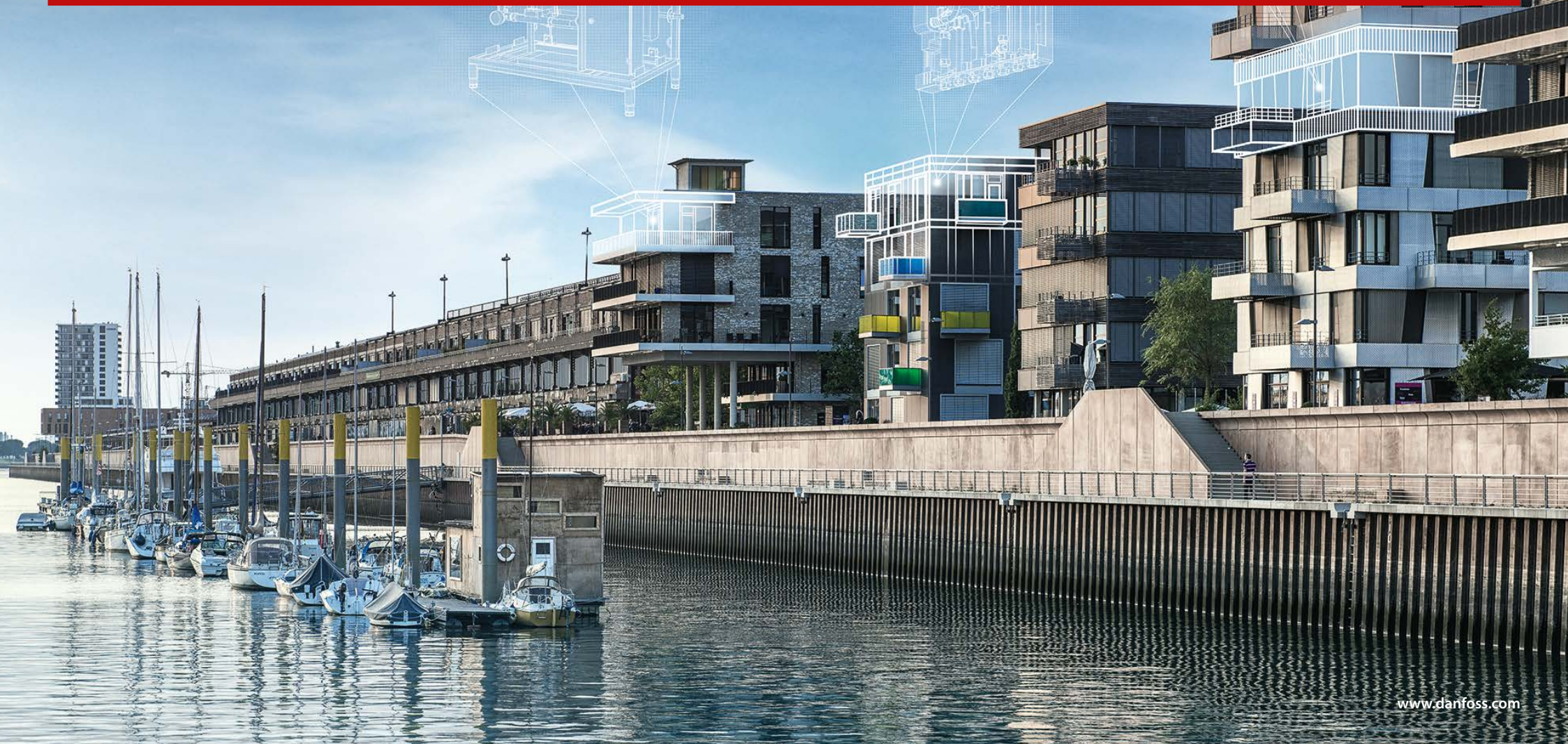


ENGINEERING  
TOMORROW

*Danfoss*

# Interim announcement

1<sup>st</sup> half-year 2017



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## Danfoss in brief

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

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

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

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## Highlights 1<sup>st</sup> half-year 2017

