

ENGINEERING
TOMORROW



Interim announcement

1st to 3rd quarter 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 1st to 3rd quarter 2017

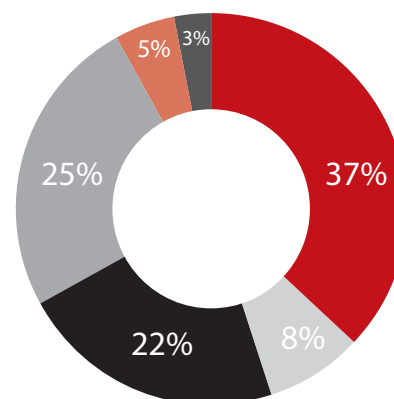
More than
26,000
employees globally

69
factories in 20 countries

Products sold in more than
100
countries worldwide

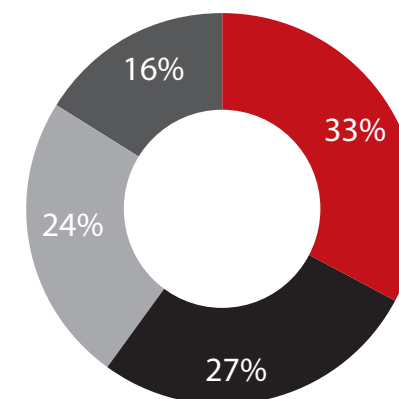
Sales split on regions – 1st to 3rd quarter 2017

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



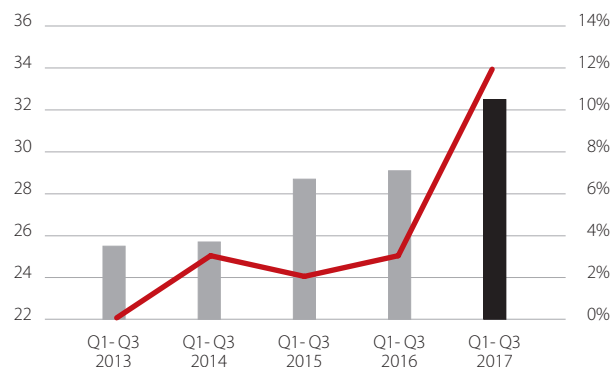
Sales split on segments – 1st to 3rd quarter 2017

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



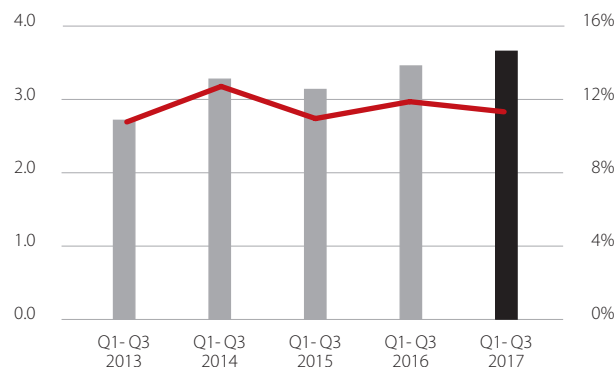
Sales and growth

- Sales DKKbn
- Sales growth in local currency



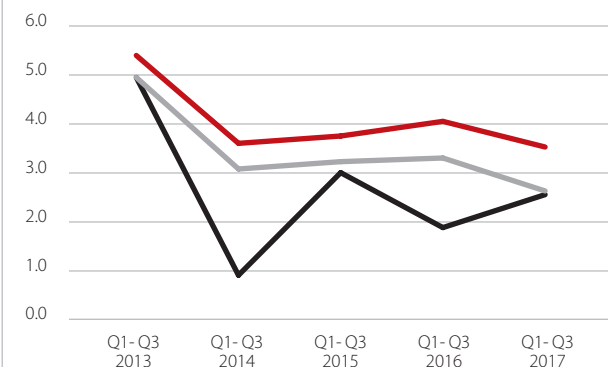
Earnings

- EBIT DKKbn
- EBIT margin



Cash flow

- Cash flow from operating activities DKKbn
- Free cash flow before M&A DKKbn
- Free cash flow DKKbn



