

ENGINEERING
TOMORROW

Danfoss

Interim announcement

1st-3rd quarter 2018



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Danfoss in brief

Danfoss engineers advanced technologies that enable us to build a better, smarter and more efficient tomorrow. In the world's growing cities, we enable the supply of fresh food and optimal comfort in our homes and offices, while meeting the need for energy-efficient infrastructure, connected systems and integrated renewable energy. Our solutions are used in areas such as refrigeration, air conditioning, heating, motor control and mobile machinery.

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- and medium-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.

Our innovative engineering dates back to 1933 and today Danfoss holds market-leading positions, employing more than 27,000 people, and serving customers in more than 100 countries. We are privately held by the founding family. Read more about us at www.danfoss.com

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 announcements in 2018 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.

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Highlights 1st-3rd quarter 2018

27,753

employees globally



72

factories in 20 countries



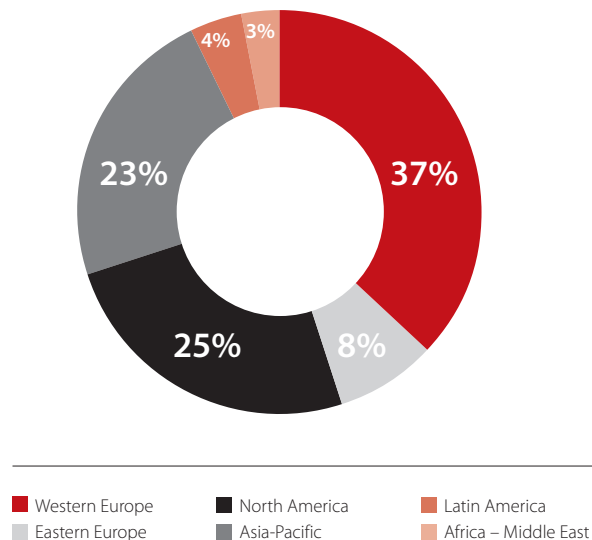
Products sold in more than

100

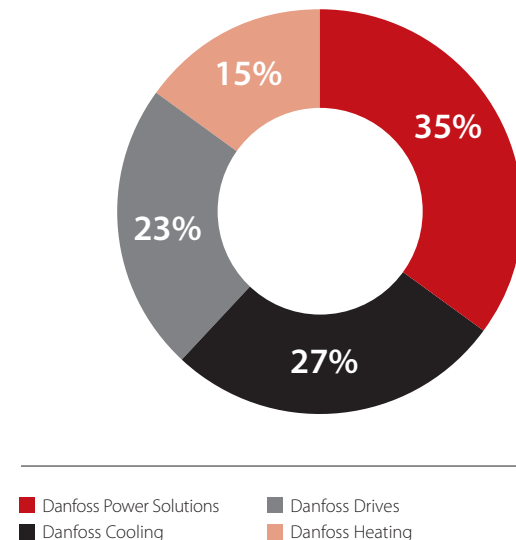
countries worldwide



Sales split on regions – 1st-3rd quarter 2018

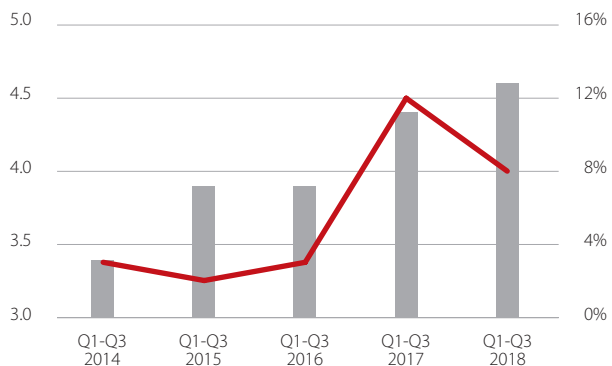


Sales split on segments – 1st-3rd quarter 2018



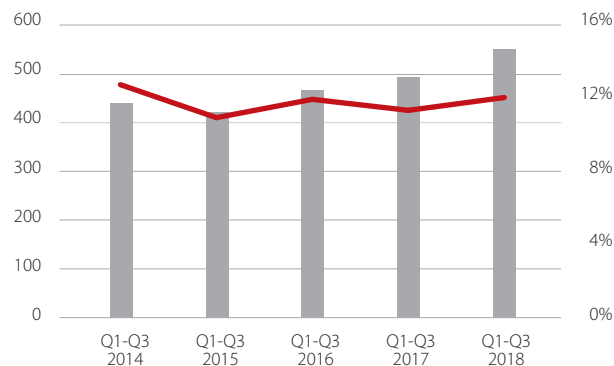
Sales and growth

■ Sales EURbn — Sales growth in local currency



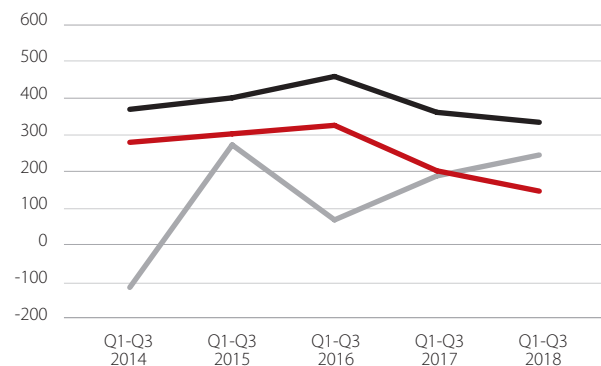
Earnings

■ 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	
	Q3 2017	Q3 2018	Change in %	Q3 YTD 2017	Q3 YTD 2018	Change	Q3 YTD 2017	Q3 YTD 2018
Profit and loss account:								
Net sales	1,432	1,528	7%	4,367	4,569	5%	32,475	34,039
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	261	244	-7%	716	721	1%	5,325	5,371
Operating profit before depreciation, amortization and impairment (EBITDA)	244	240	-2%	673	730	8%	5,005	5,438
Operating profit excl. other income and expenses, etc.	203	182	-10%	536	540	1%	3,983	4,025
Operating profit (EBIT)	187	178	-5%	493	549	11%	3,664	4,087
Financial items, net	-12	-12	0%	-39	-34	-13%	-286	-253
