ENGINEERING
TOMORROW

Annual Report 2016

www.danfoss.com

Contents

Management's review

Financial statements

Engineering Tomorrow

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Introduction to the Danfoss Group annual reporting

This Annual Report 2016 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 as company announcement no. 1/2017 on March 2, 2017.

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 2016, which focuses on legally required information and includes the financial results for the fiscal year.

2. Sustainability Report 2016, 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 2016, 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.

Danfoss also releases interim announcements after each quarter of the financial year.

Additional publications
During 2017, Danfoss will release the Group Magazine. This magazine gives an overview of who we are and what we do in a concise and easy-to-read format. This publication does not replace the annual report and does not contain all the information needed to give an equally complete picture of the Danfoss Group's performance, financial position, and future prospects as is provided in the annual report. The Group Magazine is produced in English and made available in hard copy and for download at www.danfoss.com.

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

" Every city can welcome more, while **using less**

Magnetic compressors cut energy use in São Paulo office building
Danfoss Turbocor® compressors in the air-conditioning system helped the Pátio Victor Malzoni office building save 10 percent on energy and earn important environmental rating.

Read the case story at www.danfoss.com > About > Engineering Tomorrow

2016 at a glance

See the financial highligts on page 19

Key figures

Sales DKKbn	Sales EURbn	Local currency growth	EBIT margin	Employees worldwide	Patent families
39.2	5.3	6%	10.9%	25,292	1,408

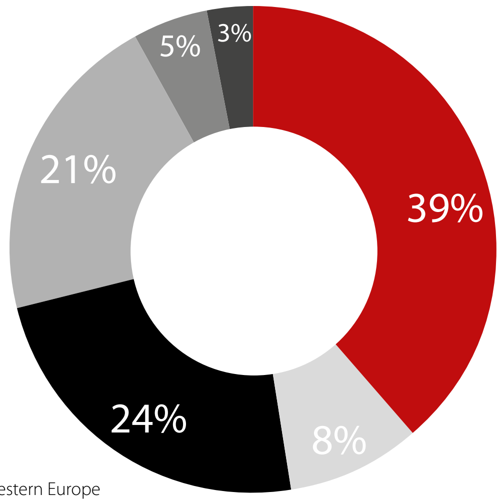
Danfoss in brief

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

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

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

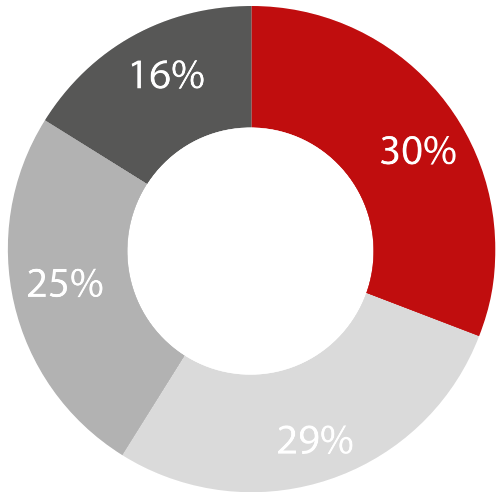
Sales split on regions



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

See pages 8 and 20 for more information on the markets

Sales split on segments



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

See pages 15 and 23 for more information on the business segments

2016 at a glance

See the financial highligts on page 19

Key figures

Free cash flow before M&A / DKKbn	Free cash flow before M&A / EURbn	Leverage ratio	NIBD to EBITDA ratio	Equity ratio
3.4	0.5	55.2%	1.6	42.6%

Results in line with expectations

In 2016, the Danfoss Group continued its positive performance and delivered satisfactory financial results in line with expectations.

The year was characterized by continuing low global growth conditions with a mixed business environment across markets and sectors. Sales grew 3% to DKK 39.2bn, corresponding to 6% growth in local currency. EBIT improved 4% to DKK 4.3bn, leading to an EBIT margin of 10.9% and net profit of DKK 2.9bn, up 13% on last year. The results were driven by a strong performance in Danfoss Cooling and good growth traction in Danfoss Power Solutions.

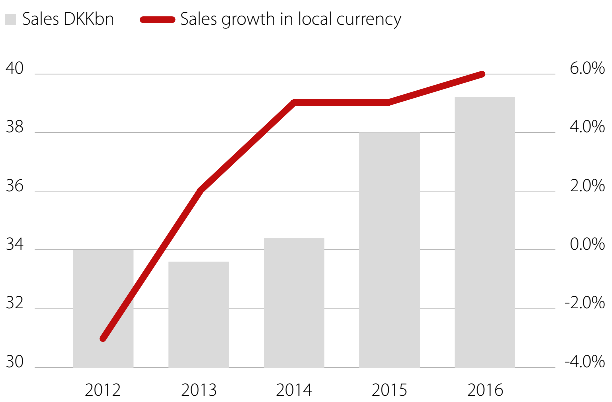
The strong free cash flow before M&A was kept high at DKK 3.4bn, and the free cash flow ended at DKK 1.5bn, due to the acquisitions completed in the third quarter of 2016.

See the financial review on page 20

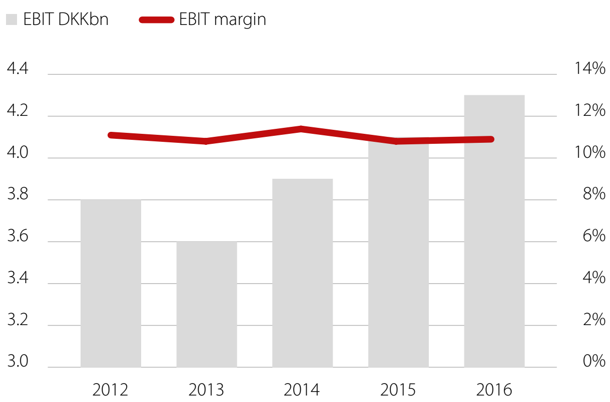
Outlook compared to results

Outlook for 2016	Results in 2016
Market share expected to be maintained or expanded	Sales increased 6% in local currency, mainly driven by increased market share in a market which we estimate to have been flat or even slightly declining.
EBIT margin expected to be at level with 2015	In 2016, the operating profit (EBIT) reached DKK 4,262m, corresponding to an EBIT margin of 10.9% against 10.8% in 2015.

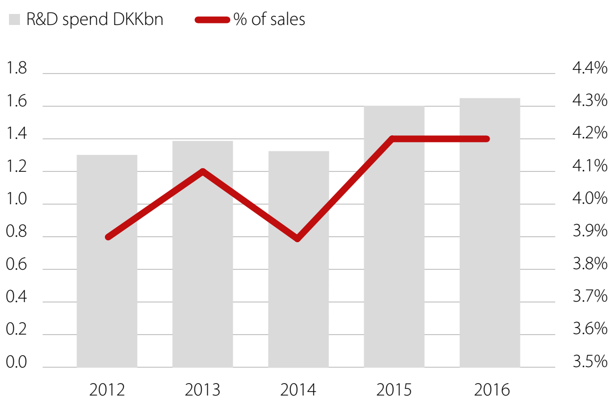
Sales and growth



Earnings



Innovation spend



Key events in 2016

Ramp-up of digital transformation
5/31/16

Danfoss wants to take the lead in using digitalization to leverage customer value and differentiation, due to smarter and more intelligent products, faster design of new technologies, a more flexible production, and efficient cross-segment cooperation worldwide. As a foundation, the roll-out of a new common Enterprise Resource Planning (ERP/SAP) system is accelerated.

Acquisition of Sondex
8/31/16

Danfoss creates a world-leading player in heat transfer solutions through the acquisition of Sondex Holding A/S, a global company headquartered in Denmark that produces and markets heat transfer technologies.

Link™ campaign in Germany
10/18/16

Danfoss launches the Link™ campaign in Germany, including TV commercials and social media. The campaign shows that the introduction of a smart home is easy and money-saving without losing comfort in the home.

Moving from talk to action at COP22 in Marrakesh
11/7/16

As part of business efforts to encourage timely action on climate, Danfoss organizes solution panels with public and private partners. Together with the United Nations Environment Programme, Danfoss showcased the opportunity of district energy for cities at COP22.

New application development center
12/6/16

To advance climate-friendly technologies, a new application development center is inaugurated in Tallahassee, Florida. The test lab facility enables Danfoss to serve both industry and customers in meeting the targets for low global warming potential refrigerants and higher energy efficiency levels.

04.16 | 05.16 | 06.16 | 07.16 | 08.16 | 09.16 | 10.16 | 11.16 | 12.16

Market launch of new energy meters
3/31/16

Danfoss introduces the new generation of energy meters, SonoSelect™ and SonoSafe™, in China. This new digitalized heat meter platform is made user-friendly using SonoApp and has a long operating life with a diagnostic function.

Acquisition of White Drive Products
9/8/16

Danfoss acquires a leading manufacturer of hydraulic drive products, the US-based Propulsys Inc., parent company of White Drive Products Group, thereby creating the world's number one in the hydraulic orbital motor market.

Partnership with Leanheat
9/30/16

Danfoss invests in the Finnish innovator Leanheat, which offers advanced and intelligent energy optimization solutions for multi-family houses and district heating segments. The partnership enables access to software technologies, which will further strengthen the business and position of Danfoss Heating.

Fueling strategic technology approach
10/14/16

To further strengthen the digital ability of Danfoss, increased efforts are put into building and driving a world-class, strategic technology approach, e.g. through systematic screening of new technologies, increased use of 3D printing, software simulation in product development, etc. As key steps, new senior positions are established within technology.

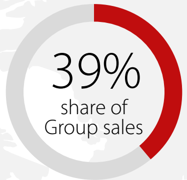
Incubation hub in Berlin to strengthen digital innovation
10/20/16

To accelerate Danfoss' digital transformation, an incubation hub is established in Berlin to boost the development and testing of new digital products and viable business models within digital and IoT (Internet of Things).

Products sold in more than 100 countries around the world

Western Europe

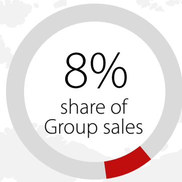
21 factories
Sales companies in **17** countries
9,858 employees



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

Eastern Europe

15 factories
Sales companies in **12** countries
4,426 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 ambitious plans to improve energy efficiency in Europe, including Eastern European countries.

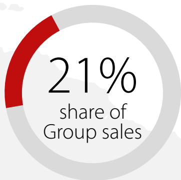
North America

14 factories
Sales companies in **2** countries
3,675 employees

The US is the largest country in terms of sales. Danfoss has a strong position and presence in this mature market, which is the world's largest manufacturing economy and location for many of Danfoss' global key customers. Energy efficiency in buildings, a changing refrigerant landscape and reshoring are major trends in North America, representing a growth potential for Danfoss.

Asia-Pacific

15 factories
Sales companies in **11** countries
5,809 employees



China, India, and South Korea are the top three markets in the Asia-Pacific region, which is otherwise a significant region in terms of sourcing and production. The region holds significant growth opportunities for Danfoss, especially within the build-up of the food cold chain, air-conditioning markets, and urban district energy projects.

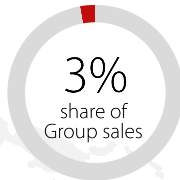
Latin America

3 factories
Sales companies in **5** countries
1,281 employees

Brazil and Mexico are the two largest countries in terms of sales in Latin America, where Danfoss has sales companies in all the main countries. In this region, Danfoss mainly 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.

Africa-Middle East

1 factory
Sales companies in **3** countries
243 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

Annual investments in innovation correspond to more than 4% of sales, which is above industry average. Danfoss partners with customers and universities to optimize solutions, boost research, and help educate the skilled engineers of tomorrow.

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

University partnerships
Danfoss works closely with universities in everything, ranging from innovative research to helping educate engineers and technicians.

Customer test facilities
New solutions are explored and optimized for customer applications in Application Development Centers and test laboratories.

Western Europe

7 R&D sites

24 University partnerships

8 Customer test facilities

Eastern Europe

5 R&D sites

12 University partnerships

2 Customer test facilities

North America

6 R&D sites

8 University partnerships

5 Customer test facilities

Asia-Pacific

3 R&D sites

15 University partnerships

6 Customer test facilities

Latin America

1 R&D site

6 University partnerships

Outlook 2017

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

In 2017, our key focus continues to be on ensuring profitable growth. In 2016, we grew faster than the markets and the industries in which we are present, and we expect to continue this development in 2017.

We expect to accelerate our investments in digitalization and at the same time maintain the profitability measured as margin at the same level as in 2016.

In 2017, the global economic environment is expected to continue the soft development characterized by low visibility and high volatility. For the global industrial sector, the growth projections are still subdued.

However, Danfoss is experiencing positive developments within some sectors in key markets, e.g. Europe and North America, and increasing momentum in high potential growth markets, e.g. India and China.

Specific key factors, which could affect the Group's financial performance in 2017:

- 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.
- To the extent that we are successful in acquiring well-performing companies, this can add to the sales growth.
- The strong cash flow performance is expected to continue in 2017, enabling the financing of future potential acquisitions and further investments in new technology.
- Strong earnings allow for significant investments in digitalization, while maintaining a healthy profitability.
- The current global geopolitical environment is characterized by continued volatility and low visibility. Accordingly, sudden changes in major markets could have a negative impact on the Group's performance.
- Relatively low prices on commodities, such as crops, metals and oil, affecting the global agriculture, marine, oil, gas, and mining sectors, may continue to subdue demand in the markets, where Danfoss Power Solutions and Danfoss Drives are operating.
- Fluctuations in foreign exchange rates may have a negative effect on the topline growth measured in DKK.

2017 expectations
Based on the above, we expect to maintain or expand our market share, while maintaining the profitability measured as margin at the 2016 level, following significant investments in digitalization.

Forward-looking statements

Read more about risks on page 29 and financial risks in Note 16, page 72

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.

Driving **profitable growth**

A digital future holds great potential for Danfoss – and we are well prepared. Standing on a strong foundation, we can benefit from future opportunities to drive profitable growth, partly organic and partly through acquisitions. This is the recipe for long-term sustainable development within Danfoss.

Our 2016 financial performance reflects a year of significant achievements for Danfoss, demonstrating the value of our Core & Clear strategy and sustainable business model. Through effective execution of the strategy and growth initiatives, our highly engaged teams around the world improved customer value and business results.

We want to seize the opportunities held by a digital future, while improving our efficiency and competitive edge. We have obtained a robust financial position that allows us to invest and expand. In 2016, we acquired companies which are a great match for Danfoss both in terms of market positions and competencies. We also came even closer to our customers by opening yet another application development center, this time in Tallahassee, Florida, which enables us to demonstrate performance and test customer applications enhanced with Danfoss solutions in a real-life environment.

Currently, a lot of attention is on Danfoss' digital transformation. As an industry front-runner, we are well prepared to take advantage of the countless opportunities of digitalization for the benefit of our customers. Substantial investments in R&D and into developing strong digital capabilities will enable our customers to interact directly and seamlessly across devices, offering a differentiated customer experience and access to fast, easy, and relevant information and tools. Harvesting the potential in IoT (Internet of Things) by offering connected products and services, intelligent data, and user-friendly control systems is key in our digital development. As is building a new common IT architecture, which will enable us to meet the needs of a digital future – fast and flexible.

In 2016, our strong financial performance allowed for re-investing 4.2% of sales in innovation, which is above industry average. And at the same time, we recorded a positive impact from our strategic growth initiatives, leading to 6% local currency growth and an improved EBIT performance of 4%. Accordingly, considering the market, we have again delivered satisfactory results – and when the underlying global economy improves, we are in a good position to further accelerate sustainable profitable growth.

Looking ahead, the need for new infrastructure, safe food supply, increased energy efficiency, and improved climate-friendly solutions will drive continued growth. Further, we keep strengthening our businesses and investing in innovation to offer customers improved value-added products. In the more long-term perspective, the key to driving future growth in the Danfoss Group lies in our digital transformation.

"We keep strengthening our businesses and investing in innovation to offer customers improved value-added products. In the more long-term perspective, the key to driving future growth in the Danfoss Group lies in our digital transformation."

On behalf of the Executive Committee, I want to thank the management team and our more than 25,000 employees for their significant contributions and continued dedication to making 2016 a good year for Danfoss. We will continue the great efforts to drive our business for long-term sustainable value creation.

Niels B. Christiansen

Our **business**

> **"** Every supermarket can ensure **freshness and save energy**

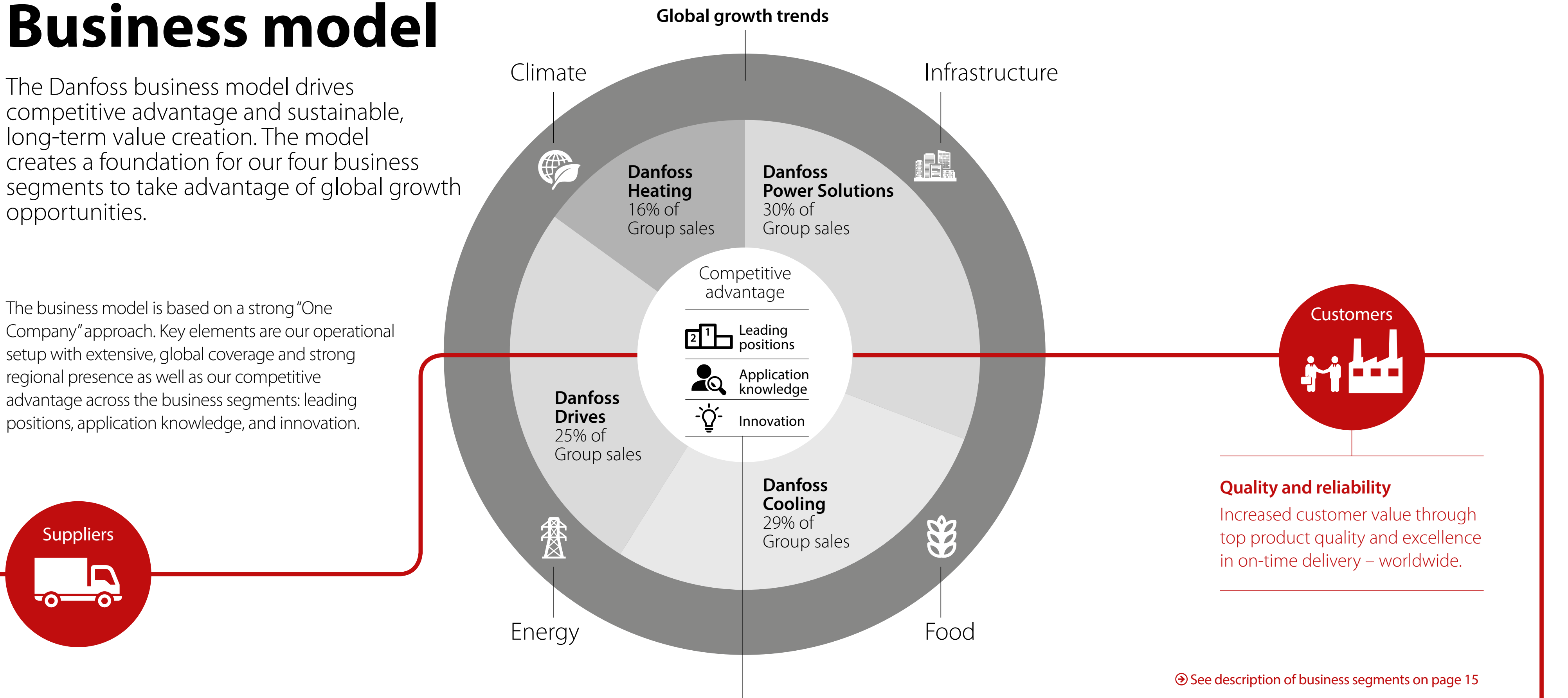
Supermarkets as the backbone of smart cities
What cools your products at your local supermarket can at the same time heat your home – let's do more with less! The key to this concept are supermarkets connected with electricity and heating networks, enabled by Danfoss technologies.