Financial highlights

	DKKm							EURm	
	Q3 2016	Q3 2017	Change in %	Q3 YTD 2016	Q3 YTD 2017	Change in %	2016	Q3 YTD 2016	Q3 YTD 2017
Profit and loss account:									
Net sales	9,729	10,650	9%	29,124	32,475	12%	39,247	3,911	4,367
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	1,731	1,937	12%	4,862	5,325	10%	6,240	650	716
Operating profit before depreciation, amortization and impairment (EBITDA)	1,695	1,814	7%	4,796	5,005	4%	6,076	644	673
Operating profit excl. other income and expenses, etc.	1,262	1,510	20%	3,504	3,983	14%	4,388	471	536
Operating profit (EBIT)	1,250	1,388	11%	3,462	3,664	6%	4,262	465	493
Financial items, net	-71	-88	-24%	-253	-286	13%	-324	-34	-38
Profit before tax	1,180	1,299	10%	3,209	3,377	5%	3,938	431	454
Net profit	822	936	14%	2,249	2,424	8%	2,935	302	326
Balance sheet:									
Total non-current assets				27,473	27,506	0%	28,162	3,710	3,696
Total assets				40,517	41,348	2%	40,567	5,438	5,556
Total shareholders' equity				16,574	18,356	11%	17,286	2,224	2,466
Net interest-bearing debt				10,244	8,714	-15%	9,548	1,375	1,171
Net assets				24,319	24,603	1%	24,332	3,264	3,306
Cash flow statement:									
Cash flow from operating activities				3,412	2,686	-21%	5,161	458	361
Cash flow from investing activities				-2,889	-1,278	-56%	-3,676	-388	-172
Acquisition of intangible assets and property, plant and equipment.				-949	-1,128	19%	-1,679	-127	-152
Acquisition of subsidiaries and activities				-1,868	-95	-95%	-1,872	-251	-13
Acquisition(-) and sale of other investments, etc.				-72	-55	-24%	-126	-10	-7
Free cash flow				523	1,407	169%	1,485	70	189
Free cash flow before M&A				2,428	1,513	-38%	3,416	326	203
Cash flow from financing activities				-239	-1,558	-552%	-1,302	-32	-210
Key figures:									
Local currency growth (%) *	4	13	9	3	12	9	4	3	12
EBITDA margin excl. other operating income, etc. (%)	17.8	18.2	0.4	16.7	16.4	-0.3	15.9	16.7	16.4
EBITDA margin (%)	17.4	17.0	-0.4	16.5	15.4	-1.1	15.5	16.5	15.4
EBIT margin excl. other operating income, etc. (%)	13.0	14.2	1.2	12.0	12.3	0.3	11.2	12.0	12.3
EBIT margin (%)	12.9	13.0	0.1	11.9	11.3	-0.6	10.9	11.9	11.3
Equity ratio (%)				40.9	44.4	3.5	42.6	40.9	44.4
Leverage ratio (%)				61.8	47.5	-14.3	55.2	61.8	47.5
Net interest-bearing debt to EBITDA ratio				1.6	1.4	-0.2	1.6	1.6	1.4
Number of employees (end of period)				25,234	26,161	927	25,292	25,234	26,161

*Local currency growth reflects the reported growth adjusted for the effect from currency translations.

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 momentum with strong growth and improved earnings after high investments in digitalization and growth initiatives. Sales increased 12% to DKK 32,475m. Earnings (EBIT) improved to DKK 3,664m, corresponding to an EBIT margin of 11.3%. Free cash flow increased, while the strong growth consumed more net working capital. Outlook for 2017 is confirmed.

Sales

The strong sales development, which characterized the first two quarters of 2017, continued into the third quarter of 2017, resulting in strong top line growth for the first nine months of the year. Sales grew DKK 3,351m to DKK 32,475m (Q3 2016: DKK 29,124m), corresponding to local currency growth of 12% (Q3 2016: 3%). Thus, the reported growth of 12% was not impacted by any currency conversion effect.

The growth was broadly based, and Danfoss Power Solutions, in particular, had a strong performance. The Group's overall positive development was driven by targeted growth initiatives, which include, among other things, new application development centers and directing 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 the third quarter last year.

Some markets saw improvement, due to increasing investment levels; most significantly within construction and infrastructure in China and North America. In China, demand was further supported by a strong political focus on energy efficiency and reduction of carbon emissions (CO₂), which is benefiting the Danfoss business in general.

Earnings

Operating profit excluding other income and expenses improved 14% to DKK 3,983m (Q3 2016: DKK 3,504m). Operating profit (EBIT) improved 6% to DKK 3,664m (Q3 2016: DKK 3,462m), leading to an EBIT margin of 11.3% (Q3 2016: 11.9%). EBIT was impacted by the increased investments in digital transformation, growth initiatives, and recently acquired activities, which temporarily dilute margins.

Net profit was up 8% to DKK 2,424m (Q3 2016: DKK 2,249m), mainly driven by the EBIT improvement.