Profit before tax	175	167	-5%	454	515	13%	3,377	3,834
Net profit	126	122	-3%	326	374	15%	2,424	2,788
Balance sheet:								
Total non-current assets				3,696	3,862	4%	27,506	28,799
Total assets				5,556	5,853	5%	41,348	43,639
Total shareholders' equity				2,466	2,571	4%	18,356	19,167
Net interest-bearing debt				1,171	1,138	-3%	8,714	8,487
Net assets				3,306	3,384	2%	24,603	25,236
Cash flow statement:								
Cash flow from operating activities				361	334	-7%	2,686	2,490
Cash flow from investing activities				-172	-88	-49%	-1,278	-659
Acquisition of intangible assets and property, plant and equipment.				-152	-184	21%	-1,128	-1,369
Acquisition of/Proceeds from disposal of subsidiaries and activities				-13	101	***	-95	753
Acquisition(-) and sale of other investments, etc.				-7	-5	-29%	-55	-43
Free cash flow				189	246	30%	1,407	1,831
Free cash flow before M&A				203	148	-27%	1,513	1,105
Cash flow from financing activities				-210	-237	13%	-1,558	-1,769
Financial ratios								
Local currency growth (%)	13	7	-6	12	8	-4	12	8
EBITDA margin excl. other operating income, etc. (%)	18.2	16.0	-2.2	16.4	15.8	-0.6	16.4	15.8
EBITDA margin (%)	17.0	15.7	-1.3	15.4	16.0	0.6	15.4	16.0
EBIT margin excl. other operating income, etc. (%)	14.2	11.9	-2.3	12.3	11.8	-0.5	12.3	11.8
EBIT margin (%)	13.0	11.7	-1.3	11.3	12.0	0.7	11.3	12.0
Equity ratio (%)				44.4	43.9	-0.5	44.4	43.9
Leverage ratio (%)				47.5	44.3	-3.2	47.5	44.3
Net interest-bearing debt to EBITDA ratio				1.4	1.2	-0.2	1.4	1.2
Number of employees (end of period)				26,161	27,753	1,592	26,161	27,753

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**

In the first nine months of 2018, the Danfoss Group delivered 8% growth in local currency, leading to net sales of EUR 4,569m. Earnings (EBIT) grew 11% to EUR 549m, corresponding to an EBIT margin of 12.0%, driven by growth and the gain from the divestment of Thermia. The cash flow was according to plan. Outlook 2018 is maintained, despite the increasing uncertainty and low visibility globally.

Sales

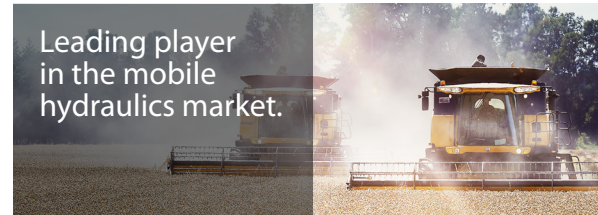
The first nine months showed good growth in local currency of 8%. Net sales grew EUR 202m to EUR 4,569m (first nine months 2017: EUR 4,367m). The reported growth was 5% after a negative currency impact of -3%, mainly due to the decline in the US dollar in comparison with the same period last year.

