps people control both electronic radiator thermostats and floor heating.



Spearheading autonomous off-highway vehicles

In the future, the way of transporting goods and people will eventually be without involvement from an operator. Autonomous vehicles are also expected to take over most off-road applications, which is why Danfoss has been on the autonomous driving technology path for some time. In 2017, DAVIS – Danfoss Autonomous Vehicle Integration System – was introduced at the trade fair for agricultural machinery, Agritechnica, in Germany. The early prototype introduction of DAVIS provided valuable feedback and insights from customers about their needs for autonomous driving systems of the future, and how Danfoss can take the lead when developing the autonomous driving technologies of tomorrow.

Outlook 2018

In 2018, management expects top-line growth above market level with a profitability on par with 2017, while further fueling significant investments in digitalization to drive growth and long-term sustainable value creation.

In 2018, our key focus continues to be on ensuring profitable growth. In 2017, we grew faster than most of the markets and industries we operate in, and we expect this development to continue in 2018.

We expect to maintain a high level of investments in new technologies and digitalization and at the same time maintain the profitability measured as margin at the 2017 level.

For the global industrial sector, the growth projections have improved during 2017. In 2018, the improved global economic environment is expected to continue at least through the first half of the year, but with less visibility for the second half of the year.

Specific key factors, which could affect the Group's financial performance in 2018:

- The Group's continued strategic initiatives to accelerate profitable growth, organic as well as acquisitive, are expected to generate a positive impact on the market share development.
- The strong cash flow performance is expected to continue in 2018, enabling the financing of future potential acquisitions and further investments in new technology.
- The current global geopolitical environment is characterized by somewhat continued uncertainty. Accordingly, sudden changes in major markets could have a negative impact on the Group's performance.
- Increasing prices on commodities, such as crops, metals and oil, which are driving demand in the global agriculture, marine, oil, gas and mining sectors, are associated with considerable volatility, leading to low visibility as well as direct impact on sourced materials.
- Fluctuations in foreign exchange rates may affect the top-line growth.

2018 expectations

Based on the above, we expect to maintain or expand our market share, while maintaining the profitability measured as margin at the 2017 level, following significant investments in digitalization.

Forward-looking statements

[Read more about risks on page 27 and financial risks in Note 16, page 68](#)

This Annual Report includes forward-looking statements on various matters, e.g. expected earnings, future expansion of market share, 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, 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, and 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.

A year of strong profitable growth

In 2017, we continued our momentum, delivering strong financial results, while investing heavily in the future and making significant progress in moving Danfoss forward as a customer-focused technology leader.

Global megatrends are rapidly transforming the world. At Danfoss, through our dedicated people, smart technologies and deep application knowledge, we are seizing these opportunities to offer solutions to our customers. Take electrification. The transition from fossil to green energy will make electricity the world's most important energy carrier. With electrification comes great opportunities to enhance the flexibility, efficiency and environmental performance of almost any application or system. One area where we already see the impact of electrification is off-highway machinery. Here we have seen customer demand grow and to further strengthen our capabilities in this area, we acquired the world-leading expert in electric solutions for the marine and off-highway market, Visedo Oy, in November 2017.

Digitalization represents another major opportunity. Every day, the digital transformation is picking up speed, and it is a catalyst for long-term competitive advantage. We use digital technology to create new business opportunities and better services, and we leverage the transition towards more connected and smarter systems to drive increased customer value. One example from the past year is our prototype-introduction of the Danfoss Autonomous Vehicle Integration System, DAVIS, for off-highway machinery. With solutions like that in mind, we are investing in growing our digital skills and acquiring new capabilities – to make sure we remain an industry frontrunner.

Now, demographic changes such as a growing population and urbanization are trends that challenge the world. By 2030, we will be 8.6 billion people on the planet. That's 1 billion more than today. And as the population grows, urbanization is accelerating with 50 million people moving to the world's cities every year. Accordingly, the need for new infrastructure for transportation, water, power, heating, cooling, food and waste handling will be massive, which again could potentially accelerate the pressure on the global climate. Already today, our cities account for more than 75% of the total global greenhouse gas emissions. However, at Danfoss, knowing how energy efficiency can help us get more from less, we are looking optimistically towards the future. We are already offering many solutions – the answer is there. In fact, the International Energy Agency estimates that compared to renewables or fuel switching, energy efficiency is the most important contributor to global greenhouse gas reductions.

So, a low-carbon world does not just depend on how much clean energy we produce. When building the cities of tomorrow, it starts with the construction machines and transportation systems, which must be powered in the most energy efficient way. And by using the best available technologies it is possible to halve the energy consumption in our buildings. Also, our energy systems must be able to connect electricity, heating and cooling and integrate various energy sources, such as recovered energy from, for instance, data centers or supermarkets. These are a few examples of how energy-efficient technologies can help the world move in the right direction to deliver on the global action plan to keep global warming below 2°C, as set out in the United Nations' Paris Agreement.

And things really are moving forward. In 2017, we recorded an increasing demand for our technologies, which led to strong sales growth of 12% in local currency – driven by high growth rates across our four business segments and all regions with a significant impact from North America and China. Accordingly, we continued our momentum and finished the year in a strong financial position, having significantly lifted our earnings and sustained a high cash generation – while at the same time investing massively in the future. We, the Group Executive Team, have focused on running Danfoss with discipline and have maintained our commitment to generating sustainable, long-

term value creation. We are confident that our strategy, driven by our engaged and capable teams around the world, will enable us to continue to deliver profitable growth, while at the same time ensuring even sharper focus on safety, quality, on-time delivery and continuous improvements across our business to the benefit of our customers.

On behalf of the Group Executive Team.


Kim Fausing
President & CEO

"In 2017, we recorded an increasing demand for our technologies, which led to strong sales growth of 12% in local currency – driven by high growth rates across our four business segments and all regions with a significant impact from North America and China."

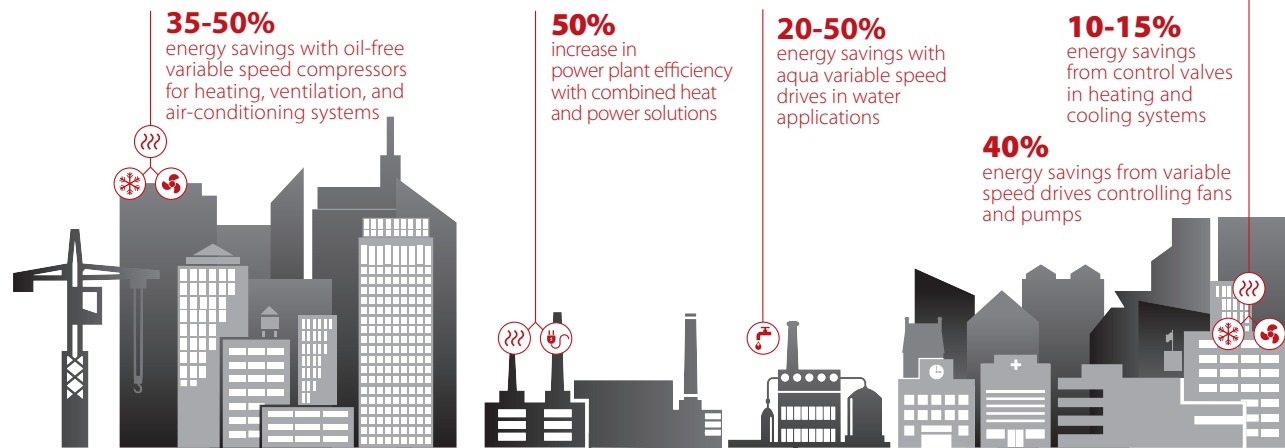


Our business

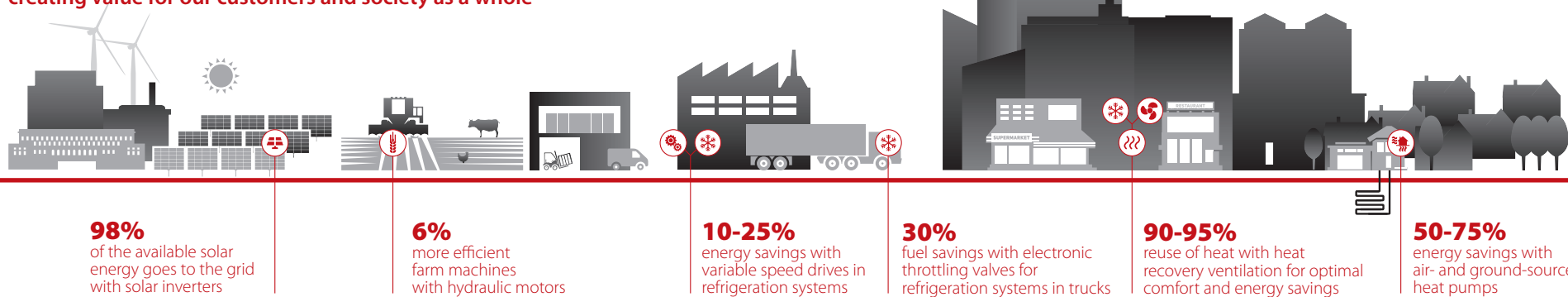


Global growth opportunities

The Danfoss business links to global trends, which drive future growth opportunities for Danfoss, and represent areas where we contribute to sustainable global development.



Examples of how Danfoss' technology and solutions are creating value for our customers and society as a whole



Infrastructure

The global population is moving into cities, creating a demand for infrastructure. By providing energy-saving solutions and technologies, we help build the infrastructure – roads, buildings, and energy systems – for the world's growing cities in a sustainable and efficient way.

Food

A growing world population needs more and better food. We help meet this need by increasing agricultural productivity and keeping food cold and fresh from field to fork with a minimum of waste, e.g. safe food processing, storage, and transportation.

Energy

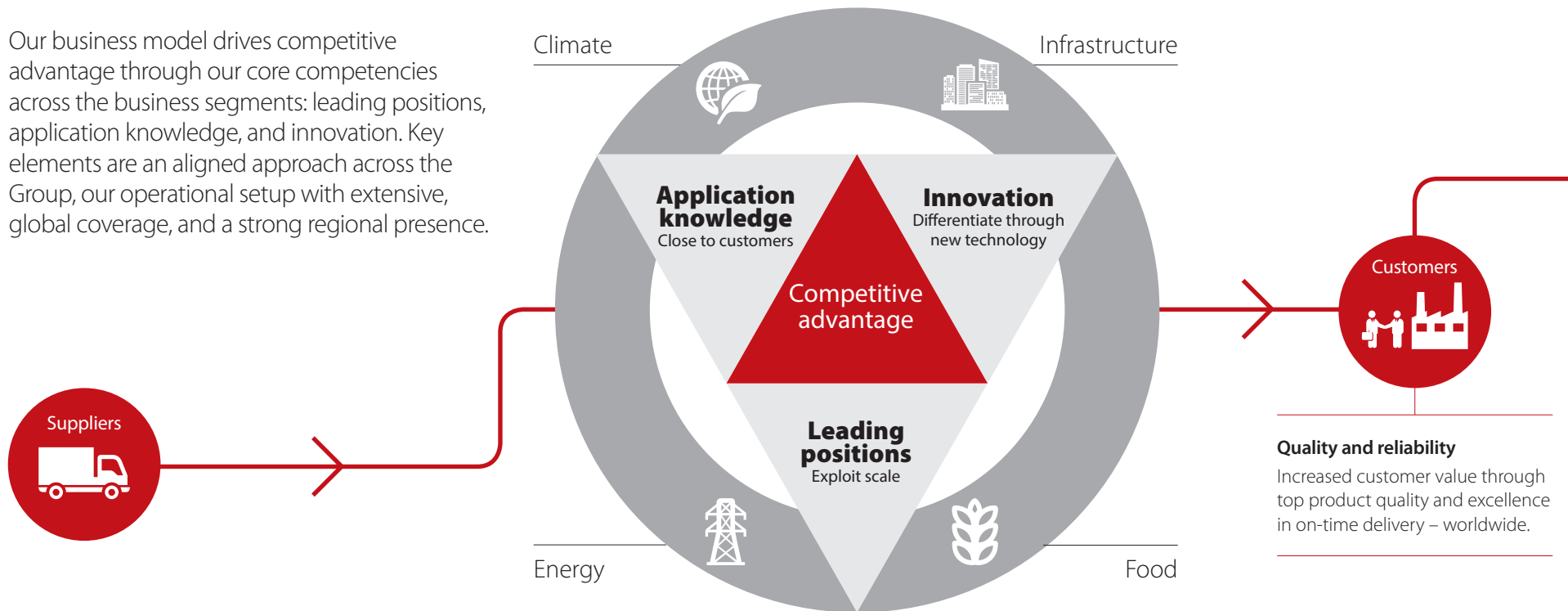
Global energy demand is rising as populations grow and standards of living increase. No matter what we do, the goal is to optimize performance, increase energy efficiency, and minimize waste. This means that our customers and society as a whole get more from less.

Climate

Global emissions must be reduced to limit global warming. Our innovative technologies help lower emissions and improve people's health and comfort, outdoors and indoors, by optimizing heating, ventilation, and air-conditioning systems.

Business model

Our business model drives competitive advantage through our core competencies across the business segments: leading positions, application knowledge, and innovation. Key elements are an aligned approach across the Group, our operational setup with extensive, global coverage, and a strong regional presence.



Leading positions

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

Application knowledge

Across the Group, customer application knowledge and deep technical expertise are driving differentiation as well as customer value. The operational setup is designed to ensure local empowerment and close cooperation with customers. We invest in initiatives that enable our sales and R&D teams to turn their know-how and application understanding into performance-enhancing advantages for our customers.

Innovation

Innovation is in our DNA. We focus our innovation in the core; meaning that we are focused on constantly developing our technologies, products and processes in the core businesses. It is our unique application knowledge and our ability to understand customer needs combined with access to new and advanced technologies that drive innovation at Danfoss. We invest above industry average to take full advantage of innovation and take the lead within IoT and connectivity.

Ⓢ The business model is made operational by the Core & Clear strategy, see page 15

Strategy

Our aspiration and promise to customers reflect how we work and set the framework for the Danfoss strategy, Core & Clear.

The Core & Clear strategy forms the foundation of all our strategic activities and makes the business model operational. Living the strategy and delivering on the strategic focus areas is how we strive to meet our aspiration every day to drive long-term sustainable results.

In short, **Core** means that we concentrate on our core business and core competencies, where we create the most value. **Clear** means that we focus on earning customer loyalty through quality, reliability and innovation.

Our Aspiration

We are engineering tomorrow is the essence of Danfoss' identity – coupling Danfoss' innovative engineering and respected quality and reliability with a constant desire to drive growth and realize the potential of tomorrow.

We passionately push boundaries on results and reputation by investing in a passionate and performance-oriented work culture to deliver stronger financial results and increased stakeholder value, and to be a great place to work.

Strategic focus areas



Core & Clear portfolio

Core & Clear portfolio is about having strong, leading positions globally with the core businesses being number one or two globally. This is achieved through organic growth as well as acquisitions of well-performing companies within the core businesses. We also do strategic acquisitions to fuel our growth regionally and add new technologies. In addition to the core businesses, the focus is on a few new businesses adjacent to the core, and on strong globalization of the businesses.



Free & Agile

Free & Agile is about ensuring the Group's agility and ability to deliver strong results by having the flexibility to adapt to market developments, while delivering profitable growth and a strong free cash flow. Key is a strong supply chain, with safety, quality, delivery, and cost as key elements, and a strong IT infrastructure to fully benefit from the digital opportunities. Focus is on utilizing our scale and having a "One Company" approach to drive improvements and transparency.



Customer & Innovation

Customer & Innovation is about earning customer loyalty by delivering on our promise of quality, reliability, and innovation. We constantly focus on what matters most for the customers and what value Danfoss can offer by using our in-depth application knowledge, understanding the customers' needs, being easy to do business with, and innovating products that drive differentiation.



Passion & Performance

Passion & Performance is about building capabilities and engagement to drive strong performance and execute on the Core & Clear strategy. Focus is on strong performance management, common processes and tools, and a systematic development of competencies to create a high level of engagement and improved performance. We want Danfoss to be a great place to work.

"First of all, we want our employees to be safe. This is fundamental for being able to focus on increased customer value through top product quality and excellence in on-time delivery. In addition to this, we innovate to differentiate, and we develop and acquire new technologies to drive strong differentiation. We provide the technologies that enable our customers to be successful in their markets."

Kim Fausing
President & CEO

Business segments

Danfoss **Power Solutions**

6,815
employees worldwide



22
factories in 11 countries



More than 20 sales offices in
17 countries



Leading player and industry pioneer in the mobile hydraulics market.

Products and solutions

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

- Hydrostatic pumps and motors
- Electronic components and software
- Orbital motors
- Steering solutions
- Hydraulic and electro-hydraulic proportional valves
- Electric motors, converters and storage

The components are part of applications such as tractors, road graders, cranes, lawn mowers, and more, helping to lift, push, pull, etc.

Customers and industries

- Original equipment manufacturers (OEMs)
- Distributors

Operating within, e.g., agricultural, construction, road building, material handling, turf care, and specialty markets.

Danfoss **Cooling**

6,396
employees worldwide



13
factories in 10 countries



More than 100 sales offices in
37 countries



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

Products and solutions

Components for cooling control solutions:

- Compressors and high-pressure pumps
- Valves and controllers
- Sensors
- Heat exchangers
- Condensing units

The components are part of applications such as chillers, rooftop air-conditioning systems, and cold storage solutions, used in residential and commercial buildings, e.g. hotels, airports, supermarkets, shopping malls, and more.

Customers and industries

- Original equipment manufacturers (OEMs)
- Wholesalers, distributors and contractors
- Installers and end-users

Operating within, e.g., air conditioning, commercial and industrial refrigeration (food & beverage processing, transportation, storage), and water treatment incl. reverse osmosis.

Danfoss **Drives**

4,652
employees worldwide



11
factories in 7 countries



More than 80 sales offices in
50 countries



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

Products and solutions

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

- Low- and medium-voltage AC drives
- Stacks and power modules

The components are used to provide optimal operation of pumps, fans, chillers, conveyors, shafts, energy management (hybrid), and power conversion.

Customers and industries

- Original equipment manufacturers (OEMs)
- Distributors and system integrators
- Installers and end-users

Operating within, e.g., machine manufacturing, water treatment, food & beverage, building automation, marine & offshore, mining, renewable energy generation, heating, ventilation, and air-conditioning (HVAC) systems.

Danfoss **Heating**

5,339
employees worldwide



26
factories in 12 countries



More than 100 sales offices in
57 countries



Market leader within residential and commercial heating and district energy.

Products and solutions

Advanced components and service for:

- Heating/cooling systems
- Radiator valves and thermostats
- Floor heating and heat pumps
- Heat cost allocators
- Heat exchangers

The components are used in buildings such as single or multi-family houses, schools, office buildings, and more.

Customers and industries

- Original equipment manufacturers (OEMs)
- Distributors and designers
- Installers and end-users

Operating within, e.g., heating, ventilation, and air-conditioning (HVAC) systems, hydronic balancing, and district energy.