Read the case story at
www.danfoss.com > About > Engineering Tomorrow

Business model

The Danfoss business model drives competitive advantage and sustainable, long-term value creation. The model creates a foundation for our four business segments to take advantage of global growth opportunities.

The business model is based on a strong "One Company" approach. Key elements are our operational setup with extensive, global coverage and strong regional presence as well as our competitive advantage across the business segments: leading positions, application knowledge, and innovation.



Quality and reliability

Increased customer value through top product quality and excellence in on-time delivery – worldwide.

See description of business segments on page 15

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 R&D engineers to turn their know-how and application understanding into performance-enhancing advantages for our customers.

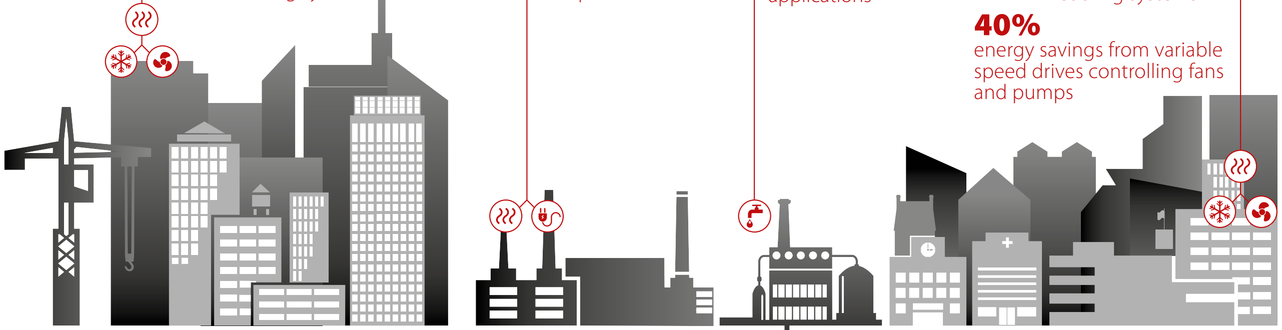
Innovation

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.

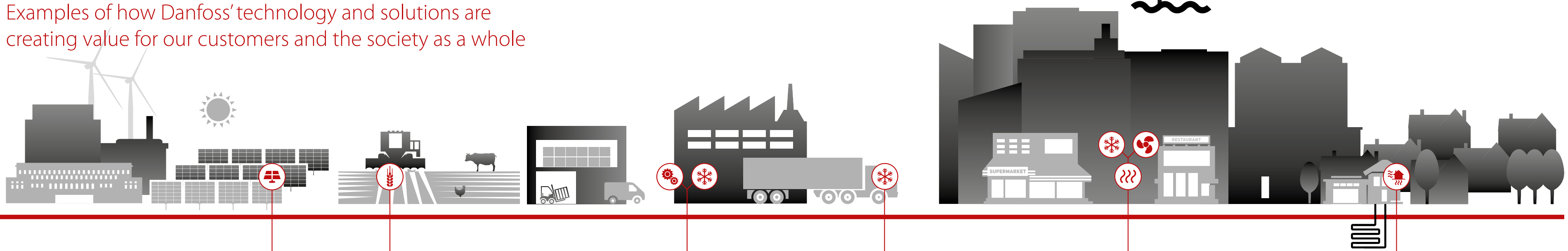
The business model is made operational by the Core & Clear strategy, see pages 16-17

Global growth **opportunities**

Our business model capitalizes on four global growth trends: infrastructure, food, energy, and climate. These trends drive future growth opportunities for Danfoss and represent areas, where we contribute to a sustainable global development.



Examples of how Danfoss' technology and solutions are creating value for our customers and the 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 waste, e.g. safe food processing, storage, and transportation.

Energy

Global energy demand is rising as population grows 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 the 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 segments

Danfoss **Power Solutions**

Employees
6,404

Factories worldwide
20

Sales offices worldwide
>20

Leading player and industry pioneer in the mobile hydraulics market.

Products and solutions
Engineered hydraulic and electronic components optimized for total machine management:
- Hydrostatic transmissions
- Mobile electronics/software
- Orbital motors
- Steering components
- Proportional valves

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**

Employees
6,025

Factories worldwide
11

Sales offices worldwide
>100

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**

Employees
4,653

Factories worldwide
9

Sales offices worldwide
>80

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 and offshore, mining, renewable energy generation, heating, ventilation, and air-conditioning (HVAC) systems.

Danfoss **Heating**

Employees
5,146

Factories worldwide
31

Sales offices worldwide
>100

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.

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 strategic focus areas is how we strive to meet our aspiration every day to drive long-term sustainable results.

Core means that we focus on our core businesses and core competencies to maintain strong, leading market positions in our businesses – as a number one or two globally.

Clear means that we focus on the customers, constantly reduce complexity, and ensure transparency in our performance and governance – meaning the roles and responsibilities in our organization.

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, increased stakeholder value, and profitable growth.

The Core & Clear journey

Since the beginning of the Core & Clear journey, the foundation of the core businesses has continuously been strengthened, and today we are in a robust financial position to accelerate sustainable profitable growth, driven by the digital transformation.

2010
Get the Basics Right

Get the Basics Right provides a strong and scalable foundation for all activities in Danfoss. Focus is on what we call our engine room, e.g. high quality, on-time deliveries, less complexity, improved customer focus, optimized procurement, improved and more fine-tuned processes everywhere in the organization.

2014
Get Going

Get Going has a strong focus on accelerating profitable growth by taking market share; what we call building a powerful global sales engine, including having leading business positions, a strong brand, an innovation pipeline with growth impact, and investing in the best opportunities for growth.

2016
Digital Transformation

The digital transformation focuses on four key priorities that hold the biggest potential for increased customer value: We deliver a best-in-industry digital customer experience; We take the lead on connected products and services; We take advantage of new digital technologies to speed up innovation; We have one common IT architecture with fast implementation of our new common Enterprise Resource Planning (ERP/SAP) system. Accordingly, the digital transformation reflects that we are strongly positioned to take advantage of the growth potential held by a digital future.

Progress on the 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 perform strategic acquisitions to fuel our growth regionally and add new technologies. In addition to the core businesses, the focus is on a few businesses adjacent to the core, and on strong globalization of the businesses.

Key priorities

- Market-leading positions via organic and acquisitive growth
- Few, strategic bold adjacencies

Highlights 2016

- Danfoss Power Solutions became the world's number one for hydraulic orbital motors with the acquisition of White Drive Products.
- The acquisition of Sondex Holding A/S confirms Danfoss' strategic focus on building leading positions and will further strengthen our position within heat transfer solutions.
- Market share gain and growth above industry and market level, driven by Danfoss Cooling and Danfoss Power Solutions.

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.

Key priorities

- Solid financial performance
- Utilizing scale advantages

Highlights 2016

- Healthy earnings, satisfactory growth and strong cash generation.
  See the financial review on pages 19-25
- Accelerated implementation of one common Enterprise Resource Planning (ERP/SAP) system across the Group to create the best foundation for the digital transformation.
- Factories in Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating compliant with the quality program TS 16949, as planned.

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.

Key priorities

- Increased customer value through innovation and digitalized products and services
- Develop a strong and differentiated customer experience

Highlights 2016

- Market introduction of new platform of Joysticks (JS1-H), Turbocor® compressors, SonoSelect™ and SonoSafe™ energy meters, and VACON® 3000 Medium Voltage drives opens up a new business area for Danfoss.
- Ramp-up of the digital transformation to ensure front-runner positioning, reaping the potential within areas such as industrial IoT, Big Data, and E-commerce.
- Further strengthening of regional setup to get closer to customers worldwide and improve local presence.

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.

Key priorities

- Leadership, diversity, and high-performing teams
- Best practice tools and processes

Highlights 2016

- Development of competencies and digital capabilities, e.g. by introducing new ways of working across regions, business segments, and functions.
- Strong focus on recruitment excellence and a proactive approach, engaging with and recruiting new talents through social media.
- Strong results in employee survey related to Danfoss as a workplace, leadership, and performance management.

Read more about recruitment in the Sustainability Report 2016 at www.danfoss.com > Sustainability > Sustainability reporting

Our **performance**

❞ Every urban development can set the standard in **innovation**

A vision for the future: putting water at the heart of smart cities
Driven by digitalization, wastewater treatment plants can drive energy efficiency and generate cost-effective renewable energy. With the help of Danfoss Drives, a Danish water treatment plant not only ensures clean water, but also produces more electricity and heating than it consumes itself.

Read more about the game-changer approach at www.danfoss.com > About > Engineering Tomorrow

Financial highlights

	DKKm					EURm	
	2012	**2013**	**2014**	**2015**	**2016**	**2015**	**2016**
PROFIT AND LOSS ACCOUNTS							
Net sales	34,007	33,628	34,375	38,031	39,247	5,099	5,271
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	5,454	5,549	6,079	6,148	6,240	824	838
Operating profit before depreciation, amortization and impairment (EBITDA)	5,750	5,304	5,661	6,021	6,076	807	816
Operating profit excl. other operating income and expenses, etc.	3,729	3,870	4,356	4,235	4,388	568	589
Share of profit from associates and joint ventures after tax	-2	8	-187	67	32	9	4
Operating profit (EBIT)	3,767	3,624	3,925	4,097	4,262	549	572
Financial items, net	-421	-369	-449	-356	-324	-47	-44
Net profit	2,339	2,285	2,290	2,597	2,935	348	394
BALANCE SHEET							
Total non-current assets	17,038	16,052	25,822	26,168	28,162	3,507	3,788
Total assets	27,768	26,116	36,883	37,219	40,567	4,987	5,457
Total shareholders' equity	14,193	11,443	13,242	15,424	17,286	2,067	2,325
Net interest-bearing debt	2,691	4,116	11,439	9,640	9,548	1,292	1,284
Net assets	16,775	15,476	22,432	22,613	24,332	3,030	3,273
CASH FLOW STATEMENT							
Cash flow from operating activities	4,245	4,444	4,351	4,667	5,161	626	693
Cash flow from investing activities	-1,321	-917	-10,576	-1,619	-3,676	-217	-494
Acquisition of intangible assets and property, plant and equipment	-1,169	-1,004	-996	-1,176	-1,678	-157	-226
Acquisition of subsidiaries and activities	-191	0	-7,377	-223	-1,872	-30	-251
Acquisition (-)/sale of other investments, etc.	39	87	-2,203	-220	-126	-30	-17
Free cash flow	2,924	3,527	-6,225	3,048	1,485	409	199
Free cash flow before M&A	3,019	3,513	3,389	3,397	3,416	456	459
Cash flow from financing activities	-2,779	-3,623	6,194	-3,416	-1,302	-458	-175
FINANCIAL RATIOS							
Local currency growth (%)	-3	2	5	5	6	5	6
EBITDA margin, excl. other operating income, etc. (%)	16.0	16.5	17.7	16.2	15.9	16.2	15.9
EBITDA margin (%)	16.9	15.8	16.5	15.8	15.5	15.8	15.5
EBIT margin, excl. other operating income, etc. (%)	11.0	11.5	12.7	11.1	11.2	11.1	11.2
EBIT margin (%)	11.1	10.8	11.4	10.8	10.9	10.8	10.9
Return on invested capital (ROIC)	21.4	22.2	19.4	16.3	16.3	16.3	16.3
Return on invested capital (ROIC) after tax	15.2	15.9	13.2	11.4	12.0	11.4	12.0
Return on equity (%)	17.8	18.2	18.4	17.6	17.2	17.6	17.2
Equity ratio (%)	51.1	43.8	35.9	41.4	42.6	41.4	42.6
Leverage ratio (%)	19.0	36.0	86.4	62.5	55.2	62.5	55.2
Net interest bearing debt to EBITDA ratio	0.5	0.8	2.0	1.6	1.6	1.6	1.6
Dividend pay-out ratio (%)	17.1	35.0	21.8	20.4	17.0	20.4	17.0
Dividend per 100 DKK share	39.2	78.3	48.9	51.8	50.2	51.8	50.2

Financial review

In 2016, Danfoss maintained momentum and delivered results in line with expectations. A 6% local currency growth led to increased sales of DKK 39,247m, and EBIT improved to DKK 4,262m with an EBIT margin of 10.9%. Cash generation remained strong with a free cash flow before M&A of DKK 3,416m.

Sales

Overall, improved sales performance characterized 2016. The underlying growth in local currency was 6% (2015: 5%), leading to a DKK 1,216m increase in net sales to DKK 39,247m (2015: DKK 38,031m). Contrary to last year, a negative currency effect of 3% impacted the topline growth measured in DKK.

All business segments contributed to obtaining local currency growth, which includes organic as well as acquisitive growth, as both elements are key to driving the long-term value creation of Danfoss. The positive development in net sales was mainly driven by Danfoss Cooling and Danfoss Heating and satisfactory growth traction in Danfoss Power Solutions, considering the market. Danfoss Drives delivered sales in local currency just above last year's level, due to challenging market conditions and varying performance across regions.

Growth was mainly driven by our targeted sales growth initiatives. The strategic refocusing of sales activities towards specific, vertical markets with a strong growth potential, e.g. supermarkets, multifamily houses, office buildings, family houses, and airports, showed a continued positive effect on the market share development.

Additional sales from the acquisitions completed in the third quarter 2016 also contributed to lifting Group sales in the fourth quarter 2016.

Market developments

A higher awareness of the potential of energy efficiency in addition to legislative requirements and a growing need for creating more sustainable and climate-friendly energy systems are the basic drivers of demand for Danfoss technologies. Moreover, a growing need for safe food supply and modern infrastructure is driving demand in new emerging economies.

The global economy was characterized by low growth throughout 2016. The global trend of changes in the macro-economic scenarios continued, where major potential growth markets like Russia and Brazil slowed down, while growth momentum was gradually building in some of the more mature markets in Europe and the US. Furthermore, some countries in Asia, Africa, and the Middle East, were rising.

Danfoss experienced a mixed business environment across markets and regions in 2016. Some sectors and countries were characterized by good growth, for example the cold chain and countries like India and Italy, while others were impacted by the continued low prices on commodities. Accordingly, activity and investment levels were low within the construction, agriculture, marine, off-shore, and mining sectors, leading to challenging conditions in the markets for mobile hydraulics and low-voltage AC drives, in which Danfoss Power Solutions and Danfoss Drives are operating.

Brazil, Russia, India, and China remain an important part of Danfoss' strategic sales platform. Combined, these developing markets delivered local currency growth of 9% (2015: 3%) and represented 21% (2015: 21%) of Group reported sales. We aim to continue to grow our footprint in these markets in a balanced and controlled manner.

In Europe, sales increased on last year despite varying market conditions across the countries in the region. With almost half of the Group sales coming from Europe, the overall growth traction in this region had a positive impact on the financial performance of the Group.

In Western Europe, growth momentum increased during the year with the Southern European countries, e.g. Italy and France, being the principal drivers. Also the Northern and Central European countries developed positively, e.g. Denmark and Switzerland, driven by Danfoss Heating and Danfoss Drives.

In Eastern Europe, including Russia, sales were close to the level of last year. However, several countries in the region showed double-digit growth rates, e.g. Hungary and Ukraine, whereas the market conditions remained difficult in Russia, where the activity level continued to be curtailed by the economic situation. Nevertheless, in local currency, sales in Russia ended close to the level of last year.

In North America, sales were just above last year's level, due to a mixed performance across segments and products. Danfoss Cooling benefitted from the overall positive trend in the US economy, whereas Danfoss Power Solutions and Danfoss Drives were impacted by challenging market conditions, e.g. in the agricultural and mining sectors.

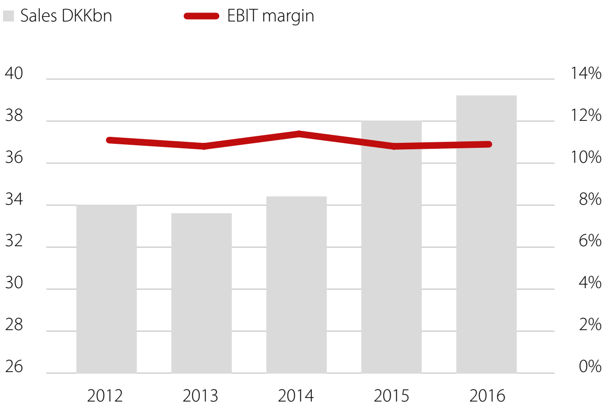
The Asia-Pacific region delivered a significant increase in sales, driven by a strong sales performance in the cold chain and good growth in China. Growth momentum in India also remained very strong with a double-digit growth rate in local currency.

In Latin America, sales were close to the level of last year. Mixed market conditions and the soft economic situation in Brazil curtailed the sales performance, but positive developments towards the end of 2016 indicated a recovery.

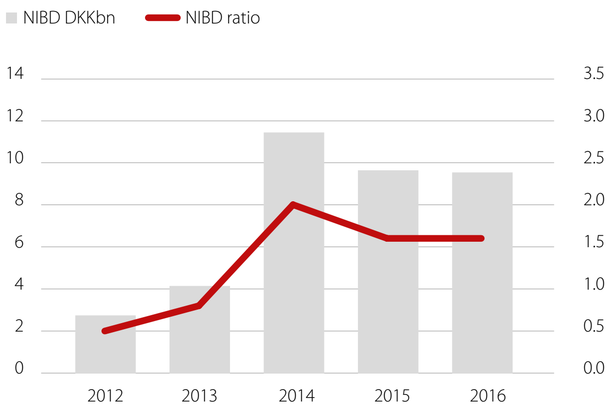
The Africa-Middle East region delivered sales significantly above last year, mainly driven by Danfoss Heating and a continued strong sales performance in the cold chain in Turkey.

See Note 1, page 51, for more information on business and geographical segment reporting

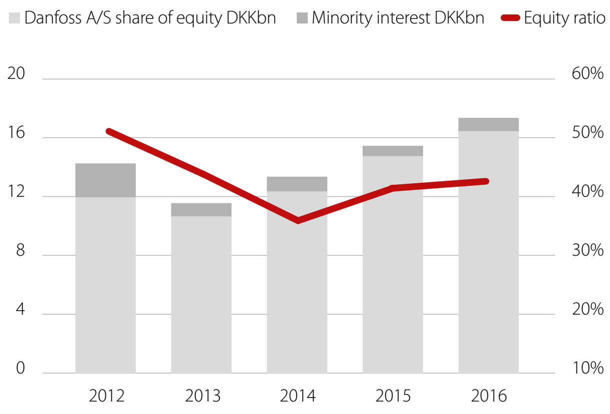
Sales and EBIT margin



Net interest-bearing debt (NIBD)



Equity



Earnings

Operating profit (EBIT) improved 4% to DKK 4,262m (2015: DKK 4,097m), driven by Danfoss Cooling and Danfoss Power Solutions, leading to an EBIT margin of 10.9% (2015: 10.8%).

The earnings development was driven by continuous efficiency improvements in procurement and production and lower administrative expenses measured as a percentage of sales, partly offset by increased spending on strategic growth initiatives. The research and development spend grew 2% to DKK 1,645m (2015: DKK 1,607m), corresponding to 4.2% (2015: 4.2%) of sales.

Other operating income and expenses, net, was an expense of DKK 158m (2015: expense of DKK 205m), mainly due to restructuring costs related to organizational changes in several countries. Financial income and expenses, net, was an expense of DKK 324m (2015: expense of DKK 356m).

Profit before tax improved 5% to DKK 3,938m (2015: DKK 3,741m), leading to net profit of DKK 2,935m (2015: DKK 2,597m), up 13% on last year. The net profit improvement was mainly attributable to improved earnings and a lower effective tax rate for 2016 of 25.5% (2015: 30.6%), related to the effect of changes in deferred tax and the lower corporate tax rate in Denmark.