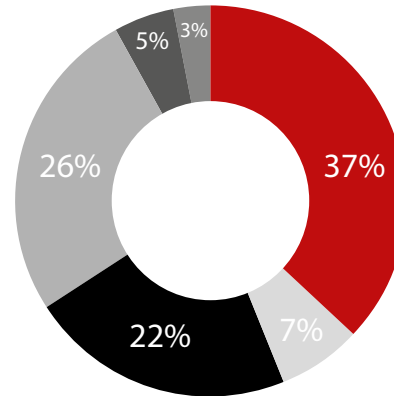
More than  
**25,000**  
employees globally

**69**  
factories in 20 countries

Products sold in more than  
**100**  
countries worldwide

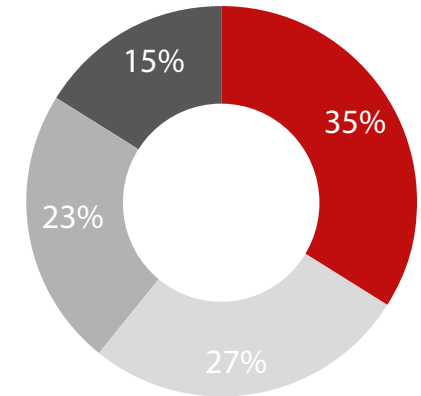
Sales split on regions – 1<sup>st</sup> half-year 2017

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

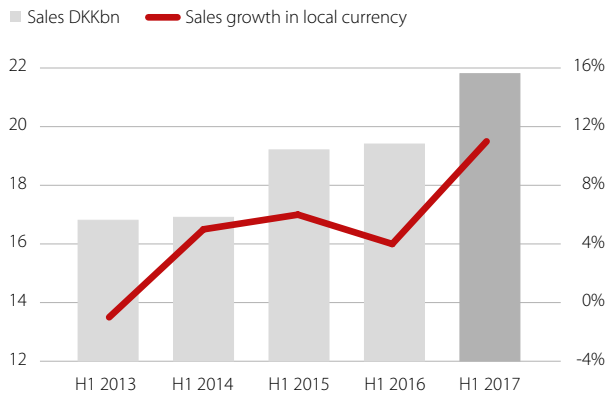


Sales split on segments – 1<sup>st</sup> half-year 2017

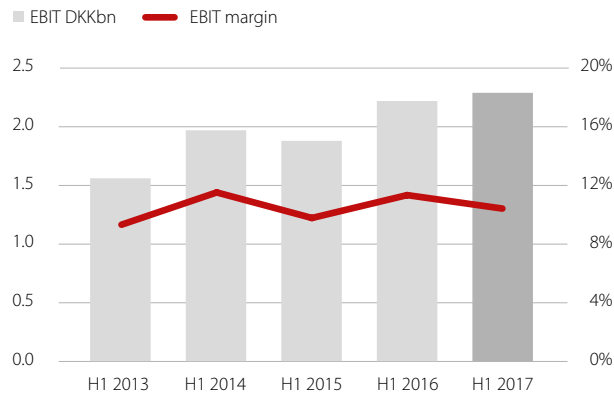
- Danfoss Power Solutions
- Danfoss Cooling
- Danfoss Drives
- Danfoss Heating



