

ENGINEERING  
TOMORROW



# Interim announcement

## First quarter 2018



# Contents

---

Danfoss in brief	2
Highlights 1 <sup>st</sup> quarter 2018	3
Financial highlights	4
Financial update	5
Development in the business segments	6
Quarterly financial highlights	7

## 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.

---

### 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 announcement for the first quarter 2018 and future financial announcements are published in EUR. Comparative figures have been restated accordingly.

---

### 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.

---

### Danfoss A/S

Nordborgvej 81  
6430 Nordborg  
Denmark

Tel.: +45 7488 2222  
CVR no. 20165715  
Email: danfoss@danfoss.com

---

## Highlights 1st quarter 2018

26,926  
employees globally



72  
factories in 20 countries

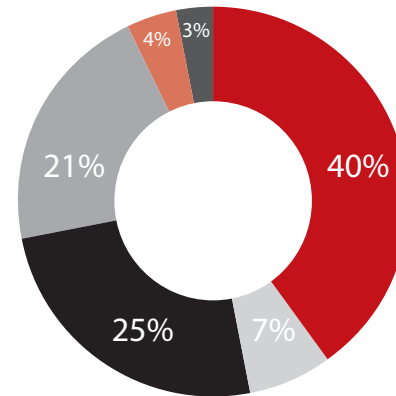


Products sold in more than  
100  
countries worldwide



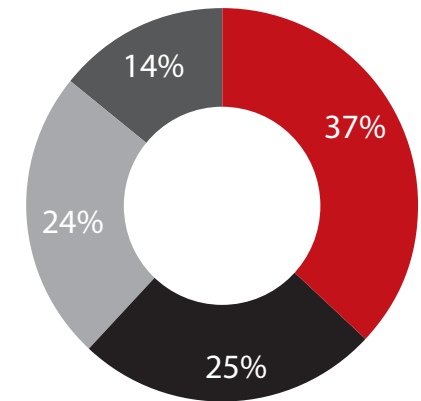
### Sales split on regions – 1st quarter 2018

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



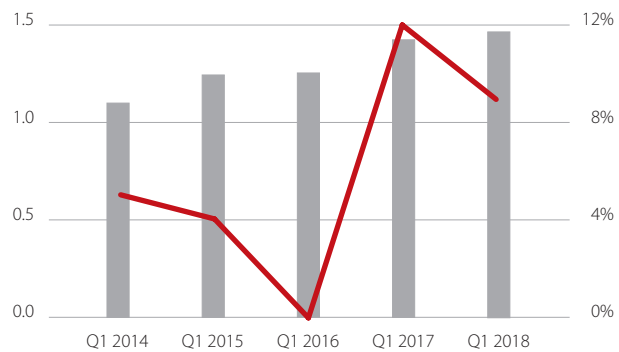
### Sales split on segments – 1st quarter 2018