Our performance



Financial highlights

	DKKm					EURm	
	2013	2014	2015	2016	2017	2016	2017
PROFIT AND LOSS ACCOUNTS							
Net sales	33,628	34,375	38,031	39,247	43,342	5,271	5,827
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	5,549	6,079	6,148	6,240	6,868	838	923
Operating profit before depreciation, amortization and impairment (EBITDA)	5,304	5,661	6,021	6,076	6,570	816	883
Operating profit excl. other operating income and expenses, etc.	3,870	4,356	4,235	4,388	5,094	589	685
Share of profit from associates and joint ventures after tax	8	-187	67	32	13	4	2
Operating profit (EBIT)	3,624	3,925	4,097	4,262	4,797	572	645
Financial items, net	-369	-449	-356	-324	-364	-44	-49
Net profit	2,285	2,290	2,597	2,935	3,308	394	445
BALANCE SHEET							
Total non-current assets	16,052	25,822	26,168	28,162	28,908	3,788	3,883
Total assets	26,116	36,883	37,219	40,567	41,562	5,457	5,583
Total shareholders' equity	11,443	13,242	15,424	17,286	19,125	2,325	2,569
Net interest-bearing debt	4,116	11,439	9,640	9,548	7,814	1,284	1,050
Net assets	15,476	22,432	22,613	24,332	24,503	3,273	3,291
CASH FLOW STATEMENT							
Cash flow from operating activities	4,444	4,351	4,667	5,161	5,521	693	742
Cash flow from investing activities	-917	-10,576	-1,619	-3,676	-3,014	-494	-405
Acquisition of intangible assets and property, plant and equipment	-1,004	-996	-1,176	-1,678	-2,092	-226	-281
Acquisition of subsidiaries and activities	0	-7,377	-223	-1,872	-765	-251	-103
Acquisition of other investments, etc.	87	-2,203	-220	-126	-157	-17	-21
Free cash flow	3,527	-6,225	3,048	1,485	2,507	199	337
Free cash flow before M&A	3,513	3,389	3,397	3,416	3,307	459	445
Cash flow from financing activities	-3,623	6,194	-3,416	-1,302	-2,777	-175	-373
FINANCIAL RATIOS							
Local currency growth (%)	1	3	2	4	12	4	12
EBITDA margin, excl. other operating income, etc. (%)	16.5	17.7	16.2	15.9	15.8	15.9	15.8
EBITDA margin (%)	15.8	16.5	15.8	15.5	15.2	15.5	15.2
EBIT margin, excl. other operating income, etc. (%)	11.5	12.7	11.1	11.2	11.8	11.2	11.8
EBIT margin (%)	10.8	11.4	10.8	10.9	11.1	10.9	11.1
Return on invested capital (ROIC)	22.2	19.4	16.3	16.3	17.8	16.3	17.8
Return on invested capital (ROIC) after tax	15.9	13.2	11.4	12.0	13.0	12.0	13.0
Return on equity (%)	18.2	18.4	17.6	17.2	17.3	17.2	17.3
Equity ratio (%)	43.8	35.9	41.4	42.6	46.0	42.6	46.0
Leverage ratio (%)	36.0	86.4	62.5	55.2	40.9	55.2	40.9
Net interest bearing debt to EBITDA ratio	0.8	2.0	1.6	1.6	1.2	1.6	1.2
Dividend pay-out ratio (%)	35.0	21.8	20.4	17.0	18.1	17.0	18.1
Dividend per 100 DKK share	78.3	48.9	51.8	50.2	60.2	50.2	60.2

Financial review

In 2017, the Danfoss Group delivered the highest sales growth in local currency in six years, and we achieved strong results in line with expectations after high investments in digitalization and growth initiatives. Sales increased to DKK 43,342m, corresponding to 12% growth in local currency, and earnings (EBIT) improved 13% to DKK 4,797m, leading to an EBIT margin of 11.1%. The cash generation remained strong with a free cash flow before M&A of DKK 3,307m.

Sales

Overall, 2017 was characterized by a strong growth in local currency of 12% (2016: 4%). Net sales increased DKK 4,095m to DKK 43,342m (2016: DKK 39,247m), up 10% on the previous year, due to a currency effect of -2% impacting the top-line growth measured in DKK.

The Group's overall strong sales performance was driven by a broadly-based momentum in all four business segments. In particular, Danfoss Power Solutions delivered a strong performance. To take market share, Danfoss is driving targeted growth initiatives, e.g., new application development centers and sales activities towards specific vertical markets. Furthermore, full-year sales from the acquisitions of Sondex and White Drive Products, which were completed the previous year, contributed to lifting the Group sales in 2017.



Development in key markets

In 2017, Danfoss' strong growth was driven by a significant increase in sales in China and North America, but all regions contributed with growth. The Group benefitted from its investments in growth initiatives. Danfoss saw a market recovery in several countries and sectors, but at the same time, the geopolitical environment continued to hold some uncertainty. Some markets saw improvement, due to increasing investment levels, for example within construction and infrastructure in China and North America. In China, demand for Danfoss technologies was furthermore supported by a strong political focus on energy efficiency and reduction of carbon emissions (CO₂).

In Western Europe, Danfoss saw growth across the countries and business segments. Danfoss Power Solutions and Danfoss Heating showed double-digit growth rates, driven by their own growth initiatives and the gradually building growth traction in the European countries.

In Eastern Europe, Danfoss saw a high growth impact from Russia, where growth seemed to take hold. The performance in Eastern Europe varied across the business segments with a high growth impact from Danfoss Heating.

In North America, sales increased significantly on last year, despite a mixed performance across business segments and products. Danfoss Power Solutions and Danfoss Drives showed double-digit growth rates, driven by their own growth initiatives and a higher activity level within construction and infrastructure.

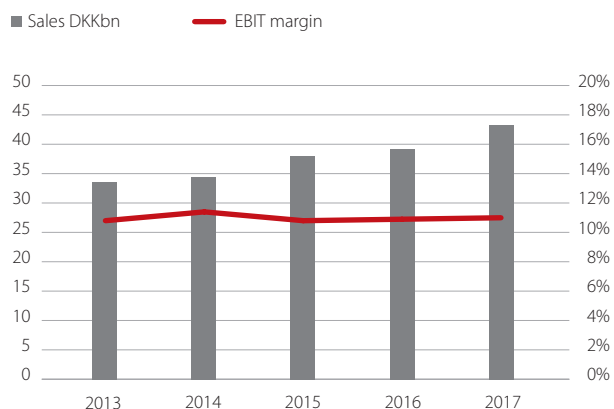
In Asia-Pacific, the significant increase in sales was driven by high double-digit growth rates in China, where all business segments delivered a very strong performance.

In Latin America, the increasing sales were mainly driven by Brazil, where growth traction is building. Overall, the region continues to be characterized by mixed market conditions across countries and products. All business segments saw growth in the region with high impact from Danfoss Cooling and Danfoss Power Solutions.

In Africa-Middle East, all the business segments delivered a good performance. However, some markets in the region were characterized by low visibility and uncertainty.

ⓘ See Note 1, page 48, for more information on business and geographical segment reporting

Sales and EBIT margin



Earnings

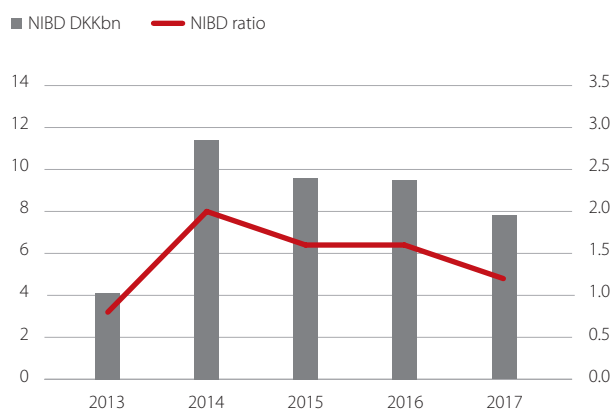
Operating profit excluding other income and expenses improved 16% to DKK 5,094m (2016: DKK 4,388m). Operating profit (EBIT) improved 13% to DKK 4,797m (2016: DKK 4,262m), due to the increased earnings in all segments, leading to an EBIT margin of 11.1% (2016: 10.9%).

The positive development in earnings was driven by the increased sales in combination with a disciplined cost development despite increased spending on digitalization and strategic growth initiatives.

Other operating income and expenses, net, was an expense of DKK 310m (2016: expense of DKK 158m), mainly due to restructuring costs related to continuous organizational adjustments in several countries.

Profit before tax improved 13% to DKK 4,433m (2016: DKK 3,938m), leading to a net profit of DKK 3,308m (2016: DKK 2,935m), up 13% on last year. The net profit improvement was mainly driven by the improved EBIT. The effective tax rate for 2017 was 25.4% (2016: 25.5%).

Net interest-bearing debt (NIBD)



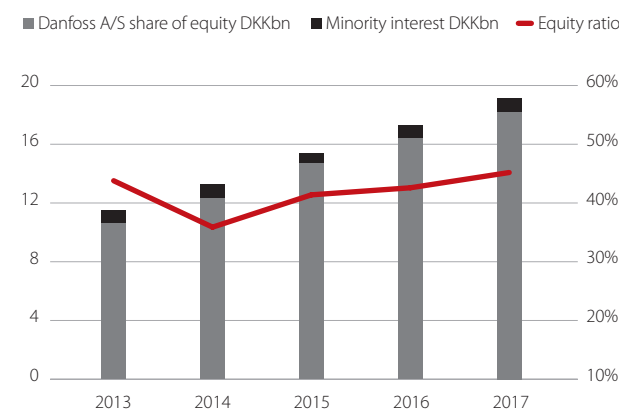
Capital structure

We want to maintain a strong balance sheet and to strike an optimal balance between reinvesting capital back into our business and paying out returns to our owners. See more information on dividends in the corporate governance section on page 30 and Note 11, page 61.

At December 31, 2017, the net interest-bearing debt was DKK 7,814m (2016: DKK 9,548m), leading to a net interest-bearing debt to EBITDA ratio of 1.2 (2016: 1.6). The acquisitions completed in 2017 were financed by the strong operating cash flow. Currently, Danfoss has a BBB credit rating assigned by Standard & Poor's with a stable outlook, see Note 11, page 61, for more information.

The non-current interest-bearing debt maturing after more than 12 months amounted to DKK 7,617m (2016: DKK 6,980m), corresponding to 92% (2016: 68%) of the total interest-bearing debt. At year end, the Group had unutilized and long-term committed credit facilities of DKK 7.6bn (2016: 7.8bn) in addition to cash and cash equivalents and ordinary operating credits.

Equity



Assets and liabilities

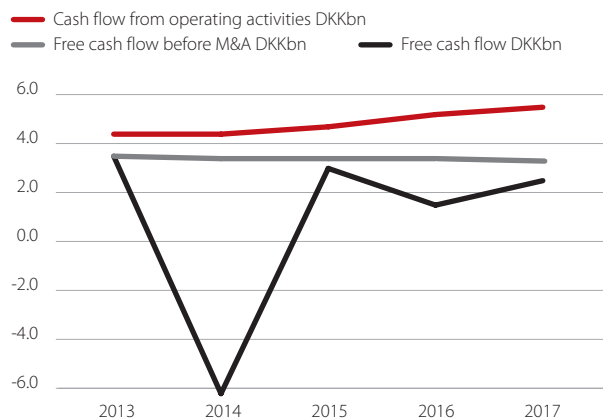
Total assets increased 2% to DKK 41,562m (2016: DKK 40,567m), as the net working capital declined, mainly due to an increase in trade payables, which was partly offset by the increase in inventories and receivables.

At December 31, 2017, the equity increased 11% to DKK 19,125m (2016: DKK 17,286m), due to accumulated profits. Consequently, the equity ratio, calculated as equity relative to total assets, was 46.0% (2016: 42.6%), and the return on equity was 17.3% (2016: 17.2%).

Cash flow

Cash performance for 2017 was driven by a strong cash generation across the Group. Ensuring a strong cash performance remains a key priority, and the result for the year reflects our consistent efforts to manage our payables and inventory as well as ensure timely payment for our products, solutions and services, as the strong growth is consuming more net working capital.

Cash flow



Free cash flow amounted to DKK 2,507m (2016: DKK 1,485m). In 2016, the cash flow was impacted by the completed acquisitions, leading to higher net investments last year.

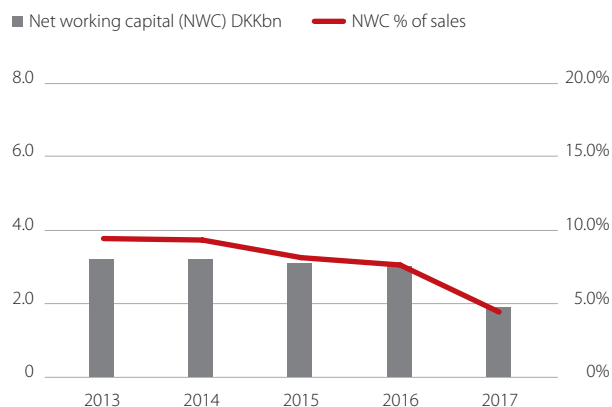
The cash flow before mergers and acquisitions was maintained at a high level of DKK 3,307m (2016: DKK 3,416m), driven by the strong cash flow from operations.

Cash flow from financing activities was DKK -2,777m (2016: DKK -1,302m), due to a higher level of repayment of loans in 2017.

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 digitalization of the portfolio and on developing energy-efficient and value-adding solutions in the business segments. The acquisitions, below, support the innovation activities of

Net working capital



Danfoss, and in the long run, we expect to see many more innovative solutions resulting from the acquisitions.

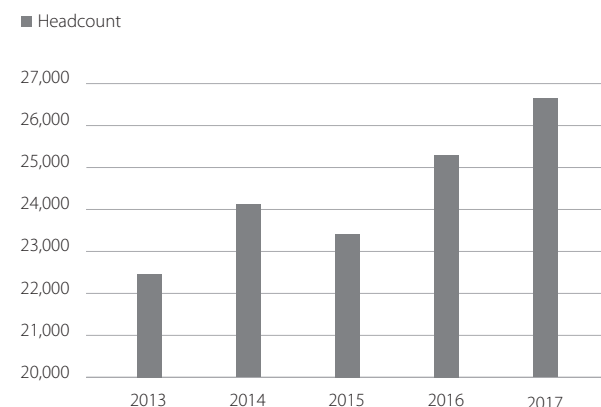
The research and development spend grew 6% to DKK 1,741m (2016: DKK 1,645m), corresponding to 4.0% (2016: 4.2%) of sales.

During the year, Danfoss filed 105 (2016: 144) new patent applications, and 340 (2016: 351) patents were granted to the Group. At year end, Danfoss had a total of 1,399 (2016: 1,408) patent families.

Acquisitions

On June 1, 2017, Danfoss acquired the Italy-based software company Prosa, which has expertise in user-experience design and speed in bringing new solutions to market within connected cooling applications. With this step, Danfoss will expand its offering through the development of new connectivity solutions for applications along the cold chain and further strengthen its position to deliver new innovative products and services.

Number of employees



On September 7, Danfoss acquired the Kavlico thin-film technology, which is used in sensors for higher application temperature and pressure. The acquisition enables a complete Danfoss offering for heavy-duty pressure sensors to mobile hydraulics and industrial engines.

On November 1, 2017, Danfoss acquired Visedo Oy, a world-leading expert in electric solutions for the marine and off-highway market, based in Finland. With this step, Danfoss enables access to electric solutions, which will further strengthen the business and market position of Danfoss Power Solutions.

Employees

The Danfoss Group had 26,645 (2016: 25,292) employees at year end. The increase is mainly due to the higher activity level.

Events occurring after the balance sheet date

We are not aware of any events after the balance sheet date of December 31, 2017, which expectedly could have a material impact on the Group's financial position.

Business segments review

➤ See further financial information on the segments in Note 1, page 48



Danfoss **Power Solutions**

Financial results 2017 / DKKm

Sales	13,923
Growth in local currency	19%
Reported growth	17%
EBIT*	2,277
EBIT margin*	16.4%

Danfoss Power Solutions delivered a very strong performance with significant sales growth and profitability well above last year. Growth was driven by investment in successful growth initiatives with market share gains and a pick-up in the off-highway market, in particular within global construction and distribution. Danfoss Power Solutions delivered growth across all regions with a high impact from North America and China.



Danfoss **Cooling**

Financial results 2017 / DKKm

Sales	11,885
Growth in local currency	7%
Reported growth	6%
EBIT*	1,882
EBIT margin*	15.8%

Danfoss Cooling delivered a strong performance with sales above and profitability slightly below last year's level. The performance varied across regions and product categories, as some markets are fast-growing and others characterized by a low-growth environment. China had a significant impact on growth, and the Southern European countries as well as Brazil also showed good growth.



Danfoss **Drives**

Financial results 2017 / DKKm

Sales	10,255
Growth in local currency	7%
Reported growth	6%
EBIT*	979
EBIT margin*	9.5%

Danfoss Drives continued the positive development with sales and profitability ahead of last year. The Danfoss Silicon Power business contributed with double-digit growth. The global drives market was characterized by somewhat low growth, but Danfoss Drives delivered growth in most regions, led by strong growth in China. North America and the Southern European countries also contributed well to the increased sales.



Danfoss **Heating**

Financial results 2017 / DKKm

Sales	7,259
Growth in local currency	15%
Reported growth	14%
EBIT*	848
EBIT margin*	11.7%

Danfoss Heating delivered strong growth, including a significant effect from the acquisition of Sondex completed in 2016. The profitability was stable compared with last year, driven by a strong performance within district energy and non-residential heating. Sales increased in all regions with a high impact from the Central and Northern European countries as well as Russia.

* Segment EBIT excluding corporate costs not allocated to segments

Financial highlights, Quarterly

[See definition of the financial ratios in Note 26, page 87](#)

DKKm	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017
PROFIT AND LOSS ACCOUNTS										
Net sales	9,423	9,972	9,729	10,123	39,247	10,682	11,144	10,650	10,866	43,342
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	1,813	1,937	1,544	6,868
Operating profit before depreciation, amortization and impairment (EBITDA)	1,422	1,680	1,695	1,279	6,076	1,499	1,692	1,814	1,565	6,570
Operating profit excl. other income and expenses, etc.	984	1,257	1,262	885	4,388	1,112	1,361	1,510	1,111	5,094
Operating profit (EBIT)	971	1,241	1,250	800	4,262	1,036	1,240	1,388	1,133	4,797
Financial items	-94	-88	-71	-71	-324	-67	-131	-88	-78	-364
Profit before tax	877	1,152	1,180	729	3,938	969	1,109	1,299	1,056	4,433
Net profit	616	812	822	685	2,935	691	797	936	884	3,308
BALANCE SHEET										
Total non-current assets	25,560	25,663	27,473	28,162	28,162	28,203	27,704	27,506	28,908	28,908
Total assets	37,568	38,184	40,517	40,567	40,567	42,210	41,649	41,348	41,562	41,562
Total shareholders' equity	15,880	15,851	16,574	17,286	17,286	18,023	17,639	18,356	19,125	19,125
Net interest-bearing debt	9,301	9,484	10,244	9,548	9,548	9,340	10,038	8,714	7,814	7,814
Net assets	22,733	22,813	24,319	24,332	24,332	24,901	25,233	24,603	24,503	24,503
CASH FLOW STATEMENT										
Cash flow from operating activities	439	1,596	3,412	5,161	5,161	528	980	2,686	5,521	5,521
Cash flow from investing activities	-244	-643	-2,889	-3,676	-3,676	-386	-834	-1,278	-3,014	-3,014
Acquisition of intangible assets and property, plant and equipment	-240	-588	-949	-1,679	-1,679	-367	-698	-1,128	-2,092	-2,092
Acquisition of subsidiaries and activities	0	4	-1,868	-1,872	-1,872	-7	-83	-95	-765	-765
Acquisition of other investments, etc.	-5	-59	-72	-126	-126	-12	-53	-55	-157	-157
Free Cash flow	195	953	523	1,485	1,485	143	147	1,407	2,507	2,507
Free cash flow before M&A	195	976	2,428	3,416	3,416	151	240	1,513	3,307	3,307
Cash flow from financing activities	4	-622	-239	-1,302	-1,302	-22	-205	-1,558	-2,777	-2,777
FINANCIAL RATIOS										
Local currency growth (%)	0	4	4	9	4	12	11	13	12	12
EBITDA margin, excl. other operating income, etc. (%)	15.2	17.0	17.8	13.6	15.9	14.7	16.3	18.2	14.2	15.8
EBITDA margin (%)	15.1	16.8	17.4	12.6	15.5	14.0	15.2	17.0	14.4	15.2
EBIT margin, excl. other operating income, etc. (%)	10.4	12.6	13.0	8.7	11.2	10.4	12.2	14.2	10.2	11.8
EBIT margin (%)	10.3	12.4	12.9	7.9	10.9	9.7	11.1	13.0	10.4	11.1
Equity ratio (%)	42.3	41.5	40.9	42.6	42.6	42.7	42.4	44.4	46.0	46.0
Leverage ratio (%)	58.6	59.8	61.8	55.2	55.2	51.8	56.9	47.5	40.9	40.9
Net interest-bearing debt to EBITDA ratio	1.5	1.5	1.6	1.6	1.6	1.5	1.6	1.4	1.2	1.2
Number of employees	23,316	23,517	25,234	25,292	25,292	25,528	25,828	26,161	26,645	26,645

Key figures and financial ratios are calculated in accordance with 'Recommendations & Financial Ratios 2015' published by the Danish Finance Society, and supplemented by certain key ratios defined in Note 26.