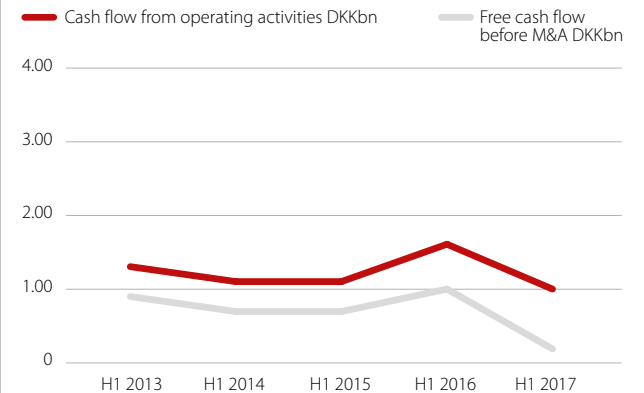
Sales and growth



Earnings



Cash flow



## Financial highlights

	DKKm		DKKm				EURm		
	Q2 2016	Q2 2017	Change in %	1st half-year 2016	1st half-year 2017	Change in %	2016	1st half-year 2016	1st half-year 2017
<b>Profit and loss account:</b>									
Net sales	9,972	11,144	12%	19,395	21,826	13%	39,247	2,603	2,935
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	1,697	1,814	7%	3,132	3,388	8%	6,240	420	456
Operating profit before depreciation, amortization and impairment (EBITDA)	1,680	1,692	1%	3,102	3,191	3%	6,076	416	429
Operating profit excl. other income and expenses, etc.	1,257	1,361	8%	2,242	2,473	10%	4,388	301	332
Operating profit (EBIT)	1,241	1,240	0%	2,212	2,276	3%	4,262	297	306
Financial items, net	-88	-131	-49%	-182	-198	9%	-324	-24	-27
Profit before tax	1,152	1,109	-4%	2,029	2,078	2%	3,938	272	279
Net profit	812	797	-2%	1,428	1,488	4%	2,935	192	200
<b>Balance sheet:</b>									
Total non-current assets				25,663	27,480	7%	28,162	3,450	3,695
Total assets				38,184	41,649	9%	40,567	5,133	5,600
Total shareholders' equity				15,851	17,639	11%	17,286	2,131	2,372
Net interest-bearing debt				9,484	10,038	6%	9,548	1,275	1,350
Net assets				22,813	25,233	11%	24,332	3,067	3,393
<b>Cash flow statement:</b>									
Cash flow from operating activities				1,596	980	-39%	5,161	214	132
Cash flow from investing activities				-643	-834	30%	-3,676	-86	-112
Acquisition of intangible assets and property, plant and equipment.				-588	-698	19%	-1,679	-79	-94
Acquisition of subsidiaries and activities				4	-83	***	-1,872	0	-11
Acquisition(-) and sale of other investments, etc.				-59	-53	-10%	-126	-7	-7
Free cash flow				953	147	-85%	1,485	128	20
Free cash flow before M&A				976	240	-75%	3,416	131	32
Cash flow from financing activities				-622	-205	67%	-1,302	-84	-28
<b>Key figures:</b>									
Local currency growth (%)	6	10	5	4	11	7	6	4	11
EBITDA margin excl. other operating income, etc. (%)	17.0	16.3	-0.7	16.1	15.5	-0.6	15.9	16.1	15.5
EBITDA margin (%)	16.8	15.2	-1.6	16.0	14.6	-1.4	15.5	16.0	14.6
EBIT margin excl. other operating income, etc. (%)	12.6	12.2	-0.4	11.6	11.3	-0.3	11.2	11.6	11.3
EBIT margin (%)	12.4	11.1	-1.3	11.4	10.4	-1.0	10.9	11.4	10.4
Equity ratio (%)				41.5	42.4	0.9	42.6	41.5	42.4
Leverage ratio (%)				59.8	56.9	-2.9	55.2	59.8	56.9
Net interest-bearing debt to EBITDA ratio				1.5	1.6	0.1	1.6	1.5	1.6
Number of employees (end of period)				23,517	25,828	2,311	25,292	23,517	25,828

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

# Financial **update**

The Danfoss Group continued the high growth in sales and achieved a satisfactory first half-year result. Earnings and cash flows were in line with expectations after high investments in digitalization and growth initiatives. Sales increased 13% to DKK 21,826m, corresponding to 11% local currency growth. Earnings (EBIT) improved to DKK 2,276m, corresponding to an EBIT margin of 10.4%. Outlook for 2017 is confirmed.

