

ENGINEERING  
TOMORROW

*Danfoss*

# Interim announcement

## 1<sup>st</sup> half-year 2019



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## Danfoss in brief

The world stands on the verge of a sustainable transformation. Today, we have proven and reliable solutions to meet many of our climate, urbanization and food challenges, and we are just getting started. Driven by the power of an electrified society, and fueled by the opportunities of going digital, Danfoss is dedicated to engineering solutions that can unleash the potential of tomorrow.

Across the globe, our sustainable, smart technologies power industries and cities, are securing a reliable food supply, and creating healthier, more comfortable indoor climates. At the same time, we're developing solutions that integrate renewables into tomorrow's smart energy systems, where on- and off-highway machinery and shipping are powered by hybrid and electric motors.

This is where the transformation starts – in the way we heat, cool, connect and feed a growing population. With our customers, we help make a greener and better future a reality. So that together we are engineering tomorrow.

Danfoss is a global Group, 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 electronic controls for powering off-highway vehicles used in construction, agriculture and road-building industries. Danfoss Cooling is a market leader in the air-conditioning and refrigeration industry. Danfoss Drives is a leading player within low – and medium – voltage AC drives, power modules and stacks for several industries. Danfoss Heating enjoys leading positions within residential and commercial heating as well as district energy.

Danfoss is a privately owned company, founded by Mads Clausen in 1933. Today, the company is controlled by Bitten & Mads Clausen's Foundation.

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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 2018.

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## Highlights 1<sup>st</sup> half-year 2019

27,918  
employees globally



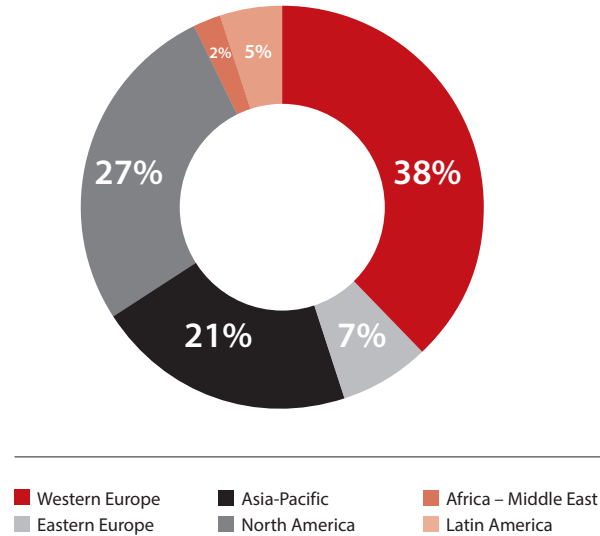
71  
factories in 20 countries



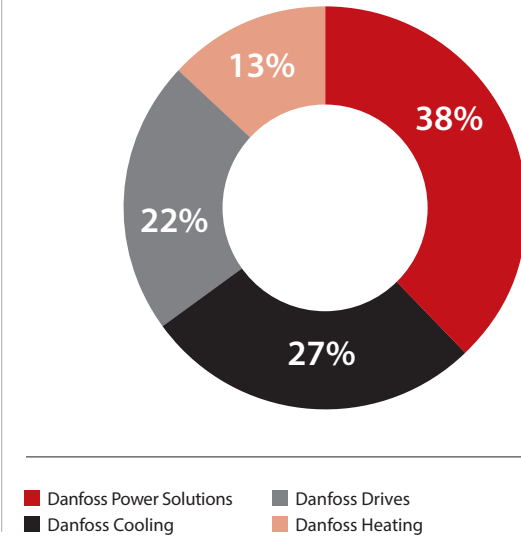
Products sold in more than  
100  
countries worldwide



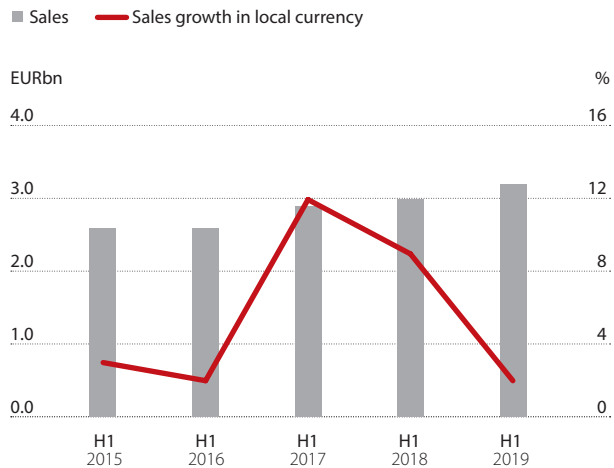
Sales split by region – 1<sup>st</sup> half-year 2019