Overall, for the first nine months, all business segments contributed to the growth, and particularly Danfoss Power Solutions continued the strong growth momentum.

In a regional perspective, the first nine months were characterized by strong growth in the mature markets of North America and Western Europe. Also, the Asia-Pacific region had a high impact on the growth performance, driven by strong growth in China, especially in the first six months of 2018. However, during the third quarter of 2018, growth in China has slowed down, due to the current geopolitical environment.

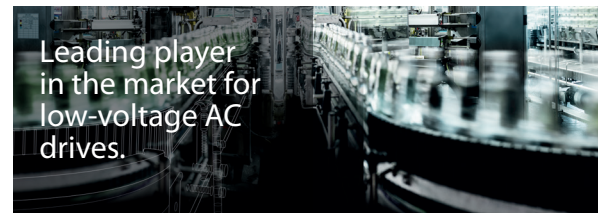
Development in the business segments

Danfoss **Power Solutions**



Danfoss Power Solutions delivered significant sales growth and a profitability on par with the first nine months last year. Growth was driven by successful growth initiatives and continued upturn in the off-highway market, in particular within global construction and road building. The segment delivered growth across the world with Asia-Pacific, North America and Western Europe being significant growth drivers.

Danfoss **Drives**



Danfoss Drives delivered high growth and a profitability well above the first nine months last year, driven by a strong performance within the drives part of the segment. The segment saw growth across the world with a significant impact from Western Europe and North America.

Danfoss **Cooling**



Danfoss Cooling delivered solid growth and a profitability below the first nine months last year. The sales performance varied across the regions and product categories, as some markets are growing fast, and others are characterized by lower growth. The segment saw the highest growth rates in the Asia-Pacific and Western Europe regions.

Danfoss **Heating**



Danfoss Heating delivered solid growth and a profitability well above the first nine months last year, driven by the gain from the divestment of the heat pump business Thermia. Sales increased in most regions with a significant impact from Western Europe and Asia-Pacific, whereas the segment saw challenging market conditions in Russia.

Development in key regions

In the first nine months of 2018, Danfoss saw growth in most sectors and markets. In a regional perspective, the main growth drivers were the Asia-Pacific, North America and Western Europe regions.

In **Asia-Pacific**, growth was driven by increased sales in China across the Danfoss business segments. The demand in China was supported by high national investments within construction and road building, in addition to a strong political focus on energy efficiency and reduction of carbon emissions (CO₂), which is benefiting the Danfoss business in general. However, during the third quarter of 2018, growth was slowing down in China.

In **North America**, growth was driven by the Danfoss Power Solutions segment. For Danfoss Power Solutions, specifically, the demand was driven by continued high activity levels within construction and road building.

In **Western Europe**, growth was driven by the Danfoss Power Solutions and Danfoss Drives segments, but all business segments grew in Western Europe. Demand was driven by increasing investment levels within infrastructure, which is benefiting the sales of Danfoss components and solutions across the business in general.

Earnings

Operating profit (EBIT) grew by EUR 56m to EUR 549m (first nine months 2017: EUR 493m), leading to an EBIT margin of 12.0% (first nine months 2017: 11.3%). The increase was driven by the higher top line and the gain from the divestment of the heat pump business Thermia in the second quarter of 2018. Net profit was up 15% to EUR 374m (first nine months 2017: EUR 326m), mainly driven by the higher EBIT.

Balance sheet

At September 30, 2018, total assets had increased 5% to EUR 5,853m (first nine months 2017: EUR 5,556m) as a result of the higher activity level. Equity increased 4% to EUR 2,571m (first nine months 2017: EUR 2,466m), mainly due to the improved earnings. Consequently, the equity ratio was 43.9% (first nine months 2017: 44.4%).

Net interest-bearing debt was reduced by EUR 33m to EUR 1,138m (first nine months 2017: EUR 1,171m), leading to a net interest-bearing debt to EBITDA ratio of 1.2 (first nine months 2017: 1.4). The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook.

Cash flow

In the first nine months of 2018, the free cash flow increased to EUR 246m (first nine months 2017: EUR 189m), mainly due to the effect of the divestment of Thermia.

The cash flow from operating activities amounted to EUR 334m (first nine months 2017: EUR 361m). The lower level can mainly be ascribed to the planned one-off export VAT payment in the first quarter of 2018, following a legislative change in Denmark, in addition to the higher activity level, leading to increased inventories and receivables.

Consequently, the free cash flow before mergers and acquisitions was EUR 148m (first nine months 2017: EUR 203m), as the increase in EBIT was offset by the one-off export VAT payment and the higher trade working capital, driven by growth, and increased investments in digitalization and production capacity.