Governance



Sustainability

Danfoss treasures sustainable results and plays an active role in sustainable global development. Danfoss became a signatory to the UN Global Compact Initiative in 2002 and continues to support the Global Compact as governing principles in the Group's sustainability efforts.

This is a summary of Danfoss' annual sustainability report, which serves as the Communication on Progress report to the UN and as Danfoss' report on corporate responsibility, as required under section 99a of the Danish Financial Statements Act.

Climate Strategy 2030

In 2015, we launched our "Climate Strategy 2030", which requires Danfoss to reduce its energy intensity as well as the CO₂ intensity by 50% before 2030. To achieve these goals, we have initiated several measures to further reduce our energy consumption.

Since 2007, Danfoss has reduced its energy intensity by 43% through energy-saving projects in the 27 largest factories, accounting for 84% of the total energy consumption.

More than 170 technical projects have been initiated – all with a payback time of maximum three years. For example, Danfoss drives are being installed to adjust the speed of fans and pumps, heat pumps are being installed to recover the heat from production halls, and a wide range of adjustment valves, temperature sensors and pressure transmitters are also in use to drive Danfoss' own energy consumption down.

Energy and emissions	2016	2017
Total energy consumption (GWh)	569	594
Electricity consumption (GWh)	405	433
Energy for heating (GWh)	164	161
Energy intensity (MWh/DKKm)*	14.5	13.7
Energy productivity (DKKm/GWh)*	69	73
Total CO ₂ emission (ton)	233,716	244,515
CO ₂ emission from electricity (ton)	202,803	214,057
CO ₂ emission from other energy (ton)	30,913	30,458
CO ₂ intensity (kg CO ₂ /DKKm)*	6.0	5.6

* **Energy intensity:** MWh consumed energy per DKKm net sale / **Energy productivity:** DKKm net sale per GWh consumed energy / **CO₂ intensity:** Ton CO₂ emitted per DKKm net sale

Business ethics and human rights

In 2017, we continued our efforts to ensure high ethical standards and good business conduct by the new initiative "Taking Ethics to the next level". Combined with a review of all cases from Danfoss' Ethics Hotline and the Danfoss advice function "AskUs", a tailor-made ethics course has been developed and more than 140 leaders in China have been trained.

We have long monitored our impact on human rights and mitigated where relevant. Danfoss is committed to living up to the UN Guiding Principles for Human Rights. During 2017, our process for human rights due diligence has been deployed in Danfoss China, Asia-Pacific and India. The due diligence process is focused on integrating human rights considerations to the organization and ensuring regional ownership.

Engaged employees

One of our strategic targets is to maintain Danfoss as a great place to work. In 2017, the global employee engagement survey showed high engagement as well as a high level of commitment and loyalty in the organization. Strong teamwork, global career opportunities and continuous focus

Health and safety	2016	2017
Lost time injuries (LTI)	121	135
Lost time injury frequency (LTIF)	3.3	3.4
Days of absence	2,309	1,406
Lost day rate (LDR)	63	36
Medical treatment incident rate (MTIR)	3.0	2.9
Minor incident rate (MIR)	17.7	18.8
Near-miss incident rate (NMIR)	96.9	86.9

on professional and personal development also contribute to driving the high employee engagement.

Safety First!

"Safety First!" is our systematic approach to a safe workplace, where focus is on clear and aligned procedures and standards to ensure a safe and healthy workplace and avoid accidents across all Danfoss sites. The global "Safety at Danfoss" program enhances the focus on safety for all Danfoss employees, visitors, and all other people working within or for Danfoss. Safety shoes and safety glasses are mandatory for anyone entering warehouses or the shop floor in any of our factories worldwide and all other areas where construction, repair and maintenance are performed. Hearing protection is also mandatory for employees working at machines with a high noise level, and safe walkways have been identified and marked for pedestrians in all factories.

Danfoss' total LTIF – Lost Time Injury Frequency – was 3.4 in 2017 versus 3.3 the previous year. The LTIF is the number of incidents that result in absence from work of one or more days beyond the day of the incident per one million hours worked.

In 2018, we will focus on reducing the LTIF by at least 10% from the 2017 level, utilizing our new Global Incident Management System and optimized root cause analysis.

Diversity

The target has been to increase the percentage of female managers to 20% by 2017 from 18% in 2014. In 2017, the percentage of female managers increased to 19%. We are still aiming for the 20% ratio, but have to accept that it will take more time to reach the target than was anticipated in 2014. In 2018, the target will be reviewed as part of the work with the updated sustainability program.

Danfoss aims at a gender composition in the Board of Directors, which reflects that of the rest of the Group, and has a target of having at least one female member of the Board of Directors, who is elected at the Annual General Meeting (AGM). Danfoss meets this target.

Prioritized Sustainable Development Goals

When the United Nation's member states agreed on a new plan to manage the world in a more sustainable way, it was not only good news for the global community, but also for Danfoss.

Through internal actions and by supporting local and global initiatives and organizations, Danfoss is an active support to the Sustainable Development Goals (SDGs).

If we are to achieve a low-carbon society, it requires action from all of us. Danfoss is working with several global organizations, e.g. the Sustainable Energy for All, to increase focus on smart energy thinking, leading to lower energy consumption and costs as well as lower greenhouse gas emissions.

We continue to support the Global Compact, which together with the SDGs is one of the governing principles in our sustainability efforts.

☺ Read more in the Sustainability Report 2017 at www.danfoss.com > Sustainability > Sustainability reporting

Goal	How we support this goal
 SDG 6: Clean water and sanitation Danfoss is providing solutions for water and wastewater handling to optimize and reduce energy consumption.	
 SDG 7: Affordable and clean energy Danfoss is a world leader in energy-efficient and smart technologies that enable customers and societies to get more from less.	
 SDG 11: Sustainable cities and communities We help build roads, buildings and energy systems for the world's growing cities and support progress for people, communities and businesses across the world.	
 SDG 12: Responsible consumption and production Our technologies and service concepts ensure the perfect conditions for food in temperature-controlled environments and help achieve near-zero downtime on store applications to improve food safety and reduce food loss and waste.	



SDG 6: Clean water and sanitation

Danfoss is providing solutions for water and wastewater handling to optimize and reduce energy consumption.



SDG 7: Affordable and clean energy

Danfoss is a world leader in energy-efficient and smart technologies that enable customers and societies to get more from less.



SDG 11: Sustainable cities and communities

We help build roads, buildings and energy systems for the world's growing cities and support progress for people, communities and businesses across the world.



SDG 12: Responsible consumption and production

Our technologies and service concepts ensure the perfect conditions for food in temperature-controlled environments and help achieve near-zero downtime on store applications to improve food safety and reduce food loss and waste.

Behaviors in Action

How we work, think and treat the people around us.

Earn Customer Loyalty

- Establish trust & respect
- Think customer in everything we do

Embrace Diversity

- Value differences
- Be inclusive

Go Beyond the Ordinary

- Push boundaries to innovate and continuously improve
- Learn from successes as well as mistakes

Honor Commitments

- Be entrusted to take ownership
- Deliver as promised

Lead by Example

- Show & encourage engagement
- Role model the way

Think Danfoss

- Take initiatives to leverage synergies
- Support others in succeeding

Risk management and compliance

This section provides an overview of the Danfoss risk management and compliance activities, its governance and identified Group risks.

To grow and stay profitable in increasingly complex business environments, Danfoss must manage risks and opportunities effectively. We take 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 rapidly and flexibly, when conditions change.

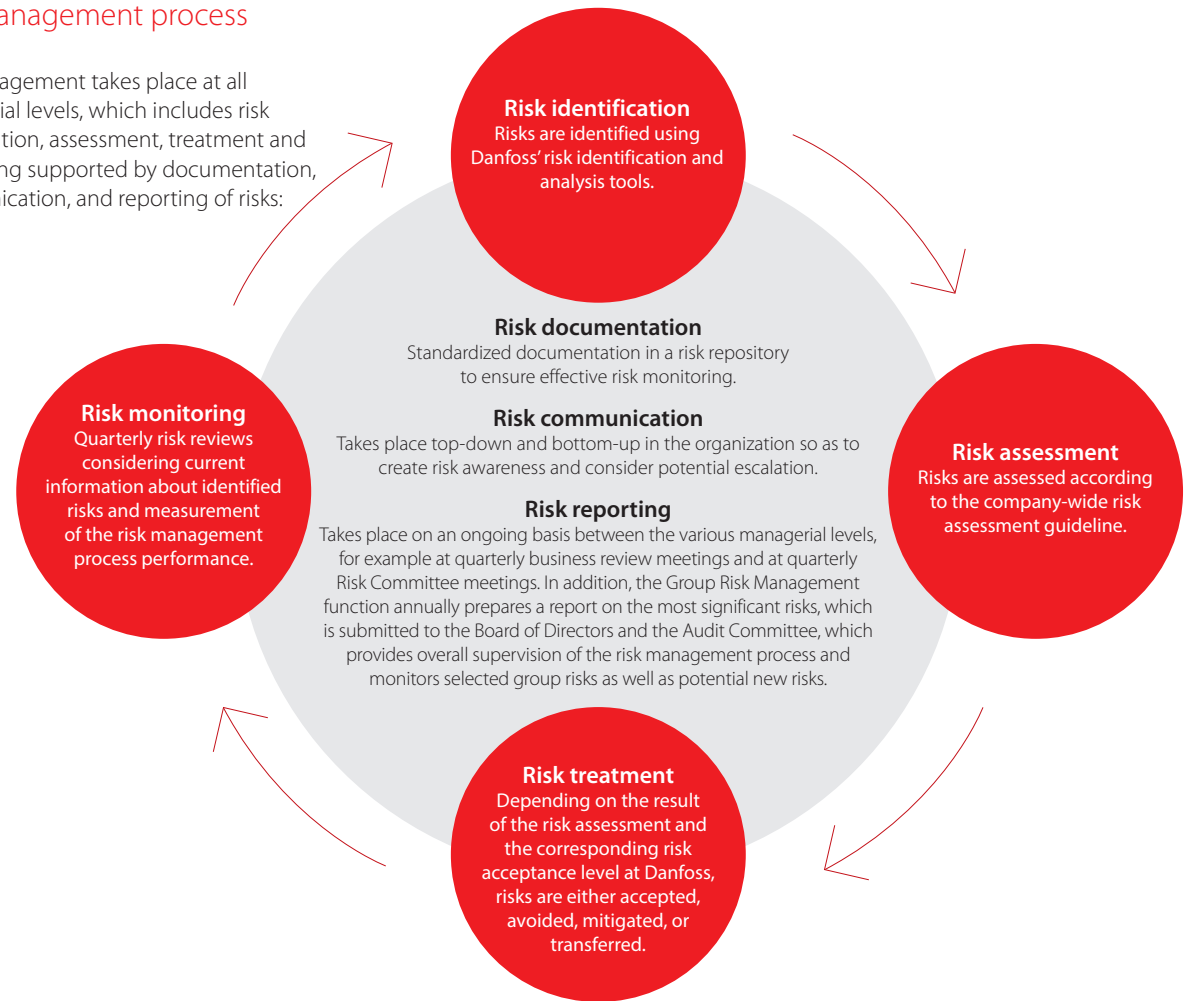
Risk Governance

As per Board Procedure, the Danfoss Board of Directors performs risk oversight and the Audit Committee assesses the effectiveness of the Danfoss Risk Management. Overall, the CEO and CFO is responsible for our risk management, ensuring that risk management policies and processes are effective at all relevant levels. Responsibility for the actual performance of risk management activities lies with the respective managers and corporate functions.

☺ For a detailed 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. See www.danfoss.com > About > Financial information > Corporate Governance.

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:



Specific risk areas

Risk area	Mitigation
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Data privacy regulation

Data privacy concerns exist wherever personal data is collected and stored – digitally or otherwise. They could arise from inappropriate handling of sensitive and ordinary personal data about employees, customers, suppliers, etc. The General Data Protection Regulation will be enforced as of May 25, 2018. Among other things, the regulation will increase our responsibility regarding how we protect and process personal data.

Danfoss has developed a data privacy handbook and data privacy e-learning, which are ready for implementation in 2018. Thus, a framework for compliance with the General Data Protection Regulation is in place, so that the focus for the upcoming months is on the improvement of operational processes.

One ERP project

The One ERP project will migrate several, currently used ERP systems into one platform in order to give Danfoss the agility and speed needed to serve our customers digitally. The system is the foundation to run the business and enable growth.

As part of the One ERP project, Danfoss has established a strong project governance. A specific project risk management function identifies project risks, assesses them, and prepares mitigation plans, which are being implemented and monitored regularly.

Disruption of IT Systems

A potential cyberattack could disrupt our IT systems, which would restrain the ability of a Danfoss manufacturing site to produce or deliver on time. This might have a significant impact on business operations and customer satisfaction and consequently damage Danfoss' reputation.

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 data centers are regularly reviewed, tested and improved. There is continuous monitoring and learning about incidents occurring outside Danfoss, triggering the identification of potential vulnerabilities at Danfoss, which would need to be contained and mitigated.

Risk overview

Like its industry peers, Danfoss is exposed to several risks. While there is no single risk that would threaten the Group's existence, either at present or in the future, Danfoss is more generally exposed to the following general and basic risks:

- Global market conditions and megatrends, including a sustained stronger focus on energy-efficient and socially sustainable solutions.
- Fair and equal access to markets.
- Geopolitical conflicts.
- Global economic growth.
- Developments in key markets.
- 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, attractive cost levels, and high product quality.
- Financial sustainability, including our ability to fund new growth.

In addition, the Group Executive Team has defined three risk areas, which – due to their nature – are currently of specific importance to Danfoss. The three areas are described in the overview to the left. The overview does not include financial risks, which are described in Note 16, page 68.

Compliance

We want to stay compliant and act ethically with integrity. We support a 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 several areas.

Compliance programs

Compliance areas are addressed through compliance programs, which consider the business environment that Danfoss operates in, including industries, geography, and size. These systemized 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 2017, a high focus continued to be on the data privacy project, paving the way for compliance with the EU data privacy regulation, when it comes into effect on May 25, 2018. Based on its Binding Corporate Rules approved by the EU data protection authorities, Danfoss has prepared a data privacy handbook, developed trainings and completed other elements required by the new legislation.

The export control compliance program was further strengthened by including processes for product and sanctioned party screening into the upcoming roll-in of One ERP, our new common Enterprise Resource Planning (ERP/SAP) system. An enhanced due diligence on business partners has further lowered the risk of corruption.

Compliance hotlines

We operate two hotlines, which are available for our business partners and employees. One such hotline is the dilemma-driven "AskUs", which provides the employees with the opportunity to seek ethical guidance before acting. This hotline has been in place since 2012, and during 2017, it provided answers to 47 (2016: 90) dilemmas posed by the Group's employees and managers. Danfoss also offers a whistleblower hotline, the Ethics Hotline, which enables employees and business partners to anonymously report any concern they may have relating to internal standards and legislation. The Ethics Hotline will also be used for data privacy complaints. In 2017, a total number of 71 (2016: 112) 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.

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 in 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 Danfoss Board consists of eight members elected at the Annual General Meeting (AGM) and three employee-elected members. The next employee election takes place in 2018, where four representatives will be elected. The Board appoints a Chairman and one or two Vice-Chairmen from among its members.

The Board of Directors has the overall responsibility for the company's activities. Shareholder-elected board members 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 Board of Directors meets at least five times a year and holds extraordinary meetings, when required. The Board regularly assesses the aggregate competencies of its members to ensure consistency with the Group's requirements.

Audit Committee

The entire Board 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 2017.

Internal audit

Danfoss has an internal audit function to carry out independent internal checks. The internal audit function presents its conclusions 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 2017. No matters of material importance to the Group's overall risk management and control environment were detected.

Shareholders with more than 5% of share capital

Shareholder	Shares	Votes
The Bitten and Mads Clausen Foundation, Nordborg, Denmark, and its subsidiaries	50.16%	86.12%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.44%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.29%
Karin Clausen, Holte, Denmark	7.25%	1.50%

In November 2014, Danfoss filed a Euro Medium Term Program on the Irish Stock Exchange, and consequently, Danfoss is a class D company with listed bonds.

Danfoss has to comply 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

Danfoss' share capital amounts to DKK 997m and is divided into two share classes: Class A shares accounting for DKK 425m and Class B shares accounting for DKK 572m. A-shares entitle holders to ten votes for every DKK 100 nominal value of shares held. B-shares entitle holders to one vote for every DKK 100 nominal value of shares held.

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. The Bitten and Mads Clausen Foundation and the Clausen family hold all issued A-shares and a number of B-shares corresponding to 99.86% of the votes.

📍 See note 11, page 61, for more information.

At the end of 2017, Danfoss had approximately 2,700 registered shareholders. Approximately three in four shareholders were resident in Denmark.

Share price development

The price of Danfoss shares is set once a year, based on a valuation prepared by Danske Markets immediately before the AGM held in April. The price was first set in 2001, when Danfoss issued its first employee shares and was DKK 749 per share. 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 a number of comparable companies and their expectations for the future, as well as general developments in the stock market. In 2017, the price was set at DKK 6,100 per share, and the new price will be announced at the 2018 Danfoss AGM.

Dividends and General Meeting

The AGM will be held in Nordborg on April 20, 2018. The Board of Directors will recommend that a dividend of 18.1% of the Group's net profit be paid for 2017, corresponding to DKK 60.2 per DKK 100 share.

For a detailed description of Danfoss' position on the recommendations issued by the Committee on Corporate Governance in May 2013, revised November 2014, reference is made to the Statutory Report on Corporate Governance 2017, which is available at the corporate website www.danfoss.com.

Board of Directors

The presentations include the Board members, their positions and competencies as of February 22, 2018.

The complete presentations are available at www.danfoss.com.



Jørgen M. Clausen
Chairman of the Board of Directors

Born: 1948

Position with Danfoss A/S:

- Chairman of the Board of Directors since 2009. Elected to the Board of Directors in 1985.

Special competencies:

- Master of Business Administration, University of Wisconsin, Madison, USA
- Bachelor of Science in Engineering, DTU (Technical University of Denmark)
- Professional experience managing a Danish-based international company and from other board memberships

Other current positions:

- Chairman of the Board of Applied Biomimetic A/S, Denmark
- Member of the Board of Fonden Universe Science Park, Denmark
- Member of the Board of miniBOOSTER Hydraulics A/S, Denmark
- Member of the Board of Blue Equity Management A/S, Denmark
- CEO in Geogaf ApS, Denmark

Decoration:

- Chamberlain title bestowed by H. M. The Queen of Denmark
- Knight 1st Class of the Order of the Dannebrog, Denmark
- Verdienstkreuz erster Klasse of the Federal Republic of Germany



Björn Klas Otto Rosengren
Vice-Chairman of the Board of Directors

Born: 1959

Position: President & CEO of Sandvik AB

Position with Danfoss A/S:

- Member of the Board of Directors since 2010. Considered independent board member

Special competencies:

- Master of Science in technology, Chalmers University of Technology, Gothenburg
- Head of a global company focusing on profitable growth, international and cultural experience from stays and jobs in China, North America, Switzerland, Netherlands, Finland and Sweden



Mads-Peter Clausen
Member of the Board of Directors

Born: 1976

Position: Vice President, Oil Free Solutions, Danfoss Turbocor Compressors, Inc.

Position with Danfoss A/S:

- Member of the Board of Directors since 2014

Special competencies:

- Master of Business Administration, University of Georgia, USA
- Bachelor of Science in Engineering, University of Southern Denmark

Other current positions:

- Member of the Board of miniBOOSTER A/S, Denmark
- Member of the Board of LineStream Technologies, Inc.