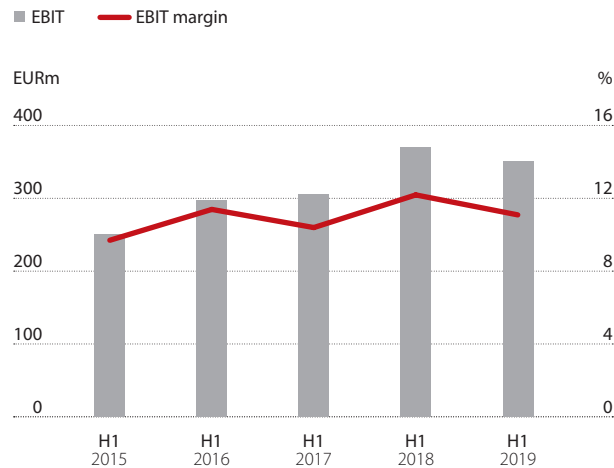
Sales split by segment – 1<sup>st</sup> half-year 2019



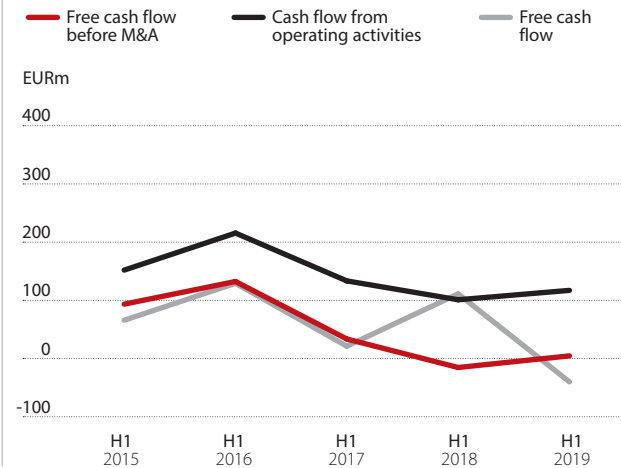
Sales and growth



Earnings



Cash flow





## Financial highlights

	EURm						DKKm	
	Q2 2018	Q2 2019	Change in %	1st half-year 2018	1st half-year 2019	Change	1st half-year 2018	1st half-year 2019
<b>Profit and loss account:</b>								
Net sales	1,567	1,603	2%	3,041	3,166	4%	22,646	23,634
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	245	266	9%	477	507	6%	3,553	3,787
Operating profit before depreciation, amortization and impairment (EBITDA)	266	272	2%	488	511	5%	3,633	3,817
Operating profit excl. other income and expenses, etc.	184	186	1%	358	349	-3%	2,669	2,604
Operating profit (EBIT)	204	190	-7%	370	351	-5%	2,757	2,618
Financial items, net	-12	-9	25%	-22	-17	-23%	-166	-128
Profit before tax	192	181	-6%	348	333	-4%	2,591	2,490
Net profit	140	132	-6%	253	242	-4%	1,882	1,803
<b>Balance sheet:</b>								
Total non-current assets				3,847	4,088	6%	28,670	30,508
Total assets				5,821	6,138	5%	43,381	45,808
Total shareholders' equity				2,471	2,764	12%	18,417	20,632
Net interest-bearing debt				1,269	1,318	4%	9,457	9,840
<b>Cash flow statement:</b>								
Cash flow from operating activities				99	115	16%	740	862
Cash flow from investing activities				11	-157	***	77	-1,174
Acquisition of intangible assets and property, plant and equipment.				-111	-115	4%	-829	-852
Acquisition of/Proceeds from disposal of subsidiaries and activities				131	-45	***	975	-336
Acquisition(-) and sale of other investments, etc.				-9	3	***	-69	14
Free cash flow				110	-42	***	817	-311
Free cash flow before M&A				-17	3	***	-130	25
Cash flow from financing activities				-115	24	***	-851	178
<b>Financial ratios</b>								
Local currency growth (%)	8	0	-8	9	2	-7	9	2
EBITDA margin excl. other operating income, etc. (%)	15.7	16.6	0.9	15.7	16.0	0.3	15.7	16.0
EBITDA margin (%)	17.0	16.9	-0.1	16.0	16.2	0.2	16.0	16.2
EBIT margin excl. other operating income, etc. (%)	11.8	11.6	-0.2	11.8	11.0	-0.8	11.8	11.0
EBIT margin (%)	13.0	11.9	-1.1	12.2	11.1	-1.1	12.2	11.1
Equity ratio (%)				42.5	45.0	2.5	42.5	45.0
Leverage ratio (%)				51.3	47.7	-3.6	51.3	47.7
Net interest-bearing debt to EBITDA ratio				1.4	1.4	0.0	1.4	1.4
Number of employees (end of period)				27,141	27,918	777	27,141	27,918