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



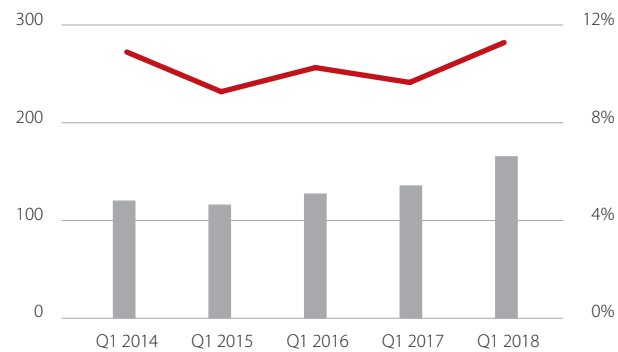
### Sales and growth

- Sales EURbn
- Sales growth in local currency



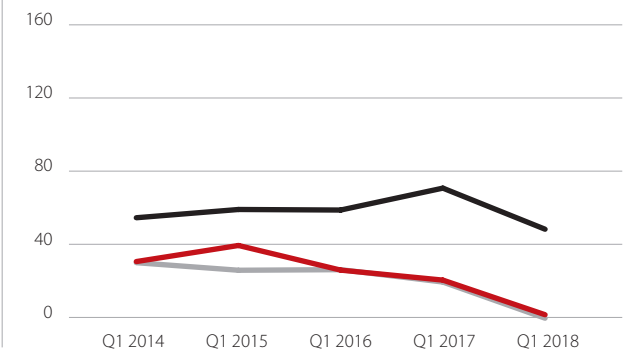
### Earnings

- EBIT EURm
- EBIT margin



### Cash flow

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



## Financial highlights

	EURm			DKKm	
	Q1 2017	Q1 2018	Change	Q1 2017	Q1 2018
<b>Profit and loss account:</b>					
Net sales	1,437	1,474	3%	10,682	10,977
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	212	232	9%	1,574	1,726
Operating profit before depreciation, amortization and impairment (EBITDA)	202	224	11%	1,499	1,665
Operating profit excl. other income and expenses, etc.	150	174	16%	1,112	1,295
Operating profit (EBIT)	139	166	19%	1,036	1,234
Financial items, net	-9	-10	11%	-67	-77
Profit before tax	130	156	20%	969	1,158
Net profit	93	113	22%	691	842
<b>Balance sheet:</b>					
Total non-current assets	3,792	3,890	3%	28,203	28,996
Total assets	5,675	5,804	2%	42,210	43,255
Total shareholders' equity	2,423	2,679	11%	18,023	19,968
Net interest-bearing debt	1,256	1,037	-17%	9,340	7,732
Net assets	3,348	3,388	1%	24,901	25,251
<b>Cash flow statement:</b>					
Cash flow from operating activities	71	48	-32%	528	354
Cash flow from investing activities	-52	-48	-8%	-386	-355
Acquisition of intangible assets and property, plant and equipment.	-49	-49	0%	-367	-365
Acquisition of subsidiaries and activities	-1	0	***	-7	0
Acquisition(-) and sale of other investments, etc.	-2	1	***	-12	10
Free cash flow	19	0	***	143	-1
Free cash flow before M&A	20	0	***	151	0
Cash flow from financing activities	-3	2	***	-22	18
<b>Key figures:</b>					
Local currency growth (%)	12	9	-3	12	9
EBITDA margin excl. other operating income, etc. (%)	14.7	15.7	1.0	14.7	15.7
EBITDA margin (%)	14.0	15.2	1.2	14.0	15.2
EBIT margin excl. other operating income, etc. (%)	10.4	11.8	1.4	10.4	11.8
EBIT margin (%)	9.7	11.3	1.6	9.7	11.3
Equity ratio (%)	42.7	46.2	3.5	42.7	46.2
Leverage ratio (%)	51.8	38.7	-13.1	51.8	38.7
Net interest-bearing debt to EBITDA ratio	1.5	1.1	-0.4	1.5	1.1
Number of employees (end of period)	25,528	26,926	1,398	25,528	26,926

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**

The Danfoss Group had a strong first quarter of 2018, characterized by strong growth across the business segments and improved profitability. 9% growth in local currency led to sales of EUR 1,474m. Earnings (EBIT) improved 19% to EUR 166m, corresponding to an EBIT margin of 11.3%. The cash generation was according to plan. Outlook for 2018 is confirmed.

## Sales

The strong growth, which characterized 2017, continued into the first quarter of 2018, resulting in a strong growth in local currency of 9%. Net sales grew EUR 37m to EUR 1,474m (Q1 2017: EUR 1,437m). In comparison with the same period last year, a significant decline in the US dollar resulted in a negative currency effect of -6%, leading to a reported sales growth of 3%.

The growth was broadly based with the highest impact from the Danfoss Power Solutions segment. In a regional perspective, the Asia-Pacific region had a high impact on the growth performance, driven by continued strong growth in China. Also, the North America and Western Europe regions were main contributors to growth.

## Earnings

Operating profit (EBIT) improved by EUR 27 to EUR 166m (Q1 2017: EUR 139m), leading to an EBIT margin of 11.3% (Q1 2017: 9.7%). The EBIT improvement of 19% was mainly driven by the higher top line in combination with productivity improvements. The EBIT improvement resulted in an increase of EUR 20m in the net profit to EUR 113m (Q1 2017: EUR 93m), up 19% on the same period last year.

## Balance sheet

At March 31, 2018, total assets had increased 2% to EUR 5,804m (Q1 2017: EUR 5,675m), and the equity had increased 11% to EUR 2,679m (Q1 2017: EUR 2,423m), mainly due to the accumulated profits. Consequently, the equity ratio increased to 46.2% (Q1 2017: 42.7%).

Net interest-bearing debt was reduced by EUR 219m to EUR 1,037m (Q1 2017: EUR 1,256m), leading to a net interest-bearing debt to EBITDA ratio of 1.1 (Q1 2017: 1.5). The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook.

## Cash flows

In the first three months of 2018, the cash generation from operations remained solid, but was impacted by a planned one-off export VAT payment, following a legislative change in Denmark. Accordingly, the free cash flow ended at EUR 0m (Q1 2017: EUR 19m), as the EBIT improvement was offset by a higher trade working capital, driven by further growth.

## Market development

In the first three months of 2018, Danfoss saw a continued positive development in several sectors and markets and all regions contributed with growth in local currency. Asia-Pacific, North America and Europe, however, were the main growth drivers.

In Western Europe, the growth traction continues to be driven by specific growth initiatives. In particular, the Danfoss Power Solutions and Danfoss Drives segments had a high impact on growth in the region.