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 33 and Note 11, page 65.

At December 31, 2016, the net interest-bearing debt stood at DKK 9,548m (2015: DKK 9,640m), leading to a net interest-bearing debt to EBITDA ratio of 1.6 (2015: 1.6). The acquisitions completed in the third quarter were for the main part financed by the strong operating cash flows. Currently, Danfoss has a BBB credit rating assigned by Standard & Poor's with a stable outlook, see Note 11, page 65, for more information.

The non-current interest-bearing debt maturing after more than 12 months amounted to DKK 6,980m (2015: DKK 9,280m), corresponding to 68% (2015: 92%) of the total interest-bearing debt. At year end, the Group had unutilized and long-term committed credit facilities of DKK 7.8bn (2015: 8.2bn) in addition to cash and cash equivalents and ordinary operating credits.

Assets and liabilities

Total assets increased 9% to DKK 40,567m (2015: DKK 37,219m). The higher level can primarily be ascribed to the acquisitions completed in the third quarter 2016.

At December 31, 2016, the equity was DKK 17,286m (2015: DKK 15,424m), due to accumulated profits. Consequently, the equity ratio, calculated as equity relative to total assets, was 42.6% (2015: 41.4%), and the return on equity was 17.2% (2015: 17.6%).

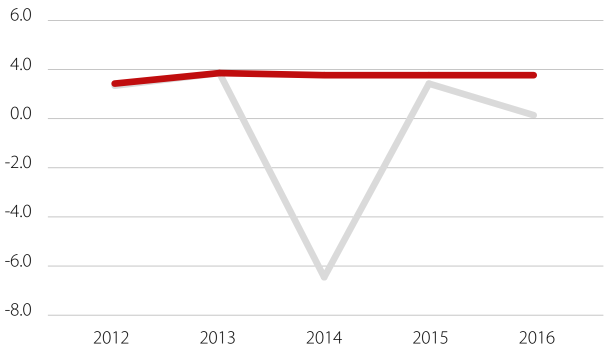
Cash flow

Cash performance for 2016 was driven by a strong cash generation across the Group. Ensuring a strong cash performance remains a key priority, and the result reflects our consistent efforts to ensure timely payment for our products, solutions, and services in addition to focusing on strong working capital management. These efforts were once again reflected in our cash flows for the year.

Free cash flow stood at DKK 1,485m (2015: DKK 3,048m),

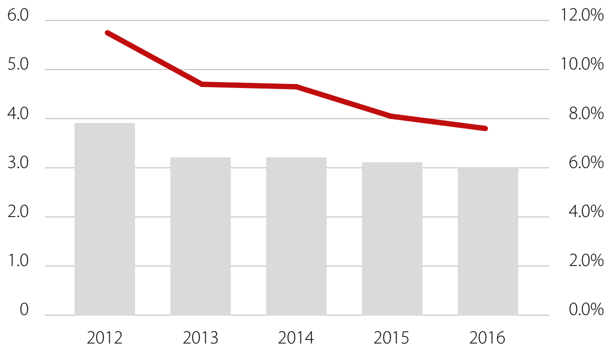
Free cash flow before M&A

Free cash flow before M&A DKKbn   Free cash flow DKKbn



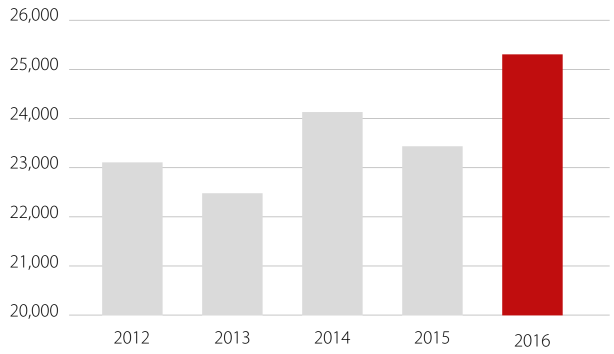
Net working capital

Net Working capital (NWC) DKKbn   NWC % of sales



Number of employees

Headcount



mainly affected by the acquisitions, leading to higher net investments compared to last year. The cash flow before mergers and acquisitions was maintained at a high level of DKK 3,416m (2015: DKK 3,397m), driven by the strong cash flow from operations.

The higher cash flow from operations can be explained by the increase in earnings combined with the declining development in the net working capital measured against sales, where the increase in trade payables was able to offset the increase in inventories and receivables.

Cash flow from financing activities was DKK -1,302m (2015: DKK -3,416m). The significant change was mainly attributable to repayment of loans in 2015.

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-added solutions in the core business segments. For example, a new partnership with the Finnish innovator, Leanheat, was announced during the third quarter 2016. Partnering with Leanheat enables access to software technologies, which will further strengthen our business within advanced energy optimization solutions for multi-family houses and district heating.

During the year, Danfoss filed 144 (2015: 166) new patent applications, and 351 (2015: 225) patents were granted to the Group. At year-end, Danfoss had a total of 1,408 (2015: 1,381) patent families.

Acquisitions
On July 7, 2016, Danfoss signed an agreement to acquire full ownership of Sondex Holding A/S, Denmark. The company is a leader in heat transfer technologies with an annual revenue of approximately DKK 1bn. Closing of the transaction took place on August 31, 2016, and the company was included in the financial statements as of September 1, 2016.

On July 12, 2016, Danfoss announced an agreement for the acquisition of the U.S.-based Propulsys, Inc., which is the parent company of White Drive Products Group. The company is a leading manufacturer of hydraulic drive products with an annual revenue of approximately DKK 650m. Closing of the transaction took place on September 8, 2016, and the company was included in the financial statements as of September 9, 2016.

Employees
The Danfoss Group had 25,292 (2015: 23,420) employees at year-end. The increase is mainly due to the acquisitions, where Sondex Holding A/S contributed with around 1,100 employees and White Drive Products 600 employees worldwide.

Subsequent events
We are not aware of any events after the balance sheet date of December 31, 2016, which expectedly could have a material impact on the Group's financial position.

Business segments review

Danfoss **Power Solutions**

Financial results 2016 / DKKm

Sales	11,948
Growth in local currency	3%
Reported growth	3%
EBIT*	1,683
EBIT margin*	14.1%

Financial performance 2016
Danfoss Power Solutions delivered satisfactory growth in local currency, partly due to M&A effect. Growth combined with a strong focus on continuous improvements in the supply chain led to improved profitability.

Market developments 2016
Danfoss Power Solutions experienced a continued soft market situation within global construction and agriculture, which led to overall low activity levels in the mobile hydraulics market. Conversely, the turf market developed positively. Danfoss Power Solutions saw minor positive growth rates throughout all global regions, apart from a decline in North America, driven by negative growth within the agricultural and material handling markets.

Danfoss **Cooling**

Financial results 2016 / DKKm

Sales	11,243
Growth in local currency	7%
Reported growth	4%
EBIT*	1,828
EBIT margin*	16.3%

Financial performance 2016
Danfoss Cooling delivered good growth in local currency. Growth combined with continuous productivity improvements led to improved profitability well above last year's level.

Market developments 2016
Danfoss Cooling continued the strong momentum, and 2016 confirmed the positive growth trend in the business. Growth in sales was recorded in many of the key markets, such as North America, China, and most parts of Europe. The increased focus on growth opportunities in India, the Middle East, and Africa continued to benefit Danfoss Cooling.

Danfoss **Drives**

Financial results 2016 / DKKm

Sales	9,652
Growth in local currency	1%
Reported growth	-2%
EBIT*	825
EBIT margin*	8.5%

Financial performance 2016
Danfoss Drives, which also comprises Danfoss Silicon Power and the shareholding in SMA Solar Technology AG, posted sales in local currency just above last year with profitability below the level of last year.

Market developments 2016
Danfoss Drives was impacted by a slowdown in the global drives market, which negatively affected the activity levels in several global, heavy industry sectors. More positive market developments towards the end of the year were not able to fully offset the weak beginning of the year. North America and Asia-Pacific realized lower sales, while sales growth was recorded in most parts of Europe, mainly driven by continued double-digit growth in the Silicon Power business.

Danfoss **Heating**

Financial results 2016 / DKKm

Sales	6,371
Growth in local currency	13%
Reported growth	9%
EBIT*	708
EBIT margin*	11.1%

Financial performance 2016
Danfoss Heating delivered strong growth in local currency, partly due to M&A effect, and posted profitability close to the level of last year.

Market developments 2016
Danfoss Heating continued to realize sales growth in the European and Chinese markets during 2016. The performance was positively supported by the strong political focus on energy efficiency and reductions of carbon emissions (CO_2). The positive development in Europe and China helped offset the impact of the continued weak market conditions and the volatile economic situation in Russia, where the activity level in the construction market, new build, and renovation, remained at a relatively low level.

* Segment EBIT excluding corporate costs not allocated to segments

See further financial information on the segments in Note 1, page 51

Financial highlights, Quarterly

DKKm	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
PROFIT AND LOSS ACCOUNTS										
Net sales	9,385	9,854	9,483	9,309	38,031	9,423	9,972	9,729	10,123	39,247
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	1,411	1,556	1,749	1,432	6,148	1,435	1,697	1,731	1,377	6,240
Operating profit before depreciation, amortization and impairment (EBITDA)	1,352	1,481	1,745	1,443	6,021	1,422	1,680	1,695	1,279	6,076
Operating profit excl. other income and expenses, etc.	930	1,070	1,275	960	4,235	984	1,257	1,262	885	4,388
Operating profit (EBIT)	871	997	1,273	956	4,097	971	1,241	1,250	800	4,262
Financial items	-87	-91	-132	-46	-356	-94	-88	-71	-71	-324
Profit before tax	783	906	1,141	911	3,741	877	1,152	1,180	729	3,938
Net profit	509	608	778	702	2,597	616	812	822	685	2,935
BALANCE SHEET										
Total non-current assets	26,561	25,994	25,689	26,168	26,168	25,560	25,663	27,473	28,162	28,162
Total assets	39,341	38,533	37,538	37,219	37,219	37,568	38,184	40,517	40,567	40,567
Total shareholders' equity	14,762	14,602	14,856	15,424	15,424	15,880	15,851	16,574	17,286	17,286
Net interest-bearing debt	11,300	11,519	10,350	9,640	9,640	9,301	9,484	10,244	9,548	9,548
Net assets	23,754	23,799	22,847	22,613	22,613	22,733	22,813	24,319	24,332	24,332
CASH FLOW STATEMENT										
Cash flow from operating activities	437	1,121	2,986	4,667	4,667	439	1,596	3,412	5,161	5,161
Cash flow from investing activities	-242	-641	-949	-1,619	-1,619	-244	-643	-2,889	-3,676	-3,676
Acquisition of intangible assets and property,plant and equipment	-147	-359	-656	-1,176	-1,176	-240	-588	-949	-1,679	-1,679
Acquisition of subsidiaries and activities	-17	-112	-111	-223	-223	0	4	-1,868	-1,872	-1,872
Acquisition(-) and sale of other investments, etc.	-79	-170	-182	-220	-220	-5	-59	-72	-126	-126
Free Cash flow	195	480	2,037	3,048	3,048	195	953	523	1,485	1,485
Free cash flow before M&A	291	686	2,257	3,397	3,397	195	976	2,428	3,416	3,416
Cash flow from financing activities	-304	-797	-2,347	-3,416	-3,416	4	-622	-239	-1,302	-1,302
KEY FIGURES										
Local currency growth (%)	6	5	5	5	5	2	6	5	9	6
EBITDA margin, excl. other operating income, etc. (%)	15.0	15.8	18.4	15.4	16.2	15.2	17.0	17.8	13.6	15.9
EBITDA margin (%)	14.4	15.0	18.4	15.5	15.8	15.1	16.8	17.4	12.6	15.5
EBIT margin, excl. other operating income, etc. (%)	9.9	10.9	13.4	10.3	11.1	10.4	12.6	13.0	8.7	11.2
EBIT margin (%)	9.3	10.1	13.4	10.3	10.8	10.3	12.4	12.9	7.9	10.9
Equity ratio (%)	37.5	37.9	39.6	41.4	41.4	42.3	41.5	40.9	42.6	42.6
Leverage ratio (%)	76.5	78.9	69.7	62.5	62.5	58.6	59.8	61.8	55.2	55.2
Net interest-bearing debt to EBITDA ratio	2.0	2.0	1.8	1.6	1.6	1.5	1.5	1.6	1.6	1.6

Financial highlights, Quarterly

DKKm	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
GEOGRAPHICAL SEGMENTS										
Total net sales										
Western Europe	3,776	3,676	3,637	3,561	14,650	3,814	3,903	3,702	3,793	15,212
Eastern Europe	679	834	1,004	888	3,405	658	810	969	929	3,366
Asia-Pacific	1,705	2,039	2,024	1,947	7,715	1,698	2,062	2,193	2,293	8,246
North America	2,511	2,559	2,087	2,121	9,278	2,585	2,434	2,119	2,212	9,350
Latin America	472	469	470	475	1,886	414	445	492	499	1,850
Africa-Middle East	242	277	261	317	1,097	254	318	254	397	1,223
Total	9,385	9,854	9,483	9,309	38,031	9,423	9,972	9,729	10,123	39,247
Number of employees										
Western Europe	9,724	9,637	9,558	9,536	9,536	9,471	9,483	9,677	9,858	9,858
Eastern Europe	3,996	3,915	3,893	3,908	3,908	3,874	3,900	4,450	4,426	4,426
Asia-Pacific	5,336	5,302	5,223	5,172	5,172	5,157	5,212	5,899	5,809	5,809
North America	3,432	3,453	3,410	3,406	3,406	3,402	3,411	3,671	3,675	3,675
Latin America	1,286	1,340	1,266	1,203	1,203	1,207	1,301	1,274	1,281	1,281
Africa-Middle East	127	128	138	195	195	205	210	263	243	243
Total	23,901	23,775	23,488	23,420	23,420	23,316	23,517	25,234	25,292	25,292

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

See definition of the financial ratios in Note 25, page 91

Governance

> **"** Every home can **increase comfort and reduce bills**

Heating concept cut energy use by 94% in residential complex
In Germany, an old residential complex was completely renovated. While living standards have increased, the demand for heating has declined by 94%. A heating concept from Danfoss played an important role in this.

Read the case story at
www.danfoss.com > About > Engineering Tomorrow

Sustainability

Danfoss treasures sustainable results and plays an active role in a 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.

Energy and emissions	2015	2016
Total energy consumption [GWh]	587	569
Electricity consumption (GWh)	395	405
Energy for heating (GWh)	192	164
Energy intensity [MWh/DKKm]	15.4	14.5
Energy productivity [DKKm/GWh]	65	69
Total CO_2 emission [ton]	234,400	233,716
CO_2 emission from electricity [ton]	198,654	202,803
CO_2 emission from heating [ton]	35,786	30,913
CO_2 intensity [kg CO_2/MWh]	400	410
CO_2 intensity [kg CO_2/DKKm]	6.2	5.9

Health and safety	2015	2016
Lost time injuries (LTI)	127	121
Lost time injury frequency (LTIF)	3.4	3.3
Days of absence	2,205	2,309
Lost day rate (LDR)	59	63
Medical treatment incident rate (MTIR)	3.2	3.0
Minor incident rate (MIR)	20.2	17.7
Near-miss incident rate (NMIR)	78.7	96.9

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, Danfoss launched an ambitious "Climate Strategy 2030", which requires Danfoss to reduce its energy intensity as well as the CO_2 intensity by 50% before 2030. To achieve these goals, we have initiated several measures to further reduce the company's energy consumption and drive investments in greener technology in buildings and processes.

Since 2007, Danfoss has reduced the company's energy intensity by 40% through energy saving projects in the 25 largest factories, accounting for 84% of the total energy consumption.

Read detailed information in the Sustainability Report 2016 at www.danfoss.com > Sustainability > Sustainability reporting.

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, Danfoss heat exchangers are used to recover the heat from compressed-air systems, and a wide range of adjustment valves, temperature sensors, and pressure transmitters are also in use to drive Danfoss' own energy consumption down.

Our people

One of our strategic targets is to maintain Danfoss as a great place to work. Danfoss aspires to be world-class in Human Resource management, enabling accelerated profitable growth by means of a high-performing and engaged organization. The organization strives to foster a collaborative, agile, and flexible organization, where employees make a difference and leaders inspire people to deliver the best results. Real impact, strong teamwork, global career opportunities, and continuous focus on development make Danfoss a great place to work.

Safety First!

Protecting the environment and improving the health, working environment, and safety of the company's employees have always been deeply rooted in Danfoss. "Safety First!" is our systematic approach to a safe workplace. Focus is on clear, aligned procedures, and standards to ensure a safe working environment and avoiding accidents across all Danfoss sites. The global "Safety on the shop floor" initiative enhances the focus on safety in all factories around the world. Safety shoes and safety glasses are mandatory for anyone entering the shop floor in any of our factories worldwide. 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 reduced to 3.3 in 2016 from 3.4 the previous year – a reduction of 3%. 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. The improvements are achieved through a continued focus on safety and by highly dedicated management teams, safety staff, and employees at all our factories around the world.

Diversity

We are focusing on hiring and developing more female leaders, engaging the different generations, and ensuring strong local leaders to face our customers and employees.

The goal is to increase the percentage of female managers to 20% by 2017 from 18% in 2014. In 2016, the percentage of female managers remained at 18%. Although we have not reached the goal of 20%, a continuous focus will remain on developing the female leaders currently in our talent pipeline as well as attracting female leaders to join at all levels.

In 2016, Danfoss met the target of raising the number of women serving on the Board to at least one of seven members elected at the General Meeting, as the former EU Commissioner for Climate Action and Danish Minister Connie Hedegaard was elected to the Board of Directors. Accordingly, in 2016, the Board of Directors had two female members, one elected by the employees and one elected at the General Meeting.

Business ethics and human rights

We have continued our efforts to ensure high ethical standards and good business conduct by updating our Ethics Handbook and training people managers. All new managers are trained and tested via our global e-learning program on ethics, Ethics@work, as a part of their onboarding, while all other managers and directors are trained and tested every second year.

We have long monitored our impact on human rights and mitigated where relevant. Danfoss is committed to live up to the UN Guiding Principles for Human Rights and has carried out a pilot project on human rights due diligence and integration in its Eastern Europe Region. The pilot project results will be used to develop the roll-out of similar projects in Danfoss' other regions during 2017 and 2018.

Prioritized Sustainable Development Goals – the opportunity of a lifetime

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. We welcome the Global Goals and support that now is the time to take action. Through company-internal actions and by supporting local and global initiatives and organizations, Danfoss is an active support to the Sustainable Development Goals.

If we are to succeed, it requires action from all of us – and as an industry leader, Danfoss believes that we need to be leading by acting. Danfoss is already working with several global organizations, e.g. the Alliance to Save Energy, to increase focus on energy productivity, leading to huge avoided energy costs and lower greenhouse gas emissions.

Energy efficiency and sustainability are not about limiting our options or comfort. On the contrary, they are about innovation and creating new opportunities. We see new solutions emerging where we are able to combine digitalization, innovation, and energy efficiency to create sustainable solutions. This not only improves our environmental footprint, but also frees money to be spent elsewhere.