Per Falholt
Member of the Board of Directors

Born: 1958

Position: Founder of Per Falholt Global R&D Advisory Services A/S

Position with Danfoss A/S:

- Member of the Board of Directors since 2017. Considered independent board member

Special competencies:

- IMD (International Institute for Management Development), Special Project, Lecturer
- IMD, Business programs
- Novo Nordisk Executive leadership program
- MSc Chemical Engineering, Technical University of Denmark (DTU)

Other current positions:

- Chairman of the Board of Governors, DTU (Technical University of Denmark)
- Member of Executive Board and Vice Chairman in DHI, Denmark
- Board member in Cytovac A/S, Denmark
- Chairman for ATV Science and Engineering project, Denmark
- Scientific Consultant, Corbion, the Netherlands
- Programme Manager, LIFE-project, Novo Nordisk Foundation
- Chairman of the Board of Directors, Universe Science Park, Denmark
- Chairman of the Board of Directors, Medical Cannabis Association Denmark



Connie Hedegaard
Member of the Board of Directors

Born: 1960

Position: Chairman of the Board of KR Foundation and CONCITO

Position with Danfoss A/S:

- Member of the Board of Directors since 2016. Considered independent board member

Special competencies:

- MSc in history and comparative literature

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
- Member of the Board of Aarhus University, Denmark
- 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
Position: Director

Position with Danfoss A/S:

- Member of the Board of Directors since 2007. Considered independent board member
- Professional experience with supply chain, performance transformation, organization changes, and mergers and acquisitions

Special competencies:

- Master of Business Administration, Harvard University

Other current positions:

- Chairman of the Board of ReD Associates Holding A/S, Denmark
- Deputy Chairman of the Board of GN Store Nord A/S (Great Nordic), Denmark
- Member of the Board of Lego Foundation, Denmark
- 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
Position: CTO (Chief Technology Officer) and COO (Chief Operations Officer), SMA Technology AG

Position with Danfoss A/S:

- Member of the Board of Directors since 2015. Considered independent board member

Special competencies:

- Doctorate in Electrical Engineering, Aachen University of Technology, Germany
- Master of Science in Engineering, University of Pretoria, South Africa
- Bachelor of Science in Engineering, University of Pretoria, South Africa

Other current positions:

- Member of the Board of Krafftelektronik AB, Sweden



Jörg Stratmann
Member of the Board of Directors

Born: 1969
Position: Board member and General Manager, MAHLE Group

Position with Danfoss A/S:

- Member of the Board of Directors since 2017. Considered independent board member

Special competencies:

- PhD thesis, Technical University Berlin, Germany
- Mechanical Engineering and Economics (Wirtschaftsingenieurwesen), Technical University Berlin, Germany

Other current positions:

- Member of the Management Board of MAHLE Group and Head of Business Unit Thermal Systems
- Chairman of the Management Board, MAHLE Behr Group



Sandra Nørgaard Bertelsen
Member of the Board of Directors

Born: 1982
Position: HR Director, HR Operations NER, Danfoss A/S, Denmark

Position with Danfoss A/S:

- Employee-elected member of the Board of Directors since 2014

Special competencies:

- Master of Laws, Aarhus University, Denmark
- Bachelor of Laws, Aarhus University, Denmark
- Cooperation courses and experience from other board memberships



Lars Grau
Member of the Board of Directors

Born: 1963
Position: Senior Shop Steward at Danfoss, Nordborg, Denmark

Position with Danfoss A/S:

- Employee-elected member of the Board of Directors since 2014

Special competencies:

- Electrician

Other current positions:

- Member of the Board of Danfoss Employee Foundation, Denmark
- Member of the Board of Danish El Federal in South Jutland, Denmark



Jens Peter Rosendahl Nielsen
Member of the Board of Directors

Born: 1957
Position: Senior Shop Steward at Danfoss, Kolding, Denmark

Position with Danfoss A/S:

- Employee-elected member of the Board of Directors since 2006

Special competencies:

- Machinist
- Cooperation courses and experience from other board memberships

Other current positions:

- Chairman of the Board of the Danfoss Employee Foundation, Denmark
- Member of the Board of Metal Kolding and LO-Kolding, Denmark

Group Executive Team

The presentations include the members of the top management team as of February 22, 2018.

The complete presentations are available at www.danfoss.com.



Kim Fausing
President & CEO

Born: 1964
Employed with 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



Jesper V. Christensen
Executive Vice President & CFO

Born: 1969
Employed with Danfoss since 1993
Registered officer with the Danish Business Authority since 2013

Board activities:

- Board member in Danish Crown A/S, Denmark
- Board member in the Confederation of Danish Industries, Denmark
- Board member in The Manufacturing Industry, Denmark



Eric Alström
Segment President, Danfoss Power Solutions

Born: 1966
Employed with Danfoss since 2012

Board activities:

- Deputy Chairman in Hempel A/S, Denmark



Jürgen Fischer
Segment President, Danfoss Cooling

Born: 1963
Employed with Danfoss since 2008

Board activities:

- Member of the Steering Board of the European Partnership for Energy and the Environment, EPEE



Vesa Laihi
Segment President, Danfoss Drives

Born: 1957
Employed with Danfoss since 2014



Lars Tveen
Segment President, Danfoss Heating

Born: 1963
Employed with Danfoss since 1989

Board activities:

- Board Chairman in the ProjectZero Foundation, Denmark
- Board member in The Energy Industry, Denmark
- Board member in The Danish Energy Agency, EUDP, Denmark
- Board member in Green Energy Denmark
- Board member in SKAKO A/S, Denmark

Statements



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, 2017.

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, 2017, of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2017.

In our opinion, 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 22, 2018

CEO and CFO

Kim Fausing

Jesper V. Christensen

Board of Directors

Jørgen M. Clausen, Chairman

Björn Klas Otto Rosengren

Mads-Peter Clausen

Per Falholt

Connie Hedegaard

William Erwin Hoover Jr.

Jürgen Reinert

Jörg Stratmann

Sandra Nørgaard Bertelsen

Lars Grau

Jens Peter Rosendahl Nielsen

Independent Auditor's Report

To the shareholders of Danfoss A/S

[Report on the audit of the Consolidated Financial Statements and Parent Company Financial Statements](#)

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, 2017 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, 2017 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, 2017, pp 41-91 and 94-116 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 4 years including the financial year 2017.

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 2017. 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

Intangible assets and acquisitions of businesses

In 2017, the Group acquired the Visedo group. Further, the purchase price allocations relating to prior year acquisitions have been finalised during 2017.

We focused on this area as the identification and valuation of intangible assets following acquisitions are subject to judgment.

Further, intangible assets 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 Note 7, 20 and 27 in the Consolidated Financial Statements.

We audited the purchase price allocation for the acquisition of the Visedo group and the reassessments of purchase price allocations relating to prior year acquisitions. Our procedures included assessment of valuation models and key assumptions applied by Management.

Our audit procedures included assessing the Group's impairment model. We monitored 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.

Furthermore, we assessed the appropriateness of disclosures in the Financial Statements.

Key audit matter

How our audit addressed the key audit matter

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, 14 and 17 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 5-33 and 93.

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 scepticism 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.

Copenhagen, February 22, 2018
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 3377 1231

Mogens Nørgaard Mogensen
State Authorised Public Accountant
mne21404

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Group accounts and notes



Income statement

January 1 to December 31

DKKm

	Note	2016	2017
Net sales	1	39,247	43,342
Cost of sales	2	-25,407	-28,169
GROSS PROFIT		13,840	15,173
Research and development costs	2	-1,645	-1,741
Selling and distribution costs	2	-6,068	-6,342
Administrative expenses	2	-1,739	-1,996
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		4,388	5,094
Other operating income and expenses	2	-158	-310
Share of profit from associates and joint ventures after tax	3	32	13
OPERATING PROFIT (EBIT)		4,262	4,797
Financial income	4	29	20
Financial expenses	5	-353	-384
PROFIT BEFORE TAX		3,938	4,433
Tax on profit	6	-1,003	-1,125
NET PROFIT		2,935	3,308
Attributable to:			
Shareholders in Danfoss A/S		2,672	3,005
Minority interests		263	303
		2,935	3,308

Statement of comprehensive income

January 1 to December 31

DKKm

	Note	2016	2017
NET PROFIT		2,935	3,308
OTHER COMPREHENSIVE INCOME			
Actuarial gain/loss (-) on pension and healthcare plans	15	-25	126
Tax on actuarial gain/loss on pension and healthcare plans	14	-3	-97
Items that cannot be reclassified to income statement		-28	29
Foreign exchange adjustments on translation of foreign currency into DKK		-112	-467
Fair value adjustment of hedging instruments:			
Hedging of net investments in subsidiaries		16	9
Hedging of future cash flows		-21	133
Hedging transferred to Cost of Sales in the income statement		27	-9
Tax on hedging instruments		-4	-29
Items that can be reclassified to income statement		-94	-363
OTHER COMPREHENSIVE INCOME AFTER TAX		-122	-334
TOTAL COMPREHENSIVE INCOME		2,813	2,974
Attributable to:			
Shareholders of Danfoss A/S		2,536	2,748
Minority interests		277	226
		2,813	2,974

Statement of financial position

As of December 31

DKKm

ASSETS	Note	2016	2017
NON-CURRENT ASSETS			
INTANGIBLE ASSETS			
	7	17,195	17,652
PROPERTY, PLANT AND EQUIPMENT			
	8	7,521	7,924
Investments	3	2,503	2,435
Pension benefit plan assets	15	108	164
Non-current receivables		25	60
Deferred tax assets	14	810	673
OTHER NON-CURRENT ASSETS		3,446	3,332
TOTAL NON-CURRENT ASSETS		28,162	28,908
CURRENT ASSETS			
INVENTORIES			
	9	4,707	4,913
Trade receivables	10	6,033	6,419
Receivable corporation tax	17	334	123
Derivative financial instruments (positive fair value)	16	1	73
Other receivables		821	907
RECEIVABLES		7,189	7,522
CASH AND CASH EQUIVALENTS	16	509	219
TOTAL CURRENT ASSETS		12,405	12,654
TOTAL ASSETS		40,567	41,562

Statement of financial position

As of December 31

DKKm

LIABILITIES AND SHAREHOLDERS' EQUITY

	Note	2016	2017
SHAREHOLDERS' EQUITY			
Equity, shareholders in Danfoss A/S	11	16,432	18,279
Minority interests		854	847
TOTAL SHAREHOLDERS' EQUITY		17,286	19,125
LIABILITIES			
Provisions	12	402	788
Deferred tax liabilities	14	1,997	1,750
Pension and healthcare benefit plan obligations	15	1,188	1,016
Borrowings	16	6,980	7,617
Derivative financial instruments (negative fair value)	16	2	
Other non-current debt		363	351
NON-CURRENT LIABILITIES		10,932	11,522
Provisions	12	670	323
Liabilities under share incentive programs	13	37	
Borrowings	16	3,266	688
Trade payables		4,604	5,775
Debt to associates and joint ventures		25	27
Corporation tax	17	326	402
Derivative financial instruments (negative fair value)	16	99	8
Other debt		3,322	3,692
CURRENT LIABILITIES		12,349	10,915
TOTAL LIABILITIES		23,281	22,437
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		40,567	41,562

Statement of cash flows

January 1 to December 31

DKKm

Profit before tax

Adjustments for non-cash transactions

Change in working capital

CASH FLOW GENERATED FROM OPERATIONS

Interest received

Interest paid

Dividends received

CASH FLOW FROM OPERATIONS BEFORE TAX

Paid tax

CASH FLOW FROM OPERATING ACTIVITIES

Acquisition of intangible assets

Acquisition of property, plant and equipment

Proceeds from sale of property, plant and equipment

Acquisition of subsidiaries

Proceeds from disposal of subsidiaries

Acquisition of other investments, etc.

CASH FLOW FROM INVESTING ACTIVITIES

FREE CASH FLOW

Cash repayment of interest-bearing debt

Cash proceeds from interest-bearing debt

Repurchase of treasury shares

Disposal of minority interests

Addition of minority interests

Dividends paid to shareholders in the Parent Company

Dividends paid to minority shareholders

CASH FLOW FROM FINANCING ACTIVITIES

NET CHANGE IN CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of January 1

Foreign exchange adjustment of cash and cash equivalents

CASH AND CASH EQUIVALENTS AS OF DECEMBER 31

FREE CASH FLOW BEFORE M&A

The cash flow statement cannot be derived on the basis of the Annual Report alone. The definition of Free cash flow before M&A is available under financial ratios in Note 26, page 87

Note	2016	2017
	3,938	4,433
18	1,590	2,042
19	691	470
	6,219	6,945
	65	1
	-283	-335
	15	22
	6,016	6,633
17	-855	-1,112
	5,161	5,521
	-237	-479
	-1,525	-1,790
	84	177
20	-1,875	-773
20	3	8
21	-126	-157
	-3,676	-3,014
	1,485	2,507
	-4,132	-6,078
	3,842	4,430
	-268	-404
	-61	-13
	7	3
	-518	-499
	-172	-216
	-1,302	-2,777
	183	-270
	319	509
	7	-20
	509	219
	3,416	3,307

Statement of changes in equity

DKKm

	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, 2016	1,024	515	-49	657	-865	12,888	12,631	530	14,700	724	15,424
Net profit						2,172	2,172	500	2,672	263	2,935
Foreign exchange adjustments of foreign companies				-126			-126		-126	14	-112
Fair value adjustment of hedging instruments			6	16			22		22		22
Actuarial gain/loss (-) on pension and healthcare plans						-25	-25		-25		-25
Tax on other comprehensive income			-1	-3		-3	-7		-7		-7
Total other comprehensive income			5	-113		-28	-136		-136	14	-122
Total comprehensive income for the period			5	-113		2,144	2,036	500	2,536	277	2,813
Dividends to shareholders						12	12	-530	-518	-171	-689
Purchase of minority interests						-19	-19		-19	-70	-89
Additions through acquisition of subsidiaries										87	87
Purchase of treasury shares					-267		-267		-267		-267
Capital increase		23			-23					7	7
Capital reduction	-28	-538			1,127	-561	566				
Total transactions with owners	-28	-515			837	-568	269	-530	-804	-147	-951
BALANCE AS OF DECEMBER 31, 2016	996		-44	544	-28	14,464	14,936	500	16,432	854	17,286
Net profit						2,405	2,405	600	3,005	303	3,308
Foreign exchange adjustments of foreign companies				-390			-390		-390	-77	-467
Fair value adjustment of hedging instruments			124	9			133		133		133
Actuarial gain/loss (-) on pension and healthcare plans						126	126		126		126
Tax on other comprehensive income			-27	-2		-97	-126		-126		-126
Total other comprehensive income			97	-383		29	-257		-257	-77	-334
Total comprehensive income for the period			97	-383		2,434	2,148	600	2,748	226	2,974
Dividends to shareholders						1	1	-500	-499	-216	-715
Purchase of minority interests										-21	-21
Purchase of treasury shares					-402		-402		-402		-402
Capital increase	1	76			-77		-77			3	3
Total transactions with owners	1	76			-479	1	-478	-500	-901	-234	-1,135
BALANCE AS OF DECEMBER 31, 2017	997	76	53	160	-507	16,900	16,606	600	18,279	846	19,125

Notes

Note 1 Segment reporting

Note 2 Expenses and other operating income

Note 3 Investments

Note 4 Financial income

Note 5 Financial expenses

Note 6 Tax on profit

Note 7 Intangible assets

Note 8 Property, plant and equipment

Note 9 Inventories

Note 10 Trade receivables

Note 11 Share capital

Note 12 Provisions

Note 13 Share incentive programs

Note 14 Deferred tax

Note 15 Pension and healthcare obligations

Note 16 Financial risks and instruments

Note 17 Corporation tax

Note 18 Adjustment for non-cash transactions

Note 19 Change in working capital

Note 20 Acquisition and sale of subsidiaries and activities

Note 21 Acquisition(-)/sale of other investments

Note 22 Change in liabilities arising from financing activities

Note 23 Contingent liabilities, assets and security

Note 24 Related parties

Note 25 Events after the balance sheet date

Note 26 Basis for preparation and accounting policies

Note 27 Critical accounting estimates

Note 1 Segment reporting

DKK m

BUSINESS SEGMENTS	2016						2017					
	Danfoss Power Solutions	Danfoss Cooling	Danfoss Drives	Danfoss Heating	Other areas	GROUP	Danfoss Power Solutions	Danfoss Cooling	Danfoss Drives	Danfoss Heating	Other areas	GROUP
INCOME STATEMENT												
Net sales	11,948	11,194	9,619	6,336	150	39,247	13,923	11,837	10,206	7,220	156	43,342
Depreciation/amortization/impairment	696	206	422	137	353	1,814	661	192	376	178	365	1,772
Share of profit from associates and joint ventures after tax		-23	51		4	32		-3	14		3	14
Operating profit (EBIT)	1,683	1,828	825	708	-782	4,262	2,277	1,882	979	848	-1,189	4,797
Financial Items					-324	-324					-364	-364
Profit before tax	1,683	1,828	825	708	-1,106	3,938	2,277	1,882	979	848	-1,553	4,433
STATEMENT OF FINANCIAL POSITION												
Total assets *)	8,536	6,317	12,930	6,007	6,777	40,567	9,408	6,399	12,824	5,930	7,001	41,562
Net investments, excluding M&A	373	272	223	155	655	1,678	511	345	208	160	868	2,092
Investments in associates and joint ventures		42	17			59		25		11	-1	35
Total liabilities *)	1,430	1,296	1,318	683	18,553	23,281	1,927	1,540	1,415	857	16,698	22,437
OTHER INFORMATION												
Number of employees	6,404	6,025	4,653	5,146	3,064	25,292	6,815	6,396	4,652	5,339	3,443	26,645

For further information on the business segments see page 16.

GEOGRAPHICAL SEGMENTS

GEOGRAPHICAL SEGMENTS	2016							2017								
	Denmark	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	GROUP	Denmark	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	GROUP
Net sales	1,420	13,793	3,366	8,246	9,349	1,850	1,223	39,247	1,597	14,640	3,688	9,722	10,314	2,034	1,347	43,342
Total non-current assets **)	4,780	13,417	800	1,886	6,209	120	140	27,352	5,193	14,546	920	2,121	5,196	120	139	28,235

Sales in North America mainly relates to the USA.

*) 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)

DKKm

SPECIFICATION OF OTHER AREAS - PROFIT BEFORE TAX

	2016	2017
Financial income	29	20
Financial expenses	-353	-384
Central functions, not allocated *)	-793	-1,085
Other	11	-104
Profit before tax	-1,106	-1,553

SPECIFICATION OF OTHER AREAS - ASSETS

	2016	2017
Cash, current & non-current tax receivables	1,653	1,015
Other receivables	596	724
Central functions not allocated tangible and intangible fixed assets	4,030	4,620
Central functions not allocated *)	274	577
Other	224	65
Total assets	6,777	7,001

SPECIFICATION OF OTHER AREAS - LIABILITIES

	2016	2017
Interest-bearing debt, current & non-current tax liabilities	12,570	10,457
Other debt	3,665	3,974
Pension and healthcare plans	1,188	1,016
Central functions not allocated *)	921	1,192
Other	209	60
Total Liabilities	18,553	16,698

*) Central functions, not allocated, are primarily administrative expenses and assets and liabilities in central functions.

Note 2 Expenses and other operating income

DKK m

A. PERSONNEL EXPENSES

	2016	2017
Salaries and wages	9,087	9,824
Severance payments	107	236
Social security	732	815
Pension cost - Defined contribution plans	583	605
Pension cost - Defined benefit plans excluding gains from reductions and redemptions *)	33	28
	10,542	11,508
Average number of employees	24,034	25,934
Total number of employees as of end of the year	25,292	26,645

*) Expenses for defined benefit plans are described in Note 15 Pension and healthcare obligations.

	2016	2017
Remuneration to the Group Executive Team and the Board of Directors:		
Salaries	52	58
Pension costs	16	22
Bonuses	101	104
Severance payments	4	66
Group Executive Team	173	250
Board of Directors' fee	6	6
Total	179	256
Total remuneration for registered and former registered members of the Group Executive Team amounts to DKK190m (2016:115m)		

Due to change of management structure the remuneration reflects the Group Executive Team from 2017. For further information see Corporate Governance/Management-section. In 2017 total remuneration for 4 former members (2016: 1) of Group Executive Team is included in salaries, pensions, bonuses and severance payments.

Note 2 Expenses and other operating income (continued)

DKK m

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2016	2017
Classification by nature:		
Amortization of intangible assets	658	658
Depreciation of property, plant and equipment	1,156	1,114
Depreciation/amortization and impairment losses	1,814	1,772
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	403	410
Selling and distribution costs	226	223
Administrative expenses	29	25
	658	658

C. OTHER OPERATING INCOME AND EXPENSES

	2016	2017
Gain on disposal of activities		3
Gain on disposal of intangible assets	-1	
Gain on disposal of property, plant and equipment	18	8
Government grants	22	36
Reversal of restructuring costs	6	3
Other	22	47
Other operating income	67	97
Loss on disp. of intangible fixed assets	-1	-1
Loss on disp. of property, plant and equipment	-28	-11
Restructuring costs	-113	-239
Other	-83	-156
Other operating expenses	-225	-407
Other operating income and expenses	-158	-310

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

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2016	2017
Audit fee	20	20
Tax and VAT advice	13	3
Other fees	3	6
Total fee to Group Auditor	36	29

Fees for other services than statutory audit of the financial statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PricewaterhouseCoopers Denmark) amounted to DKK 5 m (2016:11 m). Other services 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 advices.