## Sales

The first six months of 2017 were characterized by strong top line growth. Sales grew DKK 2,431m to DKK 21,826m (H1 2016: DKK 19,395m), corresponding to local currency growth of 11% (H1 2016: 4%). The reported growth was 13% after a positive currency impact of 2%.

All business segments contributed to the high sales growth, and particularly Danfoss Power Solutions performed strongly. The sales performance was driven by targeted growth initiatives, which include, among other things, new application development centers and strategic refocusing of sales activities towards specific vertical markets to take market share. Furthermore, the Group sales benefited from the acquisitions of Sondex and White Drive Products, which were completed in 2016. In addition, some markets saw improvement, due to increasing investment levels, but on the

other hand, some markets were impacted by low visibility and uncertainty.

## Earnings

Operating profit excluding other income and expenses improved 10% to DKK 2,473m (H1 2016: DKK 2,242m). Operating profit (EBIT) improved 3% to DKK 2,276m (H1 2016: DKK 2,212m), leading to an EBIT margin of 10.4% (H1 2016: 11.4%). EBIT was impacted by increased investments in digitalization, growth initiatives, and recently acquired activities, which temporarily dilute margins.

Net profit was up 4% to DKK 1,488m (H1 2016: DKK 1,428m), mainly driven by the EBIT improvement.

## Balance sheet

At June 30, 2017, total assets were up 9% to DKK 41,649m (H1

## Development in key markets

Danfoss had a positive development in several markets, and some markets saw improvements from increased activity levels. Danfoss is well positioned to benefit from the global growth picking up, which was demonstrated by the strong sales performance in the first six months of 2017.

In **Europe**, Danfoss continued the positive development, especially with growing momentum in the Northern and Southern European countries. Growth is driven by Danfoss Cooling, but all business segments are performing well in Europe. In Russia, Danfoss is again seeing growth.

In **North America**, the mixed market conditions across business segments have continued. Growth is driven by Danfoss Power Solutions, which is recording a strengthening of the US market, especially in the distribution business, while Danfoss Drives is also doing well in the region.

In **Asia-Pacific**, growth is driven by high double-digit growth rates in China, supported by the strong political focus on energy efficiency and reduction of carbon emissions (CO<sub>2</sub>). Also, other countries in the region continue to grow, such as Korea and Japan, while India continues with double-digit growth rates. Growth was driven by a strong performance in all business segments, led by Danfoss Power Solutions and Danfoss Cooling.

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

In **Africa-Middle East**, the performance was driven by Danfoss Heating, mainly in Turkey, and positive developments in Danfoss Drives. Some markets in the region were impacted by low visibility and uncertainty.

2016: DKK 38,184m). The higher level can primarily be ascribed to the acquisitions and higher activity level. Equity increased 11% to DKK 17,639m (H1 2016: DKK 15,851m), mainly due to accumulated profits. Consequently, the equity ratio was 42.4% (H1 2016: 41.5%).

Net interest-bearing debt increased to DKK 10,038m (H1 2016: DKK 9,484m), leading to a net interest-bearing debt to EBITDA ratio of 1.6 (H1 2016: 1.5). The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook.

#### **Cash flows**

Cash flow from operating activities amounted to DKK 980m (H1 2016: DKK 1,596m). The lower level is mainly attributable to the higher activity level, leading to increased inventories and receivables. Cash flow from investing activities totaled DKK -834m (H1 2016: DKK -643), mainly due to increased investments in digitalization and production capacity.

Free cash flow before mergers and acquisitions was DKK 240m (H1 2016: DKK 976m), as the EBIT improvement was offset by the changes in working capital and increased investments. Thus, free cash flow totaled DKK 147m (H1 2016: DKK 953m).