Read more in the Sustainability Report 2016 at www.danfoss.com > Sustainability > Sustainability reporting

Goal	How we support this goal
6 CLEAN WATER AND SANITATION	**SDG 6: Clean water and sanitation** Danfoss is providing solutions for water and wastewater handling to optimize and reduce energy consumption.
7 AFFORDABLE AND CLEAN ENERGY	**SDG 7: Affordable and clean energy** Danfoss is a world leader in energy-efficient technologies that enable customers and societies to get more from less.
11 SUSTAINABLE CITIES AND COMMUNITIES	**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.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	**SDG 12: Responsible consumption and production** Our sustainable 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.
13 CLIMATE ACTION	**SDG 13: Climate action** Providing products that meet the global climate challenge. Innovative technologies lower emissions and increase human well-being by optimizing heating, ventilation, and air-conditioning systems.
17 PARTNERSHIPS FOR THE GOALS	**SDG 17: Partnerships for the goals** Danfoss engage with multiple stakeholders through partnerships and direct engagement with policy makers and thought leaders to proactively shape the future of the energy system, efficient buildings, and food chains, thinking energy efficiency first.

Risk management and compliance

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

In order to grow and stay profitable in increasingly complex business environments, Danfoss must manage risks and opportunities effectively. Danfoss takes a systematic and holistic approach to managing risk. Maintaining efficient risk management is a cornerstone at Danfoss 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 Executive Committee is responsible for risk management at Danfoss. It ensures that risk management policies and processes are effective at all relevant levels. Responsibility for the actual performance of risk management activities lies with the company's 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:

Compliance
Determined to be an ethical company, we work persistently to stay compliant and act with integrity. We fully support a healthy 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. In order to walk the talk and minimize the risk of non-compliance, we have developed and implemented compliance programs in several areas.

Compliance programs
Taking into account the business environment, Danfoss is operating in, including industries, geography, and size, compliance areas are determined and addressed through compliance programs. 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 2016, Danfoss had its Binding Corporate Rules approved by the EU data protection authorities, paving the way for compliance with the EU data privacy regulation, when it comes into effect in 2018. The export control compliance program was further strengthened, introducing improved processes for product and sanctioned party screening. Lowering the risk of corruption, an upgraded process for integrity screening of certain business partners was finalized, and more than 9,300 employees were trained in anti-corruptive behavior.

Compliance hotlines
To support the ethical ambition and the active compliance programs, 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 2016, it provided answers to 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 in regards to internal standards and legislation. In 2016, a total number of 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.

Risk overview
Like its industry peers, Danfoss is exposed to a number of risks. While there is no single risk threatening the Group's survival, Danfoss is more generally exposed to the following general and basic risks:

- Global market conditions and mega-trends, including a sustained stronger focus on energy-efficient and socially sustainable solutions.
- Fair and equal access to markets.
- Competition, especially from China and India.
- Geopolitical conflicts.
- Global economic growth.
- Developments in key markets, such as the US, Germany, China, Russia, Brazil, and India.
- The Danfoss Growth Themes: infrastructure, food, energy, and climate.
- 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 Executive Committee has defined three specific risk areas of the risk management process that, due to their special nature, are currently of particular importance to Danfoss. The three areas are described below. This overview does not include financial risks, which are described in Note 16, page 72.

Like its industry peers, Danfoss is exposed to a number of risks. While there is no single risk threatening the Group's survival, Danfoss is more generally exposed to the following general and basic risks.

Specific risk areas

See Note 16, page 72, for further information on financial risks

Data privacy regulation

Data privacy concerns exist wherever personally identifiable information is collected and stored – digitally or otherwise. They could arise from inappropriate handling of sensitive and ordinary personal data about employees, customers, suppliers, etc.

A stricter piece of EU legislation has been adopted in April 2016 – The General Data Protection Regulation. This new regulation replaces the current EU Data Protection Directive from 1995. The regulation takes into account the enormous technological changes of the past 20 years. The regulation will be enforced as of May 25, 2018. Among other things, the regulation will increase the responsibility of companies regarding the protection and processing of personal data. Violation of the regulation may result in fines of up to 4% of the Group's net sales. Also, it opens up for groups action lawsuits aimed at companies claimed to be in violation of the regulation. The limits for negotiations and settlements are at this point unknown.

Risk mitigation measures
Danfoss has performed a data classification and completed a data flow analysis. Binding Corporate Rules have been approved by the relevant authorities. Danfoss is in the process of implementing the relevant processes and systems to comply with the Binding Corporate Rules.

Product compliance

This risk deals with the potential failure to comply with an increasing number of safety and environmentally related product regulations. Non-compliance could have severe consequences for Danfoss: Damage to relationships with customers, loss of business or reputation, and possibly lawsuits. Ensuring compliance with product-related legislation is important to uphold Danfoss' "license to sell".

Risk mitigation measures
In its journey to implement a Group-wide product compliance and transparency program, Danfoss established a Product Compliance Team and defined key priorities, methodology, and governance. The target is to ensure a similar approach regarding the handling of product legislation throughout the Group. Danfoss Group Regulatory is responsible for monitoring existing and upcoming legislation and coordinates the Group's efforts to ensure alignment and efficient implementation of the legislation.

"Ensuring compliance with product-related legislation is important to uphold Danfoss' "license to sell".

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 provide a best-in-industry digital customer experience. It is the biggest project ever launched in Danfoss. Due to the high amount of resources invested in addition to applying new technology, uncertainty and risks remain, which need to be monitored closely.

Risk mitigation measures
As part of the One ERP project, Danfoss established a strong project governance, including a program office, steering committee, and interface to the Enterprise Risk Management function. A specific project risk management function identified project risks, assessed them, and prepared mitigation plans, which are being implemented.

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 provide a best-in-industry digital customer experience.

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 also determines how the business is managed within this framework. The Group structure supports Danfoss' management values and determines a clear distribution of management responsibilities. This structure and 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 at Danfoss.

Management structure
Danfoss has a two-tier management system consisting of its Board of Directors and the Executive Committee. The Board of Directors lays the general course for the company by approving strategies and targets, and the Executive Committee develops the strategy and handles the day-to-day management of the company and execution of the strategy.

The Board of Directors
The Danfoss Board consists of seven members elected at the Annual General Meeting and three employee-elected members. 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 annual general meeting re-election. Pursuant to Danish legislation, employee representatives serve on the Board for terms of four years and may stand for re-election.

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 at all times.

Audit Committee
At Danfoss, 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 2016.

Internal Audit
Danfoss has an internal audit function to carry out independent internal checks. The internal audit function presents its conclusions directly to the Board's Audit Committee or its Chairman. The internal audit function provides independent and objective auditing to ensure:

- The Group follows good administrative practice.

- The Group has a comprehensive set of internal management and control procedures, as well as segregation of duties and functions, in addition to business processes in place in all essential areas of activity. This also includes the Group's IT systems.

The internal audit function visited a number of Group companies in 2016. No matters of material importance to the

Shareholders with more than 5% of share capital

Shareholder	Shares	Votes
The Bitten and Mads Clausen Foundation, Nordborg, Denmark, and its subsidiaries	50.72%	86.10%
Clausen Controls A/S, Sønderborg, Denmark	26.29%	5.43%
Henrik Mads Clausen, Lake Forrest, USA	11.04%	2.29%
Karin Clausen, Holte, Denmark	7.26%	1.50%

Group's overall risk management and control environment were detected.

In November 2014, Danfoss filed a Euro Medium Term Program on the Irish Stock Exchange and is therefore as of that date considered a class D company with listed bonds.

Danfoss has to comply with the rules set out in section 107b, section 1 no. 6, of the Danish Financial Statements Act applying to companies with listed bonds, including the exceptions regarding issuers of bonds above EUR 100,000.

Shareholders
Danfoss' share capital amounts to DKK 995.7m and is divided into two share classes: A-shares accounting for DKK 425m and B-shares accounting for DKK 570.7m. A-shares entitle holders to ten votes for every DKK 100 nominal value of shares held. A-shareholders also 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 99.84% of the votes.
See note 11, page 65, for more information.

At the end of 2016, Danfoss had approximately 2,800 registered shareholders. Approximately three in four shareholders were resident in Denmark.

Share price development
The Danfoss share price is set once a year, based on a valuation prepared by Danske Markets immediately before the Annual General Meeting held in April. The price was first set in 2001, when Danfoss issued its first employee shares and was DKK 749 per share. The share price is calculated on the basis of 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 2016, the price was set at DKK 4,904 per share, and the new price will be announced at the 2017 Danfoss Annual General Meeting.

Dividends and General Meeting
The Annual General Meeting will be held in Nordborg on April 28, 2017. The Board of Directors will recommend to the General Meeting that a dividend of 17.0% of the Group's net profit be paid in 2016, corresponding to DKK 50.2 per 100 DKK 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 2016, which is available at the corporate website www.danfoss.com > About > Financial information > Corporate Governance.

Board of Directors

The presentations include the board members, their positions and competencies as of March 2, 2017.

Jørgen Mads Clausen
Chairman of the Board of Directors

Born: 1948

Position with Danfoss A/S
- Chairman of the company's Board of Directors since 2009. Member since 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 positions
- Chairman of the Board of Applied Biomimetic A/S
- Member of the Board of Fonden Universe Science Park
- Member of the Board of miniBOOSTER Hydraulics A/S
- Member of the Board of Blue Equity Management A/S

Decoration
- Kammerherre 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: CEO and President of Sandvik AB

Position with Danfoss A/S
- Member of the company's 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 company's Board of Directors since 2014

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

Other positions
- Member of the Board of miniBOOSTER Hydraulics A/S
- Member of the Board of LineStream Technologies, Inc.

Connie Hedegaard
Member of the Board of Directors

Born: 1960
Position: Chairman of the Board of the sustainability foundation, KR Foundation, and the green think tank, CONCITO

Position with Danfoss A/S
- Member of the company's Board of Directors since 2016
- Considered independent board member

Special competencies
- MSc in history and comparative literature
- 2010–2014 EU Climate Commissioner
- 2004–2009 Danish Minister for Environment and Minister for Climate and Energy

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
- Board member of Aarhus University, Denmark
- Member of the Board of NORDEX

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 company's Board of Directors since 2007
- Considered independent board member

Special competencies
- Master of Business Administration, Harvard University
- Professional experience with supply chain, performance transformation, organization changes, and mergers and acquisitions.

Other positions
- Chairman of the Board of ReD Associates Holding A/S
- Deputy Chairman of the Board of GN Store Nord A/S
- Member of the Board of Sanistål A/S
- Member of the Board of Lego Foundation
- Member of the Board of Specialist People Foundation
- Member of the Board of Neopost A/S

Jürgen Reinert
Member of the Board of Directors

Born: 1968
Position: CTO (Chief Technology Officer) and COO (Chief Operations Officer), SMA Technology AG

Position with Danfoss A/S
- Member of the company's Board of Directors since 2015
- Considered independent board member

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

Other positions
- Member of the Board of Kraftelektronik AB

Kasper Bo Rørsted
Member of the Board of Directors

Born: 1962
Position: CEO of Adidas

Position with Danfoss A/S
- Member of the company's Board of Directors since 2009
- Considered independent board member

Special competencies
- International Business School, Copenhagen
- Harvard Business School, Executive Programs
- Professional experience in managing major international companies in Switzerland, the UK, and Germany

Other positions
- Member of the Supervisory Board of Bertelsmann SE & Co. KGaA

Sandra Nørgaard Bertelsen
Member of the Board of Directors

Born: 1982
Position: Senior HR Manager, Legal Consultancy, Danfoss A/S

Position with Danfoss A/S
- Employee-elected member of the company's 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

Position with Danfoss A/S
- Employee-elected member of the company's Board of Directors since 2014

Special competencies
- Electrician
- Cooperation courses and experience from other board memberships

Other positions
- Member of the Board of Danfoss Employee Foundation
- Member of the Board of Danish El Federal in South Jutland

Jens Peter Rosendahl Nielsen
Member of the Board of Directors

Born: 1957
Position: Senior Shop Steward at Danfoss Kolding

Position with Danfoss A/S
- Employee-elected member of the company's Board of Directors since 2006

Special competencies
- Machinist
- Cooperation courses and experience from other board memberships

Other positions
- Chairman of the Board of Danfoss Employee Foundation
- Member of the Board of Metal Kolding and LO-Kolding

Executive Committee and Leadership Team

The presentations include the members of the management team as of March 2, 2017.

Executive Committee

Niels Bjørn Christiansen
President & CEO

Born: 1966
Member of the Executive Committee since 2004

Considerable board activities

- Chairman of the Board of Axcel
- Member of the Board of A.P. Moller-Maersk A/S
- Member of the Board of William Demant Holding A/S
- Member of the Board of DTU, Technical University of Denmark

Jesper Vaagelund Christensen
Executive Vice President & CFO

Born: 1969
Member of the Executive Committee since 2013

Considerable board activities

- Member of the Board of Danish Crown A/S

Kim Fausing
Executive Vice President & COO

Born: 1964
Member of Executive Committee since 2008
(2,400 warrants)

Considerable board activities

- Deputy Chairman of the Board of Velux A/S
- Deputy Chairman of the Board of SMA Solar Technology AG
- Member of the Board of Hilti AG

Leadership team

Eric Alström
Segment President, Danfoss Power Solutions
Born: 1966
Employed since 2012

Jürgen Fischer
Segment President, Danfoss Cooling
Born: 1963
Employed since 2008

Vesa Laisi
Segment President, Danfoss Drives
Born: 1957
Employed since 2014

Peter Martin
Senior Vice President, Group IT
Born: 1964
Employed since 2013

Mette Refshauge
Senior Vice President, Corporate Communication
Born: 1973
Employed since 2013

Lene Reitzel
Senior Vice President, Corporate HR
Born: 1969
Employed since 2017

Lars Tveen
Segment President, Danfoss Heating
Born: 1963
Employed since 1989

Statements

" Every town can **stay warm with fewer resources**

Small village makes big impact on climate protection

A small village in Germany shows how small communities can achieve great things. From photovoltaic solar panels and a biogas co-generation plant, the village generates four times the energy it consumes itself. Thanks to Danfoss technology, waste heat from the power plant can be optimally used for heating and hot water in homes and buildings, while surplus power is sold.

Read the case story at
www.danfoss.com > About > Engineering Tomorrow

Management statement

The Board of Directors and the Executive Committee have today discussed and approved the Danfoss A/S Annual Report for the financial year January 1 to December 31, 2016.

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.

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 assets, liabilities and financial position at December 31, 2016, and of the results of the Group's and the Parent Company's operations and cash flows of the financial year January 1 to December 31, 2016.

We also consider the Management's review to give a true and fair view in the development of the Group's and Parent Company's operations and financial matters, of the results for the year and the overall financial position of the Parent Company related to the companies included in the Group accounts and describes the significant risks and uncertainties of the Group and the Parent Company.

We recommend that the Annual General Meeting approves the Annual Report.

Nordborg, March 2, 2017

Executive Committee

Niels Bjørn Christiansen

Jesper Vaagelund Christensen

Kim Fausing

Board of Directors

Jørgen Mads Clausen, Chairman

Björn Klas Otto Rosengren

Mads-Peter Clausen

Connie Hedegaard

William Erwin Hoover Jr.

Jürgen Reinert

Kasper Bo Rørsted

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, 2016, 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, 2016, in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

What we have audited
Danfoss A/S' Consolidated Financial Statements and the Parent Company Financial Statements for the financial year January 1 to December 31, 2016, pp 44-95 and 98-122, comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and notes to the financial statements. Collectively referred to as the "financial statements".

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 ethical requirements that are relevant to our audit of the financial statements in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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 2016. 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 2016, the Group acquired the Sondex and White Drive Products groups. 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 strategy of the Group. 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 26 in the Consolidated Financial Statements.	We audited the purchase price allocations for acquisitions in 2016. Our procedures included assessment of valuation models and key assumptions applied by Management, and disclosures. 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. We tested the reliability of Management's estimates by comparing budgeted figures to actual figures for the past years, and followed up on whether planned synergies were achieved. We discussed the development in market conditions with Management. 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, 17, and 26 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. In addition, we read correspondence with tax authorities and evaluated the adequacy of Management's key assumptions to assess Management's estimates and disclosures. We evaluated the Group's model for valuation of deferred tax assets including the forecast used to estimate the expected future taxable income.

Reporting on Management's Review
Management is responsible for Management's Review, pp 5-36 and 97.

Our opinion on the financial statements does not cover Management's Review, and we do not express any form of assurance 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 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 Responsibility 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 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 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 the Board of Directors 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 the Board of Directors 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 the Board of Directors, 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, March 2, 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 33 77 12 31

Mogens Nørgaard Mogensen
State Authorised Public Accountant

Claus Lindholm Jacobsen
State Authorised Public Accountant

Group Accounts and notes

" Every machine can **improve efficiency**

Robust and efficient in harsh environments
A Swedish forestry machine manufacturer put new Danfoss hydraulic technology on the forwarder machines used to collect, load, and unload timber from the forest. One year later, productivity was up and fuel consumption down.

Read the case story at
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Income statement

January 1 to December 31

DKKm	Note	2015	2016
Net sales	1	38,031	39,247
Cost of sales	2	-24,700	-25,407
GROSS PROFIT		**13,331**	**13,840**
Research and development costs	2	-1,607	-1,645
Selling and distribution costs	2	-5,764	-6,068
Administrative expenses	2	-1,725	-1,739
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**4,235**	**4,388**
Other operating income and expenses	2	-205	-158
Share of profit from associates and joint ventures after tax	3	67	32
OPERATING PROFIT (EBIT)	1	**4,097**	**4,262**
Financial income	4	70	29
Financial expenses	5	-426	-353
PROFIT BEFORE TAX	1	**3,741**	**3,938**
Tax on profit	6	-1,144	-1,003
NET PROFIT		**2,597**	**2,935**
Attributable to:			
Shareholders in Danfoss A/S		2,381	2,672
Minority interests		216	263
		2,597	**2,935**

Statement of comprehensive income

January 1 to December 31

DKKm	Note	2015	2016
NET PROFIT		**2,597**	**2,935**
OTHER COMPREHENSIVE INCOME			
Actuarial gain/loss (-) on pension and healthcare plans	15	14	-25
Tax on actuarial gain/loss on pension and healthcare plans	14	-5	-3
Items that cannot be reclassified to income statement		**9**	**-28**
Foreign exchange adjustments on translation of foreign currency into DKK		610	-112
Fair value adjustment of hedging instruments:			
Hedging of net investments in subsidiaries		16	16
Hedging of future cash flows		-201	-21
Hedging transferred to gross profit in the income statement		271	27
Tax on hedging instruments		-19	-4
Items that can be reclassified to income statement		**677**	**-94**
OTHER COMPREHENSIVE INCOME AFTER TAX		**686**	**-122**
TOTAL COMPREHENSIVE INCOME		**3,283**	**2,813**
Attributable to:			
Shareholders of Danfoss A/S		3,011	2,536
Minority interests		272	277
		3,283	**2,813**

Statement of financial position

As of December 31

DKKm **ASSETS**	Note	2015	2016
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	7	**16,046**	**17,195**
PROPERTY, PLANT AND EQUIPMENT	8	**6,682**	**7,521**
Investments	3	2,452	2,503
Pension benefit plan assets	15	107	108
Non-current receivables		26	25
Deferred tax assets	14	855	810
OTHER NON-CURRENT ASSETS		**3,440**	**3,446**
TOTAL NON-CURRENT ASSETS		**26,168**	**28,162**
CURRENT ASSETS			
INVENTORIES	9	**4,170**	**4,707**
Trade receivables	10	5,325	6,033
Receivable corporation tax	17	527	334
Derivative financial instruments (positive fair value)	16	12	1
Other receivables		698	821
RECEIVABLES		**6,562**	**7,189**
CASH AND CASH EQUIVALENTS	16	**319**	**509**
TOTAL CURRENT ASSETS		**11,051**	**12,405**
TOTAL ASSETS		**37,219**	**40,567**