Note 3 Investments

DKKm

	2016			2017		
	Investments in associates and joint ventures	Other investments	TOTAL	Investments in associates and joint ventures	Other investments	TOTAL
Cost as of January 1	2,560	135	2,695	2,602	135	2,737
Foreign exchange adjustments in foreign companies	-17		-17		1	1
Additions	59		59	29		29
Disposals					-1	-1
Cost as of December 31	2,602	135	2,737	2,631	135	2,766
Adjustments as of January 1	-141	-102	-243	-119	-115	-234
Foreign exchange adjustments in foreign companies	4	-1	3	2		2
Net profit/value adjustment	32	-12	20	13	-6	7
Dividends	-14		-14	-21		-21
Disposal / Transfer				-93		-93
Adjustments as of December 31	-119	-115	-234	-210	-121	-331
Carrying amount as of December 31	2,483	20	2,503	2,421	14	2,435

Where possible, "Other investments" are recognized at fair value. Alternatively, they are recognized at cost less accumulated impairment losses.

Where indicators for impairment were present at the end of 2017, 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 2016.

Further information on associates and joint ventures is provided in Note 4 Financial income, Note 5 Financial expenses, Note 16 Financial risks and instruments and Note 24 Related parties.

Note 3 Investments (continued)

DKKm

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 their full values, 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	
	2016	2017
Place of business	Germany	Germany
Share of ownership	20%	20%
SUMMARIZED PROFIT AND LOSS STATEMENT (PROVISIONAL NUMBER)		
Revenue	6,999	6,620
EBIT	484	335
Net income	220	223
SUMMARIZED BALANCE SHEET (Q3 NUMBERS)		
Non-current assets	3,328	2,873
Current assets	5,636	6,293
Non-current liabilities	2,166	2,047
Current liabilities	2,344	2,596
Equity	4,454	4,523
Group share of equity as of December 31	911	927
Group share of dividend received	5	13

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2017, was DKK 9.4bn (2016: 6.5bn).

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.

Danfoss' proportionate share of:	2016			2017		
	Associates	Joint Ventures	TOTAL	Associates	Joint Ventures	TOTAL
Profit or loss from continuing operations	-4	-20	-24	-4	-1	-5
Other comprehensive income		-1	-1	-1	-1	-2
Total comprehensive income	-4	-21	-25	-5	-2	-7
Carrying amount as of December 31	24	161	185	10	95	105

RECONCILIATION OF CARRYING AMOUNT

	2016			2017		
	Associates	Joint Ventures	TOTAL	Associates	Joint Ventures	TOTAL
Group share of equity of material associates and joint ventures	911		911	927		927
Goodwill concerning material associates and joint ventures	1,387		1,387	1,389		1,389
Carrying amount of immaterial associates and joint ventures	24	161	185	10	95	105
Total carrying amount as of December 31 of associates and joint ventures	2,322	161	2,483	2,326	95	2,421

For further information on associates and joint ventures, please see the list of "Group companies".

Note 4 Financial income

DKKm

	2016	2017
Interest from banks, etc.	25	16
Calculated expected return on defined benefit plan assets	4	4
	29	20
Interest on financial assets measured at amortized cost	25	16

Note 5 Financial expenses

DKKm

	2016	2017
Interest to banks etc.	-293	-309
Interest element on discounted liabilities	-2	-1
Calculated interest on defined benefit plans	-33	-26
Foreign exchange losses, net	-1	-31
Fair value adjustment of share options and warrants	-12	-17
Loss on other investments	-12	-6
Borrowing costs recognized in the cost of assets	6	6
	-353	-384
Interest on financial liabilities measured at amortized cost	-295	-310

Note 6 Tax on profit

DKKm

	2016	2017
Current tax expense	-1,078	-1,345
Change in deferred tax	29	242
Adjustments concerning previous years	46	-22
	-1,003	-1,125

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%	5.0%	3.8%
Tax exempt income/non-deductible expenses	-1.2%	-2.4%
Effect of change in corporate tax rate		-3.7%
Income from associates and joint ventures after tax	-0.2%	-0.1%
Adjustment of net tax assets	-0.8%	-0.3%
Other taxes	1.9%	5.6%
Adjustments concerning previous years	-1.2%	0.5%
Effective tax rate	25.5%	25.4%

	2016	2017
Tax on profit (income statement)	-1,003	-1,125
Tax on fair value adjustment of hedging instruments (other comprehensive income)	-4	-29
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	-3	-97
Total taxes	-1,010	-1,251

The enactment of US tax reform as of December 22, 2017, has impacted the total taxes. Effect of change in corporate tax rate is impacted by an income from adjusting deferred tax assets and liabilities and Other taxes are impacted by an expense from transition tax.

Note 7 Intangible assets

DKKm

	Goodwill	Internally developed software	Brand	Technology	Customer relations	Patents, trademarks and other rights	Development costs	Total Other	TOTAL
Cost as of January 1, 2016	11,699	1,489	1,125	4,533	2,667	352	582	10,748	22,447
Foreign exchange adjustments in foreign companies	27	11	16	50	32		1	110	137
Additions through acquisition of subsidiaries	1,092	1	20	216	188	7		432	1,524
Transfers		-17				27	-10		
Additions		222				15		237	237
Disposals		-25				-74	-43	-142	-142
Cost as of December 31, 2016	12,818	1,681	1,161	4,799	2,887	327	530	11,385	24,203
Amortization and impairment losses as of January 1, 2016	1,168	1,076	17	1,981	1,345	319	495	5,233	6,401
Foreign exchange adjustments in foreign companies	15	11	1	35	25	-1	2	73	88
Transfers		-6				6			
Amortization		91	18	298	207	13	31	658	658
Disposals		-22				-74	-43	-139	-139
Amortization and impairment losses as of December 31, 2016	1,183	1,150	36	2,314	1,577	263	485	5,825	7,008
Carrying amount as of December 31, 2016	11,635	531	1,125	2,485	1,310	64	45	5,560	17,195
Cost as of January 1, 2017	12,818	1,681	1,161	4,799	2,887	327	530	11,385	24,203
Foreign exchange adjustments in foreign companies	-416	-57	-73	-241	-153	-2	-20	-546	-962
Additions through acquisition of subsidiaries	734			261	66		2	329	1,063
Transfers		-275				277		2	2
Additions		469				129		598	598
Disposals		-35				-16		-51	-51
Cost as of December 31, 2017	13,136	1,783	1,088	4,819	2,800	715	512	11,717	24,853
Amortization and impairment losses as of January 1, 2017	1,183	1,150	36	2,314	1,577	263	485	5,825	7,008
Foreign exchange adjustments in foreign companies	-74	-50		-161	-112		-18	-341	-415
Transfers		-152				153	-1		
Amortization		83	20	310	214	11	20	658	658
Disposals		-35				-15		-50	-50
Amortization and impairment losses as of December 31, 2017	1,109	996	56	2,463	1,679	412	486	6,092	7,201
Carrying amount as of December 31, 2017	12,027	787	1,032	2,356	1,121	303	26	5,625	17,652

Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 20 Acquisition and sale of subsidiaries and activities.

Note 7 Intangible assets (continued)

DKKm

IMPAIRMENT TESTS

At the end of 2017, 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 CGU's is compared to the carrying amount of the net assets. As acquisitions in Danfoss are made on the basis of 10-years projections, the expected cash flow is calculated on the basis of estimates for the years 2018-2027. The estimates are prepared and approved by the management in the respective CGU's and Group Management. The primary variables are sales, EBIT, working capital and investments. The discount rates are set under consideration of a market-based cost of equity and cost of debt.

The most significant goodwill allocations as well as the most significant assumptions for the performed impairment tests have been described below.

	2016					2017				
	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	1,175	5,725	2,049	2,668	18	1,760	5,730	1,892	2,626	19
Brand with indefinite useful life as of December 31	1,021					949				
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Discount rate before tax in %	13%	12%	13%	10%	11%	11%	11%	11%	10%	11%

The weighted average growth rate until 2027 is based on past performance/management expectation of market development etc. and is estimated to be 3-7% 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 EBIT margins used in the impairment tests are considered reasonable taking past performance and initiatives in the business segments into consideration.

The EBIT 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 2016. The net cash flow during the terminal period from 2028 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.

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 2016.

Note 7 Intangible assets (continued)

Danfoss Power Solutions

The goodwill allocated to Danfoss Power Solutions derives from the Danfoss Group's acquisition of the additional 38.2% of the share capital in Sauer-Danfoss Inc. (USA) in 2008, Propulsys Inc. (White Drive Products Group) (USA) in 2016 and Visedo Oy (Finland) in 2017. At the end of 2017, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to DKK 2.6bn, or approximately 57% of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2030 and 2032, respectively.

Danfoss Drives

The goodwill allocated to Danfoss Drives Segment derives primarily from the acquisition of Vacon (Finland) in December 2014. At the end of 2017, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 1.4bn, or approximately 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 2017, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 200m, or approximately 4% of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2032 and 2019, respectively.

Danfoss Heating

The goodwill allocated to Danfoss Heating Segment derives primarily from the acquisition of the DEVI Group (Denmark) in 2003, Thermia Wärme AB (Sweden) in 2005 and Sondex Holding A/S (Denmark) in 2016. At the end of 2017, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 337m, or approximately 8% of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2028.

Other intangible assets

At the end of 2017, Danfoss had Software in progress amounting to DKK 727m and DKK 0m capitalized development expenditure in progress. Capitalized software in progress is mainly developed internally.

In 2017, the Group performed impairment tests on the carrying amount of software and development in progress. The project development process related to the actual expenses and achieved milestones has been evaluated according to the approved project and business plans. This led to no impairment of current development assets (2016: 0m).

Note 8 Property, plant and equipment

DKKm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	TOTAL
Cost as of January 1, 2016	5,814	9,335	1,557	692	17,398
Foreign exchange adjustments in foreign companies	13	-70	12	1	-44
Additions through acquisition of subsidiaries	274	226	14	9	523
Transfers	151	418	61	-630	
Additions	86	350	73	1035	1,544
Disposals	-85	-39	-84		-208
Cost as of December 31, 2016	6,253	10,220	1,633	1,107	19,213
Depreciation and impairment losses as of January 1, 2016	2,593	7,056	1,067		10,716
Foreign exchange adjustments in foreign companies	4	-83	10		-69
Depreciation	220	766	170		1,156
Disposals	-13	-20	-78		-111
Depreciation and impairment losses as of December 31, 2016	2,804	7,719	1,169		11,692
Carrying amount as of December 31, 2016	3,449	2,501	464	1,107	7,521
Cost as of January 1, 2017	6,253	10,220	1,633	1107	19,213
Foreign exchange adjustments in foreign companies	-196	-205	-42	-46	-489
Additions through acquisition of subsidiaries	11	17	2		30
Transfers	221	478	238	-939	-2
Additions	271	274	337	1112	1,994
Disposals	-26	-145	-372		-543
Cost as of December 31, 2017	6,534	10,639	1,796	1,234	20,203
Depreciation and impairment losses as of January 1, 2017	2,804	7,719	1,169		11,692
Foreign exchange adjustments in foreign companies	-46	-84	-33		-163
Transfers	4	-51	47		
Depreciation	236	711	167		1,114
Disposals	-21	-132	-211		-364
Depreciation and impairment losses as of December 31, 2017	2,977	8,163	1,139		12,279
Carrying amount as of December 31, 2017	3,557	2,476	657	1,234	7,924

Assets held under finance leases amounts to a total carrying amount of DKK 306m (2016: DKK 130m).

Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 20 Acquisition and sale of subsidiaries and activities. The Group's finance leases mainly concerns land & buildings and IT equipment. The Group has options to acquire the leased buildings & equipment at favorable prices at the expiry of the leases.

Note 9 Inventories

DKKm

	2016	2017
Raw materials and consumables	1,897	2,092
Work in progress	492	571
Finished goods and goods for resale	2,318	2,250
Inventories	4,707	4,913
Write-downs of inventories	444	445
Carrying amount of write-down inventories stated at net realizable value	401	235
Expensed adjustment of inventories to net realizable value included in cost of sales	36	70
Cost of goods sold included in cost of sales	19,364	21,718

Note 10 Trade Receivables

DKKm

	2016	2017
Trade receivables before provision for bad debts	6,165	6,572
Provision for bad debts	-191	-195
Trade receivables	5,974	6,377
Receivables from associates and joint ventures	59	42
Total trade receivables	6,033	6,419
Hereof trade receivables due after 1 year	10	13
Provision for bad debts as of January 1	-181	-191
Foreign exchange adjustments in foreign companies	-4	7
Additions through acquisition of subsidiaries	-6	-26
Change in provisions	-17	-15
Realized loss	17	30
Provision for bad debts as of December 31	-191	-195

Note 11 Share capital

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

	SHARES	VOTES
The Bitten and Mads Clausen Foundation, Nordborg, Denmark	50.16%	86.12%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.44%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.29%
Karin Clausen, Holte, Denmark	7.25%	1.50%

DISTRIBUTION OF SHARES

	2016			2017		
	Number	Nominal value	DKKm	Number	Nominal value	DKKm
A Shares	4,250,000	100 DKK	425.0	4,250,000	100 DKK	425.0
B Shares	5,707,111	100 DKK	570.7	5,719,625	100 DKK	572.0
Total Shares	9,957,111		995.7	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.

The number of B shares has in 2017 been impacted by a capital increase of 12,514 shares due to subscription of shares as a result of exercises in the share incentive programs.

DIVIDEND PER SHARE (DKK)

	2016	2017
Proposed dividend per 100 DKK share	50.2	60.2
Dividend from last year paid per 100 DKK share	51.8	50.2
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)

	2016	2017
Holding as of January 1	236,504	6,589
Acquired in the year	8,648	16,351
Acquired from The Bitten and Mads Clausen Foundation	50,979	62,403
Sold in the year	-600	-300
Capital reduction	-288,942	
Holding as of December 31	6,589	85,043

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 2017 for own shares amounts to DKK 480m (2016: 292m). The total selling price relating to treasury shares amounted to DKK 1m in 2017 (2016: 2m).

The Group's holding of treasury shares represents 0.9% (2016: 0.1%) of the Group's share capital. The value of treasury shares held amounts to DKK 519m (2016: 32m).

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 net-interest-bearing debt to EBITDA ratio and cash flow generation to net-interest-bearing debt to be in line with this policy over the cycle.

Danfoss is currently rated "BBB/A2 with a stable outlook" by Standard and Poor's. End of 2017 the net-interest-bearing debt to EBITDA ratio was 1.2 (2016: 1.6) on a reported basis.

Danfoss aims to use the free cash flow before M&A for acquisitions that will develop the business further and to repay interest-bearing debt, and for dividend distribution to shareholders according to policy.

Note 12 Provisions

DKKm

Provisions for warranty comprise expected costs arising during the warranty period of the Group's products.

The Group's provision for restructuring mainly relates to expected costs for severance payments. Contingent consideration consists of earn-out relating to acquisitions. The Group's other provisions mainly consist of certain employee expenses, including jubilee costs.

Provisions have been discounted to net present value, if the values are significant.

				2017
	Warranty	Contingent consideration	Other	TOTAL
Provisions as of January 1	395	320	357	1,072
Foreign exchange adjustments in foreign companies	-18		-16	-34
Additions through acquisition of subsidiaries	-3		70	67
Transferred to other debt			-8	-8
Transferred to pension and healthcare obligations			-17	-17
Provisions used	-191	-18	-53	-262
Reversal of unused provisions	-50	-200	-14	-264
Additional provisions recognized	204	284	67	556
Interest element on provisions			1	1
Provisions as of December 31	337	386	387	1,111

				2017
	Warranty	Contingent consideration	Other	TOTAL
Estimated maturity of above provisions:				
Within 1 year	237	29	57	323
Between 1 and 5 years	99	181	178	458
After more than 5 years	2	176	152	330
Provisions as of December 31	337	386	387	1,111

Note 13 Share incentive programs

In the Danfoss Group, share incentive programs exist only in Danfoss A/S. The programs are described below.

The calculation of fair values for the balance sheet as of the balance sheet dates and for stating the values as per the grant dates is based on the Black-Scholes model. The assumptions for the calculation of outstanding options and warrants are:

	2016	2017
Share price	4,904	6,100
Expected volatility	25.0%	26.0%
Expected dividends	1.2%	1.1%
Risk-free interest rate	0.0-0.2%	0.0-0.2%
Exercise prices and terms of maturity for the programs	See below	

Since Danfoss has no listed shares, the above share price calculation, which has been made by an independent third party, has been based on a comparison with a number of comparable domestic and international listed companies. The share price for 2017 of DKK 6,100 was most recently adjusted at the Annual General Meeting in 2017 and will next be fixed at the Annual General Meeting in 2018.

SHARE INCENTIVE PROGRAMS ESTABLISHED IN 2004 AND SUBSEQUENT PROGRAMS

In 2004 and 2007, Danfoss A/S established share incentive programs for the Board and a warrant program for Executive Committee members and senior managers. The condition for participation in the program was for the Executive Committee members and the senior managers to purchase compulsory shares. The main condition for achieving the right to be granted options/warrants was for RONA to exceed a certain minimum level for the respective financial years. The granted options and warrants give the right to purchase/subscribe for Class B shares (at 100 DKK each) at fixed exercise prices, 3 years after the allotment date at the earliest. The programs are treated as cash-settled share-based payment transactions since Danfoss A/S has an obligation to buy back shares under the share option programs. As a consequence, a provision is made in the balance sheet for this obligation.

Information on relevant programs:

	Granted (year)	Granted (number)	Fair value at grant date (DKK each)	Earliest exercise	Latest exercise
Options/warrants - exercise price at 1,932	2007	97,121	983	May 2010	May 2017

Holdings and grants/disposals of options and warrants in relation to the 2004 and subsequent programs are specified below:

	The Board (number)	Executive Committee (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (DKKm)
Granted options/warrants 1 January:						
Options/warrants - exercise price at 1,932		2,400		10,414	2,915	37
		2,400		10,414		37
Changes in the share price/fair value:						
Options/warrants - exercise price at 1,932					1,249	16
						16
Disposal due to subscription of shares:						
Options/warrants - exercise price at 1,932		-2,400		-10,414	4,164	-53
		-2,400		-10,414		-53
Granted options/warrants 31 December:						
Options/warrants - exercise price at 1,932		0		0		0
		0		0		0

The total provision as of December 31, 2017, for 2004 and subsequent share incentive programs has been calculated at DKK 0m (2016: 37m) and is recognized under current liabilities. The changes in the share price/fair value of the programs are in the income statement recognized under financial items as an expense of DKK 16m (2016: 12m), with DKK 14m (2016: 10m) in the Parent Company and DKK 2m (2016: 2m) in the subsidiaries.

Note 14 Deferred tax

DKK m

CHANGES IN DEFERRED TAXES

	2016	2017
Deferred taxes as of January 1 (net) *)	-1,087	-1,187
Foreign exchange adjustment in foreign companies	-22	35
Additions through acquisition of subsidiaries	-121	-69
Adjustments concerning previous years	17	-1
Deferred tax recognized in the income statement	29	242
Deferred tax recognized in other comprehensive income	-3	-97
Deferred taxes as of December 31 (net) *)	-1,187	-1,077

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2016	2017
	Deferred tax asset	Deferred tax asset
Intangible assets	55	39
Property, plant and equipment and financial assets	67	289
Current assets	369	197
Liabilities	852	527
Tax loss carry-forwards	310	263
Non-capitalized tax assets regarding tax losses	-217	-199
	1,436	1,116
Set-off within the same legal entities and jurisdiction	-626	-443
Deferred tax assets	810	673
	Deferred tax liability	Deferred tax liability
Intangible assets	1,581	939
Property, plant and equipment and financial assets	348	642
Current assets	100	103
Liabilities	529	444
Deferred tax regarding Danish joint taxation	65	65
	2,623	2,193
Set-off within the same legal entities and jurisdiction	-626	-443
Deferred tax liabilities	1,997	1,750

The tax asset related to tax loss carry-forwards of DKK 64m net (2016: 93m) is largely related to companies that have suffered tax losses within the last three financial years. This tax asset is expected to be utilized within 3 years, primarily through higher future taxable income in the respective companies.