#### **Innovation**

In the first six months of 2017, the research and development spend increased to DKK 891m (H1 2016: 815m), corresponding to 4.1% of sales (H1 2016: 4.2%).

During the second quarter 2017, Danfoss announced

the acquisition of the software company Prosa, which is specialized in IoT (Internet of Things) and user interface design. The acquisition will help Danfoss to expand the development and offering of connectivity solutions for cold rooms within food and beverage equipment.

In addition, Danfoss acquired the Kavlico thin film sensor technology, which is used for higher application temperature and pressure, e.g. within mobile hydraulics and industrial engines. The acquisition will further strengthen the Danfoss portfolio with new technology.

#### **Employees**

At June 30, 2017, the Danfoss Group had 25,828 employees against 25,292 at the beginning of 2017.

#### **Management change**

As of July 1, 2017, Kim Fausing took over as President & CEO. He will continue the Danfoss strategy, focusing on profitable growth and digitalization.

#### **Events occurring after the balance sheet date**

No significant events occurred after June 30, 2017.

## **Outlook for 2017 confirmed**

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

#### **Expectations for 2017**

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

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

#### **Forward-looking statements**

This interim announcement includes forward-looking statements, which are subject to risks and uncertainties, because various factors, many of which are beyond Danfoss' control, may cause actual developments and results to differ materially from the expectations set out in the interim announcement. Reference is made to the forward-looking statements in the Annual Report 2016.

## Business segments review

### Danfoss **Power Solutions**



Leading player and industry pioneer in the mobile hydraulics market.

#### **Financial performance 1<sup>st</sup> half-year 2017**

Danfoss Power Solutions delivered a very strong performance with sales and profitability above the prior-year level, including the impact from the acquisition of White Drive Products. The strong earnings were driven by the increased sales and a healthy contribution margin.

#### **Market developments 1<sup>st</sup> half-year 2017**

The mobile hydraulics market showed growth traction within distribution and global construction. Danfoss Power Solutions delivered growth in all regions. The main North America market showed good growth, while China, Brazil, and the countries in the Turkey, Middle East and Africa region contributed with high double-digit growth rates.

### Danfoss **Cooling**



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

#### **Financial performance 1<sup>st</sup> half-year 2017**

Danfoss Cooling delivered a satisfactory performance with sales above and profitability slightly below the prior-year level on the back of strong comparative figures.

#### **Market developments 1<sup>st</sup> half-year 2017**

Danfoss Cooling saw a mixed performance across regions and product categories with high double-digit growth rates in China and India and low growth in North America. The Southern and Northern European countries performed well.

### Danfoss **Drives**



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

#### **Financial performance 1<sup>st</sup> half-year 2017**

Danfoss Drives continued the positive development with sales above the prior-year level and profitability on level with last year.

#### **Market developments 1<sup>st</sup> half-year 2017**

The global drives market continued to show some growth traction within several heavy industry sectors. Danfoss Drives delivered growth in most regions, led by double-digit growth rates in China and other countries in the Asia-Pacific region, while North America and the Northern and Southern European countries showed good growth.

### Danfoss **Heating**



Market leader within residential and commercial heating and district energy.

#### **Financial performance 1<sup>st</sup> half-year 2017**

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

#### **Market developments 1<sup>st</sup> half-year 2017**

Danfoss Heating maintained momentum and realized sales growth in most parts of Europe as well as in China. Sales in Russia were improving, but still impacted by challenging market conditions within construction, new build, and renovation.