Statement of financial position

As of December 31

DKKm **LIABILITIES AND SHAREHOLDERS' EQUITY**	Note	2015	2016
SHAREHOLDERS' EQUITY			
Equity, shareholders in Danfoss A/S	11	14,700	16,432
Minority interests		724	854
TOTAL SHAREHOLDERS' EQUITY		**15,424**	**17,286**
LIABILITIES			
Provisions	12	366	402
Deferred tax liabilities	14	1,942	1,997
Pension and healthcare benefit plan obligations	15	1,216	1,188
Borrowings	16	9,280	6,980
Derivative financial instruments (negative fair value)	16	28	2
Other non-current debt		324	363
NON-CURRENT LIABILITIES		**13,156**	**10,932**
Provisions	12	617	670
Liabilities under share incentive programs	13	42	37
Borrowings	16	796	3,266
Trade payables		3,864	4,604
Debt to associates and joint ventures		22	25
Corporation tax	17	302	326
Derivative financial instruments (negative fair value)	16	224	99
Other debt		2,772	3,322
CURRENT LIABILITIES		**8,639**	**12,349**
TOTAL LIABILITIES		**21,795**	**23,281**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**37,219**	**40,567**

Statement of cash flows

January 1 to December 31

DKKm	Note	2015	2016
Profit before tax		3,741	3,938
Adjustments for non-cash transactions	18	1,953	1,590
Change in working capital	19	299	691
CASH FLOW GENERATED FROM OPERATIONS		**5,993**	**6,219**
Interest received		18	65
Interest paid		-286	-283
Dividends received		5	15
CASH FLOW FROM OPERATIONS BEFORE TAX		**5,730**	**6,016**
Paid tax	17	-1,063	-855
CASH FLOW FROM OPERATING ACTIVITIES		**4,667**	**5,161**
Acquisition of intangible assets		-204	-237
Acquisition of property, plant and equipment		-1,096	-1,525
Proceeds from sale of property, plant and equipment		124	84
Acquisition of subsidiaries	20	-234	-1,875
Proceeds from disposal of subsidiaries	20	11	3
Acquisition (-)/sale of other investments, etc.	21	-220	-126
CASH FLOW FROM INVESTING ACTIVITIES		**-1,619**	**-3,676**
FREE CASH FLOW		**3,048**	**1,485**
Cash repayment of (-)/cash proceeds from interest-bearing debt		-2,325	-290
Repurchase of treasury shares		-312	-268
Addition/disposal of minority interests		-38	-54
Dividends paid to shareholders in the Parent Company		-493	-518
Dividends paid to minority shareholders		-248	-172
CASH FLOW FROM FINANCING ACTIVITIES		**-3,416**	**-1,302**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**-368**	**183**
Cash and cash equivalents as of January 1		716	319
Foreign exchange adjustment of cash and cash equivalents		-29	7
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**319**	**509**
STATEMENT OF FREE CASH FLOW ADJUSTMENT FOR ACQUISITION AND DISPOSAL OF SUBSIDIARIES, etc. (M&A)			
Free cash flow		3,048	1,485
Acquisition of subsidiaries	20	234	1,875
Proceeds from disposal of subsidiaries	20	-11	-3
Acquisition (-)/sale of other investments	21	126	59
FREE CASH FLOW BEFORE M&A		**3,397**	**3,416**

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

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, 2015	**1,023**	**463**	-103	91	-501	11,058	**10,545**	**500**	**12,531**	**711**	**13,242**
Net profit						1,851	**1,851**	**530**	**2,381**	**216**	**2,597**
Foreign exchange adjustments of foreign companies				554			**554**		**554**	**56**	**610**
Fair value adjustment of hedging instruments			70	16			**86**		**86**		**86**
Actuarial gain/loss (-) on pension and healthcare plans						14	**14**		**14**		**14**
Tax on other comprehensive income			-16	-3		-5	**-24**		**-24**		**-24**
Total other comprehensive income			54	567		9	**630**		**630**	**56**	**686**
Total comprehensive income for the period			54	567		1,860	**2,481**	**530**	**3,011**	**272**	**3,283**
Dividends to shareholders						7	**7**	**-500**	**-493**	**-248**	**-741**
Disposals through sale of subsidiaries										**-11**	**-11**
Purchase of minority interests						-38	**-38**		**-38**		**-38**
Capital increase/purchase of treasury shares	**1**	**52**			-364		**-364**		**-311**		**-311**
Total transactions with owners	**1**	**52**			-364	-31	**-395**	**-500**	**-842**	**-259**	**-1,101**
BALANCE AS OF DECEMBER 31, 2015	**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**
Capital increase/purchase of treasury shares		**23**			-290		**-290**		**-267**	**7**	**-260**
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**

Notes

Note 1 Segment reporting

DKKm

BUSINESS SEGMENTS

	2015						2016					
	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	11,566	10,796	9,775	5,821	73	38,031	11,948	11,194	9,619	6,336	150	39,247
Depreciation/amortization/impairment	742	261	452	128	343	1,926	696	206	422	137	353	1,814
Share of profit from associates and joint ventures after tax		-6	73			67		-23	51		4	32
Operating profit (EBIT)	1,579	1,533	963	740	-718	4,097	1,683	1,828	825	708	-782	4,262
Financial Items					-356	-356					-324	-324
Profit before tax	1,579	1,533	963	740	-1,074	3,741	1,683	1,828	825	708	-1,106	3,938
STATEMENT OF FINANCIAL POSITION												
Total assets *)	8,334	5,952	13,070	3,667	6,196	37,219	8,536	6,317	12,930	6,007	6,777	40,567
Net investments, excluding M&A	334	140	161	90	451	1,176	373	272	223	155	655	1,678
Investments in associates and joint ventures		115	11			126		42	17			59
Total liabilities *)	1,386	1,042	1,230	490	17,646	21,794	1,430	1,296	1,318	683	18,553	23,281
OTHER INFORMATION												
Number of employees	5,792	5,890	4,811	3,948	2,979	23,420	6,404	6,025	4,653	5,146	3,064	25,292

GEOGRAPHICAL SEGMENTS

	2015								2016							
	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	1,293	13,358	3,405	7,714	9,278	1,886	1,097	38,031	1,420	13,793	3,366	8,246	9,349	1,850	1,223	39,247
Total non-current assets **)	2,954	13,629	765	1,953	5,751	110	151	25,313	4,780	13,417	800	1,886	6,209	120	140	27,352

Sales in North America mainly relates to 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

	2015	2016
Financial income	70	29
Financial expenses	-426	-353
Central functions, not allocated*)	-591	-793
Other	-127	11
Profit before tax	-1,074	-1,106

SPECIFICATION OF OTHER AREAS - ASSETS

	2015	2016
Cash, current & non-current tax receivables	1,701	1,653
Other receivables	376	596
Central functions not allocated tangible and intangible fixed assets	3,729	4,030
Central functions not allocated *)	297	274
Other	92	224
Total assets	6,195	6,777

SPECIFICATION OF OTHER AREAS - LIABILITIES

	2015	2016
Interest-bearing debt, current & non-current tax liabilities	12,320	12,570
Other debt	3,062	3,665
Pension and healthcare plans	1,216	1,188
Central functions not allocated *)	830	921
Other	217	209
Total Liabilities	17,646	18,553

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

Note 2 Expenses and other operating income

DKKm

A. PERSONNEL EXPENSES

	2015	2016
Salaries and wages	8,701	9,087
Severance payments	115	107
Social security	699	732
Pension cost - Defined contribution plans	597	583
Pension cost - Defined benefit plans excluding gains from reductions and redemptions *)	35	33
	10,147	10,542
Average number of employees	23,594	24,034
Total number of employees as of end of the year	23,420	25,292

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

	2015	2016
Board of Directors:		
Directors' fees	6	6
	6	6
Executive Committee:		
Salaries	30	30
Pension costs	10	11
Bonuses	59	74
	99	115
Danfoss Leadership Team, excluding Executive Committee:		
Salaries	21	23
Pension costs	5	4
Bonuses	21	27
	47	54
Total compensation	152	175

Bonuses of total DKK 101m (2015: 80m) can be divided into long-term and short-term bonuses with DKK 45m and DKK 56m, respectively (2015: 36m and 44m, respectively).
In additon, severance payments of DKK 4m are recognized in the income statement under other operating income and expenses (2015: 0m)

Note 2 Expenses and other operating income (continued)

DKKm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2015	**2016**
Classification by nature:		
Amortization of intangible assets	694	658
Impairment of intangible assets	11	
	705	658
Depreciation of property, plant and equipment	1,211	1,156
Impairment of property, plant and equipment	14	
Reversal of impairment losses on property, plant and equipment	-4	
	1,221	1,156
Depreciation/amortization and impairment losses	1,926	1,814
Classification of intangible assets by functions:		
Cost of sales	452	403
Selling and distribution costs	203	226
Administrative expenses	39	29
Other operating expenses	11	
	705	658

Note 2 Expenses and other operating income (continued)

DKKm

C. OTHER OPERATING INCOME AND EXPENSES

	2015	2016
Gain on disposal of activities	17	
Gain on disposal of intangible assets	1	-1
Gain on disposal of property, plant and equipment	60	18
Reversal of impairment losses on property, plant and equipment	4	
Reversal of restructuring costs	7	6
Other	33	44
Other operating income	122	67
Loss on disp. of intangible fixed assets	-3	-1
Loss on disp. of property, plant and equipment	-37	-28
Impairment of intangible assets	-11	
Impairment of property, plant and equipment	-14	
Restructuring costs	-119	-113
Other	-143	-83
Other operating expenses	-327	-225
Other operating income and expenses	-205	-158

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

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2015	2016
Audit fee	20	20
Tax and VAT advice	11	13
Other fees	3	3
Total fee to Group Auditor	34	36

Note 3 Investments

DKKm

	2015			2016		
	Investments in associates and joint ventures	Other investments	**TOTAL**	Investments in associates and joint ventures	Other investments	**TOTAL**
Cost as of January 1	2,430	140	2,570	2,560	135	2,695
Foreign exchange adjustments in foreign companies	9	-5	4	-17		-17
Additions	126		126	59		59
Additions through aquisition of subsidiaries						
Disposals	-5		-5			
Cost as of December 31	2,560	135	2,695	2,602	135	2,737
Adjustments as of January 1	-214	-107	-321	-141	-102	-243
Foreign exchange adjustments in foreign companies	6	3	9	4	-1	3
Net profit/value adjustment	67	2	69	32	-12	20
Dividends	-5		-5	-14		-14
Disposal	5		5			
Adjustments as of December 31	-141	-102	-243	-119	-115	-234
Carrying amount as of December 31	2,419	33	2,452	2,483	20	2,503

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 2016, 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 2015.

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 23 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	
	2015	**2016**
Place of business	Germany	Germany
Share of ownership	20%	20%
SUMMARIZED PROFIT AND LOSS STATEMENT (PROVISIONAL NUMBER)		
Revenue	7,459	6,999
EBIT	239	484
SUMMARIZED BALANCE SHEET (Q3 NUMBERS)		
Non-current assets	3,651	3,328
Current assets	5,005	5,636
Non-current liabilities	2,222	2,166
Current liabilities	2,395	2,344
Equity	4,038	4,454
Group share of equity as of December 31	862	911
Group share of dividend received		5

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2016, was DKK 6.5bn (2015: 13.4bn).

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.

			2015			2016
Danfoss' proportionate share of:	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Profit or loss from continuing operations		-6	-6	-4	-20	-24
Other comprehensive income		1	1		-1	-1
Total comprehensive income		-5	-5	-4	-21	-25
Carrying amount as of December 31	10	154	164	24	161	185
RECONCILIATION OF CARRYING AMOUNT						
Group share of equity of material associates and joint ventures	862		862	911		911
Goodwill concerning material associates and joint ventures	1,393		1,393	1,387		1,387
Carrying amount of immaterial associates and joint ventures	10	154	164	24	161	185
Total carrying amount as of December 31 of associates and joint ventures	2,265	154	2,419	2,322	161	2,483

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

Note 4 Financial income

DKKm

	2015	2016
Interest from banks, etc.	65	25
Calculated expected return on defined benefit plan assets	3	4
Gain on other investments	2	
	70	29
Interest on financial assets measured at amortized cost	65	25

Note 5 Financial expenses

DKKm

	2015	2016
Interest to banks etc.	-297	-293
Interest element on discounted liabilities	-2	-2
Calculated interest on defined benefit plans	-34	-33
Foreign exchange losses, net	-87	-1
Fair value adjustment of share options and warrants	-6	-12
Loss on other investments		-12
	-426	-353
Interest on financial liabilities measured at amortized cost	-299	-295

Note 6 Tax on profit

DKKm	2015	2016
Current tax expense	-935	-1,078
Change in deferred tax	-176	29
Adjustments concerning previous years	-33	46
	-1,144	-1,003
Tax on profit is defined as:		
Tax on profit before tax	23.5%	22.0%
Adjustment of tax in foreign subsidiaries calculated at 22.0% (2015: 23.5%)	4.8%	5.0%
Tax exempt income/non-deductible expenses	-2.3%	-1.2%
Effect of change in corporate tax rate	-0.2%	
Income from associates and joint ventures after tax	-0.6%	-0.2%
Adjustment of net tax assets	1.5%	-0.8%
Other taxes	3.0%	1.9%
Adjustments concerning previous years	0.9%	-1.2%
Effective tax rate	30.6%	25.5%

	2015	2016
Tax on profit (income statement)	-1,144	-1,003
Tax on fair value adjustment of hedging instruments (other comprehensive income)	-19	-4
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	-5	-3
Total taxes	-1,168	-1,010

Note 7 Intangible assets

DKKm

	Goodwill	Software	Brand	Technology	Customer relations	Patents, trademarks, etc.	Development costs	**Total Other**	**TOTAL**
Cost as of January 1, 2015	11,058	1,271	1,060	4,310	2,544	445	582	10,212	21,270
Foreign exchange adjustments in foreign companies	370	43	65	213	130	9	21	481	851
Additions through acquisition of subsidiaries	273	-	-	11	-4	4		11	284
Transfers		14				-7		7	7
Additions		192				13		205	205
Disposals		-31		-1	-3	-112	-21	-168	-168
Disposals through sale of subsidiaries	-2								-2
Cost as of December 31, 2015	11,699	1,489	1,125	4,533	2,667	352	582	10,748	22,447
Amortization and impairment losses as of January 1, 2015	1,101	950	-	1,570	1,068	415	434	4,437	5,538
Foreign exchange adjustments in foreign companies	67	46	-	115	76	8	16	261	328
Transfers		1				-1		-	
Amortization		100	17	297	204	10	66	694	694
Impairments		11						11	11
Disposals		-32	-	-1	-3	-113	-21	-170	-170
Amortization and impairment losses as of December 31, 2015	1,168	1,076	17	1,981	1,345	319	495	5,233	6,401
Carrying amount as of December 31, 2015	10,531	413	1,108	2,552	1,322	33	87	5,515	16,046
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

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 2016, 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 2017-2026. 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.

					2015					**2016**
	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	1,021	5,757	2,001	1,734	18	1,175	5,725	2,049	2,668	18
Brand with indefinite useful life as of December 31	1,006					1,021				
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 %	14%	13%	13%	11%	13%	13%	12%	13%	10%	11%

The weighted average growth rate until 2026 is based on past performance/management expectation of market development etc. and is estimated to be 2-5% 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 2015. The net cash flow during the terminal period from 2027 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 a recoverable amount lower than the carrying amount. The same conclusion was made for 2015.

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 and Propulsys Inc. (White Drive Products Group) (USA) in 2016. At the end of 2016, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to DKK 2.8bn, or approximately 56% of the total corresponding carrying amount. The carrying amount of Technology and Customer relations is amortized until 2026 and 2028, respectively.

Note 7 Intangible assets (continued)

Danfoss Drives
The Goodwill allocated to Danfoss Drives Segment derives primarily from the acquisition of Vacon (Finland) in December 2014. At the end of 2016, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 1.6bn, or approximately 32% of the corresponding total 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 2016, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 191m, or approximately 4% of the corresponding total 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 Warme AB (Sweden) in 2005 and Sondex Holding A/S (Denmark) in 2016. At the end of 2016, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 379m, or approximately 8% of the corresponding total carrying amount. The carrying amount of Technology and Customer relations is amortized until 2028.

Other intangible assets
At the end of 2016, Danfoss had Software in progress amounting to DKK 308m and DKK 0m capitalized development expenditure in progress. Capitalized software in progress is mainly accumulated internally.

In 2016, 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 impairment of current development assets of DKK 0m (2015: 11m)

Note 8 Property, plant and equipment

DKKm	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2015	5,425	8,550	1,552	680	16,207
Foreign exchange adjustments in foreign companies	114	110	-60	49	213
Additions through acquisition of subsidiaries		2			2
Transfers	186	378	40	-611	-7
Additions	247	315	72	575	1,209
Disposals	-158	-20	-44	-1	-223
Disposals through sale of subsidiaries			-3		-3
Cost as of December 31, 2015	5,814	9,335	1,557	692	17,398
Depreciation and impairment losses as of January 1, 2015	2,442	6,167	1,040		9,649
Foreign exchange adjustments in foreign companies	8	31	-64		-25
Transfers	5	12	-17		
Depreciation	214	849	148		1,211
Impairment	10				10
Disposals	-86	-3	-40		-129
Disposals through sale of subsidiaries			-1		-1
Depreciation and impairment losses as of December 31, 2015	2,593	7,056	1,067		10,716
Carrying amount as of December 31, 2015	3,221	2,279	490	692	6,682
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	1,035	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

Assets held under finance leases amounts to a total carrying amount of DKK 130m (2015: DKK 141m).

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 an option to acquire the leased buildings & equipment at favorable prices at the expiry of the leases.

Note 9 Inventories

DKKm

	2015	2016
Raw materials and consumables	1,639	1,897
Work in progress	437	492
Finished goods and goods for resale	2,094	2,318
Inventories	4,170	4,707
Write-downs of inventories	421	444
Carrying amount of inventories stated at net realizable value	319	401
Expensed adjustment of inventories to net realizable value included in cost of sales	81	36
Cost of goods sold included in cost of sales	18,737	19,364

Note 10 Trade receivables

DKKm

	2015	2016
Trade receivables before provision for bad debts	5,465	6,165
Provision for bad debts	-181	-191
Trade receivables	5,284	5,974
Receivables from associates and joint ventures	41	59
Total trade receivables	5,325	6,033
Hereof trade receivables due after 1 year	7	10
Provision for bad debts as of January 1	-156	-181
Foreign exchange adjustments in foreign companies	-15	-4
Additions through acquisition of subsidiaries		-6
Change in provisions	-22	-17
Realized loss	12	17
Provision for bad debts as of December 31	-181	-191

Note 11 Share capital

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

	SHARES	VOTES
Bitten and Mads Clausen Foundation, Nordborg, Denmark	50.71%	86.10%
Clausen Controls A/S, Sønderborg, Denmark	26.29%	5.43%
Henrik Mads Clausen, Lake Forrest, USA	11.04%	2.29%
Karin Clausen, Holte, Denmark	7.26%	1.50%

DISTRIBUTION OF SHARES

			2015			2016
	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	5,991,473	100 DKK	599.1	5,707,111	100 DKK	570.7
Total Shares	**10,241,473**		**1,024.1**	**9,957,111**		**995.7**

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 general meeting to be adopted. The share capital is fully paid in.

The number of B shares has in 2016 been effected by a capital increase of 4,580 shares due to subscription of shares as a result of exercises in the share incentive programs and by a capital reduction of 288,942 shares due to cancellation of treasury shares.

DIVIDEND PER SHARE (DKK)

	2015	2016
Proposed dividend per 100 DKK share	51.8	50.2
Dividend from last year paid per 100 DKK share	48.9	51.8

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)

	2015	2016
Holding as of January 1	151,219	236,504
Acquired in the year	15,578	8,648
Acquired from Bitten and Mads Clausen Foundation	70,307	50,979
Sold in the year	-600	-600
Capital reduction		-288,942
Holding as of December 31	236,504	6,589

The primary purpose of holding treasury shares is to secure the share option program in Danfoss A/S. The total cost in 2016 for own shares amounts to DKK 292m (2015: 366m). The total selling price relating to treasury shares amounted to DKK 2m in 2016 (2015: 2m). The Group's holding of treasury shares represents 0.1% (2015: 2.3%) of the Group's share capital. The value of treasury shares held amounts to DKK 32m (2015: 1,009m).

