

ENGINEERING  
TOMORROW

*Danfoss*

# Interim announcement

## First half 2018





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## Danfoss in brief

Danfoss engineers advanced technologies that enable us to build a better, smarter and more efficient tomorrow. In the world's growing cities, we enable the supply of fresh food and optimal comfort in our homes and offices, while meeting the need for energy-efficient infrastructure, connected systems and integrated renewable energy. Our solutions are used in areas such as refrigeration, air conditioning, heating, motor control and mobile machinery.

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- and medium-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.

Our innovative engineering dates back to 1933 and today Danfoss holds market-leading positions, employing more than 27,000 people, and serving customers in more than 100 countries. We are privately held by the founding family. Read more about us at [www.danfoss.com](http://www.danfoss.com)

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### EUR as presentation currency

As of 2018, Danfoss has changed its presentation currency from DKK to EUR. The transition reflects that the main part of the Group's revenue is generated outside Denmark and that EUR is the prevailing functional currency within the Group. Consequently, the financial announcements in 2018 are published in EUR. Comparative figures have been restated accordingly.

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### Forward-looking statements

This quarterly announcement includes forward-looking statements, which are subject to risks and uncertainties, because various factors, many of which are beyond Danfoss' control, may cause actual developments and results to differ materially from the expectations set out in the quarterly announcement. Reference is made to the forward-looking statements in the Annual Report 2017.

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## Highlights 1st half 2018

27,141  
employees globally



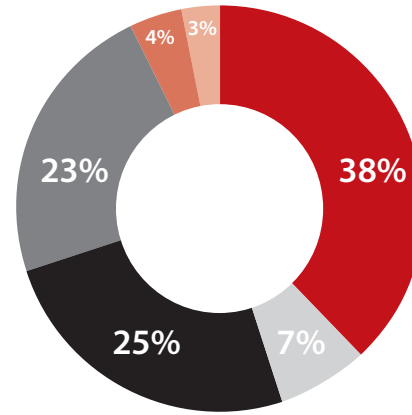
72  
factories in 20 countries



Products sold in more than  
100  
countries worldwide

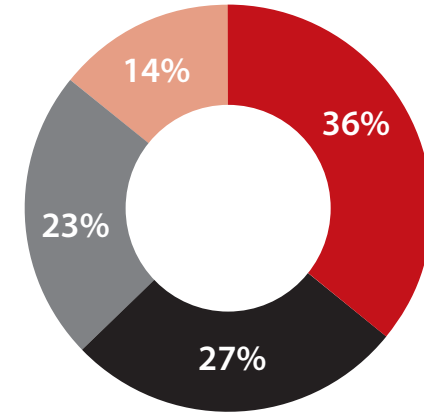


Sales split on regions – 1st half 2018



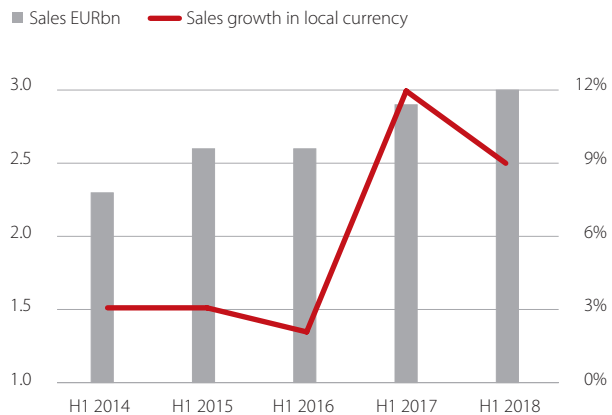
■ Western Europe    ■ North America    ■ Latin America  
■ Eastern Europe    ■ Asia-Pacific    ■ Africa – Middle East

Sales split on segments – 1st half 2018

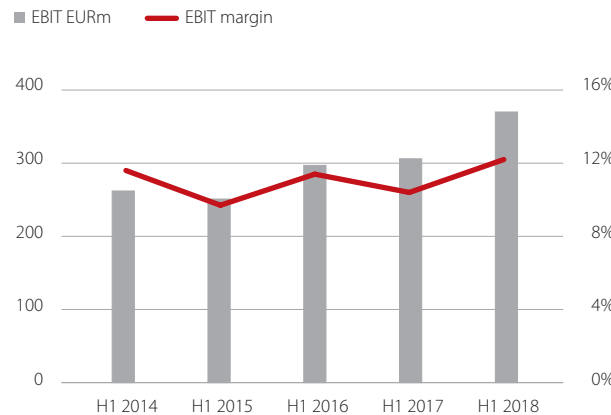


■ Danfoss Power Solutions    ■ Danfoss Drives  
■ Danfoss Cooling    ■ Danfoss Heating

