

ENGINEERING
TOMORROW

Danfoss

Interim announcement

1st quarter 2019



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Danfoss in brief

We engineer technologies, which enable the world to reduce energy consumption and ensure an efficient use of resources.

We produce and sell an extensive range of products and solutions for refrigeration, air conditioning, heating, motor control and off-highway machinery. We also provide solutions for renewable energy, such as solar and wind power, as well as district energy infrastructure for cities.

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.

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 1st quarter 2019

27,704

employees globally



71

factories in 20 countries



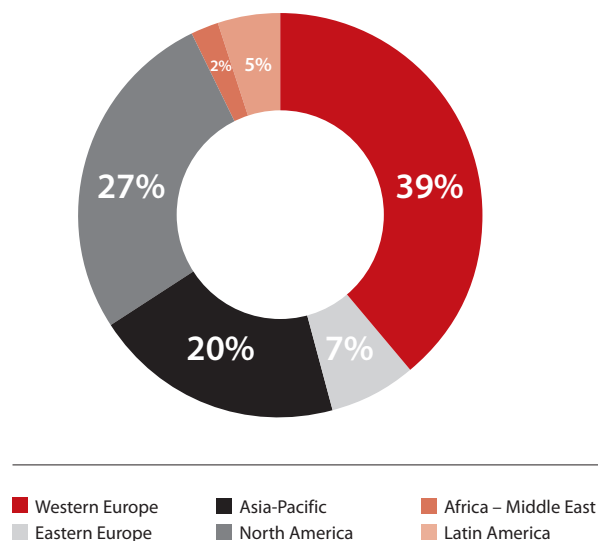
Products sold in more than

100

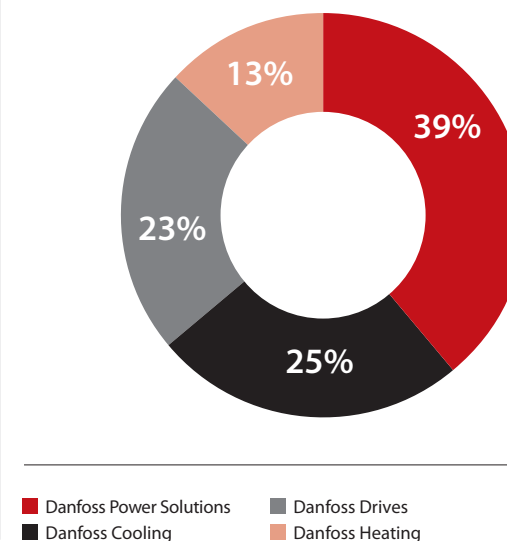
countries worldwide



Sales split on regions – 1st quarter 2019

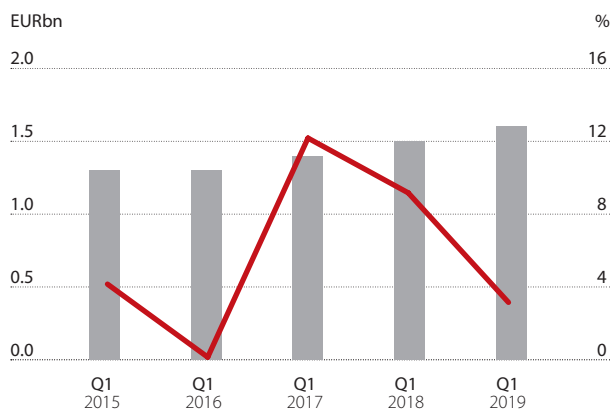


Sales split on segments – 1st quarter 2019



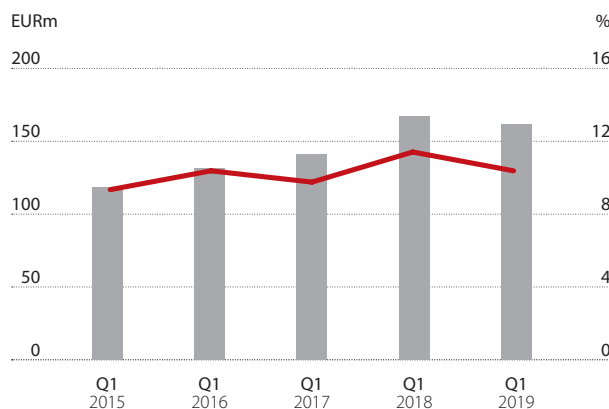
Sales and growth

■ Sales — Sales growth in local currency



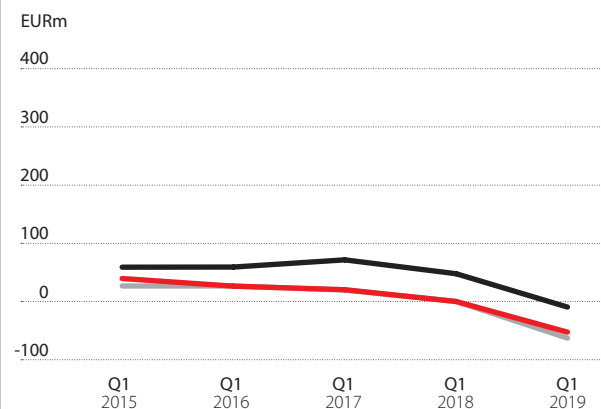
Earnings

■ EBIT — EBIT margin



Cash flow

— Free cash flow before M&A — Cash flow from operating activities — Free cash flow



Financial highlights

	EURm			DKKm	
	Q1 YTD 2018	Q1 YTD 2019	Change	Q1 YTD 2018	Q1 YTD 2019
Profit and loss account:					
Net sales	1,474	1,563	6%	10,977	11,664
Operating profit before depreciation, amortization and other operating income and expenses, etc.	232	241	4%	1,726	1,798
Operating profit before depreciation, amortization and impairment (EBITDA)	222	240	8%	1,655	1,789
Operating profit excl. other income and expenses, etc.	174	163	-6%	1,295	1,215
Operating profit (EBIT)	166	160	-4%	1,234	1,197
Financial items, net	-10	-8	-20%	-77	-62
Profit before tax	156	152	-3%	1,158	1,136
Net profit	113	110	-3%	842	821
Balance sheet:					
Total non-current assets	3,890	4,056	4%	28,996	30,281
Total assets	5,804	6,181	6%	43,255	46,139
Total shareholders' equity	2,679	2,794	4%	19,968	20,856
Net interest-bearing debt	1,037	1,181	14%	7,732	8,819
Cash flow statement:					
Cash flow from operating activities	48	-9	-119%	354	-67
Cash flow from investing activities	-48	-53	10%	-355	-398
Acquisition of intangible assets and property, plant and equipment.	-49	-48	-2%	-365	-361
Acquisition of/Proceeds from disposal of subsidiaries and activities	0	-11	***	0	-78
Acquisition(-) and sale of other investments, etc.	1	6	500%	10	41
Free cash flow	0	-62	***	0	-465
Free cash flow before M&A	0	-52	***	0	-386