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 2016 the net-interest-bearing debt to EBITDA ratio was 1.6 (2015: 1.6) on a reported basis.
Danfoss aims to use the free cash flow before M&A for acquisitions that will develop the existing business further and to repay interest bearing debt, or 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. As of December 31, receivables of DKK 37m to provisions for warranty were recognized (2015: 37m).

The Group's provision for restructuring mainly relates to expected costs for severance payments. Contingent consideration consists of earn-out 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.

					2016
	Warranty	Restructuring	Contingent consideration	Other	**TOTAL**
Provisions as of January 1	438	8	86	451	983
Foreign exchange adjustments in foreign companies	4			2	6
Additions through acquisition of subsidiaries	20				20
Provisions used	-222	-7	-16	-213	-458
Reversal of unused provisions	-89	-1		-21	-111
Additional provisions recognized	244	2	250	134	630
Interest element on provisions				2	2
Provisions as of December 31	395	2	320	355	1,072

					2016
Estimated maturity of above provisions:	Warranty	Restructuring	Contingent consideration	Other	**TOTAL**
Within 1 year	286	2	266	116	670
Between 1 and 5 years	107		54	92	253
After more than 5 years	1			148	149
Provisions as of December 31	395	2	320	355	1,072

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 and warrants are:

	2015	**2016**
Share price	4,267	4,904
Expected volatility	22.0%	25.0%
Expected dividends	1.0%	1.2%
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 is not a listed company, 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 2016 of 4,904 was most recently adjusted at the Annual General Meeting in 2016 and will next be fixed at the Annual General Meeting in 2017.

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 1,522	2006	84,895	762	May 2009	May 2016
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 1,522				3,080	2,704	8
Options/warrants - exercise price at 1,932		2,400		12,514	2,259	34
		2,400		15,594		42
Changes in the share price/fair value:						
Options/warrants - exercise price at 1,522					675	2
Options/warrants - exercise price at 1,932					656	10
						12
Disposal due to subscription of shares:						
Options/warrants - exercise price at 1,522				-3,080	3,381	-10
Options/warrants - exercise price at 1,932				-2,100	2,972	-7
				-5,180		-17
Options/warrants - exercise price at 1,932		2,400		10,414	2,915	37
		2,400		10,414		37

The total provision as of December 31, 2016 for 2004 and subsequent share incentive programs has been calculated at DKK 37m (2015: 42m) 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 12m (2015: 6m), with DKK 10m (2015: 5m) in the parent company and DKK 2m (2015: 0m) in the subsidiaries.

Note 14 Deferred tax

DKKm

CHANGES IN DEFERRED TAXES

	2015	**2016**
Deferred taxes as of January 1 (net) *)	-804	-1,087
Foreign exchange adjustment in foreign companies	-29	-22
Additions through acquisition of subsidiaries	-64	-121
Adjustments concerning previous years	-8	17
Deferred tax recognized in the income statement	-176	29
Deferred tax recognized in other comprehensive income	-6	-3
Deferred taxes as of December 31 (net) *)	-1,087	-1,187
*) Liability (-)		

SPECIFICATION OF DEFERRED TAXES

	2015	**2016**
	Deferred tax asset	Deferred tax asset
Intangible assets	58	55
Property, plant and equipment and financial assets	148	67
Current assets	393	369
Liabilities	700	852
Tax loss carry-forwards	402	310
Non-capitalized tax assets regarding tax losses	-310	-217
	1,391	1,436
Set-off within the same legal entities and jurisdiction	-536	-626
Deferred tax assets	855	810
	Deferred tax liability	Deferred tax liability
Intangible assets	1,663	1,581
Property, plant and equipment and financial assets	223	348
Current assets	88	100
Liabilities	431	529
Deferred tax regarding Danish joint taxation	73	65
	2,478	2,623
Set-off within the same legal entities and jurisdiction	-536	-626
Deferred tax liabilities	1,942	1,997

The tax asset related to tax loss carry-forwards of DKK 93m net (2015: 92m) is largely related to companies that have suffered tax losses in 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 217m (2015: 310m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utlized. 14% of the amount (2015: 15%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 83% (2015: 75%).

Of the deferred tax liability of DKK 1,997m (2015: 1,942m), DKK 65m (2015: 73m) 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 542m (2015: 431m). 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:

	2015		2016	
	Gross liability	Net Liability	Gross liability	Net Liability
Germany	22%	53%	22%	59%
USA	40%	41%	40%	38%
UK	35%	-3%	35%	-6%
Other	3%	9%	3%	9%
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 active employees. Danfoss is working on minimizing the defined benefit risk by integrated risk management and by changing the nature of existing plans.

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

THE GROUP'S DEFINED BENEFIT PLAN OBLIGATIONS

	2015	2016
Present value of defined benefit plan obligations	3,813	3,954
Fair value of plan assets	-2,704	-2,874
	1,109	1,080
Pension benefit plan assets	107	108
Pension and healthcare plan obligations	1,216	1,188

DEVELOPMENT IN THE PRESENT VALUE OF DEFINED BENEFIT PLAN OBLIGATIONS

	2015	2016
Provision as of January 1	3,732	3,813
Foreign exchange adjustments in foreign companies	263	-167
Pension costs for the year	35	33
Calculated interest on plan liabilities	127	126
Actuarial gains(-)/losses from changes in demographic assumptions	-6	-39
Actuarial gains(-)/losses from changes in financial assumptions	-104	338
Plan participants' contribution liabilities	6	10
Disbursed benefits from the Group	-41	-37
Disbursed benefits from plan assets	-142	-123
Net transfer to provisions	-57	
Provision as of December 31	3,813	3,954

Note 15 Pension and healthcare obligations (continued)

DKKm

DEVELOPMENT IN THE FAIR VALUE OF PLAN ASSETS

	2015	2016
Plan assets as of January 1	2,537	2,704
Foreign exchange adjustments in foreign companies	208	-182
Calculated interest on plan assets	96	97
Plan participants' contribution asset	6	10
Return for the year on plan assets, excluding calculated interest	-96	274
Payments by the Group	120	94
Disbursed benefits	-142	-123
Net transfer to provisions	-25	
Plan assets as of December 31	2,704	2,874

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 548m (2015: 565m).

EXPENSES RELATING TO PENSION AND HEALTHCARE OBLIGATIONS

	2015	2016
Pension costs for the year	35	33
Calculated interest on liabilities	127	126
Calculated expected return on assets	-96	-97
Expensed in the income statement	66	62
Pension cost stated under cost of sales	17	17
Pension cost stated under selling and distribution costs	5	4
Pension cost stated under administrative expenses	13	12
Interest concerning pension and healthcare obligations posted under financial items	31	29
	66	62

ESTIMATED MATURITY OF PROVISIONS

	2015	2016
Within 1 year	163	163
Between 1 and 5 years	708	690
After more than 5 years	2,941	3,101
	3,812	3,954

Note 15 Pension and healthcare obligations (continued)

DKKm

PENSION PLAN ASSETS ARE SPECIFIED AS FOLLOWS:

	2015		2016	
Shares and similar securities	996	37%	1,066	37%
Listed corporate bonds	950	35%	972	34%
Bonds	605	22%	630	22%
Other	153	6%	206	7%
	2,704	100%	2,874	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 37% (2015: 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

	2015		2016	
	Range	Weighted average	Range	Weighted average
Discount rate	2.0-4.3%	3.6%	1.4-4.1%	3.0%
Estimated future salary increase	1.8-4.2%	3.5%	1.8-4.5%	3.5%

Life expectancy is based on relevant statistics available on the individual countries included in the calculation.
The estimated return on defined benefit plan assets is based on external actuarial calculations and determined according to the composition of the assets and considering the general expectations with regard to economic developments. The Group expects to pay in DKK 131m to defined benefit plans in 2017 (2016: DKK 142m).

SENSITIVITY ANALYSIS

	2015	2016
Reported defined benefit plan obligations	3,812	3,954
Increase in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	-273	-288
Decrease in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	+283	+306
Increase in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	+21	+22
Decrease in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	-19	-21
Increase in average life expectancy of 1 year affects the defined benefit plan obligations by	+111	+119
Decrease in average life expectancy of 1 year affects the defined benefit plan obligations by	-111	-118

Note 16 Financial risks and instruments

DKKm

FINANCIAL RISKS

The Group's profitability and cash flow are exposed to financial market risks, among other factors as a consequence of Danfoss' international business profile. These risks include currency, commodity, credit, interest rate and liquidity risks. The Group's risk management activities focus on mitigation, with particular emphasis on protecting the Group's cash flow and profitability in local currency on a 15-month horizon.

It is the policy of the Group not to take speculative positions in the financial markets. The Group's treasury activities are, therefore, aimed at mitigating and reducing the financial risks that are a direct result of the Group's operations, investments and financing activities.

For a description of accounting policies and procedures, such as applied recognition criteria and basis of measurement, please see the disclosure under Note 25 basis for preparation and accounting policies.

CURRENCY EXPOSURE

Currency exposure consists of three elements:

1. Transaction risk: It covers both the balance sheet risk, i.e. the risk, related to receivables and payables 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 significant balance sheet risk and 15 months of cash flow risk on a rolling basis, except in cases where a natural hedge exists and in cases where hedging is not practically possible.

2. Translation risk: The Group is primarily exposed to EUR, USD and USD-related currencies. Translation risk is primarily managed by keeping an appropriate balance between equity and debt in local currency in the various legal entities in the Danfoss Group, and in some case by drawing Group financing facilities in matching foreign currency to offset residual equity risk. Danfoss does generally not hedge currency Translation Risk except as mentioned above.

3. Economic/structural risk (strategic risk): Economic/structural currency exposure cannot be covered effectively using financial instruments and is, therefore, not part of Danfoss' financial risk management strategy.

				2015				**2016**
NOMINAL POSITION	EUR DKK	USD DKK	GBP DKK	**Total**	EUR DKK	USD DKK	GBP DKK	**Total**
Receivables and payables	-586	-55	-15	-656	-347	-254	-5	-606
Cash and loans	-4,910	2,241	-193	-2,862	-4,417	1,517	-81	-2,981
Derivative financial instruments for hedging of fair value	597	-2,317	219	-1,501	142	-1,356	83	-1,131
Derivative financial instruments for hedging of future cash flows	-3,433	-864	-330	-4,627	-3,233	-254	-295	-3,782
SENSITIVITY								
Probable increase in exchange rate	1%	10%	10%		1%	10%	10%	
Hypothetical impact on profit and loss for the year	-2	-13	1	-14	1	-9		-8
Hypothetical impact on equity	-83	-99	-32	-214	-78	-35	-30	-143

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 global 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 suppliers, active price adjustment and in some cases financial hedging. If raw material consumption is considered material, it is hedged for a minimum of 6 months and a maximum of 18 months.
Danfoss has not undertaken financial hedging of raw materials in 2016 or 2015.

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 risk towards banks and other financial partners is 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 509m (2015: 319m) represents the maximum exposure risk related to cash and cash equivalents.

Trade receivables are distributed on a 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 rating is carried out of customers, and any provision for bad debt is made on the basis of this credit assessment. The assessment 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:

	2015	2016
Overdue less than 30 days	193	238
Overdue from 30 to 90 days	81	98
Overdue more than 90 days		17
Neither impaired nor overdue at the reporting date	5,051	5,680
Net carrying amount	5,325	6,033

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 should at all times equal a maximum of 0.1% of Group annual revenue in case of a one percentage-point shift in interest rates across the 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 hypothetical impact on the profit for the year and equity at the end of the year:

	2015		2016	
	Income statement	Equity	Income statement	Equity
Cash and debt with floating interest rates	-20	-20	-22	-22
Hedge instruments (interest swaps)	1	50		57
	-19	30	-22	35

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)

DKKm

LIQUIDITY RISK

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

At the end of 2016, Danfoss' credit rating from Standard and Poor's was "BBB/A2 with a stable outlook" and the liquidity reserve equaled DKK 7.8bn (2015: 8.2bn). 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 situation in general. The average maturity profile on non-terminable credit facilities was above 3 years at the end of 2016. The Danfoss Group's loan agreements contain no financial covenants.

The major part of the Group's cash and cash equivalents of DKK 509m (2015: 319m) is placed on short-term deposits.

THE GROUP'S DEBT CATEGORIES AND MATURITIES

	2015					2016				
			Maturity					Maturity		
	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	8,717	9,300	863	3,597	4,840	9,556	10,067	3,365	1,946	4,756
Mortgage debt	1,189	1,568	30	113	1,425	560	596	5	23	568
Employee bonds	34	34	18		16					
Finance lease liabilities	136	162	21	49	92	130	152	22	47	83
Trade payables	3,864	3,864	3,864			4,604	4,604	4,604		
Debt to associates and joint ventures	22	22	22			25	25	25		
Derivative financial liabilities	251	286	235	51		101	162	124	38	
	14,214	15,236	5,053	3,810	6,373	14,976	15,606	8,145	2,054	5,407

*) 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 22. Contingent liabilities assets and security.

	2015	2016
Non-current liabilities	9,308	6,982
Current liabilities	4,906	7,994
	14,214	14,976

Note 16 Financial risks and instruments (continued)

DKKm

FINANCIAL INSTRUMENTS BY CATEGORY

	2015		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Other investments	33	33	20	20
Financial assets measured at fair value via the income statement	33	33	20	20
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	12	12	1	1
Financial assets used as hedging instruments	12	12	1	1
Trade receivables	5,325	5,325	6,033	6,033
Other receivables	698	698	821	821
Cash and cash equivalents	319	319	509	509
Loans and receivables	6,342	6,342	7,363	7,363
Interest-bearing debt	10,076	10,126	10,246	10,482
Trade payables and other debt	6,982	6,982	8,314	8,314
Financial liabilities measured at amortized cost	17,058	17,108	18,560	18,796
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	180	180	36	36
Derivative financial instruments for the hedging of future cash flows	70	70	65	65
Financial liabilites used as hedging instruments	250	250	101	101
Derivative financial instruments for financial hedging	1	1		
Financial liabilities measured at fair value via the income statement	1	1		

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 2015.

Note 16 Financial risks and instruments (continued)

DKKm

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR THE GROUP

	2015				2016			
	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			33	33			20	20
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		12		12		1		1
Total financial assets		12	33	45		1	20	21
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		180		180		36		36
Derivative financial instruments for the hedging of future cash flows		70		70		65		65
Derivative financial instruments for financial hedging		1		1				
Contingent consideration			86	86			320	320
Interest-bearing debt		10,126		10,126		10,482		10,482
Total financial liabilities		10,377	86	10,463		10,583	320	10,903

Note 16 Financial risks and instruments (continued)

DKKm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2015	2016
	Other Investments Level 3	
Carrying amount as of January 1	33	33
Foreign exchange adjustments in foreign companies	-2	-1
Gain/loss (-) in the income statement	2	-12
Carrying amount as of December 31	33	20
Gain/loss (-) in the income statement for assets owned as of December 31	2	-12

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

DERIVATIVES AS OF DECEMBER 31 FOR THE GROUP

	2015						2016					
	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	-3,137	-198	-175	-22	-1		-1,632	-42	-32	-10		
EUR	-3,249	1	16	-14	-1		-3,293	1	1			
Other currencies	-307	1	-9	8	2		322	-52	-5	-49	2	
Forward exchange contracts		-195	-167	-28				-93	-36	-59	2	
Interest swaps	2,244	-43	-1	-14	-28		2,616	-7		-3	-4	
Derivatives end of year		-238	-168	-42	-28			-100	-36	-62	-2	

At the end of 2016, unrealized gain/loss(-) on derivatives hedging foreign currency risk recognized in equity amounted to DKK -57m (2015: -28m).
At the end of 2016, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to DKK -7m (2015: -42m).

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 2m was taken to expense in 2016 (2015:1m) as a consequence of testing for effectiveness.

Note 17 Corporation tax

DKKm

	2015	2016
Corporation tax payable/receivable (-) as of January 1	-146	-225
Foreign exchange adjustment in foreign companies	6	-5
Additions through aquisition of subsidiaries		24
Paid during the year	-1,063	-855
Adjustments concerning previous years	25	-29
Current tax expenses in income statement	935	1,078
Current tax expenses in other comprehensive income	18	4
Corporation tax payable/receivable (-) as of December 31	-225	-8
The above corporation tax is recorded as follows:		
Assets	527	334
Liabilities	302	326
	-225	-8

Note 18 Adjustment for non-cash transactions

DKKm

	2015	2016
Depreciation/amortization and impairment	1,926	1,814
Gain(-)/loss on disposal of tangible assets and business activities	-37	13
Share of profit from associates and joint ventures after tax	-67	-32
Financial income	-70	-29
Financial expenses	426	353
Other	-225	-529
Adjustment for non-cash transactions	1,953	1,590

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	**2015**	**2016**
Change in inventories	5	-15
Change in receivables	73	-395
Change in trade payables and other debt	221	1,101
	299	691

Note 20 Acquisition and sale of subsidiaries and activities

DKKm

							2015
Company/activity		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid
DAF Enerji	Acquisition	Turkey	December	60%	56	55	**
Advitronic Engineering B.V.	Acquisition	Netherlands	October	100%	9	8	**
Vacon Drives sales activity New Zealand (asset deal)	Acquisition	New Zealand	February	100%	6	3	**
ProEkspert	Sale	Estonia	January	75%	43	123	**

							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	1090	**

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

The Purchase Price Allocation regarding the acquisitions in 2015 of DAF Enerji and Advitronic Energineering BV was finalized in 2016. There were no signifcant changes compared to the initial accounting.

Acquistions in 2016 comprise Sondex Holding A/S and Propulsys Inc.
On August 31, 2016, Sondex Holding A/S was acquired. The company is among the market leaders within gasket Heat Exchangers and will be part of a newly founded business unit, Heating Heat Exchangers, which is part of the Heating Segment. Sondex Holding A/S has sales activities across the world, while production is mainly taking place in Denmark, Poland and Romania. The main part of the acquisition price has been paid, while the remaining part is based on an earn-out agreement with an EBIT target. The remaining part is expected to be paid in 2017.

On September 8, 2016, Propulsys Inc. was acquired. The company, combined with the present Motors business in Power Solution Segment, will be the market leader within orbital hydraulic motors. Propulsys Inc. primarily has sales activities in the USA, China and Germany, while production is taking place in USA and China.

Acquisition-related costs, e.g. due diligence cost, of DKK 18m have been charged to expenses in the consolidated income statement for the year ending December 31, 2016.
The net sales included in the consolidated statement of comprehensive income since the acquisitions in 2016, 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 is impacted by interest as well as Purchase Price Allocation (PPA) expenses relating to reversal of inventory step-up to fair value and amotization on intangibles assets of total DKK 55m.

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

The preliminary Purchase Price Allocation accounting has calculated total goodwill of DKK 1,075m. 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 2015 and 2016 related to Purchase Price Allocation is not included in the below statement.