Key figures and financial ratios are calculated as defined in Note 25 in the Annual Report for 2018.

As of 1, January 2019, Danfoss applies to IFRS 16 'Leases'. Rights-of-use assets and lease liabilities have been recognized for those leases previously classified as operating leases. Danfoss has chosen not to restate comparative figures in the first-time application of the new policy. The implementation of IFRS 16 has resulted in an increase of property, plant and equipment of EUR 126m and lease liabilities of EUR 134m as of June 30, 2019. In the first half-year 2019, the change in policy has no material impact on the income statement. The first half-year 2019 EBITDA increased by EUR 27m, due to reporting change of expenses of rights-of-use assets under depreciation. The first half-year 2019 free cash flow increased by EUR 27m as repayment of lease liabilities are included in the cash flow from financing activities.

# Financial update

Danfoss had a solid first half-year and the financial results for the first six months of 2019 were in line with expectations. Net sales increased 4% to EUR 3,166m with a growth in local currency of 2%. After continued high investments in innovation and new technology, operating profit (EBIT) amounted to EUR 351m with an EBIT margin of 11.1%. Outlook for 2019 is confirmed.

## Sales

Net sales grew EUR 125m to EUR 3,166m (H1 2018: 3,041m). The reported growth was 4% after a positive currency impact of 2%. Growth in local currency was 2%, driven by Danfoss Power Solutions and Danfoss Cooling, which are, however, growing at a slower pace than last year.

Six months into the year, Danfoss' expectations of a more volatile business environment leading to slowing growth rates have been confirmed. Growth rates have become flat in the second quarter of 2019, reflecting the cyclical nature in some of the Danfoss businesses. Danfoss continued to drive solid growth in North America and Europe, which nevertheless showed signs of slowing growth. Sales in the Asia-Pacific region were below last year, driven by the slowdown in China, caused by the high level of uncertainty created by the current geopolitical environment and, in particular, the effects of the trade conflict with the USA. The Africa-Middle East region was also challenged by the weakening macroeconomic environment, whereas Danfoss had good momentum in Latin America.

## Earnings

Operating profit before depreciation, amortization and impairment (EBITDA) improved 5% to EUR 511m (H1 2019: 488m), mainly due to the changes to accounting principles

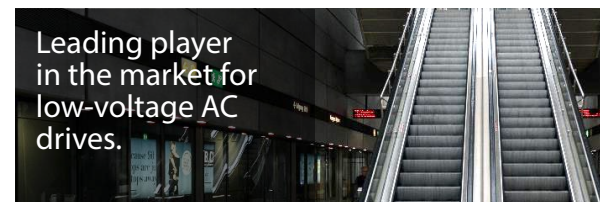
## Development in the business segments

### Danfoss Power Solutions



Danfoss Power Solutions delivered good sales growth and a profitability slightly below the prior-year period, which showed strong comparative figures. Growth was driven by market-share gains and continued momentum in the off-highway market, in particular within global construction and road building, whereas agricultural was softening. North America and Western Europe contributed to growth, but turned flat towards the end of the first half, reflecting the cyclical nature of the business. In general, Danfoss Power Solutions saw slowing growth during the first six months.

### Danfoss Drives



Danfoss Drives had sales and profitability below the prior-year period. Eastern Europe and North America showed solid growth, but turned flat towards the end of the first half, reflecting the cyclical nature of the business. The Africa-Middle East and Asia-Pacific regions saw slowing growth, most significant in China.

### Danfoss Cooling



Danfoss Cooling saw low growth and a profitability in line with the prior-year period. Primary growth drivers were the North America, Latin America and Eastern Europe regions, the latter driven by strong growth in Russia. The Asia-Pacific region continued to be challenged by the geopolitical uncertainty, driving the slowdown in China, where customers postponed their refurbishment of refrigerant equipment.