Development in key markets

In the first nine months of 2017, Danfoss' strong growth was driven by significantly increasing sales in China and North America, but all regions contributed with growth. Danfoss saw a market recovery in several countries and sectors, but however, visibility remains fairly low, as we do see some uncertainty in the geopolitical environment.

In **Europe**, Danfoss continued the momentum with increasing sales in Western and Eastern Europe, the latter driven by Russia, where growth seems to take hold. All business segments performed well in Europe, representing almost half of Danfoss' total sales.

In **North America**, the Danfoss business segments faced diverse market conditions with Danfoss Power Solutions and Danfoss Drives showing good growth, due to own growth initiatives as well as a strengthening of the markets, in which they operate.

In **Asia-Pacific**, the increasing sales were mainly driven by high double-digit growth rates in China, but also other countries in the region saw good growth, such as South Korea and Australia. Furthermore, India continues to grow. All business segments contributed with growth in the region.

In **Latin America**, the increasing sales were mainly driven by Brazil, where growth traction is building. Overall, the region continues to be characterized by mixed market conditions across countries and business segments, impacted by the soft economic situation in Brazil. Especially Danfoss Cooling and Danfoss Power Solutions are doing well in the region.

In **Africa-Middle East**, growth was driven by Turkey, where all the business segments are performing well. Some markets in the region were characterized by low visibility and uncertainty, but especially Danfoss Heating is showing a good development in the region.

Balance sheet

At September 30, 2017, total assets increased 2% to DKK 41,348m (Q3 2016: DKK 40,517m), and the equity increased 11% to DKK 18,356m (Q3 2016: DKK 16,574m), mainly due to the accumulated profits. Consequently, the equity ratio increased to 44.4% (Q3 2016: 40.9%).

The net interest-bearing debt was reduced by DKK 1,530m to DKK 8,714m (Q3 2016: DKK 10,244m), leading to a net interest-bearing debt to EBITDA ratio of 1.4 (Q3 2016: 1.6). The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook.

Cash flows

Free cash flow increased to DKK 1,407m (Q3 2016: DKK 523m). The improvement should be seen in the light of the completed acquisitions during the third quarter 2016, which impacted the cash flows last year.

Cash flow from investing activities totaled DKK -1,278m (Q3 2016: DKK -2,889), primarily reflecting the investments in digitalization and production capacity this year. Last year, the investments also comprised the completed acquisitions of Sondex Holding A/S and White Drive Products, Inc.

Accordingly, the free cash flow before mergers and acquisitions was DKK 1,513m (Q3 2016: DKK 2,428m), as the EBITDA improvement was offset by the increased investments and changes in working capital, due to the increased sales.

Innovation

In the first nine months of 2017, the research and development spend increased DKK 87m to DKK 1,305m (Q3 2016: 1,218m), corresponding to 4.0% of sales (Q3 2016: 4.2%).

Employees

At September 30, 2017, the Danfoss Group had 26,161 employees against 25,292 at the beginning of 2017.

Events occurring after the balance sheet date

On November 1, 2017, Danfoss announced the acquisition of Visedo Oy, a world-leading expert in electric solutions for the marine and off-highway market, based in Finland. With this step, Danfoss enables access to electric solutions, which will further strengthen the business and market position of Danfoss Power Solutions.

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.

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 Q3 YTD 2017

Danfoss Power Solutions delivered a very strong performance with significantly increased sales and profitability year over year. The increasing sales and good cost control resulted in strong earnings.

Market developments Q3 YTD 2017

The mobile hydraulics market showed growth within distribution and global construction, and Danfoss Power Solutions delivered growth in all regions and relevant markets. Growth was driven by a very good performance in North America and China, and the Central European countries as well as Brazil also performed well.

Danfoss **Cooling**



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

Financial performance Q3 YTD 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 Q3 YTD 2017

Danfoss Cooling saw a mixed performance across regions and product categories, as some markets are fast-growing and others characterized by a low growth environment. The increasing sales were driven by strong growth in China, and South Europe, Brazil and Russia also developed positively.

Danfoss **Drives**



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

Financial performance Q3 YTD 2017

Danfoss Drives continued the positive development with higher sales year over year and profitability on par with the prior-year level.

Market developments Q3 YTD 2017

The global drives market continued to show some growth traction within some heavy industry sectors. Danfoss Drives delivered growth in most regions, led by strong growth in China and other countries in the Asia-Pacific region. North America and the Northern and Southern European countries also contributed well to the increased sales.

Danfoss **Heating**



Market leader within residential and commercial heating and district energy.

Financial performance Q3 YTD 2017

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

Market developments Q3 YTD 2017

Danfoss Heating maintained momentum and realized solid sales growth. Sales increased across markets and regions except for the Southern European countries, which were impacted by challenging market conditions within residential heating. Also, Russia and China delivered a good performance with improving sales.