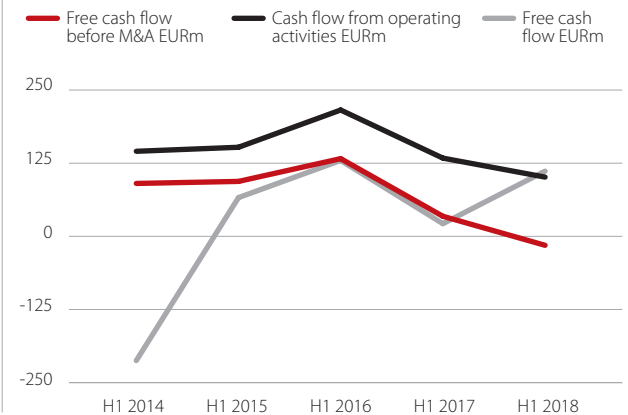
Sales and growth



Earnings



Cash flow



## Financial highlights

	EURm						DKKm	
	Q2 2017	Q2 2018	Change in %	1st half-year 2017	1st half-year 2018	Change	1st half-year 2017	1st half-year 2018
<b>Profit and loss account:</b>								
Net sales	1,498	1,567	5%	2,935	3,041	4%	21,826	22,647
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	244	245	0%	456	477	5%	3,388	3,553
Operating profit before depreciation, amortization and impairment (EBITDA)	227	266	17%	429	490	14%	3,191	3,645
Operating profit excl. other income and expenses, etc.	183	184	1%	333	358	8%	2,473	2,667
Operating profit (EBIT)	167	204	22%	306	370	21%	2,276	2,757
Financial items, net	-18	-12	33%	-27	-22	-19%	-198	-166
Profit before tax	149	192	29%	279	348	25%	2,078	2,591
Net profit	107	140	31%	200	253	27%	1,488	1,882
<b>Balance sheet:</b>								
Total non-current assets				3,725	3,847	3%	27,704	28,687
Total assets				5,600	5,821	4%	41,649	43,415
Total shareholders' equity				2,372	2,471	4%	17,639	18,439
Net interest-bearing debt				1,350	1,269	-6%	10,038	9,467
Net assets				3,393	3,410	1%	25,233	25,429
<b>Cash flow statement:</b>								
Cash flow from operating activities				132	99	-25%	980	779
Cash flow from investing activities				-112	11	-110%	-834	76
Acquisition of intangible assets and property, plant and equipment.				-94	-111	18%	-698	-832
Acquisition of/Proceeds from disposal of subsidiaries and activities				-11	131	***	-83	977
Acquisition(-) and sale of other investments, etc.				-7	-9	29%	-53	-69
Free cash flow				20	110	***	147	854
Free cash flow before M&A				32	-17	***	240	-95
Cash flow from financing activities				-28	-115	***	-205	-870
<b>Financial ratios</b>								
Local currency growth (%)	11	8	-3	11	9	-2	11	9
EBITDA margin excl. other operating income, etc. (%)	16.3	15.7	-0.6	15.5	15.7	0.2	15.5	15.7
EBITDA margin (%)	15.2	17.0	1.8	14.6	16.1	1.5	14.6	16.1
EBIT margin excl. other operating income, etc. (%)	12.2	11.8	-0.4	11.3	11.8	0.5	11.3	11.8
EBIT margin (%)	11.1	13.0	1.9	10.4	12.2	1.8	10.4	12.2
Equity ratio (%)				42.4	42.5	0.1	42.4	42.5
Leverage ratio (%)				56.9	51.3	-5.6	56.9	51.3
Net interest-bearing debt to EBITDA ratio				1.6	1.3	-0.3	1.6	1.3
Number of employees (end of period)				25,828	27,141	1,313	25,828	27,141

Key figures and financial ratios are calculated in accordance with "Recommendations & Financial Ratios 2015" published by the Danish Finance Society, and supplemented by certain key ratios defined in Note 26 in the Annual Report 2017.

As of March 31, 2018, financial announcements are published in EUR and comparative figures have been restated accordingly.

# Financial **update**

In the first six months of 2018, the Danfoss Group continued the strong growth momentum with significantly improved profitability. 9% growth in local currency led to sales of EUR 3,041m. Earnings (EBIT) improved 21% to EUR 370m, corresponding to an EBIT margin of 12.2%, driven by the increased sales and the gain from the divestment of Thermia. The cash generation was according to plan. Outlook 2018 is maintained, related to increased uncertainty expected for the second half of 2018.