In North America, the Danfoss Power Solutions segment, in particular, had a high impact on the growth in local currency. For Danfoss Power Solutions, specifically, the growth was driven by high activity levels in construction and road building. Overall, from a Group perspective, 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.

In Asia-Pacific, the increasing sales were mainly driven by continued high 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.

### Innovation

In the first three months of 2018, the research and development spend was EUR 61 m (Q1 2017: EUR 59m), corresponding to 4.1% of sales (Q1 2017: 4.1%).

### Employees

At March 31, 2018, the number of employees had increased by 1,398 to 26,926 employees, mainly due to the higher activity level.

### Events occurring after the balance sheet date

On April 16, 2018, Danfoss announced the divestment of the company Thermia, which includes Danfoss Värmepumpar AB in Sweden and its activities in Finland and Norway. With this strategic step, Danfoss ensures a clear focus on the core of the heat pump activities, which will concentrate on providing advanced components and technologies for heat pumps.

### Outlook 2018

The outlook is unchanged relative to the outlook published in the Annual Report 2017. Based on this, we expect to maintain or expand our market share, while maintaining the profitability measured as margin at the 2017 level, following significant investments in digitalization.

## Development in the business segments

### Danfoss Power Solutions



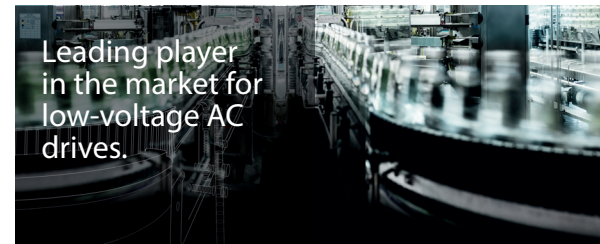
Danfoss Power Solutions delivered a very strong performance with significant sales growth and profitability above the same period last year. Growth was driven by successful growth initiatives and a pick-up in the off-highway market, in particular within global construction and road building. Danfoss Power Solutions delivered growth across most regions with a high impact from the North America and Western Europe regions.

### Danfoss Cooling



Danfoss Cooling delivered a strong performance with growth and a profitability well above the same period last year. The performance varied across regions and product categories, as some markets are fast-growing and others characterized by a low-growth environment. The highest growth impact came from the Western Europe and Asia-Pacific regions.

### Danfoss Drives



Danfoss Drives continued the positive development with sales growth and a profitability well ahead of the same period last year, driven by a strong performance within the drives part of the segment. Danfoss Drives delivered growth in most regions with the highest impact coming from the Western Europe region.

### Danfoss Heating



Danfoss Heating had a good performance with sales growth and profitability well ahead of the same period last year, driven by a strong performance within district energy and non-residential heating. Most regions showed growth with Eastern Europe and Asia-Pacific being main contributors.

## Financial highlights, Quarterly

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



## Financial highlights, Quarterly

	EURm					
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	Q1 2018
<b>Geographical segments</b>						
<b>Total net sales</b>						
Western Europe	554	548	538	543	2,183	595
Eastern Europe	100	119	143	134	496	100
Asia-Pacific	298	342	322	345	1,307	314
North America	381	379	312	315	1,387	366
Latin America	68	67	71	67	273	62
Africa-Middle East	36	43	46	56	181	37
Total	1,437	1,498	1,432	1,460	5,827	1,474
<b>Number of employees</b>						
Western Europe	9,972	9,338	9,432	10,360	10,360	9,681
Eastern Europe	4,456	5,065	5,152	4,769	4,769	5,414
Asia-Pacific	5,644	5,834	6,057	5,911	5,911	5,986
North America	3,960	4,019	3,886	3,957	3,957	4,267
Latin America	1,276	1,321	1,355	1,367	1,367	1,306
Africa-Middle East	220	251	279	281	281	272
Total	25,528	25,828	26,161	26,645	26,645	26,926

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.



ENGINEERING  
TOMORROW

*Danfoss*

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

Date of publication: **May 8, 2018**

Contact address:

**Danfoss A/S**  
Nordborgvej 81  
6430 Nordborg  
Denmark  
Tel.: +45 7488 2222  
CVR no. 20165715 (registration number with the Danish Business Authority)  
Email: [danfoss@danfoss.com](mailto:danfoss@danfoss.com)

---

Follow us here:



[www.facebook.com/danfoss](http://www.facebook.com/danfoss)



[www.twitter.com/danfoss](http://www.twitter.com/danfoss)



[www.youtube.com/danfossgroup](http://www.youtube.com/danfossgroup)



[www.linkedin.com/company/danfoss](http://www.linkedin.com/company/danfoss)



[https://www.instagram.com/danfoss\\_group/](https://www.instagram.com/danfoss_group/)