Financial highlights, Quarterly

	DKKmn							
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017	Q3 2017
Profit and loss account								
Net sales	9,423	9,972	9,729	10,123	39,247	10,682	11,144	10,650
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	1,813	1,937
Operating profit before depreciation, amortization and impairment (EBITDA)	1,422	1,680	1,695	1,279	6,076	1,499	1,692	1,814
Operating profit excl. other income and expenses, etc.	984	1,257	1,262	885	4,388	1,112	1,361	1,510
Operating profit (EBIT)	971	1,241	1,250	800	4,262	1,036	1,240	1,388
Financial items, net	-94	-88	-71	-71	-324	-67	-131	-88
Profit before tax	877	1,152	1,180	729	3,938	969	1,109	1,299
Net profit	616	812	822	685	2,935	691	797	936
Balance sheet								
Total non-current assets	25,560	25,663	27,473	28,162	28,162	28,203	27,704	27,506
Total assets	37,568	38,184	40,517	40,567	40,567	42,210	41,649	41,348
Total shareholders' equity	15,880	15,851	16,574	17,286	17,286	18,023	17,639	18,356
Net interest-bearing debt	9,301	9,484	10,244	9,548	9,548	9,340	10,038	8,714
Net assets	22,733	22,813	24,319	24,332	24,332	24,901	25,233	24,603
Cash flow statement (YTD)								
Cash flow from operating activities	439	1,596	3,412	5,161	5,161	528	980	2,686
Cash flow from investing activities	-244	-643	-2,889	-3,676	-3,676	-386	-834	-1,278
Acquisition of intangible assets and property, plant and equipment	-240	-588	-949	-1,679	-1,679	-367	-698	-1,128
Acquisition of subsidiaries and activities	0	4	-1,868	-1,872	-1,872	-7	-83	-95
Acquisition(-) and sale of other investments, etc.	-5	-59	-72	-126	-126	-12	-53	-55
Free cash flow	195	953	523	1,485	1,485	143	147	1,407
Free cash flow before M&A	195	976	2,428	3,416	3,146	151	240	1,513
Cash flow from financing activities	4	-622	-239	-1,302	-1,302	-22	-205	-1,558
Key figures								
Local currency growth (%) *	0	4	4	9	4	12	11	13
EBITDA margin excl. other operating income, etc. (%)	15.2	17.0	17.8	13.6	15.9	14.7	16.3	18.2
EBITDA margin (%)	15.1	16.8	17.4	12.6	15.5	14.0	15.2	17.0
EBIT margin excl. other operating income, etc. (%)	10.4	12.6	13.0	8.7	11.2	10.4	12.2	14.2
EBIT margin (%)	10.3	12.4	12.9	7.9	10.9	9.7	11.1	13.0
Equity ratio (%)	42.3	41.5	40.9	42.6	42.6	42.7	42.4	44.4
Leverage ratio (%)	58.6	59.8	61.8	55.2	55.2	51.8	56.9	47.5
Net interest-bearing debt to EBITDA ratio	1.5	1.5	1.6	1.6	1.6	1.5	1.6	1.4



Financial highlights, Quarterly

	DKKm							
	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017	Q3 2017
Geographical segments								
Total net sales								
Western Europe	3,814	3,903	3,702	3,793	15,212	4,119	4,071	4,002
Eastern Europe	658	810	969	929	3,366	742	884	1,068
Asia-Pacific	1,698	2,062	2,193	2,293	8,246	2,219	2,549	2,399
North America	2,585	2,434	2,119	2,212	9,350	2,830	2,821	2,311
Latin America	414	445	492	499	1,850	504	496	525
Africa-Middle East	254	318	254	397	1,223	268	323	345
Total	9,423	9,972	9,729	10,123	39,247	10,682	11,144	10,650
Number of employees								
Western Europe	9,471	9,483	9,677	9,858	9,858	9,972	10,082	10,182
Eastern Europe	3,874	3,900	4,450	4,426	4,426	4,456	4,555	4,655
Asia-Pacific	5,157	5,212	5,899	5,809	5,809	5,644	5,681	5,886
North America	3,402	3,411	3,671	3,675	3,675	3,960	3,969	3,835
Latin America	1,207	1,301	1,274	1,281	1,281	1,276	1,316	1,349
Africa-Middle East	205	210	263	243	243	220	225	254
Total	23,316	23,517	25,234	25,292	25,292	25,528	25,828	26,161

*Local currency growth reflects the reported growth adjusted for the effect from currency translations.

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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