## Sales

The strong growth, which characterized 2017 and the first quarter of 2018 continued in the second quarter of 2018, resulting in a first half-year characterized by strong growth in local currency of 9%. Net sales grew EUR 106m to EUR 3,041m (H1 2017: EUR 2,935m). The reported growth was 4% after a negative currency impact of -5%, mainly due to a significant decline in the US dollar.

The high sales growth was generated across the Danfoss business segments, and particularly Danfoss Power Solutions performed strongly. In a regional perspective, the Asia-Pacific region had the highest impact on the growth performance, driven by continued strong growth in China. Also, the mature markets in the North America and Western Europe regions were among the top contributors to growth.

## Earnings

Operating profit (EBIT) improved by EUR 64m to EUR 370m (H1 2017: EUR 306m), leading to an EBIT margin of 12.2% (H1 2017: 10.4%). The EBIT improvement of 21% was driven by the higher top line and the gain from the divestment of Thermia.

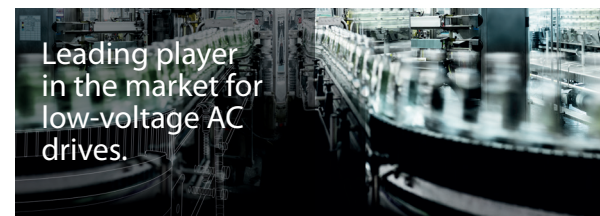
## Development in the business segments

### Danfoss **Power Solutions**



Danfoss Power Solutions delivered significant sales growth and a profitability on par with the same period last year. Growth was driven by successful growth initiatives and continued upturn in the off-highway market, in particular within global construction and road building. The segment delivered growth across the world with Asia-Pacific, North America and Western Europe being significant growth drivers.

### Danfoss **Drives**



Danfoss Drives delivered high sales growth and profitability well above the same period last year, driven by a strong performance within the drives part of the segment. The segment saw growth across the world and North America and Western Europe were significant growth drivers.

### Danfoss **Cooling**



Danfoss Cooling delivered solid growth and a profitability above the same period last year. The sales performance varied across the product categories and regions, as some markets are fast-growing and others characterized by lower growth. The segment saw the highest growth rates in the Asia-Pacific and Western Europe regions.

### Danfoss **Heating**



Danfoss Heating delivered solid sales growth and a profitability well above the same period last year, driven by the gain from the divestment of the heat pump business Thermia. Sales increased in most regions with high impact from the Asia Pacific and Western Europe regions.

Net profit was up 27% to EUR 253m (H1 2017: EUR 200m), mainly driven by the EBIT improvement.

### Balance sheet

At June 30, 2018, total assets had increased 4% to EUR 5,821m (H1 2017: EUR 5,600m) as a result of the higher activity level. Equity increased 4% to EUR 2,471m (H1 2017: EUR 2,372m), mainly due to the improved earnings. Consequently, the equity ratio increased to 42.5% (H1 2017: 42.4%).

Net interest-bearing debt was reduced by 6% to EUR 1,269m (H1 2017: EUR 1,350m), leading to a net interest-bearing debt to EBITDA ratio of 1.3 (H1 2017: 1.6). The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook.

### Cash flow

In the first six months of 2018, the free cash flow amounted to EUR 110m (H1 2017: EUR 20m), mainly due to the effect of the divestment of Thermia.

The cash flow from operating activities amounted to EUR 99m (H1 2017: EUR 132m). The lower level is mainly attributable to the planned one-off export VAT payment in the first quarter of 2018, following a legislative change in Denmark, in addition to the higher activity level, leading to increased inventories and receivables.

Consequently, the free cash flow before mergers and acquisitions was EUR -17m (H1 2017: EUR 32m), as the EBIT improvement was offset by the higher trade working capital, driven by further growth, and increased investments in digitalization and production capacity. The cash flow from financing activities was EUR -115m (H1 2017: EUR -28m), mainly due to repurchase of own shares.

### Innovation

In the first six months of 2018, the research and development spend increased 5% to EUR 126m (H1 2017: EUR 120m), corresponding to 4.1% of sales (H1 2017: 4.1%).

### Employees

At June 30, 2018, the number of employees had increased by 1,313 to 27,141 employees, mainly due to the higher activity level.

### Events occurring after the balance sheet date

At July 12, 2018, Danfoss announced the agreement to acquire the Remote Control business, currently owned by the Spanish company Ikusi. The Remote Control business includes equipment and technologies for wireless operation and control of truck-mounted cranes, winches, off-road machines, and other applications. The acquisition reflects Danfoss' strategic focus on utilizing connectivity as a competitive advantage.