The tax value of unrecognized tax assets related to tax loss carry-forwards amounts to DKK 199m (2016: 217m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized. 12% of the amount (2016: 14%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 75% (2016: 83%).

Of the deferred tax liability of DKK 1,750m (2016: 1,997m), DKK 65m (2016: 65m) 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 DKK 112m (2016: 542m). 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 15 Pension and healthcare obligations

DKKm

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:

	2016		2017	
	Gross liability	Net Liability	Gross liability	Net Liability
Germany	22%	59%	23%	70%
USA	40%	38%	39%	38%
UK	35%	-6%	35%	-19%
Other	3%	9%	3%	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 300 (2016: 300) active employees. Danfoss is working on minimizing the defined benefit risk by integrated risk management and by changing the nature of existing plans.

During 2017, closing the Cash Balance Plan in the US for future accruals has reduced the Defined Benefit risk for Danfoss. The previous US liability has changed character to a legacy liability, and therefore Danfoss will adjust the US asset/liability risk management based on the new pattern of payments.

All material defined benefit plans have been computed by independent actuaries.

THE GROUP'S DEFINED BENEFIT PLAN OBLIGATIONS

	2016	2017
Present value of defined benefit plan obligations	3,954	3,729
Fair value of plan assets	-2,874	-2,877
	1,080	852
Defined benefit plan obligations are presented in the statement of financial position as follows:		
Pension benefit plan assets	108	164
Pension and healthcare plan obligations	1,188	1,016
	1,080	852

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

	2016	2017
Provision as of January 1	3,813	3,954
Foreign exchange adjustments in foreign companies	-167	-238
Pension costs for the year	33	29
Calculated interest on plan liabilities	126	108
Actuarial gains(-)/losses from changes in demographic assumptions	-39	-75
Actuarial gains(-)/losses from changes in financial assumptions	338	118
Pension income from prior years, curtailments etc.		-9
Plan participants' contribution liabilities	10	11
Disbursed benefits from the Group	-37	-34
Disbursed benefits from plan assets	-123	-152
Net transfer from provisions		17
Provision as of December 31	3,954	3,729

Note 15 Pension and healthcare obligations (continued)

DKK m

DEVELOPMENT IN THE FAIR VALUE OF PLAN ASSETS

	2016	2017
Plan assets as of January 1	2,704	2,874
Foreign exchange adjustments in foreign companies	-182	-197
Calculated interest on plan assets	97	86
Plan participants' contribution asset	10	11
Return for the year on plan assets, excluding calculated interest	274	169
Payments by the Group	94	86
Disbursed benefits	-123	-152
Plan assets as of December 31	2,874	2,877

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 DKK 481 m (2016: 548 m).

EXPENSES RELATING TO PENSION AND HEALTHCARE OBLIGATIONS

	2016	2017
Pension costs for the year	33	28
Calculated interest on liabilities	126	108
Calculated expected return on assets	-97	-86
Pension income from prior years, curtailments etc.		-9
Expensed in the income statement	62	41
Pension cost stated under cost of sales	17	13
Pension cost stated under selling and distribution costs	4	3
Pension cost stated under administrative expenses	12	12
Other operating income and expenses		-9
Interest concerning pension and healthcare obligations posted under financial items	29	22
	62	41

ESTIMATED MATURITY OF PROVISIONS

	2016	2017
Within 1 year	163	146
Between 1 and 5 years	690	614
After more than 5 years	3,101	2,969
	3,954	3,729

Note 15 Pension and healthcare obligations (continued)

DKK m

PENSION PLAN ASSETS ARE SPECIFIED AS FOLLOWS:

	2016		2017	
Shares and similar securities	1,066	37%	1,081	38%
Listed corporate bonds	972	34%	954	33%
Bonds	630	22%	637	22%
Other	206	7%	205	7%
	2,874	100%	2,877	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 38% (2016: 37%) 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

	2016		2017	
	Range	Weighted average	Range	Weighted average
Discount rate	1.4-4.1%	3.0%	1.9-3.6%	2.7%
Estimated future salary increase	1.8-4.5%	3.5%	1.8-4.4%	3.6%

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 DKK 149m to defined benefit plans in 2018 (2017: DKK 131m).

SENSITIVITY ANALYSIS

	2016	2017
Reported defined benefit plan obligations	3,954	3,729
Increase in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	-288	-257
Decrease in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	+306	+294
Increase in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	+22	+19
Decrease in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	-21	-18
Increase in average life expectancy of 1 year affects the defined benefit plan obligations by	+119	+123
Decrease in average life expectancy of 1 year affects the defined benefit plan obligations by	-118	-121

Note 16 Financial risks and instruments

DKKm

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 flow 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:

- Transaction risk:* It 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.
- Translation risk:* Is the risk that the P&L and Equity of Danfoss, when measured in DKK 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 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.
- Economic/structural risk (strategic risk):* This risk is not in scope for financial risk management. Economic/Structural currency risk is dealt with statically by keeping an appropriate balance between the geographical footprint of end markets and sourcing markets.

NOMINAL POSITION	2016				2017			
	EUR DKK	USD DKK	GBP DKK	Total	EUR DKK	USD DKK	GBP DKK	Total
Receivables and payables	-347	-254	-5	-606	-278	-205	-31	-514
Cash and loans 1)	296	1,517	-81	1,732	302	2,028	-52	2,278
Derivative financial instruments for hedging of fair value 2)	142	-1,356	83	-1,131	73	-2,078	91	-1,914
Derivative financial instruments for hedging of future cash flow	-3,233	-254	-295	-3,782	-2,993	-844	-273	-4,110

1) Besides the loans included, loans of EUR 634m (2016: 634m) is used for hedging of net investments (equity hedge). The impact on the Group's equity is DKK -7m (2016: 17m).

2) Financial instruments for hedging of fair value is also including the exposure related to inventories in countries applying foreign currency pricelists.

SENSITIVITY

	1%	10%	10%		1%	10%	10%
Probable increase in exchange rate							
Hypothetical impact on profit and loss for the year	1	-9		-8	1	-25	1 -23
Hypothetical impact on equity	-78	-35	-30	-143	-76	-110	-26 -212

A decrease in the exchange rates as stated would have had the opposite effect on the profit and equity.

The stated sensitivities are based on the recognized financial assets and liabilities at December 31.

Note 16 Financial risks and instruments (continued)

DKKm

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 2017 or 2016.

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 carrying amount of DKK 219m (2016: 509m) represents the maximum exposure risk related to cash and cash equivalents.

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. A systematic credit assessment is carried out on all customers, and any provision for bad debt is made on the basis of this credit assessment and the payment behavior. This assessments also serves as the basis for the terms of payment offered to customers. Historically, the Group has only had limited losses on bad debts.

Ageing of trade receivables as of December 31:

	2016	2017
Overdue less than 30 days	238	267
Overdue from 30 to 90 days	98	64
Overdue more than 90 days	17	13
Neither impaired nor overdue at the reporting date	5,680	6,075
Net carrying amount	6,033	6,419

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

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 amounting to one percentage-point compared to the interest rate level on the balance sheet date, would have had the following impact on the profit for the year and equity at the end of the year:

	2016		2017	
	Income statement	Equity	Income statement	Equity
Cash and debt with floating interest rates	-22	-22	-7	-7
Hedge instruments (interest swaps)		57		28
	-22	35	-7	21

A decrease in the interest rate level amounting to one percentage-point, compared to the interest rate level as of the balance sheet date, would have had the opposite effect.

The stated sensitivities are based on the recognized financial assets and liabilities at December 31. Adjustments have not been made for instalments, borrowing, etc. All hedging of floating-rate loans is deemed 100% effective.

Note 16 Financial risks and instruments (continued)

DKK m

LIQUIDITY RISK

It is Danfoss' financing policy to have a long-term credit rating of minimum "BBB " according to the Standard & Poor's metric, a liquidity reserve of minimum DKK 3bn, in terms of accessible cash and non-terminable credit facilities with an average maturity profile of at least 3 years.

At the end of 2017, Danfoss' credit rating from Standard and Poor's was "BBB/A2 with a stable outlook" and the liquidity reserve equaled DKK 7.6bn (2016: 7.8bn). In addition to this, Danfoss had cash in some subsidiaries 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 2017. The Danfoss Group's loan agreements contain no financial covenants.

The major part of the Group's cash and cash equivalents of DKK 219m (2016: 509m) is placed on short-term deposits.

THE GROUP'S DEBT CATEGORIES AND MATURITIES

	2016					2017				
	Carrying amount	Contractual cash flow	Maturity			Carrying amount	Contractual cash flow	Maturity		
			0-1 year	1-5 years*)	Over 5 years			0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	9,556	10,067	3,365	1,946	4,756	7,468	8,035	833	6,154	1,048
Mortgage debt	560	596	5	23	568	526	550	3	8	539
Finance lease liabilities	130	152	22	47	83	311	331	46	162	123
Trade payables	4,604	4,604	4,604			5,775	5,775	5,775		
Debt to associates and joint ventures	25	25	25			27	27	27		
Derivative financial liabilities	101	162	124	38		8	8	8		
	14,976	15,606	8,145	2,054	5,407	14,115	14,726	6,692	6,324	1,710

*) 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. Operating lease liabilities and liabilities relating to the purchase of property, plant and equipment are not included in this specification, but are included in Note 23. Contingent liabilities assets and security.

	2016	2017
Non-current liabilities	6,982	7,617
Current liabilities	7,994	6,498
	14,976	14,115

Note 16 Financial risks and instruments (continued)

DKKm

FINANCIAL INSTRUMENTS BY CATEGORY

	2016		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Other investments	20	20	14	14
Financial assets measured at fair value via the income statement	20	20	14	14
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	1	1	13	13
Derivative financial instruments for the hedging of future cash flows			60	60
Financial assets used as hedging instruments	1	1	73	73
Trade receivables	6,033	6,033	6,419	6,419
Other receivables	821	821	907	907
Cash and cash equivalents	509	509	219	219
Loans and receivables	7,363	7,363	7,545	7,545
Interest-bearing debt	10,246	10,482	8,305	8,508
Trade payables and other debt	8,314	8,314	9,845	9,845
Financial liabilities measured at amortized cost	18,560	18,796	18,150	18,353
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	36	36	8	8
Derivative financial instruments for the hedging of future cash flows	65	65		
Financial liabilities used as hedging instruments	101	101	8	8

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 2016.

Note 16 Financial risks and instruments (continued)

DKKm

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR THE GROUP

	2016				2017			
	Quoted prices Level 1	Observable input Level 2	Non observable input Level 3	In total	Quoted prices Level 1	Observable input Level 2	Non observable input Level 3	In total
FINANCIAL ASSETS:								
Other investments			20	20			14	14
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		1		1		13		13
Derivative financial instruments for the hedging of future cash flows						60		60
Total financial assets		1	20	21		73	14	87
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		36		36		8		8
Derivative financial instruments for the hedging of future cash flows		65		65				
Contingent consideration			320	320			386	386
Interest-bearing debt		10,482		10,482		8,508		8,508
Total financial liabilities		10,583	320	10,903		8,516	386	8,902

Note 16 Financial risks and instruments (continued)

DKK m

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2016	2017
	Financial Instruments Level 3	
Carrying amount as of January 1, assets/liabilities (-)	-53	-300
Foreign exchange adjustments in foreign companies	-1	1
Acquisitions	-250	-284
Disposals/Reversals	16	192
Gain/loss (-) in the income statement	-12	19
Carrying amount as of December 31, assets/liabilities (-)	-300	-372

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 financial instruments is determined using discounted cash flow analysis.

DERIVATIVES AS OF DECEMBER 31 FOR THE GROUP

	2016						2017					
	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	-1,632	-42	-32	-10			-3,131	46	15	31		
EUR	-3,293	1	1				-3,326	-6		-6		
Other currencies	322	-52	-5	-49	2		988	15	-10	25		
Forward exchange contracts		-93	-36	-59	2			55	5	50		
Interest swaps	2,616	-7		-3	-4		2,362	10		17	-7	
Derivatives end of year		-100	-36	-62	-2			65	5	67	-7	

At the end of 2017, unrealized gain/loss(-) on derivatives hedging foreign currency risk recognized in equity amounted to DKK 50m (2016: -57m).

At the end of 2017, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to DKK 10m (2016: -7m).

Forward exchange contracts are primarily used for hedging future sales in foreign currencies. Interest rate products are used to convert floating-rate liabilities to fixed rates. DKK 1m was taken to income in 2017 (2016: -2m) as a consequence of testing for effectiveness.

Note 17 Corporation tax

DKKm

	2016	2017
Corporation tax payable/receivable (-) as of January 1	-225	-8
Foreign exchange adjustment in foreign companies	-5	4
Additions through aquisition of subsidiaries	24	
Paid during the year	-855	-1,112
Adjustments concerning previous years	-29	21
Current tax expenses in income statement	1,078	1,345
Current tax expenses in other comprehensive income	4	29
Corporation tax payable/receivable (-) as of December 31	-8	279
The above corporation tax is recorded as follows:		
Assets	334	123
Liabilities	326	402
	-8	279

Note 18 Adjustment for non-cash transactions

DKKm

	2016	2017
Depreciation/amortization and impairment	1,814	1,772
Gain(-)/loss on disposal of tangible assets and business activities	13	1
Share of profit from associates and joint ventures after tax	-32	-13
Financial income	-29	-20
Financial expenses	353	384
Other	-529	-82
Adjustment for non-cash transactions	1,590	2,042

The Group's other adjustments for non-cash transactions mainly consists of provisions, derivatives and defined benefit plans.

Note 19 Change in working capital

DKKm

	2016	2017
Change in inventories	-15	-530
Change in receivables	-395	-821
Change in trade payables and other debt	1,101	1,821
	691	470

Note 20 Acquisition and sale of subsidiaries and activities

DKK m

							2016
Company/activity		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid
Propulsys Inc.	Acquisition	USA	September	100%	701	623	**
Sondex Holding A/S	Acquisition	Denmark	September	100%	961	1,090	**
							2017
Company/activity		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid
Kavlico thin-film sensor technology from Sensata Technologies	Acquisition	Germany	June	100%	16	40	**
Prosa S.r.l.	Acquisition	Italy	June	100%	22	16	**
Visedo Oy	Acquisition	Finland	November	100%	51	85	**

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

** According to non-disclosure obligations, purchase prices are not stated.

2016 Acquisitions:

In 2016 Sondex Holding A/S and Propulsys Inc. were acquired. Sondex is among the market leaders within Gasket Heat Exchangers, and has sales activities across the world, while production mainly takes place in Denmark, Poland and Romania. Propulsys Inc. will, in combination with the Motors business in Power Solutions Segment, be the market leader within Orbital hydraulic motors. Propulsys Inc. primarily has sales in the USA, China and Germany. The net sales included in the consolidated statement of comprehensive income for 2016 for Sondex and Propulsys was DKK 580m. These two acquisitions also contributed to Profit before tax of DKK -10m over the same period. The Profit before tax for 2016 is impacted by interest as well as Purchase Price Allocation (PPA) expenses relating to reversal of inventory step-up to fair value and amortization on intangible assets of a total DKK 55m.

Had Sondex and Propulsys been consolidated from January 1, 2016, the combined Group net sales for 2016 would have been DKK 40,263m and Profit before tax for 2016 would have been DKK 3,972m. Included in this impact on the combined Profit before tax, is the calculated interest on the acquisitions as well as further PPA expenses and amortizations of a total DKK 37m.

The Purchase Price Allocation regarding the acquisitions in 2016 was finalized in 2017. The change in goodwill amounted to DKK -18m compared to the initial accounting.

2017 acquisitions and disposals:

The largest acquisition in 2017 was the purchase of Visedo Oy, which was acquired on 1 November. The company is a technology leader in high-efficiency hybrid and electrical solutions, which are used in commercial and off-highway vehicles and in the marine sector. Its sales activities are mainly in Europe and its production and R&D center are located in Finland. Visedo will be a separate business in the Power Solution Segment. Danfoss also acquired two smaller entities, which are both part of the Cooling Segment. Disposals in 2017 were related to Sondex Pump business, which was sold to one of the former owners of Sondex Holding A/S. Acquisition-related costs, e.g. due diligence costs, of DKK 10m (2016: 18m) have been charged to expenses in the consolidated income statement for the year ending December 31, 2017.

The net sales included in the consolidated statement of comprehensive income of the acquired companies in 2017 are under DKK 50m and impact on Profit before tax is around DKK -25m, with a significant part coming from PPA expenses.

The preliminary Purchase Price Allocation accounting has calculated total goodwill of DKK 752 m. 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. None 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 in 2017 related to Purchase Price Allocation is included in the statement below.

Note 20 Acquisition and sale of subsidiaries and activities (continued)

DKK m

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

	2016	2017	2016	2017
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible assets, except goodwill	-459	-327		
Property, plant and equipment	-524	-30		1
Other non-current assets, including deferred tax assets	-13	-30		
Inventories	-465	31		9
Receivables *)	-375	21		1
Cash and cash equivalents	-185	-25		
Interest-bearing debts	322	24		
Provisions, including deferred tax liabilities	154	155		
Trade and other payables	224	40		-6
Net assets acquired	-1,321	-141		5
Goodwill(-)/profit on disposal	-1,075	-734		3
Net assets, including goodwill(-)/profit on disposal	-2,396	-875		8
Cash and cash equivalents	185	26		
Consideration, net of cash	-2,211	-849		8
Change in short-term payables/ receivables / provisions	249	77	3	
Minority interests	87			
Net cash paid(-)/received	-1,875	-772	3	8

*) receivables in acquisitions includes provision for bad debt of DKK 24m (2016: 6m)

Note 21 Acquisition/ Sale of other investments

DKK m

	2016	2017
Purchase of shares and other securities	-59	-35
Increase/decrease of lending	-67	-122
	-126	-157

Purchase of shares and other securities in 2017 is related to capital injection in joint ventures in BD Kompressor Holding GmbH & Co.KG and Leanheat Oy. In 2016, the purchase was also related to capital injection in the BD Kompressor Holding GmbH & Co.KG and capital injection in Linestream Technology Inc. Further information is provided in Note 3 Investments.

Note 22 Change in liabilities arising from financing activities

DKKm

	Short-term borrowings	Long-term borrowings	TOTAL
Carrying amount as of January 1, 2017	3,266	6,980	10,246
Cash repayment	-2,707	-3,371	-6,078
Cash proceeds	100	4,330	4,430
Acquisitions of subsidiaries	24		24
Acquisitions of lease liabilities	31	173	204
Other	-26	-495	-521
Carrying amount as of December 31, 2017	688	7,617	8,305

The Group's other change in liabilities arising from financing activities mainly consists of foreign exchanges adjustments.

Note 23 Contingent liabilities, assets and security

DKKm

SECURITY

	2016	2017
Carrying amount of land and buildings pledged as security for bank loans and mortgages	856	827
Leasing assets pledged as security for leasing commitments	41	15
Carrying amount of interest-bearing liabilities with security in assets	718	874

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.

OPERATING LEASES (LEASE EXPENSES)

Operating lease payments fall due as follows:

	2016	2017
Buildings:		
Less than 1 year	226	190
Between 1 and 5 years	459	367
More than 5 years	217	206
Equipment, etc.:		
Less than 1 year	137	129
Between 1 and 5 years	140	113
More than 5 years	1	

The Group expensed DKK 446m in operating lease payments in 2017 (2016: 458m) and they relate mainly to buildings and equipment. There were no significant contingent lease payments in 2017 or 2016.

OPERATING LEASES (LEASE INCOME)

Operating lease payments fall due as follows:

	2016	2017
Less than 1 year	8	11
Between 1 and 5 years	15	12

The Group recognized operating lease income of DKK 16m in 2017 (2016: 25m). The above rentals relate mainly to buildings.

CONTRACTUAL OBLIGATIONS

	2016	2017
Service contract commitment other than leases	565	403
Inventories	659	992
Property, plant and equipment	252	354
Purchase commitments	1,476	1,749

Note 24 Related parties

Danfoss A/S' related parties comprise the Bitten and Mads Clausen 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 significant interests.