### Danfoss Heating



Danfoss Heating had sales in line with the first six months of last year and a profitability ahead of the prior-year period, when the effects from last year's divestment of the heat pump business Thermia are excluded. Heating saw a high volatility in growth rates with Western Europe being a significant growth contributor, whereas the Asia-Pacific and Africa-Middle East regions saw a market slowdown.

for leases, according to IFRS 16, which came into effect as of January 1, 2019. The change was described in the Annual Report 2018 on page 81.

Operating profit (EBIT) amounted to EUR 351m (H1 2018: 370m), leading to an EBIT margin of 11.1% (H1 2018: 12.2%). The strong EBIT performance last year was positively impacted by the gain from the divestment of the heat pump business Thermia. This year, EBIT was impacted by continued high levels of investments in innovation, our digital transformation and growth initiatives to fuel future growth. Furthermore, EBIT was impacted by higher raw material prices and imposed tariffs, which are being countered by improved factory performance and increased customer prices. Net profit amounted to EUR 242m (H1 2018: 253m), mainly driven by the EBIT.

#### Balance sheet

At June 30, 2019, total assets increased 5% to EUR 6,138m (H1 2018: 5,821m), mainly impacted by a higher trade working capital in addition to the above-mentioned changes to the accounting principles for leases. Equity increased 12% to EUR 2,764m (H1 2018: 2,471m), mainly influenced by the profit of the first six months. The equity ratio was 45.0% (H1 2018: 42.5%), also impacted by the above-mentioned changes to the accounting principles for leases.

Net interest-bearing debt increased by EUR 49m to EUR 1,318m (H1 2018: 1,269m), leading to a net interest-bearing debt to EBITDA ratio of 1.4 (H1 2018: 1.4). The increase can mainly be ascribed to the above-mentioned changes to accounting principles for leases. The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook.

#### Cash flow

The cash flow from operating activities increased to EUR 115m (H1 2018: 99m) and the free cash flow before mergers and acquisitions increased to EUR 3m (H1 2018: -17m). A higher level of working capital and a continued high level of investments in innovation, digitalization, production capacity and new companies resulted in a free cash flow of EUR -42m (H1 2018: 110m). Last year, the cash flow was

positively impacted by the proceeds from the divestment of the heat pump business Thermia.

The free cash flow was positively impacted by the above-mentioned changes to accounting principles for leases.

#### Acquisitions

On February 21, 2019, Danfoss closed the transaction to acquire the majority shares of Artemis Intelligent Power Ltd. (AIP), an R&D and engineering company based in Scotland, specializing in hydraulic system development. The acquisition includes AIP's Digital Displacement® technology, which will provide Danfoss with a competitive advantage in developing innovative products and systems for off-highway mobile machines.

On April 1, 2019, Danfoss closed the transaction to acquire Hydraulik Nord Fluidtechnik, a supplier of hydraulic steering based in Germany. The acquisition will further strengthen Danfoss' innovative and efficient product offerings to the agriculture market and confirms our strategic focus on building leading positions.

On April 29, 2019, Danfoss expanded its ownership share to 90% of the Finnish company Leanheat – a leading company within artificial intelligence making buildings and heating networks smart and energy-efficient. The acquisition reflects Danfoss' strategic focus on adding more digital products to the portfolio to create even more value for our customers.

#### Innovation

The research and development spend increased 11% to EUR 140m (H1 2018: 126m), corresponding to 4.4% of sales (H1 2018: 4.1%). The innovation activities were concentrated around electrifying and digitalizing the products and processes in the Danfoss business segments to improve the portfolio of energy-efficient solutions and create even more value for our customers.

#### Employees

At June 30, 2019, the number of employees had increased by 777 year over year to 27,918 employees, mainly due to a high activity level.

#### Events occurring after the balance sheet date

On July 31, 2019, Danfoss closed the transaction to acquire the publicly traded company UQM Technologies Inc. located in Colorado, USA. The acquisition includes the entire business of UQM, comprising design, manufacturing, sales and services for high-efficiency electric motors, generators, power electronic controllers and fuel-cell compressor drives. The propulsion systems are used in electric and hybrid buses, trucks, off-highway vehicles and marine vessels. The acquisition reflects Danfoss' strategic focus on electrification and the gains it can bring for our customers in terms of reducing emissions and improving efficiency and productivity in their motorized vehicles.

#### Björn Rosengren has left the Danfoss Board of Directors

As of August 11, 2019, Björn Rosengren, Vice-Chairman of the Danfoss Board of Directors, has left the Board of Directors. This is a consequence of Björn Rosengren being named Chief Executive Officer (CEO) of the Swiss company ABB.