### Outlook 2018

Despite the strong performance in the first half of 2018, Danfoss maintains the outlook for 2018, driven by increased uncertainty for the second half of the year, created by the ongoing trade conflicts.

For the global industrial sector, the growth projections have improved in the first half of 2018. However, the visibility for the second half of 2018 remains low, as the current global geopolitical environment is characterized by continued uncertainty. Accordingly, sudden changes in the key regions and significant markets of Danfoss could have a negative impact on the Group's performance.

Based on this, for 2018, management expects to maintain or expand its market share, while maintaining profitability measured as margin at 2017 level, following significant investments in digitalization.

The outlook is unchanged relative to the outlook for 2018 published in the Annual Report 2017.

## Development in key regions

In the first six months of 2018, Danfoss saw growth in most sectors and markets. In a regional perspective, the main growth drivers were the Asia-Pacific, North America and Western Europe regions.



In **Asia-Pacific**, growth was driven by continued strong growth in China across all the business segments, driven by own growth initiatives. The demand in China is supported by increasing investment levels, most significantly within construction and road building, in addition to a strong political focus on energy efficiency and reduction of carbon emissions (CO<sub>2</sub>), which is benefiting the Danfoss business in general.

In **North America**, growth was driven by the Danfoss Power Solutions segment. For Danfoss Power Solutions, specifically, the growth was driven by continued high activity levels within construction and road building.

In **Western Europe**, the growth was driven by the Danfoss Power Solutions and Danfoss Drives segments, benefiting from own growth initiatives. Growth was driven by increasing investment levels within infrastructure in general, which is benefiting the sales of Danfoss components and systems across the business segments.

## Financial highlights, Quarterly

	EURm						
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	Q1 2018	Q2 2018
<b>Profit and loss account</b>							
Net sales	1,437	1,498	1,432	1,460	5,827	1,474	1,567
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	212	244	261	206	923	232	245
Operating profit before depreciation, amortization and impairment (EBITDA)	202	227	244	210	883	224	266
Operating profit excl. other income and expenses, etc.	150	183	203	149	685	174	184
Operating profit (EBIT)	139	167	187	152	645	166	204
Financial items, net	-9	-18	-12	-10	-49	-10	-12
Profit before tax	130	149	175	142	596	156	192
Net profit	93	107	126	119	445	113	140
<b>Balance sheet</b>							
Total non-current assets	3,792	3,725	3,696	3,883	3,883	3,890	3,847
Total assets	5,675	5,600	5,556	5,583	5,583	5,804	5,821
Total shareholders' equity	2,423	2,372	2,466	2,569	2,569	2,679	2,471
Net interest-bearing debt	1,256	1,350	1,171	1,050	1,050	1,037	1,269
Net assets	3,348	3,393	3,306	3,291	3,291	3,388	3,410
<b>Cash flow statement (YTD)</b>							
Cash flow from operating activities	71	132	361	742	742	48	99
Cash flow from investing activities	-52	-112	-172	-405	-405	-48	11
Acquisition of intangible assets and property, plant and equipment	-49	-94	-152	-281	-281	-49	-111
Acquisition of/Proceeds from disposal of subsidiaries and activities	-1	-11	-13	-103	-103	0	131
Acquisition(-) and sale of other investments, etc.	-2	-7	-7	-21	-21	1	-9
Free cash flow	19	20	189	337	337	0	110
Free cash flow before M&A	20	32	203	444	444	0	-17
Cash flow from financing activities	-3	-28	-210	-373	-373	2	-115
<b>Financial ratios</b>							
Local currency growth (%)	12	11	13	12	12	9	8
EBITDA margin excl. other operating income, etc. (%)	14.7	16.3	18.2	14.2	15.8	15.7	15.7
EBITDA margin (%)	14.0	15.2	17.0	14.4	15.2	15.2	17.0
EBIT margin excl. other operating income, etc. (%)	10.4	12.2	14.2	10.2	11.8	11.8	11.8
EBIT margin (%)	9.7	11.1	13.0	10.4	11.1	11.3	13.0
Equity ratio (%)	42.7	42.4	44.4	46.0	46.0	46.2	42.5
Leverage ratio (%)	51.8	56.9	47.5	40.9	40.9	38.7	51.3
Net interest-bearing debt to EBITDA ratio	1.5	1.6	1.4	1.2	1.2	1.1	1.3
Number of employees	25,528	25,828	26,161	26,645	26,645	26,926	27,141

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

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