BITTEN AND MADCS CLAUSEN FOUNDATION, OTHER SHAREHOLDERS AND OTHER RELATED COMPANIES

The Bitten and Mads Clausen Foundation, which holds 50.16% of the shares in Danfoss A/S and controls 86.12% of the voting power, has the controlling influence.

In the financial year, a limited number of transactions have taken place between the Bitten and Mads Clausen 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 DKK 25m (2016: 25m).

In the financial year, the Bitten and Mads Clausen Foundation sold shares in Danfoss A/S at a value of DKK 381m back to the company (2016: 250m).

Around 98% of Danfoss A/S' dividend payments are related to the Bitten and Mads Clausen 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 DKK 2m in 2017 (2016: 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 DKK 5m (2016: 5m) 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, and Note 13 Share incentive programs.

DKKm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2016	2017
Sales of goods and services	316	307
Purchases of goods and services	103	116

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 16 Financial risks and instruments.

Note 25 Events after the balance sheet date

Subsequent to December 31, 2017 there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the Annual Report.

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, 2017, 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. Unless otherwise indicated, the Annual Report is presented in DKK, rounded to the nearest million.

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 2017. None of those standards and interpretations have affected recognition and measurement in 2017, nor are they expected to have a material effect on Danfoss A/S in the future.

New financial reporting regulations

A number of standards and interpretations have been issued that are not mandatory for Danfoss A/S in the preparation of the 2017 Annual Report.

IFRS 15: Revenue from contracts with customers is a new standard effective for financial years beginning on or after January 1, 2018. The standard may potentially affect revenue recognition in a number of areas, including the timing of revenue recognition, recognition of variable considerations, allocation of revenue from multi-element and principal/agent assessment. The Group has assessed the effects of the new standard and, once implemented, expects to achieve the following:

- The majority of the revenue is generated from the sale of products to sales terms not effected by the new standard.

- The remaining revenue is related to sale of service, such as installation service, after-sales service and project sale. In materiality, revenue is recognized over time for these services.
- A few additional variable considerations have been identified which will require a change in initial recognition, but these will not have a material impact on revenue.
- A few principal/agent assessments will be changed due to the new standard, but these will not have a material impact on revenue.
- The new standard includes a number of new disclosure requirements.

IFRS 9: Financial instruments is a new standard effective for financial years beginning on or after January 1, 2018. The standard introduces an expected loss model for impairment losses on loans and receivables. The number of classification categories for financial assets is reduced to three: amortized cost, fair value through profit or loss, and fair value through other comprehensive income. Simplified rules on hedge accounting are introduced. The Group has assessed the effects of the new standard and, once implemented expects to achieve the following:

- Expected loss model for impairment losses on loans and receivables has been reviewed and compared with the current only incurred credit losses model, most significantly related to Trade Receivables. There will not be any material impact from implementation of the expected loss model.
- The reduced number of classification categories does not impact recognition of financial instruments.
- The relaxed requirements for hedge effectiveness will not impact hedge accounting as the current hedging meets the requirements of an economic relationship between the hedged item and hedging instrument, and for the 'hedged ratio' to be the same as the one that is actually used for risk management purposes.
- The new standard introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of disclosures about financial instruments.

IFRS 16: Leases is a new standard effective for financial years beginning on or after January 1, 2019. Going forward, the lessee is required to recognize all leases as a lease liability and a lease asset in the balance sheet, with two exceptions: short-term leases (less than 12 months) and leases relating to low-value assets. The Group

has non-cancellable operating lease commitments at the reporting date of DKK 1.0bn, of which a majority relates to buildings, see Note 23 Contingent liabilities, assets and security. However, the Group has not determined the final impact on assets, liabilities, profit and classification of cash flow.

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, intra-group income and expenses, shareholdings, intra-group balances and dividends and realized and un-realized profits and losses on transactions between the consolidated companies are eliminated. Un-realized 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.

Note 26 Basis for preparation and accounting policies (continued)

The companies included in the Group are disclosed in the section "Danfoss 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 (goodwill), 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 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 DKK, 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 DKK, 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

Note 26 Basis for preparation and accounting policies (continued)

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

Net sales of goods for resale and finished goods are recognized in the income statement, provided that delivery and transfer of risk to the purchaser has taken place before the year end, and that the income can be reliably measured and payment is expected to be received. Net sales are measured at the fair value of the consideration agreed, excluding VAT, duties and discounts in relation to the sale. Related service income is recognized in the income statement as the services are performed. Accordingly, the recognized sale corresponds to the sales value of the work performed during the year. 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.

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 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, 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 finance 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 are 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.

Note 26 Basis for preparation and accounting policies (continued)

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 assets held under finance leases is recognized at the acquisition date at the lower of fair value of the assets and the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or the Group's alternative interest rate is used as discount rate. Assets held under finance leases are depreciated and amortized like other property, plant and equipment.

Assets held under operating leases are systematically expensed over the lease period.

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 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.

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 in case of evidence of impairment on the basis of customers' anticipated ability to pay and expectations of any changes to this ability, taking into account historical payment patterns, terms of payment, customer segment, creditworthiness and prevailing market conditions in the individual markets. Impairment losses are

Note 26 Basis for preparation and accounting policies (continued)

calculated as the difference between 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 realized. 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.

Share-based remuneration

The Board, Group Executive Team and several senior employees are covered by option and warrant schemes based on the Parent Company's shares.

The value of services received in exchange for granted options/warrants is measured at the fair value of the options/warrants.

For share options and warrants where the option or warrant holder has the right to receive cash settlement of the option or warrant, fair value of the instruments is initially measured at the grant date and recognized in the income statement as personnel costs over the vesting period.

Subsequently, the fair value of the instruments is measured at the balance sheet date and changes in fair values are recognized in the income statement under financial items.

On initial recognition of the share options and warrants, the Company estimates the number of options and warrants expected to vest, cf. the service condition described in note 13 'Share incentive programs'. That estimate is subsequently revised for changes in the number of options expected to vest. Accordingly, recognition is based on the number of options ultimately vested. The fair value of granted instruments is measured based on the Black-Scholes model (warrant and option pricing model) taking into account the terms and conditions upon which the instruments were granted.

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.

Note 26 Basis for preparation and accounting policies (continued)

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

Financial liabilities are initially recognized at fair value less transaction costs. Subsequently, they are measured at cost/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 less the cumulative amortization

of any difference between cost and nominal amount. Any capitalized residual obligation on finance 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.

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.

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 realized.

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.

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.

Note 26 Basis for preparation and accounting policies (continued)

Cash flows relating to acquired companies are recognized in the statement of cash flows at the 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 comprises 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 finance leases 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, 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. 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.

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

Financial ratios

Earnings per share (EPS) and diluted earnings per share (DEPS) are calculated in accordance with IAS 33.

Key figures and financial ratios are calculated in accordance with 'Recommendations & Financial Ratios 2015' published by the Danish Finance Society, and supplemented by certain key ratios.

The financial ratios in the annual report are calculated in the following manner:

Local currency growth

Sales growth adjusted for exchange rate translation effects.

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

EBITDA margin

Operating profit (EBIT) before depreciation, amortization, impairment/ Net sales

EBIT margin excluding other operating income, etc.

Operating profit (EBIT) excluding other operating income and expenses and profit from associates & joint ventures / 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 cash flow before M&A

Free cash flow before acquisition of subsidiaries, proceeds from disposal of subsidiaries and acquisitions/sales of other investments

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 provisions and 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.

Business combinations

Identifiable assets and liabilities, including contingent liabilities, of newly acquired or established companies are recognized at fair value at the acquisition date. The most significant assets acquired generally comprise goodwill, technology, customer relations, inventory and property, plant and equipment. As no active market exists for the majority of acquired assets, liabilities and contingent liabilities, in particular in respect of acquired intangible assets, Management makes significant estimates of fair value. The methods applied are based on discounted cash flow models based on key assumptions including royalty rates (technology), churn rates (Customer relations) and expected future cash flows related to the specific asset. Furthermore, Management estimates the Weighted-Average Cost of Capital (WACC) and a risk premium for the assumed inherent risk for the specific asset. Estimates of fair value are associated with uncertainty and may possibly be adjusted subsequently. Business combinations are described in detail in note 20 Acquisition and sale of subsidiaries and activities.

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 losses on the disposal of the non-current assets.

The amortization and depreciation periods used are described in the accounting policies in note 26, 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 14, 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 judgments 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 litigations and settlements with the relevant tax authorities. Corporation tax is disclosed in note 17, Corporation tax.

Provisions

As part of its normal business policy, Danfoss provides its products with ordinary and extended warranties. Warranty provisions are recognized based on actual historical warranty costs and expected changes in future warranty costs related to the Group's products. Future warranty costs may differ from past experience. The Group assesses other provisions, contingent assets and contingent liabilities and the likely outcome of pending or future lawsuits on an ongoing basis. The outcome depends on future events that are inherently uncertain.

In assessing the likely outcome of lawsuits and disputes etc., Management bases its assessment on internal and external legal assistance and common practice. Further information is disclosed in note 12, Provisions and note 23, Contingent liabilities, assets and security.

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 15, Pension plans and healthcare obligations.

Group companies

Per December 31, 2017

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.
- Sondex CZ s.r.o.

Denmark

- BetterHome ApS – 25%
- Danfoss A/S
- Danfoss Compressors Holding A/S
- Danfoss Distribution Services A/S
- Danfoss International A/S
- Danfoss IXA A/S - 64%

- Danfoss Power Electronics A/S
- Danfoss Power Solutions ApS
- Danfoss Power Solutions Holding ApS
- Danfoss Power Solutions Holding II ApS
- Danfoss Redan A/S
- Danfoss Semco A/S - 60%
- Gemina Termix Production A/S
- Issab Holding ApS
- Sondex A/S
- Sondex Holding A/S
- Sondex Service A/S
- Sondex Rusland Holding ApS
- Sondex Teknik A/S
- Sondex Unit A/S

Estonia

- Danfoss AS

Finland

- Danfoss Power Solutions Oy Ab
- Oy Danfoss Ab
- Leanheat Oy – 23%
- Sondex Tapiro Oy Ab
- Vacon Oy
- Visedo Oy

France

- BD Kompressor France S.a.r.l
- Danfoss Commercial Compressors S.A.
- Danfoss Power Solutions SAS
- Danfoss S.a.r.l.
- Sondex France S.a.r.l.

Germany

- BD Kompressor Holding GmbH & Co. KG – 50% (joint venture)
- Danfoss Esslingen GmbH
- Danfoss Flensburg GmbH

- Danfoss GmbH
- Danfoss Power Solutions GmbH & Co. OHG
- Danfoss Power Solutions Holding GmbH
- Danfoss Power Solutions Informatic GmbH
- Danfoss Sensors GmbH
- Danfoss Silicon Power GmbH
- Danfoss Werk Offenbach GmbH
- SMA Solar Technology AG – 20%
- Sondex Deutschland GmbH
- White Drive Products GmbH

Great Britain

- Danfoss Limited
- Danfoss Power Solutions Ltd.
- Senstronics Holding Ltd. – 50% (joint venture)
- Sondex (UK) Limited
- Vacon Drives (UK) Ltd.

Hungary

- Danfoss Kft.
- Sondex Kft

Iceland

- Danfoss hf.

Italy

- Danfoss Power Solutions S.r.l.
- Danfoss S.r.l.
- Prosa S.r.l.
- Sondex Italia 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.
- Visedo Netherlands 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)
- Elektronika 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 Romania S.R.L.
- S.C. Sondex Productions S.R.L.

Group companies

Russia

- AO Ridan
- AO Vacon Drives – in liquidation
- Danfoss Dzerzhinsk LLC
- Danfoss LLC
- Danfoss Power Solutions LLC
- T Plus Danfoss 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 Power Solutions S.A.
- Danfoss S.A.

Sweden

- Danfoss AB
- Danfoss Power Solutions AB
- Danfoss Värmepumpar AB
- EP Technology AB

Switzerland

- Danfoss AG

Ukraine

- Danfoss T.o.v.

AFRICA – MIDDLE EAST

Turkey

- DAF Enerji Sanayi Ve Ticaret Anonim Sirketi – 87%
- Danfoss Otomasyon ve Kontrol Urunleri Tic Ltd.
- Sondex Dis Ticaret Limited Sti.
- Sondex-Tanpera – 51%

United Arab Emirates

- Danfoss FZCO – 95%
- Gulf Sondex FZCO

Saudi Arabia

- Sondex Saudi Arabia

South Africa

- Danfoss (Pty) Ltd.
- Independent Refrigeration Supplies (Pty) Ltd. – in liquidation
- Sondex South Africa Pty. Ltd. – 80%

NORTH AMERICA

Canada

- Danfoss Inc.

USA

- Danfoss LLC
- Danfoss Power Solutions Inc.
- Danfoss Power Solutions Hopkinsville, LLC
- Danfoss Silicon Power LLC
- Danfoss Power Solutions Manufacturing Hopkinsville, LLC
- Danfoss Power Solutions Real Estate Hopkinsville, LLC
- Danfoss Power Solutions (US) Company
- Danfoss Power Solutions Work Function, LLC

- Danfoss Turbocor Compressors Inc.
- Hydro-Gear Inc. – 60%
- Hydro-Gear Limited Partnership– 60%
- K Products LLC
- Polaris Plate Heat Exchangers, LLC
- Sondex, Inc.
- Sondex Properties, Inc.
- Vacon, LLC
- White Hydraulics, Inc.

LATIN AMERICA

Argentina

- Danfoss S.A.

Brazil

- Danfoss do Brasil Indústria e Comércio Ltda.
- Danfoss Power Solutions Ind. e. Com. Electrohidraulica Ltda.
- Sondex Brasil Ltda.
- Sondex ICP Latin America
- Vacon America Latina Ltda.

Chile

- Danfoss Industrias Ltda.

Colombia

- Danfoss S.A.

Mexico

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

Venezuela

- Danfoss S.A.

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 Ltd.
- Danfoss (Tianjin) Ltd.
- Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd.
- Danfoss Plate Heat Exchanger (Hangzhou) Co., Ltd.
- Danfoss Power Solutions (Jiangsu) Co., Ltd.
- Danfoss Power Solutions (Shanghai) Co. Ltd.
- Danfoss Power Solutions Trading (Shanghai) Co., Ltd.
- Danfoss Power Solutions (Zhejiang) Co., Ltd.
- Danfoss Semco (Tianjin) Fire Protection Equipment Co., Ltd. – 60%
- Danfoss Shanghai Hydrostatic Transmission Co. Ltd. – 60%
- K Products Company Ltd.
- Sondex Heat Exchangers (Ningbo) Co. Ltd.
- Sondex Heat Exchangers (Taicang) Co. Ltd.
- Tau Energy Holdings (HK) Ltd.
- Vacon China Drives Co. Ltd.
- Visedo (Asia) Ltd.
- White (China) Drive Products. Ltd.
- Zhejiang Holip Electronic Technology Co. Ltd.

Group companies

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

Japan

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

Malaysia

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

Philippines

- Danfoss Inc.

Singapore

- Danfoss Industries Pte. Ltd.
- Danfoss Power Solutions Pte. Ltd.
- Sondex South East Asia Pte. Ltd.

South Korea

- Danfoss Ltd.
- Danfoss Power Solutions Ltd.
- Sondex Korea LLC

Taiwan

- Danfoss Co. Ltd.

Thailand

- Danfoss (Thailand) Co. Ltd.

New Zealand

- Danfoss (New Zealand) Ltd.
- Sondex NZ Ltd.





Parent accounts and notes

Management's review for Danfoss A/S

(Part of Management's review)

Danfoss A/S is the parent company of the Danfoss Group. In addition to holding the shares of most of the other Danfoss Group companies, an important function of the company is to fund the Group's activities. The company also constitutes the corporate framework for some of Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. At the end of 2017, Danfoss A/S had 2,779 employees.

Profit before other operating income and expenses was DKK 806m (2016: DKK 566m), and the operating profit was DKK 655m (2016: DKK 506m).

Financial income and expenses amounted to a net income of DKK 1,908m (2016: DKK 2,381m), mainly attributable to a decrease in distributed dividends from subsidiaries.

Profit after tax was DKK 2,311m (2016: DKK 2,723m).

At the end of 2017, the equity stood at DKK 22,084m (2016: DKK 20,662m). The increase was mainly attributable to recognition of the profit for the year less dividends paid to the owners.

In 2018, Danfoss A/S expects net sales to be on the same level as in 2017 and expects to report a profit.

Income statement

January 1 to December 31

DKKm

	Note	2016	2017
Net sales		8,355	9,238
Cost of sales	1	-6,422	-7,067
GROSS PROFIT		1,933	2,171
Research and development costs	1	-288	-295
Selling and distribution costs	1	-602	-650
Administrative expenses	1	-477	-452
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		566	774
Other operating income and expenses	1	-60	-119
OPERATING PROFIT (EBIT)		506	655
Financial income	2	2,699	2,230
Financial expenses	3	-318	-322
PROFIT BEFORE TAX		2,887	2,563
Tax on profit	4	-164	-252
NET PROFIT		2,723	2,311
Attributable to:			
Proposed dividends reserve		500	600
Other reserves		2,223	1,711
		2,723	2,311

Statement of comprehensive income

January 1 to December 31

DKKm

	2016	2017
NET PROFIT	2,723	2,311
OTHER COMPREHENSIVE INCOME		
Actuarial gain/loss (-) on pension and healthcare plans	6	-1
Tax on actuarial gain/loss on pension and healthcare plans	-1	
Items that cannot be reclassified to profit or loss	5	-1
Fair value adjustment of hedging instruments:		
Hedging of future cash flow	9	
Hedging transferred to financial expenses in the income statement	26	17
Tax on hedging instruments	-8	-4
Items that can be reclassified to profit or loss	27	13
OTHER COMPREHENSIVE INCOME AFTER TAX	32	12
TOTAL COMPREHENSIVE INCOME	2,755	2,323

Statement of financial position

As of December 31

DKKm

ASSETS	Note	2016	2017
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	5	968	1,334
PROPERTY, PLANT AND EQUIPMENT	6	1,572	1,751
Investments	7	25,779	26,386
OTHER NON-CURRENT ASSETS		25,779	26,386
TOTAL NON-CURRENT ASSETS		28,319	29,471
CURRENT ASSETS			
INVENTORIES		655	634
Trade receivables external		273	310
Trade receivables from subsidiaries		694	687
Short-term loans to subsidiaries		9,201	9,795
Receivables from associates and joint ventures		1	
Receivable corporation tax	10	19	
Derivative financial instruments (positive fair value)	9		73
Other receivables		102	127
RECEIVABLES		10,290	10,992
TOTAL CURRENT ASSETS		10,945	11,626
TOTAL ASSETS		39,264	41,097

Statement of financial position

As of December 31

DKKm

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

LIABILITIES

	Note	2016	2017
		20,662	22,084
SHAREHOLDERS' EQUITY			
LIABILITIES			
Provisions	9	59	335
Deferred tax liabilities	8	285	289
Pension and healthcare benefit plan obligations		16	15
Borrowings	9	6,731	7,205
Derivative financial instruments (negative fair value)	9	2	
Other non-current debt		128	117
NON-CURRENT LIABILITIES		7,221	7,961
Provisions		42	48
Liabilities under share incentive programs		37	
Borrowings	9	2,953	271
Trade payables		925	1,055
Trade payables to subsidiaries		84	121
Borrowings from subsidiaries		6,537	8,742
Debt to associates and joint ventures		21	23
Corporation tax	10		32
Derivative financial instruments (negative fair value)	9	84	
Other debt		698	760
CURRENT LIABILITIES		11,381	11,052
TOTAL LIABILITIES		18,602	19,013
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		39,264	41,097

Statement of cash flow

January 1 to December 31

DKKm

	Note	2016	2017
Profit before tax		2,887	2,563
Adjustments for non-cash transactions	11	-2,279	-2,111
Change in working capital		-45	202
CASH FLOW GENERATED FROM OPERATIONS		563	654
Interest received		572	398
Interest paid		-229	-248
Dividends received		2,139	1,432
CASH FLOW FROM OPERATIONS BEFORE TAX		3,045	2,236
Paid tax	10	5	-200
CASH FLOW FROM OPERATING ACTIVITIES		3,050	2,036
Acquisition of intangible assets		-207	-402
Acquisition of property, plant and equipment		-448	-527
Proceeds from sale of property, plant and equipment		3	156
Acquisition of subsidiaries		-1,957	-937
Proceeds from disposal of subsidiaries		2	
Cash repayment of (-)/cash proceeds from loans to subsidiaries		-588	112
Acquisition (-)/sale of other investments, etc.			1
CASH FLOW FROM INVESTING ACTIVITIES		-3,195	-1,597
FREE CASH FLOW		-145	439
Cash repayment of interest-bearing debt		-3,742	-6,078
Cash proceeds from interest-bearing debt		3,842	4,337
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		831	2,205
Repurchase of treasury shares		-268	-404
Dividends paid to shareholders in the Parent Company		-518	-499
CASH FLOW FROM FINANCING ACTIVITIES		145	-439
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		0	0