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

DKKm

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

	2015 Acquisitions	2016 Acquisitions	2015 Disposals	2016 Disposals
Intangible assets, except goodwill	-64	-459		
Property, plant and equipment	-2	-524	2	
Other non-current assets, including deferred tax assets		-13		
Inventories	-11	-465		
Receivables *)	-22	-375	10	
Cash and cash equivalents	-9	-185	20	
Interest-bearing debts	4	322		
Provisions, including deferred tax liabilities	20	154		
Trade and other payables	19	224	-8	
Net assets acquired	-65	-1,321	24	
Goodwill(-)/profit on disposal	-143	-1,075	19	
Net assets, including goodwill(-)/profit on disposal	-208	-2,396	43	
Cash and cash equivalents	9	185	-20	
Consideration, net of cash	-199	-2,211	23	
Change in short-term payables/ receivables / provisions	-35	249	-6	3
Minority interests		87	-6	
Net cash paid(-)/received	-234	-1,875	11	3

*) receivables in acquisitions includes provision for bad debt of DKK 6m(2015:0m)

Note 21 Acquisition(-)/ Sale of other investments

DKKm

	2015	2016
Purchase of shares and other securities	-126	-59
Increase/decrease of lending	-94	-67
	-220	-126

Purchase of shares and other securities in 2016 is related to capital injection in joint ventures in BD Kompressor Holding GmbH & Co.KG and Linestream Technology Inc. In 2015, the Group purchased shares in LineStream Technologies Inc. and BD Kompressor Holding GmbH & Co. KG. Further information is provided in Note 3 Investments.

Note 22 Contingent liabilities, assets and security

DKKm

SECURITY

	2015	2016
Carrying amount of land and buildings pledged as security for bank loans and mortgages	755	856
Leasing assets pledged as security for leasing commitments	44	41
Secured loans from financial institutions	1,352	718

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

At the beginning of 2009, the European Commission's Directorate General for Competition along with a number of other competition authorities initiated investigations of, among others, Danfoss Household Compressors on suspicion of breach of competition regulations. These investigations have all been concluded.
Civil lawsuits against Danfoss are still pending in Israel and North America, the outcomes of which are not yet known.

In addition, 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:	2015	2016
Buildings:		
Less than 1 year	226	226
Between 1 and 5 years	522	459
More than 5 years	223	217
Equipment, etc.:		
Less than 1 year	140	137
Between 1 and 5 years	137	140
More than 5 years	1	1

The Group expensed DKK 458m in operating lease payments in 2016 (2015: 494m) and they relate mainly to buildings and equipment. There were no significant contingent lease payments in 2016 or 2015.

Note 22 Contingent liabilities, assets and security (continued)

DKKm

OPERATING LEASES (LEASE INCOME)

Operating lease payments fall due as follows:	**2015**	**2016**
Less than 1 year	6	8
Between 1 and 5 years	14	15
More than 5 years	1	

The Group recognized operating lease income of DKK 25m in 2016 (2015: 27m). The above rentals relate mainly to buildings.

CONTRACTUAL OBLIGATIONS

	2015	**2016**
Service contract commitment other than leases	405	565
Inventories	758	659
Property, plant and equipment	144	252
Hereof commitments relating to succeeding year	1,092	1,199

Note 23 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, the Executive Committee and other members of the Danfoss Leadership Team. Further, related parties comprise companies, in which the above-mentioned persons have significant interests.

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

The Bitten and Mads Clausen Foundation, which holds 50.71% of the shares in Danfoss A/S and controls 86.10% 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 (2015: 25m).
In the financial year, the Bitten and Mads Clausen Foundation sold shares in Danfoss A/S shares at value of DKK 250m back to the company (2015: 300m).
Around 97% of Danfoss A/S' dividend payments is related to the Bitten and Mads Clausen Foundation and shareholders of the Clausen family.

BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND OTHER MEMBERS OF THE DANFOSS LEADERSHIP TEAM

In the financial year, no transactions took place with the Board of Directors, the Executive Committee or other members of the Danfoss Leadership 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 2017. The rent payment amounted to DKK 2m in 2016 (2015: 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 (2015: 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 the Executive Committee, 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

	2015	2016
Sales of goods and services	273	316
Purchases of goods and services	117	103

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 24 Events after the balance sheet date

Subsequent to December 31, 2016 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 25 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, 2016, 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 Danish disclosure requirements for listed companies. 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 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 2016. None of those standards and interpretations has affected recognition and measurement in 2016, nor are they expected to have a material effect on Danfoss A/S in 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 Annual Report for 2016.

Most significant are IFRS 15 'Revenue from Contracts with Customers' and IFRS 16 'Leases'. At this stage management does not expect to adopt the new standards before the mandatory effective dates, January 1, 2018 and January 1, 2019, respectively. Management is currently assessing the effects of applying the new standards to the Group's financial statements.

For IFRS 15 'Revenue from Contracts with Customers' management is currently assessing areas such as delivery terms, timing of revenue recognition, customer loyalty programs, accounting for certain costs incurred in fulfilling a contract and rights of return. Since the revenue in the Group mainly relates to sales of products to professional customers, management does not expect that the new rules will have any material impact on the Groups financial statements. The Group will make more detailed assessments of the impact over the next twelve months and will implement the standard prospectively without change of comparative figures.

For IFRS 16 'Leases' the Group has non-cancellable operating lease commitments at the reporting date of DKK 1.2B of which a majority relates to buildings, see note 22 'Contingent liabilities, assets and security'. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and liability for future payments and how this will affect the Group's profit and classification of cash flows.

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 hold more than 50% of the voting rights or otherwise control 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. Unrealized losses are eliminated in the same way as unrealized profits, provided that no impairment has occurred.

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

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

Note 25 Basis for preparation and accounting policies (continued)

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. 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 flows, in accordance with the structure in the internal financial reporting. Such cash flows do 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 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

Note 25 Basis for preparation and accounting policies (continued)

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 and employee termination expenses.

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 5 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.

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' or 'Other operating 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.

Note 25 Basis for preparation and accounting policies (continued)

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

Buildings and building components	15-30	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' or 'Other operating 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 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

Note 25 Basis for preparation and accounting policies (continued)

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.

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 treasury shares

The reserve for treasury 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, Executive Committee 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.

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.

Note 25 Basis for preparation and accounting policies (continued)

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 judgments is applied to assess the possible outcome of such disputes. The most probably 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.

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 comprise payment in connection with the acquisition and disposal of companies and activities, intangible assets and property, plant and equipment as well as securities classified as investing activities. Acquisitions of assets under 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.

Note 25 Basis for preparation and accounting policies (continued)

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.

Where defined, other financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015".

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

Note 26 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 business combinations, goodwill, investments in associates and joint ventures, assessment of depreciation, amortization and impairment of non-current assets, measurement of tax assets and liabilities 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 significant uncertainty due to increased volatility 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 25, and the value of non-current assets is disclosed in notes 7, Intangible assets and 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. Management 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 significant management judgments is applied to assess the possible outcome of such disputes. The most probably 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 tax 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 22, 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, 2016
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., Guntramsdorf
- Vacon AT Antriebssysteme GmbH, Leobersdorf

Belgium
- Danfoss NV/SA, Groot-Bijgaarden
- Danfoss Power Solutions BVBA, Groot-Bijgaarden
- Hydro-Gear Europe BVBA, Tongeren
- Vacon Benelux NV/SA, Heverlee

Bulgaria
- Danfoss EOOD, Sofia

Croatia
- Danfoss d.o.o., Zagreb

Czech Republic
- Danfoss s.r.o., Prague
- Sondex CZ s.r.o., Prague
- Vacon s.r.o., Prague

Denmark
- BetterHome ApS, Frederiksberg – 25%
- Danfoss A/S, Nordborg
- Danfoss Compressors Holding A/S, Nordborg
- Danfoss Distribution Services A/S, Rødekro
- Danfoss International A/S, Nordborg
- Danfoss IXA A/S, Vejle – 62%
- Danfoss Power Electronics A/S, Gråsten
- Danpumps A/S, Horsens
- Danfoss Power Solutions ApS, Nordborg
- Danfoss Power Solutions Holding ApS, Nordborg
- Danfoss Power Solutions Holdin g II ApS, Nordborg
- Danfoss Redan A/S, Hinnerup
- Danfoss Semco A/S, Odense – 60%
- Gemina Termix Production A/S, Sunds
- Issab Holding ApS, Nordborg
- Sondex Holding A/S, Kolding
- Sondex Service A/S, Kolding
- Sondex A/S, Kolding
- Sondex Rusland Holding Aps, Kolding
- Sondex Unit A/S, Odense
- Sondex Teknik A/S, Glostrup
- Sondex Pumps A/S, Kolding
- Vacon Drives A/S, Gråsten

Estonia
- Danfoss AS, Tallinn

Finland
- Danfoss Power Solutions Oy Ab, Espoo
- Oy Danfoss Ab, Espoo
- Sondex Tapiro Oy Ab, Vanta
- Vacon Oy, Vaasa

France
- Avenir Energie, Valence
- Danfoss S.a.r.l., Elancourt
- Danfoss Commercial Compressors S.A., Trévoux
- Danfoss Power Solutions SAS, Elancourt
- Sondex France S.a.r.l., Saint Genis Laval
- Vacon France SAS, Saint-Pierre-du-Perray

Germany
- BD Kompressor Holding GmbH & Co. KG, Lollar – 50% (joint venture)
- Danfoss Esslingen GmbH, Esslingen
- Danfoss Flensburg GmbH, Flensburg
- Danfoss GmbH, Offenbach/Main
- Danfoss Silicon Power GmbH, Flensburg
- Danfoss Werk Offenbach GmbH, Offenbach/Main
- Danfoss Power Solutions GmbH & Co. OHG, Neumünster
- Danfoss Power Solutions Informatic GmbH, Neumünster
- Danfoss Power Solutions Holding GmbH, Neumünster
- SMA Solar Technology AG, Niestetal – 20%
- Sondex Deutschland GmbH, Winsen/Luhe
- Vacon GmbH, Essen
- White Drive Products GmbH, Opfenbach

Great Britain
- Danfoss Limited, Denham, Buckinghamshire
- Danfoss Power Solutions Ltd., Swindon
- Danfoss UK Limited, Denham, Buckinghamshire
- Senstronics Holding Ltd., London – 50% (joint venture)
- Sondex (UK) Limited, Hayes, Middelsex
- Vacon Drives (UK) Ltd., Hinckley, Leicestershire

Hungary
- Danfoss Kft., Budapest
- Sondex Hőcserélők Magyarország Kft., Budapest

Iceland
- Danfoss hf., Reykjavik

Ireland
- Danfoss Ireland Ltd., Dublin

Italy
- Danfoss Power Solutions S.r.l., Castenaso, Bologna
- Danfoss S.r.l., Turin
- Sondex Italia S.r.l., Salvirola (CR)
- Vacon S.r.l., Postal Bozen
- Vacon SpA, Reggio Emilia

Kazakhstan
- Danfoss LLP, Almaty

Latvia
- Danfoss SIA, Riga

Lithuania
- Danfoss UAB, Vilnius

The Netherlands
- Advitronic Engineering B.V., Giessen
- Danfoss B.V., Rotterdam
- Danfoss Power Solutions B.V., Rotterdam
- Sondex B.V., WR Purmerend
- Sondex Holding Netherlands B.V., WR Purmerend
- Vacon Benelux B.V., Gorinchem

Norway
- Danfoss AS, Skui, Oslo
- Danfoss Power Solutions AS, Skui, Oslo
- Vacon AS, Holmestrand

Poland
- Danfoss Poland Sp. z.o.o., Grodzisk Mazowiecki
- Danfoss Power Solutions Sp. z.o.o., Wroclaw
- Danfoss Saginomiya Sp. z.o.o., Grodzizsk Mazowiecki – 50% (joint venture)
- Elektronika S.A., Gdynia – 50% (joint venture)
- Sondex Poland Sp. z.o.o., Gdansk
- Sondex Sp. z.o.o., Gdansk

Group companies

- Sondex Braze Sp. z.o.o., Nowa Wies Leborska
- Sondex Polska Sp. z.o.o., Warszawa
- Vacon Sp. z.o.o., Grodzisk Mazowiecki

Romania
- Danfoss District Heating S.R.L., Popesti-Leordeni
- Danfoss S.R.L., Popesti-Leordeni
- S.C. Sondex Romania S.R.L., Rascruci
- S.C. Sondex Productions S.R.L., Satu-Mare

Russia
- Danfoss Dzerzhinsk LLC, Nizhny Novgorod
- Danfoss Power Solutions LLC, Moscow
- Danfoss LLC, Istra, Moscow
- T Plus Danfoss LLC, Perm
- ZAO Danfoss, Moscow – in liquidation
- AO Ridan, Nizhny Novgorod
- AO Vacon Drives, Moscow – in liquidation

Serbia
- Danfoss d.o.o., Novi Beograd

Slovakia
- Danfoss Power Solutions a.s. Povazska Bystrica
- Danfoss spol. s.r.o., Zlaté Moravce
- Sondex PHE s.r.o., Bosany – in liquidation

Slovenia
- Danfoss Trata d.o.o., Ljubljana-Sentvid

Spain
- Danfoss Power Solutions S.A., Alcobendas, Madrid
- Danfoss S.A., Alcobendas, Madrid
- Vacon Drives Ibérica S.A., Terrassa, Barcelona

Sweden
- Danfoss AB, Linköping
- Danfoss Power Solutions AB, Älmhult
- Danfoss Värmepumpar AB, Arvika
- EP Technology AB, Malmö
- Vacon AB, Solna

Switzerland
- Danfoss AG, Frenkendorf

Ukraine
- Danfoss T.o.v., Kiev

AFRICA – MIDDLE EAST

Turkey
- DAF Enerji Sanayi Ve Ticaret Anonim Sirketi, Istanbul – 73,3%
- Danfoss Otomasyon ve Kontrol Urunleri Tic Ltd., Istanbul
- Sondex-Tanpera, Istanbul – 51%
- Sondex Dis Ticaret Limited Sti., Istanbul

United Arab Emirates
- Danfoss FZCO, Dubai – 95%
- Gulf Sondex FZCO, Dubai – 90%

Saudi Arabia
- Sondex Saudi Arabia

South Africa
- Danfoss (Pty) Ltd., Rivonia, Johannesburg
- Elsmark Investment Holdings (Pty) Limited, Johannesburg – in liquidation
- Sondex South Africa Pty. Ltd., Edenvale, Gauteng

NORTH AMERICA

Canada
- Danfoss Inc., Mississauga, Ontario
- Turbocor Inc., St. Laurent
- Vacon Canada Inc., Stoney Creek, Ontario

USA
- Danfoss LLC, Baltimore
- Danfoss Turbocor Compressors Inc., Tallahassee, Florida
- Danfoss Power Solutions (US) Company, Ames, Iowa
- Danfoss Power Solutions Inc., Ames, Iowa
- Hydro-Gear Inc., Sullivan, Illinois – 60%
- Hydro-Gear Limited Partnership, Sullivan, Illinois – 60%
- K Products Company, Inc., Hopkinsville
- Polaris Plate Heat Exchangers, LLC.
- Propulsys, Inc., Hopkinsville
- Sondex Properties, Inc., Louisville, Kentucky
- Sondex, Inc., Louisville, Kentucky
- Tenacis, Inc., Hopkinsville
- Vacon LLC, Chambersburg, Pennsylvania
- White Hydraulics, Inc., Hopkinsville
- WH Manufacturing, Inc., Hopkinsville
- White Drive Products, Inc., Hopkinsville

LATIN AMERICA

Argentina
- Danfoss S.A., Buenos Aires

Brazil
- Danfoss do Brasil Indústria e Comércio Ltda., Osasco, São Paulo
- Danfoss Power Solutions Ind. e. Com. Electrohidraulica Ltda., Osasco, São Paulo
- Sondex Brasil Ltda., São Paulo
- Sondex ICP Latin America, Louveira, São Paulo
- Vacon America Latina Ltda., São Paulo – 97%

Chile
- Danfoss Industrias Ltda., Santiago

Colombia
- Danfoss S.A., Bogota

Mexico
- Danfoss S.A. de C.V., Monterrey
- Vaasa Control de Mexico S.A. de C.V., Mexico City – in liquidation

Venezuela
- Danfoss S.A., Estado Carabobo, Valencia

ASIA-PACIFIC

Australia
- Danfoss (Australia) Pty. Ltd., Mulgrave Vic
- Danfoss Power Solutions Pty. Ltd., Huntingwood, NSW
- Sondex Australia Pty. Ltd., Rowville
- Sondex Engineering Pty. Ltd., Melbourne
- Vacon Pacific Pty. Ltd., Melbourne

P. R. of China
- Daikin-Sauer-Danfoss Hydraulics (Suzhou) Co. Ltd., Suzhou
- Danfoss Automatic Controls Management (Shanghai) Co. Ltd., Shanghai
- Danfoss (Anshan) Controls Co. Ltd., Anshan
- Danfoss Industries Limited, Hong Kong

Group companies

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

India
- Danfoss Industries Pvt. Ltd., Chennai
- Danfoss Power Solutions India Pvt. Ltd., Pune
- Sondex Heat Exchangers India Pvt. Ltd., Gujaret
- Vacon Drives & Control Pvt. Ltd., Chennai

Indonesia
- PT Danfoss Indonesia, Jakarta
- PT Sondex Indonesia, Tangerang

Iran
- Danfoss Pars Private Joint Stock Company

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

Malaysia
- Danfoss Industries Sdn Bhd, Shah Alam, Kuala Lumpur
- Sondex Heat Exchangers Malaysia Sdn. Bhd., Selangor

Philippines
- Danfoss Inc., Makati City, Manila

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

South Korea
- Danfoss Ltd., Seoul
- Danfoss Power Solutions Ltd., Seoul
- Sondex Korea LLC, Gyeongsangnam-Do

Taiwan
- Danfoss Co. Ltd., New Taipei City

Thailand
- Danfoss (Thailand) Co. Ltd., Bangkok

New Zealand
- Danfoss (New Zealand) Ltd., Auckland
- Sondex NZ Ltd., Pukete Hamilton

Parent company Accounts and notes

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After several retrofit projects, the U.S. Steel Tower in Pittsburgh, Penn., USA, has installed more than 150 Danfoss VLT® Drives, which are producing more than $1.1 million in documented energy savings and helping to give the building a greener reputation.

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Management report for Danfoss A/S

(Part of Management 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. Danfoss A/S had 2,629 employees at the end of 2016.

The profit before other operating income and expenses was DKK 566m (2015: DKK 500m). The company's operating profit was DKK 506m (2015: DKK 393m).

Financial income and expenses amounted to a net income of DKK 2,381m (2015: net income of DKK 7,961m). This was mainly attributable to an increase in distributed dividends from subsidiaries in 2015.

The profit after tax was DKK 2,723m (2015: DKK 8,340m).

At the end of 2016, equity stood at DKK 20,662m (2015: DKK 18,692m). The increase was mainly attributable to recognition of the profit for the year less dividends paid to the owners.

Danfoss A/S expects net sales for 2017 to be on a level with the 2016 figures, and the company expects to report a profit in 2017.

