

ENGINEERING
TOMORROW

Danfoss

Interim announcement

1st-3rd quarter 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.

Change in reporting

As a result of the increased activity of acquisitions and divestments of companies, Danfoss has as of September 2019 chosen the financial key figure Operating profit before acquisition-related amortization (EBITA) as the measurement of profitability performance. EBITA is defined as the profit before interest, taxes, and amortization, gains and losses related to acquisitions and divestments. EBITA measured against sales leads to the EBITA margin. EBITA is also used by many companies, which Danfoss compares itself to.

As of September 2019, Danfoss has introduced the financial key figure "Free operating cash flow". The Free operating cash flow is defined as the cash flow from operating and investing activities before mergers and acquisitions, financial items, taxes, but including lease payments (IFRS16).

Furthermore, Danfoss has replaced the formerly used "Cash flow before M&A" with the financial key figure "Free operating cash flow after financial items and tax", defined as "Free operating cash flow" including financial items, taxes and lease payments (IFRS16), but before mergers and acquisitions.

Effective from September 2019, "Free cash flow" excludes lease payments (IFRS16), as lease payments are classified as operational impact as in prior years' reporting.

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-3rd quarter 2019

28,130

employees globally



71

factories in 20 countries



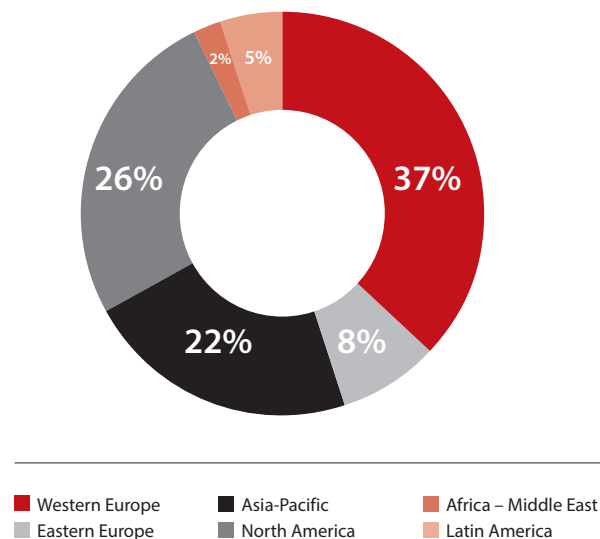
Products sold in more than

100

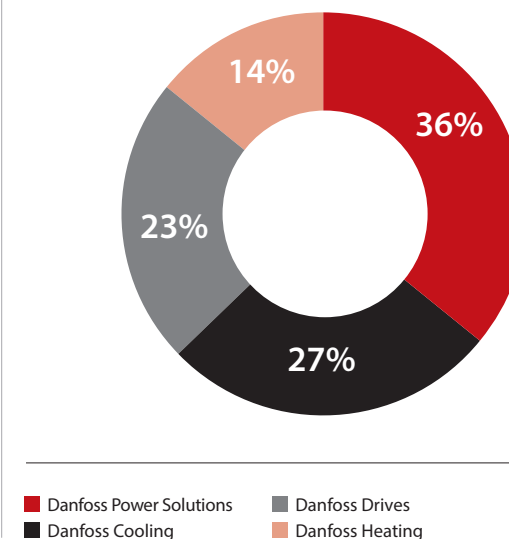
countries worldwide



Sales split by region – 1st-3rd quarter 2019

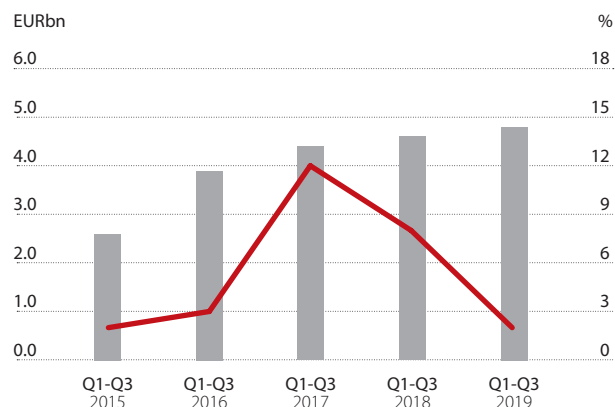


Sales split by segment – 1st-3rd quarter 2019



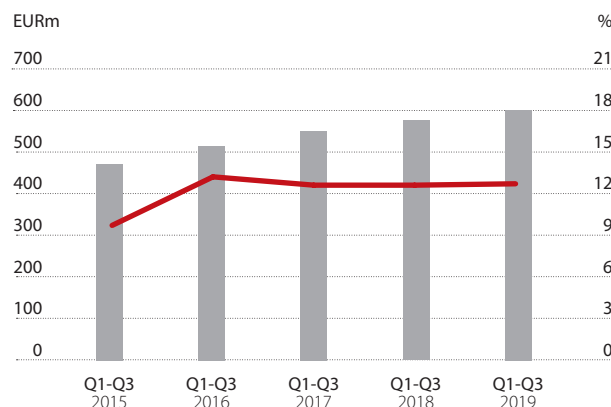
Sales and growth

■ Sales — Sales growth in local currency



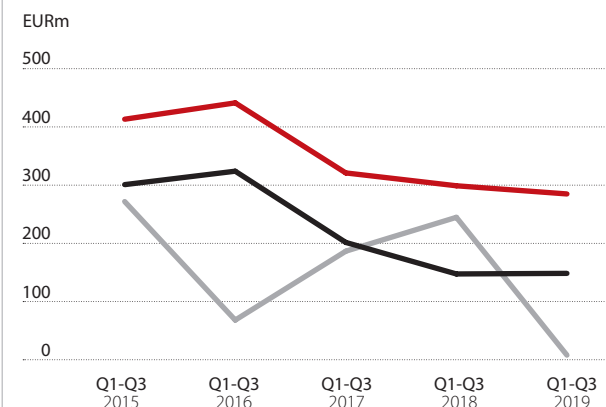
Earnings

■ EBITA — EBITA margin



Cash flow

— Free operating cash flow — Free operating cash flow after financial items and tax — Free cash flow



Financial highlights

	EURm						DKKm	
	Q3 2018	Q3 2019	Change in %	Q3 YTD 2018	Q3 YTD 2019	Change	Q3 YTD 2018	Q3 YTD 2019
Profit and loss account:								
Sales	1,528	1,589	4%	4,569	4,755	4%	34,039	35,495