We are not aware of any events after the balance sheet date of June 30, 2019, which could be expected to have a material impact on the Group's financial position.

#### Outlook 2019 confirmed

The outlook for 2019, as published in the Annual Report 2018, is maintained: Danfoss expects to expand or maintain its market share, while increasing the profitability measured as margin compared with the 2018 level, following continued investments in digitalization and electrification.

However, the risk associated with the outlook has increased due to the current geopolitical environment - in particular the ongoing trade conflicts and other conflicts, which have created a high level of uncertainty and are negatively impacting market growth in cyclical industries.

The visibility for 2019 is very low, and we see increasing volatility in several markets. Accordingly, sudden changes in Danfoss' key regions and significant markets and industries, could have a negative impact on the Group's performance.

## Financial highlights, Quarterly

	EURm							
	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018	Q1 2019	Q2 2019	
<b>Profit and loss account</b>								
Net sales	1,474	1,567	1,528	1,529	6,098	1,563	1,603	
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	232	245	244	208	929	241	266	
Operating profit before depreciation, amortization and impairment (EBITDA)	222	266	243	195	926	240	272	
Operating profit excl. other income and expenses, etc.	174	184	182	145	685	163	186	
Operating profit (EBIT)	166	204	178	100	648	160	190	
Financial items, net	-10	-12	-12	-11	-45	-8	-9	
Profit before tax	156	192	167	88	603	152	181	
Net profit	113	140	122	88	463	110	132	
<b>Balance sheet</b>								
Total non-current assets	3,890	3,847	3,862	3,886	3,886	4,056	4,088	
Total assets	5,804	5,821	5,853	5,760	5,760	6,181	6,138	
Total shareholders' equity	2,679	2,471	2,571	2,654	2,654	2,794	2,764	
Net interest-bearing debt	1,037	1,269	1,138	962	962	1,181	1,318	
<b>Cash flow statement (YTD)</b>								
Cash flow from operating activities	48	99	334	673	673	-9	115	
Cash flow from investing activities	-48	11	-88	-227	-227	-53	-157	
Acquisition of intangible assets and property, plant and equipment	-49	-111	-184	-302	-302	-48	-115	
Acquisition of/Proceeds from disposal of subsidiaries and activities	0	131	101	88	88	-11	-45	
Acquisition(-) and sale of other investments, etc.	1	-9	-5	-13	-13	6	3	
Free cash flow	0	110	246	446	446	-62	-42	
Free cash flow before M&A	0	-17	148	362	362	-52	3	
Cash flow from financing activities	2	-115	-237	-424	-424	43	24	
<b>Financial ratios</b>								
Local currency growth (%)	9	8	7	4	7	3	0	
EBITDA margin excl. other operating income, etc. (%)	15.7	15.7	16.0	13.6	15.2	15.4	16.6	
EBITDA margin (%)	15.1	17.0	15.9	12.8	15.2	15.3	16.9	
EBIT margin excl. other operating income, etc. (%)	11.8	11.8	11.9	9.5	11.2	10.4	11.6	
EBIT margin (%)	11.3	13.0	11.7	6.5	10.6	10.3	11.9	
Equity ratio (%)	46.2	42.5	43.9	46.1	46.1	45.2	45.0	
Leverage ratio (%)	38.7	51.3	44.3	36.2	36.2	42.3	47.7	
Net interest-bearing debt to EBITDA ratio	1.2	1.4	1.2	1.0	1.0	1.3	1.4	
Number of employees	26,926	27,141	27,753	27,795	27,795	27,704	27,918	

Key figures and financial ratios are calculated as defined in Note 25 in the Annual Report for 2018.

As of 1, January 2019, Danfoss applies to IFRS 16 'Leases'. Rights-of-use assets and lease liabilities have been recognized for those leases previously classified as operating leases. Danfoss has chosen not to restate comparative figures in the first-time application of the new policy. The implementation of IFRS 16 has resulted in an increase of property, plant and equipment of EUR 126m and lease liabilities of EUR 134m as of June 30, 2019. In the first half-year 2019, the change in policy has no material impact on the income statement. The first half-year 2019 EBITDA increased by EUR 27m, due to reporting change of expenses of rights-of-use assets under depreciation. The first half-year 2019 free cash flow increased by EUR 27m as repayment of lease liabilities are included in the cash flow from financing activities.

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

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