Acquisition

At August 31, 2018, Danfoss announced the acquisition of the Finnish business AXCO-Motors – a technology leader in large mobile electric solutions. The business includes design, manufacturing, sales and services for electric motors and generators for hydro, marine and mobile electric solutions. The acquisition reflects Danfoss' strategic focus on adding more electric products to the product portfolio and will enable Danfoss to serve the customers with a total package

of optimal solutions to reduce emissions and benefit from the efficiency and productivity gains that these electric solutions bring in off-highway mobile machines.

Innovation

In the first nine months of 2018, the research and development spend increased 10% to EUR 192m (first nine months 2017: EUR 175m), corresponding to 4.2% of sales (first nine months 2017: 4.0%).

Employees

At September 30, 2018, the number of employees had increased by 1,592 to 27,753 employees, mainly due to the higher activity level and the acquisitions.

Events occurring after the balance sheet date

On October 24, 2018, Danfoss announced the acquisition of the majority shares of Artemis Intelligent Power Ltd. (AIP), an R&D and engineering company based in Edinburgh, 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.

Outlook 2018 maintained

Despite the increasing uncertainty globally, created by the current geopolitical environment and in particular the ongoing trade conflicts, Danfoss maintains the outlook for 2018. The visibility for the remainder of 2018 has become lower, as we see uncertainty increasing in several markets, due to the current geopolitical environment. 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 2018, management expects to maintain or expand its market share, while maintaining the profitability measured as margin at the 2017 level, following significant investments in digitalization. The outlook is unchanged relative to the outlook for 2018 published in the Annual Report 2017.

Financial highlights, Quarterly

	EURm							
	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	Q1 2018	Q2 2018	Q3 2018
Profit and loss account								
Net sales	1,437	1,498	1,432	1,460	5,827	1,474	1,567	1,528
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	212	244	261	206	923	232	245	244
Operating profit before depreciation, amortization and impairment (EBITDA)	202	227	244	210	883	224	266	240
Operating profit excl. other income and expenses, etc.	150	183	203	149	685	174	184	182
Operating profit (EBIT)	139	167	187	152	645	166	204	178
Financial items, net	-9	-18	-12	-10	-49	-10	-12	-12
Profit before tax	130	149	175	142	596	156	192	167
Net profit	93	107	126	119	445	113	140	122
Balance sheet								
Total non-current assets	3,792	3,725	3,696	3,883	3,883	3,890	3,847	3,862
Total assets	5,675	5,600	5,556	5,583	5,583	5,804	5,821	5,853
Total shareholders' equity	2,423	2,372	2,466	2,569	2,569	2,679	2,471	2,571
Net interest-bearing debt	1,256	1,350	1,171	1,050	1,050	1,037	1,269	1,138
Net assets	3,348	3,393	3,306	3,291	3,291	3,388	3,410	3,384
Cash flow statement (YTD)								
Cash flow from operating activities	71	132	361	742	742	48	99	334
Cash flow from investing activities	-52	-112	-172	-405	-405	-48	11	-88
Acquisition of intangible assets and property, plant and equipment	-49	-94	-152	-281	-281	-49	-111	-184
Acquisition of/Proceeds from disposal of subsidiaries and activities	-1	-11	-13	-103	-103	0	131	101
Acquisition(-) and sale of other investments, etc.	-2	-7	-7	-21	-21	1	-9	-5
Free cash flow	19	20	189	337	337	0	110	246
Free cash flow before M&A	20	32	203	444	444	0	-17	148
Cash flow from financing activities	-3	-28	-210	-373	-373	2	-115	-237
Financial ratios								
Local currency growth (%)	12	11	13	12	12	9	8	7
EBITDA margin excl. other operating income, etc. (%)	14.7	16.3	18.2	14.2	15.8	15.7	15.7	16.0
EBITDA margin (%)	14.0	15.2	17.0	14.4	15.2	15.2	17.0	15.7
EBIT margin excl. other operating income, etc. (%)	10.4	12.2	14.2	10.2	11.8	11.8	11.8	11.9
EBIT margin (%)	9.7	11.1	13.0	10.4	11.1	11.3	13.0	11.7
Equity ratio (%)	42.7	42.4	44.4	46.0	46.0	46.2	42.5	43.9
Leverage ratio (%)	51.8	56.9	47.5	40.9	40.9	38.7	51.3	44.3
Net interest-bearing debt to EBITDA ratio	1.5	1.6	1.4	1.2	1.2	1.1	1.3	1.2
Number of employees	25,528	25,828	26,161	26,645	26,645	26,926	27,141	27,753

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

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