Operating profit before depreciation and amortization (EBITDA)	243	282	16%	731	793	8%	5,442	5,921
Operating profit before acquisition-related amortization and other income and expenses	201	217	8%	595	604	2%	4,431	4,511
Operating profit before acquisition-related amortization (EBITA)	200	219	10%	576	602	5%	4,293	4,495
Operating profit (EBIT)	178	198	11%	549	548	0%	4,087	4,092
Financial items, net	-12	-10	17%	-34	-27	-21%	-253	-204
Profit before tax	167	187	12%	515	521	1%	3,834	3,888
Net profit	122	141	16%	374	383	2%	2,788	2,857
Balance sheet:								
Total non-current assets				3,862	4,235	10%	28,799	31,622
Total assets				5,853	6,299	8%	43,639	47,026
Total shareholders' equity				2,571	2,938	14%	19,167	21,932
Net interest-bearing debt				1,138	1,252	10%	8,487	9,348
Cash flow statement:								
Cash flow from operating activities				334	376	13%	2,490	2,808
Cash flow from investing activities				-88	-324	268%	-659	-2,415
Acquisition of intangible assets and property, plant and equipment				-184	-182	-1%	-1,369	-1,363
Acquisition of/Proceeds from disposal of subsidiaries and activities				101	-140	***	753	-1,044
Acquisition(-) and sale of other investments, etc.				-5	-2	-60%	-43	-8
Free operating cash flow				298	284	-5%	2,224	2,122
Free operating cash flow after financial items and tax				147	148	1%	1,092	1,102
Free cash flow				244	8	-97%	1,818	59
Cash flow from financing activities				-237	-72	-70%	-1,769	-535
Financial ratios								
Local currency growth (%)	7	2	-5	8	2	-6	8	2
EBITDA margin (%)	15.9	17.7	1.8	16.0	16.7	0.7	16.0	16.7
Operating profit before acquisition-related amortization and other income and expenses margin (%)	13.2	13.7	0.5	13.0	12.7	-0.3	13.0	12.7
EBITA margin (%)	13.1	13.8	0.7	12.6	12.7	0.1	12.6	12.7
EBIT margin (%)	11.7	12.4	0.7	12.0	11.5	-0.5	12.0	11.5
Equity ratio (%)				43.9	46.6	2.7	43.9	46.6
Leverage ratio (%)				44.3	42.6	-1.7	44.3	42.6
Net interest-bearing debt to EBITDA ratio				1.2	1.3	0.1	1.2	1.3
Number of employees (end of period)				27,753	28,130	377	27,753	28,130

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 124m and lease liabilities of EUR 132m as of September 30, 2019. In the first three quarters of 2019, the change in policy has no material impact on the income statement. In the first three quarters of 2019 EBITDA increased by EUR 45m, due to reporting change of expenses of rights-of-use assets under depreciation.