Cash flow from financing activities	2	43	***	18	324
Financial ratios					
Local currency growth (%)	9	3	-6	9	3
EBITDA margin excl. other operating income, etc. (%)	15.7	15.4	-0.3	15.7	15.4
EBITDA margin (%)	15.1	15.3	0.2	15.1	15.3
EBIT margin excl. other operating income, etc. (%)	11.8	10.4	-1.4	11.8	10.4
EBIT margin (%)	11.3	10.3	-1.0	11.3	10.3
Equity ratio (%)	46.2	45.2	-1.0	46.2	45.2
Leverage ratio (%)	38.7	42.3	3.6	38.7	42.3
Net interest-bearing debt to EBITDA ratio	1.2	1.3	0.1	1.2	1.3
Number of employees (end of period)	26,926	27,704	778	26,926	27,704

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 130m and lease liabilities of EUR 137m as of March 31, 2019. In the first quarter 2019, the change in policy has no material impact on the income statement. The first quarter 2019 EBITDA increased by EUR 12m, due to reporting change of expenses of rights-of-use assets under depreciation. The first quarter 2019 free cash flow increased by EUR 12m as repayment of lease liabilities are included in the cash flow from financing activities.

Financial update

Danfoss had a good start to the year and the financial results for the first three months of 2019 were in line with expectations. Net sales increased 6% to EUR 1,563m with a growth in local currency of 3%. On the back of continued high investment levels, operating profit (EBIT) amounted to EUR 160m, which is within range of last year's strong first quarter, leading to an EBIT margin of 10.3%. Outlook 2019 is confirmed.

Sales

In Q1 2019, net sales grew EUR 89m to EUR 1,563m (Q1 2018: 1,474m). The reported growth was 6% after a positive currency impact of 3%, mainly due to a positive development in the US dollar compared to the same period last year.

Growth in local currency was 3% driven by Danfoss Power Solutions and Danfoss Cooling. In particular, Danfoss Power Solutions continued the strong growth momentum, but at a slower pace than last year.

Overall, the start to the year was characterized by increased market volatility and changing regional growth dynamics as expected. However, the first three months confirmed the trend from last year of strong growth in North America and solid growth in Western Europe. The Eastern European region also had a good start to the year, despite continued weak sales in Russia. Sales in the Asia-Pacific region were below last year, driven by a slow-down in China, mainly due to the high level of uncertainty created by the current geopolitical environment and, in particular, the effects of the trade conflict with the US. Danfoss had good momentum in India as well as Latin America.