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

Statement of changes in equity

	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, 2016	1,024	515	-31	-865		17,519	16,623	530	18,692
Net profit						2,223	2,223	500	2,723
Software development costs					173	-173			
Fair value adjustment of hedging instruments			35				35		35
Actuarial gain/loss (-) on pension and healthcare plans						6	6		6
Tax on other comprehensive income			-8			-1	-9		-9
Total other comprehensive income			<u>27</u>			<u>5</u>	32		32
Total comprehensive income for the period			27		173	2,055	2,255	500	2,755
Dividends to shareholders						12	12	-530	-518
Purchase of treasury shares				-267			-267		-267
Capital increase		23		-23			-23		
Capital reduction	-28	-538		1,127		-561	566		
Total transactions with owners	<u>-28</u>	<u>-515</u>		<u>837</u>		<u>-549</u>	288	-530	-785
BALANCE AS OF DECEMBER 31, 2016	996		-4	-28	173	19,025	19,166	500	20,662
Net profit						1,711	1,711	600	2,311
Software development costs					281	-281			
Fair value adjustment of hedging instruments			17				17		17
Actuarial gain/loss (-) on pension and healthcare plans						-1	-1		-1
Tax on other comprehensive income			-4				-4		-4
Total other comprehensive income			<u>13</u>			<u>-1</u>	12		12
Total comprehensive income for the period			13		281	1,429	1,723	600	2,323
Dividends to shareholders						1	1	-500	-499
Purchase of treasury shares				-402			-402		-402
Capital increase	1	76		-77			-77		
Total transactions with owners	<u>1</u>	<u>76</u>		<u>-479</u>		<u>1</u>	-478	-500	-901
BALANCE AS OF DECEMBER 31, 2017	997	76	9	-507	454	20,455	20,411	600	22,084

Notes

Note 1 Expenses and other operating income

Note 2 Financial income

Note 3 Financial expenses

Note 4 Tax on profit

Note 5 Intangible assets

Note 6 Property, plant and equipment

Note 7 Investments

Note 8 Deferred tax

Note 9 Financial risks and instruments

Note 10 Corporation tax

Note 11 Adjustment for non-cash transactions

Note 12 Change in liabilities arising from financing activities

Note 13 Contingent liabilities, assets and security

Note 14 Related parties

Note 15 Events after the balance sheet date

Note 16 General accounting policies for Danfoss A/S

Note 17 Significant accounting estimates for Danfoss A/S

Note 1 Expenses and other operating income

DKKm

A. PERSONNEL EXPENSES

	2016	2017
Salaries and wages	1,740	1,754
Severance payments	21	89
Social security	12	11
Pension cost - Defined contribution plans	132	143
	<u>1,905</u>	<u>1,997</u>
Average number of employees	2,604	2,734
Total number of employees as of end of the year	2,629	2,779

	2016	2017
Remuneration to Group Executive Team and Board of Directors:		
Salaries	45	50
Pension costs	13	19
Bonuses	87	90
Severance payments	4	66
Group Executive Team	<u>149</u>	<u>225</u>
Board of Director's fee	6	6
Total	<u>155</u>	<u>231</u>

Total remuneration for registered and former registered members of Executive Management amounts to DKK190m (2016:115m)

Due to change of management structure the remuneration reflects the Group Executive Team from 2017.

In 2017 total remuneration for 4 former members (2016: 1) of Group Executive Team is included in salaries, pensions, bonuses and severance payments.

Note 1 Expenses and other operating income (continued)

DKKm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2016	2017
Classification by nature:		
Amortization of intangible assets	52	53
Depreciation of property, plant and equipment	199	199
Depreciation/amortization and impairment losses	251	252

Classification of amortization/impairment of intangible assets by functions:

Cost of sales	29	28
Selling and distribution costs	14	14
Administrative expenses	9	11
Other operating expenses	52	53

DKKm

C. OTHER OPERATING INCOME AND EXPENSES

	2016	2017
Other	12	1
Other operating income	12	1
Loss on disp. of property, plant and equipment	-8	-1
Restructuring costs	-21	-89
Other	-43	-30
Other operating expenses	-72	-120
Other operating income and expenses	-60	-119

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2016	2017
Audit fee	4	5
Tax and VAT advice	11	2
Other fees	1	4
Total fee to Group Auditor	16	11

Note 2 Financial income

DKKm

	2016	2017
Dividend from subsidiaries and associates/joint ventures	2,139	1,432
Interest from subsidiaries	519	432
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	28	192
Foreign exchange gains, net		173
Interest from banks, etc.	12	1
Reversal of impairment on loans	1	2,230
	2,699	2,230
Interest on financial assets measured at amortized cost	531	433

Note 3 Financial expenses

DKKm

	2016	2017
Interest to banks, etc.	-207	-201
Foreign exchange losses, net	-56	
Impairment/loss on disposal of subsidiaries and associates/joint ventures		-62
Interest to subsidiaries	-31	-34
Fair value adjustment of share options and warrants	-10	-17
Loss on other investments	-12	-6
Interest element on discounted liabilities	-2	-2
	-318	-322
Interest on financial liabilities measured at amortized cost	-240	-237

Note 4 Tax on profit

DKKm

	2016	2017
Current tax expense	-142	-248
Change in deferred tax	-36	-4
Adjustments concerning previous years	14	
	-164	-252
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Tax-exempt income/non-deductible expenses	0.2%	-0.8%
Dividends exempt of tax	-16.3%	-12.3%
Other taxes	0.3%	1.0%
Adjustments concerning previous years	-0.5%	-0.1%
Effective tax rate	5.7%	9.8%
	2016	2017
Tax on profit (income statement)	-164	-252
Tax on fair value adjustment of hedging instruments (other comprehensive income)	-8	-4
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	-1	
Total taxes	-173	-256

Note 5 Intangible assets

DKKm

	Goodwill	Software	Patents, trademarks, etc.	Development costs	Total Other	TOTAL
Cost as of January 1, 2016	462	696	304	147	1,147	1,609
Additions		207			207	207
Disposals		-28	-65	-41	-134	-134
Cost as of December 31, 2016	462	875	239	106	1,220	1,682
Amortization and impairment losses as of January 1, 2016		450	200	146	796	796
Amortization		36	15	1	52	52
Disposals		-28	-65	-41	-134	-134
Amortization and impairment losses as of December 31, 2016		458	150	106	714	714
Carrying amount as of December 31, 2016	462	417	89		506	968
Cost as of January 1, 2017	462	875	239	106	1,220	1,682
Addition through merger with subsidiaries	17					17
Additions		402			402	402
Disposals		-26	-3		-29	-29
Cost as of December 31, 2017	479	1,251	236	106	1,593	2,072
Amortization and impairment losses as of January 1, 2017		458	150	106	714	714
Amortization		39	14		53	53
Disposals		-26	-3		-29	-29
Amortization and impairment losses as of December 31, 2017		471	161	106	738	738
Carrying amount as of December 31, 2017	479	780	75		855	1,334

IMPAIRMENT TESTS

Goodwill in Danfoss A/S of DKK 479m (2016: 462m) 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 2017, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were performed on Danfoss A/S representing the base level of cash generating units (CGUs), to which the carrying amount of goodwill can be allocated with reasonable accuracy. The impairment test method is similar to the impairment test performed at Group level described in Note 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 2016.

Note 6 Property, plant and equipment

DKK m

	Land and buildings	Plant and machinery	Equipment	Assets under construction	TOTAL
Cost as of January 1, 2016	1,832	2,126	588	174	4,720
Transfers	20	46	26	-92	
Additions	45	44	27	346	462
Disposals	-10	-49	-45		-104
Cost as of December 31, 2016	1,887	2,167	596	428	5,078
Depreciation and impairment losses as of January 1, 2016	1,176	1,920	304		3,400
Depreciation	46	69	84		199
Disposals	-3	-45	-45		-93
Depreciation and impairment losses as of December 31, 2016	1,219	1,944	343		3,506
Carrying amount as of December 31, 2016	668	223	253	428	1,572
Cost as of January 1, 2017	1,887	2,167	596	428	5,078
Transfers	101	86	157	-344	
Additions	13	14	294	216	537
Disposals	-1	-33	-322		-356
Cost as of December 31, 2017	2,000	2,234	725	300	5,259
Depreciation and impairment losses as of January 1, 2017	1,219	1,944	343		3,506
Transfers		-2	2		
Depreciation	50	66	83		199
Disposals		-31	-166		-197
Depreciation and impairment losses as of December 31, 2017	1,269	1,977	262		3,508
Carrying amount as of December 31, 2017	731	257	463	300	1,751

Assets held under finance leases amounts to a total carrying amount of DKK 11 m (2016: DKK 21 m).

Note 7 Investments

DKK m

	2016					2017				
	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	16,904	5,532	2,346	134	24,916	18,720	5,660	2,346	134	26,860
Foreign exchange adjustments, etc.		158			158		-674			-674
Additions	2,102				2,102	1,213				1,213
Disposals	-286	-30			-316	-405	-32		-1	-438
Costs as of December 31	18,720	5,660	2,346	134	26,860	19,528	4,954	2,346	133	26,961
Adjustments as of January 1	-1,084		-44	-102	-1,230	-925		-42	-114	-1,081
Value adjustment				-12	-12				-6	-6
Reversed impairment	51		4		55	187		5		192
Impairment for the year	-18		-2		-20	-23				-23
Disposal	126				126	343				343
Adjustments as of December 31	-925		-42	-114	-1,081	-418		-37	-120	-575
Carrying amount as of December 31	17,795	5,660	2,304	20	25,779	19,110	4,954	2,309	13	26,386

Where possible, "Other investments" are recognized at fair value. Alternatively, they are recognized at cost less accumulated impairment losses.

At the end of 2017, impairment tests were performed on the carrying amount of "Investments in subsidiaries, associates and joint ventures", if indicators for impairment were present. Main indicators are loss-making activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the present value of cash flow from subsidiaries, associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2016.

Additions for the year to "Investments in subsidiaries" is mainly the acquisition of Visedo Oy and Prosa S.r.l. Disposal for the year of "Investments in subsidiaries" mainly relates to the closing of Avenir Energie.

Impairment losses for the year on "Investments in subsidiaries" of DKK 23m mainly relates to Danfoss IXA A/S. The impairment losses are mainly due to the fact that the entities in question have been loss making. Reversed impairment for the year on "Investments in subsidiaries" of DKK 187 is primarily related to Danfoss Distribution Services A/S and Danfoss District Heating SRL who have improved earnings in recent years. Impairment losses/reversed impairment are reported as financial expenses/financial income.

Additions for 2016 to "Investments in subsidiaries" is mainly the acquisition of Sondex Holding A/S. Disposal for 2016 of "Investments in subsidiaries" mainly relates to the closing of Danfoss Polypower A/S.

Impairment losses for 2016 on "Investments in subsidiaries" of DKK 18m mainly relates to Danfoss IXA A/S. The impairment losses are mainly due to the fact that the entities in question have been loss making. 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 14 Related parties.

Note 8 Deferred tax

DKKm

CHANGES IN DEFERRED TAXES

	2016	2017
Deferred taxes as of January 1 (net) *)	-237	-285
Adjustments concerning previous years	-10	
Deferred tax recognized in the income statement	-36	-4
Deferred tax recognized in other comprehensive income	-2	
Deferred taxes as of December 31 (net) *)	-285	-289

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2016	2017
Liabilities		
Set-off within the same legal entities and jurisdiction	-61	-55
Deferred tax assets	0	0
	Deferred tax liability	Deferred tax liability
Intangible assets	52	44
Property, plant and equipment and financial assets	87	82
Current assets	23	36
Liabilities	119	117
Deferred tax regarding Danish joint taxation	65	65
	346	344
Set-off within the same legal entities and jurisdiction	-61	-55
Deferred tax liabilities	285	289

Of the deferred tax liability of DKK 289m (2016: 285m), DKK 65m (2016: 65m) 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 DKK 29m (2016: 41m). The liabilities are not recognized, because Danfoss A/S decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

Note 9 Financial risks and instruments

DKKm

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 16 Financial risks and instruments, to which reference is made.

CONTRACTUAL PAYMENTS ON FINANCIAL LIABILITIES

	2016					2017				
	Carrying amount	Contractual cash flow	Maturity			Carrying amount	Contractual cash flow	Maturity		
			0-1 year	1-5 years*)	Over 5 years			0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	9,224	9,734	3,064	1,914	4,756	7,023	7,514	378	6,109	1,027
Mortgage debt	443	473	2	10	461	444	464	2	7	455
Borrowings from subsidiaries	6,537	6,537	6,537			8,742	8,742	8,742		
Finance lease liabilities	17	18	9	9		9	9	4	5	
Trade payables	925	925	925			1,055	1,055	1,055		
Trade payables to subsidiaries	84	84	84			121	121	121		
Debt to associates and joint ventures	21	21	21			23	23	23		
Derivative financial liabilities	86	147	109	38						
	17,337	17,939	10,751	1,971	5,217	17,417	17,928	10,325	6,121	1,482

*) 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. Operating lease liabilities and liabilities relating to the purchase of property, plant and equipment are not included in this specification, but are included in Note 13 Contingent liabilities, assets and security.

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2016	2017
Non-current liabilities	6,733	7,205
Current liabilities	10,604	10,212
	17,337	17,417

Note 9 Financial risks and instruments (continued)

DKKm

FINANCIAL INSTRUMENTS BY CATEGORY

	2016		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	20	20	13	13
Financial assets measured at fair value in the income statement	20	20	13	13
Trade receivables	273	273	310	310
Trade receivables from subsidiaries	694	694	687	687
Short-term loans to subsidiaries	9,201	9,201	9,795	9,795
Other receivables	102	102	127	127
Loans and receivables	10,270	10,270	10,919	10,919
Derivative financial instruments for the hedging of future cash flows			10	10
Financial assets used as hedging instruments			10	10
Derivative financial instruments for financial hedging			63	63
Financial assets, measured at fair value in the income statement			63	63
Interest-bearing debt	9,684	9,919	7,476	7,680
Debt to subsidiaries	84	84	121	121
Borrowing from subsidiaries	6,537	6,537	8,742	8,742
Trade payables and other debt	1,772	1,772	1,955	1,955
Financial liabilities measured at amortized cost	18,077	18,312	18,294	18,498
Derivative financial instruments for the hedging of future cash flows	7	7		
Financial liabilities used as hedging instruments	7	7		
Derivative financial instruments for financial hedging	79	79		
Financial liabilities measured at fair value in the income statement	79	79		

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 2016.

Note 9 Financial risks and instruments (continued)

DKKm

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

	2016				2017			
	Quoted prices Level 1	Observable input Level 2	Non observable input Level 3	In total	Quoted prices Level 1	Observable input Level 2	Non observable input Level 3	In total
FINANCIAL ASSETS:								
Other investments			20	20			13	13
Derivative financial instruments for the hedging of future cash flow						10		10
Derivative financial instruments for financial hedging						63		63
Total financial assets			20	20		73	13	86
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of future cash flow		7		7				
Derivative financial instruments for financial hedging		79		79				
Contingent consideration (recorded under provisions)			19	19			297	297
Interest-bearing debt		9,919		9,919		7,680		7,680
Total financial liabilities		10,005	19	10,024		7,680	297	7,977

Note 9 Financial risks and instruments (continued)

DKKm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2016	2017
	Financial Instruments	
	Level 3	
Carrying amount as of January 1, assets/liabilities (-)	7	1
Acquisitions		-284
Disposals/Reversals	6	5
Gain/loss (-) in the income statement	-12	-6
Carrying amount as of December 31	1	-284

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

	2016					2017						
	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	-1,544	-39	-39				-3,091	52	52			
EUR	-3,288	1	1				-3,150	-5	-5			
Other currencies	187	-41	-41				988	16	16			
Forward exchange contracts		-79	-79					63	63			
Interest swaps	2,616	-7		-3	-4		2,362	10		17	-7	
Derivatives end of year		-86	-79	-3	-4			73	63	17	-7	

At the end of 2017, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to DKK 10m (2016: -7m).

Note 10 Corporation tax

DKKm

	2016	2017
Corporation tax payable/receivable (-) as of January 1	-149	-19
Paid during the year	5	-200
Adjustments concerning previous years	-24	-1
Current tax expenses in income statement	142	248
Current tax expenses in other comprehensive income	7	4
Corporation tax payable/receivable (-) as of December 31	-19	32
The above corporation tax is recorded as follows:		
Assets	19	
Liabilities		32
	-19	32

Note 11 Adjustment for non-cash transactions

DKKm

	2016	2017
Depreciation/amortization and impairment	251	252
Gain(-)/loss on disposal of tangible assets and business activities	7	1
Financial income	-2,699	-2,230
Financial expenses	318	322
Other, including provisions	-156	-456
Adjustment for non-cash transactions	-2,279	-2,111

Note 12 Change in liabilities arising from financing activities

DKKm

	Short-term borrowings	Long-term borrowings	TOTAL
Carrying amount as of January 1, 2017	2,953	6,731	9,684
Cash repayment	-2,707	-3,371	-6,078
Cash proceeds	7	4,330	4,337
Acquisitions of lease liabilities	4	5	9
Other	14	-490	-476
Carrying amount as of December 31, 2017	271	7,205	7,476

Other change in liabilities arising from financing activities mainly consists of foreign exchanges adjustments.

Note 13 Contingent liabilities, assets and security

DKKm

SECURITY

	2016	2017
Carrying amount of land and buildings pledged as security for bank loans and mortgages	653	717
Leasing assets pledged as security for leasing commitments	21	11
Carrying amount of interest-bearing liabilities with security in assets	460	453

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 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.

OPERATING LEASES (LEASE EXPENSES)

Operating lease payments fall due as follows:

	2016	2017
Buildings:		
Less than 1 year	13	12
Between 1 and 5 years	42	35
More than 5 years	42	33
Equipment, etc.:		
Less than 1 year	35	34
Between 1 and 5 years	39	22

OPERATING LEASES (LEASE INCOME)

Operating lease payments fall due as follows:

	2016	2017
Less than 1 year	10	12
Between 1 and 5 years		3

The operating lease income in Danfoss A/S primarily relates to the letting of buildings to the subsidiaries.

CONTRACTUAL OBLIGATIONS

	2016	2017
Service contract commitment other than leases	441	308
Inventories	208	319
Property, plant and equipment	54	28
Hereof commitments relating to succeeding year	493	525

Note 14 Related parties

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

DKKm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2016	2017
Sales of goods and services	4	2
Purchases of goods and services	103	120

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

	2016	2017
Sales of goods and services	7,670	8,307
Purchases of goods and services	2,969	3,168
Disposal of intangible assets and property, plant and equipment	12	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 15 Events after the balance sheet date

Subsequent to December 31, 2017, there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the Annual Report.

Note 16 General accounting policies for Danfoss A/S

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2017, 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 further requirements in the Danish Financial Statements Act. Unless otherwise indicated, the Annual Report is presented in DKK rounded to the nearest million.

The Board of Directors and the Group Executive Team reviewed and approved the Annual Report 2017 on February 22, 2018, and it will be presented for approval at the Annual General Meeting to be held on April 20, 2018. The Annual General Meeting has the power to amend and reissue the financial statements.

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. The impact of new accounting standards, as described in Note 26 in the consolidated financial statements for the Danfoss Group is also assessed as immaterial to Danfoss A/S.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

In Danfoss A/S' financial statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is 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.

CORPORATION TAX AND 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 DEVELOPMENT PROJECTS

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.

COMPARATIVE FIGURES

Some comparative figures have been adjusted to improve comparability.

Note 17 Significant accounting estimates for Danfoss A/S

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

In Danfoss A/S' financial statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is 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.

ENGINEERING
TOMORROW

Danfoss

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

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