Financial update

In the first nine months of 2019, Danfoss delivered strong financial performance in line with the outlook. Sales increased 4% to EUR 4,755m, corresponding to 2% growth in local currency. EBITA increased 5% to EUR 602m, leading to an EBITA margin of 12.7%. At the same time, Danfoss continued to drive a high level of investments in innovation and new technology. Outlook for 2019 is confirmed.

Sales

Sales grew EUR 186m to EUR 4,755m (Q3 2018: 4,569m). The reported growth was 4% after a positive currency impact of 2%. Growth in local currency was 2%, driven by all business segments.

The overall development in sales is in line with expectations. During the year, several areas of the Danfoss business have seen solid growth, whereas some of the more cyclical businesses of Danfoss have seen slowing growth rates. Following some years with very high growth rates, 2019 has been characterized by increased volatility, mixed market conditions and lower market growth in cyclical industries.

From a regional perspective, in the first nine months of 2019, Danfoss continued to drive growth in Europe and North America, which nevertheless showed more fluctuating growth rates over the period. Compared with

Development in the business segments

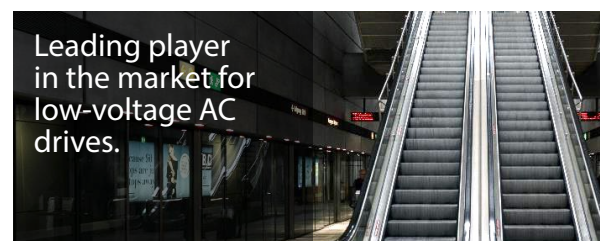
Danfoss Power Solutions



Leading player in the mobile hydraulics market.

Danfoss Power Solutions had a strong start to the year, but saw slowing growth during the recent quarters, mainly within the agriculture markets. North America and Western Europe contributed to growth but turned negative in the third quarter, reflecting the cyclicity of the business. The profitability was slightly below the prior-year period, which showed very strong comparative figures.

Danfoss Drives



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

Danfoss Drives saw fluctuating growth rates and had a profitability at level with the prior-year period. Western and Eastern Europe showed solid growth, while North America turned flat in the third quarter. The Africa-Middle East and Asia-Pacific regions had sales below the prior-year period.

Danfoss Cooling



Market leader in the air-conditioning and refrigeration industry.

Danfoss Cooling saw solid growth and a profitability which was better than the prior-year period. Primary growth drivers were the 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 refrigeration and A/C equipment.

Danfoss Heating



Market leader within residential and commercial heating and district energy.

Danfoss Heating had low growth and a profitability significantly better than the prior-year period. Heating saw a high volatility in growth rates with Western and Eastern Europe being growth contributors, whereas the Asia-Pacific and Africa-Middle East regions had sales below the prior-year period.

the same period last year, the Asia-Pacific region had a flat sales development, driven by the slowdown in China, which is caused by the high level of uncertainty created by the current geopolitical environment and, in particular, the effects of the trade conflict with the US. Danfoss continued a good growth momentum in Latin America, whereas the Africa-Middle East region remained challenged by the geopolitical environment.

Earnings

Operating profit before depreciation and amortization (EBITDA) improved 8% or EUR 62m to EUR 793m (Q3 2018: 731m). The IFRS 16 changes to accounting principles for leases, which came into effect as of January 1, 2019, accounted for EUR 45m. The change was described in the Annual Report 2018 on page 81.

After continued high levels of investments in innovation, digital transformation and growth initiatives to fuel the future growth, the operating profit before acquisition-related amortization (EBITA) improved 5% or EUR 26m to EUR 602m (Q3 2018: 576m), leading to an EBITA margin of 12.7% (Q3 2018: 12.6%). The improved profitability was driven by productivity improvements in the factories, increased customer prices and cost-down initiatives, which countered the higher level of raw material prices and imposed tariffs. Net profit improved 2% to EUR 383m (Q3 2018: 374m).

Balance sheet

At September 30, 2019, total assets increased 8% to EUR 6,299m (Q3 2018: 5,853m), mainly impacted by a higher trade working capital in addition to the above-mentioned changes to the accounting principles for leases. Equity increased 14% to EUR 2,938m (Q3 2018: 2,571m), mainly influenced by the profits of the first nine months. The equity ratio was 46.6% (Q3 2018: 43.9%), also impacted by the above-mentioned changes to the accounting principles for leases.