Income statement

January 1 to December 31

DKKm	Note	2015	2016
Net sales		7,799	8,355
Cost of sales	1	-5,873	-6,267
GROSS PROFIT		**1,926**	**2,088**
Research and development costs	1	-293	-288
Selling and distribution costs	1	-583	-602
Administrative expenses	1	-550	-632
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**500**	**566**
Other operating income and expenses	1	-107	-60
OPERATING PROFIT (EBIT)		**393**	**506**
Financial income	2	8,470	2,699
Financial expenses	3	-509	-318
PROFIT BEFORE TAX		**8,354**	**2,887**
Tax on profit	4	-14	-164
NET PROFIT		**8,340**	**2,723**
Attributable to:			
Proposed dividends reserve		530	500
Other reserves		7,810	2,223
		8,340	**2,723**

Statement of comprehensive income

January 1 to December 31

DKKm

	2015	2016
NET PROFIT	**8,340**	**2,723**
OTHER COMPREHENSIVE INCOME		
Actuarial gain/loss (-) on pension and healthcare plans	-5	6
Tax on actuarial gain/loss on pension and healthcare plans	1	-1
Items that cannot be reclassified to profit or loss	**-4**	**5**
Fair value adjustment of hedging instruments:		
Hedging of future cash flows	-19	9
Hedging transferred to financial expenses in the income statement	14	26
Tax on hedging instruments	1	-8
Items that can be reclassified to profit or loss	**-4**	**27**
OTHER COMPREHENSIVE INCOME AFTER TAX	**-8**	**32**
TOTAL COMPREHENSIVE INCOME	**8,332**	**2,755**

Statement of financial position

As of December 31

DKKm	Note	2015	2016
ASSETS			
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	5	**813**	**968**
PROPERTY, PLANT AND EQUIPMENT	6	**1,320**	**1,572**
Investments	7	23,686	25,779
OTHER NON-CURRENT ASSETS		**23,686**	**25,779**
TOTAL NON-CURRENT ASSETS		**25,819**	**28,319**
CURRENT ASSETS			
INVENTORIES		**612**	**655**
Trade receivables external		232	273
Trade receivables from subsidiaries		425	694
Short-term loans to subsidiaries		8,741	9,201
Receivables from associates and joint ventures		1	1
Receivable corporation tax	10	149	19
Other receivables		134	102
RECEIVABLES		**9,682**	**10,290**
TOTAL CURRENT ASSETS		**10,294**	**10,945**
TOTAL ASSETS		**36,113**	**39,264**

Statement of financial position

As of December 31

DKKm	Note	2015	2016
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY		**18,692**	**20,662**
LIABILITIES			
Provisions		65	59
Deferred tax liabilities	8	237	285
Pension and healthcare benefit plan obligations		24	16
Borrowings	9	8,911	6,731
Derivative financial instruments (negative fair value)	9	28	2
Other non-current debt		110	128
NON-CURRENT LIABILITIES		**9,375**	**7,221**
Provisions		149	42
Liabilities under share incentive programs		81	37
Borrowings	9	501	2,953
Trade payables		708	925
Trade payables to subsidiaries		97	84
Borrowings from subsidiaries		5,705	6,537
Debt to associates and joint ventures		18	21
Derivative financial instruments (negative fair value)	9	217	84
Other debt		570	698
CURRENT LIABILITIES		**8,046**	**11,381**
TOTAL LIABILITIES		**17,421**	**18,602**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**36,113**	**39,264**

Statement of cash flow

January 1 to December 31

DKKm	Note	2015	2016
Profit before tax		8,354	2,887
Adjustments for non-cash transactions	11	-7,734	-2,279
Change in working capital		246	-45
CASH FLOW GENERATED FROM OPERATIONS		**866**	**563**
Interest received		267	572
Interest paid		-212	-229
Dividends received		8,154	2,139
CASH FLOW FROM OPERATIONS BEFORE TAX		**9,075**	**3,045**
Paid tax	10	-87	5
CASH FLOW FROM OPERATING ACTIVITIES		**8,988**	**3,050**
Acquisition of intangible assets		-191	-207
Acquisition of property, plant and equipment		-202	-448
Proceeds from sale of property, plant and equipment		38	3
Acquisition of subsidiaries		-3,273	-1,957
Proceeds from disposal of subsidiaries		1	2
Loans to subsidiaries		-1,492	-588
Acquisition (-)/sale of other investments, etc.		4	
CASH FLOW FROM INVESTING ACTIVITIES		**-5,115**	**-3,195**
FREE CASH FLOW		**3,873**	**-145**
Cash repayment of (-)/cash proceeds from interest-bearing debt		-2,598	100
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		-470	831
Repurchase of treasury shares		-312	-268
Dividends paid to shareholders in the Parent Company		-493	-518
CASH FLOW FROM FINANCING ACTIVITIES		**-3,873**	**145**
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

DKKm

	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, 2015	**1,023**	**463**	-27	-501		9,706	**9,178**	**500**	**11,164**
Net profit						7,810	**7,810**	**530**	**8,340**
Fair value adjustment of hedging instruments			-5				-5		-5
Actuarial gain/loss (-) on pension and healthcare plans						-5	-5		-5
Tax on other comprehensive income			1			1	**2**		**2**
Total other comprehensive income			-4			-4	**-8**		**-8**
Total comprehensive income for the period			-4			7,806	**7,802**	**530**	**8,332**
Dividends to shareholders						7	**7**	**-500**	**-493**
Capital increase/purchase of treasury shares	**1**	**52**		-364			**-364**		**-311**
Total transactions with owners	**1**	**52**		-364		7	**-357**	**-500**	**-804**
BALANCE AS OF DECEMBER 31, 2015	**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			27			5	**32**		**32**
Total comprehensive income for the period			27		173	2,055	**2,255**	**500**	**2,755**
Dividends to shareholders						12	**12**	**-530**	**-518**
Capital increase/purchase of treasury shares		**23**		-290			**-290**		**-267**
Capital reduction	**-28**	**-538**		1,127		-561	**566**		
Total transactions with owners	**-28**	**-515**		837		-549	**288**	**-530**	**-785**
BALANCE AS OF DECEMBER 31, 2016	**996**		-4	-28	173	19,025	**19,166**	**500**	**20,662**

Notes

Note 1 Expenses and other operating income

DKKm

A. PERSONNEL EXPENSES

	2015	2016
Salaries and wages	1,543	1,740
Severance payments	18	21
Social security	12	12
Pension cost - Defined contribution plans	132	132
	1,705	1,905
Average number of employees	2,604	2,604
Total number of employees as of end of the year	2,574	2,629

	2015	2016
Board of Directors:		
Directors' fees	6	6
	6	6
Executive Committee:		
Salaries	30	30
Pension costs	10	11
Bonuses	59	74
	99	115
Danfoss Leadership Team, excluding Executive Committee:		
Salaries	14	15
Pension costs	1	2
Bonuses	10	13
	25	30
Total compensation	130	151

Bonuses of total DKK 87m (2015: 69m) can be divided into long-term and short-term bonuses with DKK 39m and DKK 48m, respectively (2015: 31m and 38m, respectively).
Severance payments of DKK 4m are recognized in the income statement under other operating income and expenses (2015: 0m)

Note 1 Expenses and other operating income (continued)

DKKm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2015	2016
Classification by nature:		
Amortization of intangible assets	67	52
Impairment of intangible assets	9	
	76	52
Depreciation of property, plant and equipment	184	199
Depreciation/amortization and impairment losses	260	251
Classification of intangible assets by functions:		
Cost of sales	42	29
Selling and distribution costs	14	14
Administrative expenses	11	9
Other operating expenses	9	
	76	52

Note 1 Expenses and other operating income (continued)

DKKm

C. OTHER OPERATING INCOME AND EXPENSES

	2015	2016
Gain on disposal of property, plant and equipment	31	
Other	1	12
Other operating income	32	12
Loss on disp. of property, plant and equipment	-1	-8
Impairment losses	-9	
Restructuring costs	-19	-21
Other	-110	-43
Other operating expenses	-139	-72
Other operating income and expenses	-107	-60

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2015	2016
Audit fee	5	4
Tax and VAT advice	6	11
Other fees	1	1
Total fee to Group Auditor	12	16

Note 2 Financial income

DKKm

	2015	2016
Dividend from subsidiaries and associates/joint ventures	8,153	2,139
Interest from subsidiaries	266	519
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	1	28
Interest from banks, etc.	48	12
Reversal of impairment on loans		1
Gain on other investments	2	
	8,470	2,699
Interest on financial assets measured at amortized cost	314	531

Note 3 Financial expenses

DKKm

	2015	2016
Interest to banks, etc.	-184	-207
Foreign exchange losses, net	-234	-56
Interest to subsidiaries	-39	-31
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-33	
Impairment/loss on loans	-11	
Loss on other investments		-12
Fair value adjustment of share options and warrants	-6	-10
Interest element on discounted liabilities	-2	-2
	-509	-318
Interest on financial liabilities measured at amortized cost	-225	-240

Note 4 Tax on profit

DKKm

	2015	2016
Current tax expense	-100	-142
Change in deferred tax	16	-36
Adjustments concerning previous years	70	14
	-14	-164
Tax on profit is defined as:		
Tax on profit before tax	23.5%	22.0%
Tax-exempt income/non-deductible expenses	0.1%	0.2%
Dividends exempt of tax	-22.9%	-16.3%
Other taxes	0.3%	0.3%
Adjustments concerning previous years	-0.8%	-0.5%
Effective tax rate	0.2%	5.7%

	2015	2016
Tax on profit (income statement)	-14	-164
Tax on fair value adjustment of hedging instruments (other comprehensive income)	1	-8
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	1	-1
Total taxes	-12	-173

Note 5 Intangible assets

DKKm

	Goodwill	Software	Patents, trademarks,etc.	Development costs	**Total Other**	**TOTAL**
Cost as of January 1, 2015	462	496	312	147	955	1,417
Transfers		10	-8		2	2
Additions		191			191	191
Disposals		-1			-1	-1
Cost as of December 31, 2015	462	696	304	147	1,147	1,609
Amortization and impairment losses as of January 1, 2015		407	185	129	721	721
Transfers		1	-1			
Amortization		34	16	17	67	67
Impairments for the year		9			9	9
Disposals		-1			-1	-1
Amortization and impairment losses as of December 31, 2015		450	200	146	796	796
Carrying amount as of December 31, 2015	462	246	104	1	351	813
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

IMPAIRMENT TESTS

Goodwill in Danfoss A/S of DKK 462m (2015: 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 2016, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were perfomed on Danfoss A/S representing the base level of cash generating units (CGUs), to which the carrying amount of goodwill can be allocated with reasonable accuracy. The impairment test method is similar to the impairment test performed on 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 recovable amount lower than the carrying amount. The same conclusion was made for 2015.

Note 6 Property, plant and equipment

DKKm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2015	1,773	2,181	619	111	4,684
Transfers	25	37	3	-67	-2
Additions	35	29	19	130	213
Disposals	-1	-121	-53		-175
Cost as of December 31, 2015	1,832	2,126	588	174	4,720
Depreciation and impairment losses as of January 1, 2015	1,130	1,954	300		3,384
Depreciation	46	81	57		184
Disposals		-115	-53		-168
Depreciation and impairment losses as of December 31, 2015	1,176	1,920	304		3,400
Carrying amount as of December 31, 2015	656	206	284	174	1,320
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

Assets held under finance leases amounts to a total carrying amount of DKK 21m (2015: DKK 28m).

Note 7 Investments

DKKm	2015 Investments in subsidiaries	2015 Receivables from subsidiaries	2015 Investments in associates and joint ventures	2015 Other investments	2015 TOTAL	2016 Investments in subsidiaries	2016 Receivables from subsidiaries	2016 Investments in associates and joint ventures	2016 Other investments	2016 TOTAL
Costs as of January 1	13,650	83	2,346	134	16,213	16,904	5,532	2,346	134	24,916
Foreign exchange adjustments, etc.							158			158
Additions	3,299	5,470			8,769	2,102				2,102
Disposals	-45	-21			-66	-286	-30			-316
Costs as of December 31	16,904	5,532	2,346	134	24,916	18,720	5,660	2,346	134	26,860
Adjustments as of January 1	-1,092		-48	-104	-1,244	-1,084		-44	-102	-1,230
Value adjustment				2	2				-12	-12
Reversed impairment	60		4		64	51		4		55
Impairment for the year	-52				-52	-18		-2		-20
Disposal						126				126
Adjustments as of December 31	-1,084		-44	-102	-1,230	-925		-42	-114	-1,081
Carrying amount as of December 31	15,820	5,532	2,302	32	23,686	17,795	5,660	2,304	20	25,779

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

At the end of 2016, 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 2015.

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

Impairment losses for the year 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.

Additions for 2015 to "Investments in subsidiaries" is mainly a capital injection in Danfoss International A/S (Denmark). Disposal for 2015 of "Investments in subsidiaries" relates to the closing of Danfoss Heat Pumps UK Ltd. Disposal for 2015 of "Investments in subsidiaries" relates to the closing of Danfoss Heat Pumps UK Ltd.

Impairment losses for 2015 on "Investments in subsidiaries" of DKK 52m mainly relates to Danfoss District Heating S.R.L (Romania). 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 the Note 2 Financial income, Note 3 Financial expenses, Note 9 Financial risks and instruments, and Note 13 Related parties.

Note 8 Deferred tax

DKKm

CHANGES IN DEFERRED TAXES

	2015	2016
Deferred taxes as of January 1 (net) *)	-193	-237
Adjustments concerning previous years	-60	-10
Deferred tax recognized in the income statement	16	-36
Deferred tax recognized in other comprehensive income		-2
Deferred taxes as of December 31 (net) *)	-237	-285

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2015 Deferred tax asset	2016 Deferred tax asset
Current assets	21	
Liabilities	109	61
	130	61
Set-off within the same legal entities and jurisdiction	-130	-61
Deferred tax assets	0	0

	Deferred tax liability	Deferred tax liability
Intangible assets	46	52
Property, plant and equipment and financial assets	89	87
Current assets	11	23
Liabilities	148	119
Deferred tax regarding Danish joint taxation	73	65
	367	346
Set-off within the same legal entities and jurisdiction	-130	-61
Deferred tax liabilities	237	285

Of the deferred tax liability of DKK 285m (2015: 237m), DKK 65m (2015: 73m) 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 41m (2015: 73m). 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

	2015					2016				
			Maturity					Maturity		
	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	8,349	8,929	592	3,497	4,840	9,224	9,734	3,064	1,914	4,756
Mortgage debt	1,042	1,374	25	99	1,250	443	473	2	10	461
Borrowings from subsidiaries	5,705	5,705	5,705			6,537	6,537	6,537		
Finance lease liabilities	21	23	10	13		17	18	9	9	
Trade payables	708	708	708			925	925	925		
Trade payables to subsidiaries	97	97	97			84	84	84		
Debt to associates and joint ventures	18	18	18			21	21	21		
Derivative financial liabilities	245	278	227	51		86	147	109	38	
	16,185	17,132	7,382	3,660	6,090	17,337	17,939	10,751	1,971	5,217

*) 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 12 Contingent liabilities, assets and security.

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2015	2016
Non-current liabilities	8,939	6,733
Current liabilities	7,246	10,604
	16,185	17,337

Note 9 Financial risks and instruments (continued)

DKKm

FINANCIAL INSTRUMENTS BY CATEGORY

	2015		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	32	32	20	20
Financial assets measured at fair value in the income statement	32	32	20	20
Trade receivables	232	232	273	273
Trade receivables from subsidiaries	425	425	694	694
Short-term loans to subsidiaries	8,741	8,741	9,201	9,201
Other receivables	134	134	102	102
Loans and receivables	9,532	9,532	10,270	10,270
Interest-bearing debt	9,412	9,462	9,684	9,919
Debt to subsidiaries	97	97	84	84
Borrowing from subsidiaries	5,705	5,705	6,537	6,537
Trade payables and other debt	1,406	1,406	1,772	1,772
Financial liabilities measured at amortized cost	16,620	16,670	18,077	18,312
Derivative financial instruments for the hedging of future cash flows	42	42	7	7
Financial liabilites used as hedging instruments	42	42	7	7
Derivative financial instruments for financial hedging	203	203	79	79
Financial liabilities measured at fair value in the income statement	203	203	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 of 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 2015.

Note 9 Financial risks and instruments (continued)

DKKm

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

	2015				2016			
	Quoted prices	Observable input	Non observable input	In total	Quoted prices	Observable input	Non observable input	In total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
FINANCIAL ASSETS:								
Other investments			32	32			20	20
Total financial assets			32	32			20	20
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of future cash flows		42		42		7		7
Derivative financial instruments for financial hedging		203		203		79		79
Contingent consideration			25	25			19	19
Interest-bearing debt		9,462		9,462		9,919		9,919
Total financial liabilities		9,707	25	9,732		10,005	19	10,024

Note 9 Financial risks and instruments (continued)

DKKm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2015	2016
	Other investments Level 3	
Carrying amount as of January 1	30	32
Gain/loss (-) in the income statement	2	-12
Carrying amount as of December 31	32	20
Gain/loss (-) in the income statement for assets owned as of December 31	2	-12

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

DERIVATIVES AS OF DECEMBER 31 FOR DANFOSS A/S

	2015						2016					
	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	-3,082	-192	-192				-1,544	-39	-39			
EUR	-3,064	-13	-13				-3,288	1	1			
Other currencies	-307	1	1				187	-41	-41			
Forward exchange contracts		-204	-204					-79	-79			
Interest swaps	2,244	-43	-1	-14	-28		2,616	-7		-3	-4	
Derivatives end of year		-247	-205	-14	-28			-86	-79	-3	-4	

At the end of 2016, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to DKK -7m (2015: -42m).

Note 10 Corporation tax

DKKm

	2015	2016
Corporation tax payable/receivable (-) as of January 1	-30	-149
Paid during the year	-87	5
Adjustments concerning previous years	-130	-24
Current tax expenses in income statement	100	142
Current tax expenses in other comprehensive income	-2	7
Corporation tax payable/receivable (-) as of December 31	-149	-19
The above corporation tax is recorded as follows:		
Assets	149	19
	-149	-19

Note 11 Adjustment for non-cash transactions

DKKm

	2015	2016
Depreciation/amortization and impairment	260	251
Gain(-)/loss on disposal of tangible assets and business activities	-30	7
Financial income	-8,470	-2,699
Financial expenses	509	318
Other, including provisions	-3	-156
Adjustment for non-cash transactions	-7,734	-2,279

Note 12 Contingent liabilities, assets and security

DKKm

SECURITY

	2015	2016
Carrying amount of land and buildings pledged as security for bank loans and mortgages	637	653
Leasing assets pledged as security for leasing commitments	28	21
Secured loans from financial institutions	1,064	460

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

At the beginning of 2009, the European Commission's Directorate General for Competition along with a number of other competition authorities initiated investigations of, among others, Danfoss Household Compressors on suspicion of breach of competition regulations. These Investigations have all been concluded.
Civil lawsuits against Danfoss are still pending in Israel and North America, the outcomes of which are not yet known.

In addition, 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.

Note 12 Contingent liabilities, assets and security (continued)

DKKm

OPERATING LEASES (LEASE EXPENSES)

Operating lease payments fall due as follows:	2015	2016
Buildings:		
Less than 1 year	12	13
Between 1 and 5 years	29	42
More than 5 years	49	42
Equipment, etc.:		
Less than 1 year	27	35
Between 1 and 5 years	20	39

OPERATING LEASES (LEASE INCOME)

Operating lease payments fall due as follows:	2015	2016
Less than 1 year	12	10

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

CONTRACTUAL OBLIGATIONS

	2015	2016
Service contract commitment other than leases	211	441
Inventories	258	208
Property, plant and equipment	31	54
Hereof commitments relating to succeeding year	406	493

Note 13 Related parties

For more information about related parties, see Note 23 Related parties, in Group section.

DKKm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2015	2016
Sales of goods and services	3	4
Purchases of goods and services	79	103

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

	2015	2016
Sales of goods and services	7,007	7,670
Purchases of goods and services	2,750	2,969
Purchases of intangible assets and property, plant and equipment	28	
Disposal of intangible assets and property, plant and equipment	4	12

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 14 Events after the balance sheet date

Subsequent to December 31, 2016 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 15 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, 2016, comprises the financial statements of Danfoss A/S.

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

The Board of Directors and the Executive Committee reviewed and approved the Annual Report 2016 on March 2, 2017, and it will be presented for approval at the Annual General Meeting to be held on April 28, 2017.

Besides the following section, the accounting policies for Danfoss A/S are the same as for the Danfoss Group. Please refer to Note 25 in the consolidated financial statements for the Danfoss Group.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES
In Danfoss A/S' financial statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is made. If the recoverable amount is lower than cost, investments are writen 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 in 2016 and later. This reserve will be reversed as the development projects have effect on the income statements. The amount is presented net of deferred tax.

Note 16 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

Further information available
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