## Financial highlights, Quarterly

	DKKkm							
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017	
<b>Profit and loss account</b>								
Net sales	9,423	9,972	9,729	10,123	39,247	10,682	11,144	
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	1,435	1,697	1,731	1,377	6,240	1,574	1,814	
Operating profit before depreciation, amortization and impairment (EBITDA)	1,422	1,680	1,695	1,279	6,076	1,499	1,692	
Operating profit excl. other income and expenses, etc.	984	1,257	1,262	885	4,388	1,112	1,361	
Operating profit (EBIT)	971	1,241	1,250	800	4,262	1,036	1,240	
Financial items, net	-94	-88	-71	-71	-324	-67	-131	
Profit before tax	877	1,152	1,180	729	3,938	969	1,109	
Net profit	616	812	822	685	2,935	691	797	
<b>Balance sheet</b>								
Total non-current assets	25,560	25,663	27,473	28,162	28,162	27,998	27,480	
Total assets	37,568	38,184	40,517	40,567	40,567	42,210	41,649	
Total shareholders' equity	15,880	15,851	16,574	17,286	17,286	18,023	17,639	
Net interest-bearing debt	9,301	9,484	10,244	9,548	9,548	9,340	10,038	
Net assets	22,733	22,813	24,319	24,332	24,332	24,901	25,233	
<b>Cash flow statement (YTD)</b>								
Cash flow from operating activities	439	1,596	3,412	5,161	5,161	528	980	
Cash flow from investing activities	-244	-643	-2,889	-3,676	-3,676	-386	-834	
Acquisition of intangible assets and property, plant and equipment	-240	-588	-949	-1,679	-1,679	-367	-698	
Acquisition of subsidiaries and activities	0	4	-1,868	-1,872	-1,872	-7	-83	
Acquisition(-) and sale of other investments, etc.	-5	-59	-72	-126	-126	-12	-53	
Free cash flow	195	953	523	1,485	1,485	143	147	
Free cash flow before M&A	195	976	2,428	3,416	3,146	151	240	
Cash flow from financing activities	4	-622	-239	-1,302	-1,302	-22	-205	
<b>Key figures</b>								
Local currency growth (%)	2	6	5	9	6	11	10	
EBITDA margin excl. other operating income, etc. (%)	15.2	17.0	17.8	13.6	15.9	14.7	16.3	
EBITDA margin (%)	15.1	16.8	17.4	12.6	15.5	14.0	15.2	
EBIT margin excl. other operating income, etc. (%)	10.4	12.6	13.0	8.7	11.2	10.4	12.2	
EBIT margin (%)	10.3	12.4	12.9	7.9	10.9	9.7	11.1	
Equity ratio (%)	42.3	41.5	40.9	42.6	42.6	42.7	42.4	
Leverage ratio (%)	58.6	59.8	61.8	55.2	55.2	51.8	56.9	
Net interest-bearing debt to EBITDA ratio	1.5	1.5	1.6	1.6	1.6	1.5	1.6	





## Financial highlights, Quarterly

	DKKkm							
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017	
<b>Geographical segments</b>								
<b>Total net sales</b>								
Western Europe	3,814	3,903	3,702	3,793	15,212	4,119	4,071	
Eastern Europe	658	810	969	929	3,366	742	884	
Asia-Pacific	1,698	2,062	2,193	2,293	8,246	2,219	2,549	
North America	2,585	2,434	2,119	2,212	9,350	2,830	2,821	
Latin America	414	445	492	499	1,850	504	496	
Africa-Middle East	254	318	254	397	1,223	268	323	
Total	9,423	9,972	9,729	10,123	39,247	10,682	11,144	
<b>Number of employees</b>								
Western Europe	9,471	9,483	9,677	9,858	9,858	9,972	10,082	
Eastern Europe	3,874	3,900	4,450	4,426	4,426	4,456	4,555	
Asia-Pacific	5,157	5,212	5,899	5,809	5,809	5,644	5,681	
North America	3,402	3,411	3,671	3,675	3,675	3,960	3,969	
Latin America	1,207	1,301	1,274	1,281	1,281	1,276	1,316	
Africa-Middle East	205	210	263	243	243	220	225	
Total	23,316	23,517	25,234	25,292	25,292	25,528	25,828	

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

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Further information available  
on Danfoss' website: [www.danfoss.com](http://www.danfoss.com)

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