Net interest-bearing debt increased by EUR 114m to EUR 1,252m (Q3 2018: 1,138m), leading to a net interest-bearing debt to EBITDA ratio of 1.3 (Q3 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

Free cash flow amounted to EUR 8m (Q3 2018: 244m), impacted positively by the proceeds from the divestment of the heat pump business Thermia last year. Free operating cash flow amounted to EUR 284m (Q3 2018: 298m), impacted by a higher level of working capital. Cash flow from investing activities amounted to EUR -324m (Q3 2018: -88m), mainly driven by the below-mentioned acquisition in the third quarter and the acquisitions made in the first six months of the year. Last year, the cash flow from investing activities was positively impacted by the disposal of the heat pump business.

Acquisition in the third quarter 2019

On July 31, 2019, Danfoss closed the transaction to acquire the publicly traded company UQM Technologies Inc. located in Colorado, USA. UQM is a leading expert and the technology leader in motors and inverters in the power range of up to 250 kW. With the acquisition, Danfoss adds an important and complementary technology to its current product range, with inverter and motor solutions up to 6 MW of power. The acquisition will give Danfoss the total package of electric solutions for serving the global markets and, thereby, fully support the needs of Danfoss' customers. This will enable further growth in the markets Danfoss serves and additional growth in the on-highway market for buses and trucks. With UQM, Danfoss Editron, Danfoss Drives and Danfoss Silicon Power, Danfoss now has a strong line-up of electrification solutions for the marine, off- and on-highway, and oil and gas markets.

Innovation

The research and development spend increased 10% to EUR 212m (Q3 2018: 192m), corresponding to 4.5% of sales (Q3 2018: 4.2%). The innovation activities were concentrated around digitalizing and electrifying our energy-efficient solutions and services to create even more value for our customers.

Employees

At September 30, 2019, the number of employees had increased by 377 year over year to 28,130 employees.

Events occurring after the balance sheet date

We are not aware of any events after the balance sheet date of September 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, as stated at half-year 2019, 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 the market growth in cyclical industries.

The visibility for 2019 is very low, and we see a high level of 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	Q3 2019
Profit and loss account								
Sales	1,474	1,567	1,528	1,529	6,098	1,563	1,603	1,589
Operating profit before depreciation and amortization (EBITDA)	222	266	243	195	926	240	272	282
Operating profit before acquisition-related amortization and other income and expenses	192	202	201	163	758	182	205	217
Operating profit before acquisition-related amortization (EBITA)	184	193	200	147	724	181	203	219
Operating profit (EBIT)	166	204	178	100	648	160	190	198
Financial items, net	-10	-12	-12	-11	-45	-8	-9	-10
Profit before tax	156	192	167	88	603	152	181	187
Net profit	113	140	122	88	463	110	132	141
Balance sheet								
Total non-current assets	3,890	3,847	3,862	3,886	3,886	4,056	4,088	4,235
Total assets	5,804	5,821	5,853	5,760	5,760	6,181	6,138	6,299
Total shareholders' equity	2,679	2,471	2,571	2,654	2,654	2,794	2,764	2,938
Net interest-bearing debt	1,037	1,269	1,138	962	962	1,181	1,318	1,252
Cash flow statement (YTD)								
Cash flow from operating activities	48	99	334	673	673	-9	115	376
Cash flow from investing activities	-48	11	-88	-227	-227	-53	-157	-324
Acquisition of intangible assets and property, plant and equipment	-49	-111	-184	-302	-302	-48	-115	-182
Acquisition of/Proceeds from disposal of subsidiaries and activities	0	131	101	88	88	-11	-45	-140
Acquisition(-) and sale of other investments, etc.	1	-9	-5	-13	-13	6	3	-2
Free operating cash flow	51	97	298	564	564	1	74	284
Free operating cash flow after financial items and tax	-1	-19	147	359	359	-65	-24	148
Free cash flow	-1	108	244	443	443	-75	-69	8
Cash flow from financing activities	2	-115	-237	-424	-424	43	24	-72
Financial ratios								
Local currency growth (%)	9	8	7	4	7	3	0	2
EBITDA margin (%)	15.1	17.0	15.9	12.8	15.2	15.3	16.9	17.7
Operating profit before acquisition-related amortization and other income and expenses margin (%)	13.0	12.9	13.2	10.7	12.4	11.6	12.8	13.7
EBITA margin (%)	12.4	12.3	13.1	9.7	11.9	11.6	12.6	13.8
EBIT margin (%)	11.3	13.0	11.7	6.5	10.6	10.3	11.9	12.4
Equity ratio (%)	46.2	42.5	43.9	46.1	46.1	45.2	45.0	46.6
Leverage ratio (%)	38.7	51.3	44.3	36.2	36.2	42.3	47.7	42.6
Net interest-bearing debt to EBITDA ratio	1.2	1.4	1.2	1.0	1.0	1.3	1.4	1.3
Number of employees	26,926	27,141	27,753	27,795	27,795	27,704	27,918	28,130

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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