Development in the business segments

Danfoss Power Solutions



Danfoss Power Solutions delivered good sales growth and a profitability slightly below the first three months last year, which showed strong comparative figures. Growth was driven by market share gains and continued momentum in the off-highway market, in particular within the global construction and road building market. North America and Western Europe were among the most significant growth drivers for Danfoss Power Solutions.

Danfoss Drives



Danfoss Drives had a flat sales development and a profitability slightly below the first three months last year. North America and Eastern Europe showed good growth, but sales were below last year in Asia-Pacific and Africa-Middle East, which were impacted by the continuing uncertainty, due to the geopolitical environment.

Danfoss Cooling



Danfoss Cooling delivered solid growth and a profitability slightly below the first three months last year. Significant growth drivers were Latin America, North America and Western Europe, whereas sales were below last year in the Asia-Pacific and Africa-Middle East regions, which continued to be impacted by the geopolitical uncertainty, leading to customers postponing refurbishment of their refrigerant equipment.

Danfoss Heating



Danfoss Heating saw negative growth, due to the effect from the divestment of the heat pump business Thermia last year. Profitability improved on the first three months last year. Western Europe had solid growth, but sales were below last year in Eastern Europe, Asia-Pacific, and Africa-Middle East.

Earnings

Operating profit before depreciation, amortization and impairment (EBITDA) improved 8% to EUR 240m (Q1 2019: 222m), mainly due to the changes to accounting principles for leases, according to IFRS 16, taking effect as of January 1, 2019. The change was described in the Annual Report 2018 on page 81.

Operating profit (EBIT) amounted to EUR 160m (Q1 2018: 166m), leading to an EBIT margin of 10.3% (Q1 2018: 11.3%). EBIT was impacted by continued high levels of investments in digitalization, production capacity and growth initiatives to fuel future growth. Furthermore, the impact from higher raw material prices and imposed tariffs were so far only partly offset by improved productivity and price increases to customers. Net profit amounted to EUR 110m (Q1 2018: 113m), mainly driven by the EBIT.

Balance sheet

At March 31, 2019, total assets increased 6% to EUR 6,181m (Q1 2018: 5,804m), impacted by growth-driven higher trade working capital, in addition to the above-mentioned changes to the accounting principles for leases. Equity increased 4% to EUR 2,794m (Q1 2018: 2,679m), mainly influenced by the profit of the first three months. The equity ratio was 45.2% (Q1 2018: 46.2%), also impacted by the above-mentioned changes to the accounting principles for leases.

Net interest-bearing debt increased by EUR 144m to EUR 1,181m (Q1 2018: 1,037m), leading to a net interest-bearing debt to EBITDA ratio of 1.3 (Q1 2018: 1.2). 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

In the first three months of 2019, the free cash flow before mergers and acquisitions was negative with EUR 52m (first three months 2018: 0m).

The cash flow from operating activities amounted to EUR -9m (first three months 2018: 48m), mainly due to increased

inventory and receivables, driving a higher level of trade working capital.

The free cash flow was negative with EUR 62m (first three months 2018: 0m), due to a higher level of working capital, driven by growth, and a continued high level of investments in digitalization, production capacity and new companies. The free cash flow was positively impacted by the above-mentioned changes to accounting principles for leases.

Acquisition

On January 21, 2019, Danfoss entered into a merger agreement with the publicly traded company UQM Technologies Inc. located in Colorado, United States, pursuant to which Danfoss will acquire all outstanding common shares of UQM. The transaction 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 transaction is subject to necessary approvals and is expected to close in the second quarter of 2019.

Innovation

In Q1 2019, the research and development spend increased 11% to EUR 68m (Q1 2018: 61m), corresponding to 4.4% of sales (Q1 2018: 4.1%).

Employees

At March 31, 2019, the number of employees had increased by 778 year over year to 27,704 employees, mainly due to the higher activity level.

Events occurring after the balance sheet date

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.

We are not aware of any events after the balance sheet date of March 31, 2019, which expectedly could have a material impact on the Group's financial position.

Outlook 2019 confirmed

Despite the continued high level of uncertainty globally, created by the current geopolitical environment and in particular the ongoing trade conflicts and Brexit, Danfoss maintains the outlook for 2019. The visibility for 2019 is low, and we see increasing volatility in several markets. 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 2019, 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. The outlook is unchanged relative to the outlook for 2019 published in the Annual Report 2018.

Financial highlights, Quarterly

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

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

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

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