ENGINEERING
TOMORROW

2015
Financial highlights in EURO

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2015 **highlights**

m EUR	Total net sales	Sales growth	R&D spend	Free cash flow (before M&A)
	5,099	**11%**	**215**	**456**

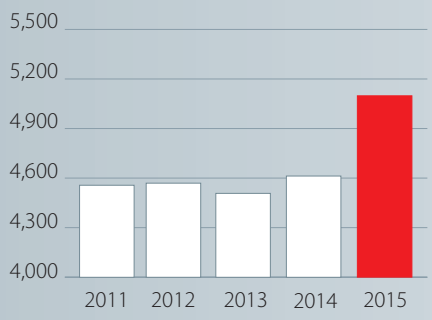
Financials in brief

In 2015, the Danfoss Group maintained good performance and delivered financial results in line with expectations. The year was characterized by continuing low, global growth conditions and the business environment remained mixed across markets and regions. The demand for energy efficiency and increased focus on climate-friendly solutions were strong drivers for Danfoss technologies supporting an improved performance in the two business segments Danfoss Cooling and Danfoss Drives. On the other hand, for the Danfoss Power Solutions business segment, results were impacted by a downturn in the global mobile hydraulics market due to low activity levels in the global agricultural sector as well as lower construction activity in China. Also, Danfoss Heating had a challenging year due to the economic downturn in Russia and slowdown in China.

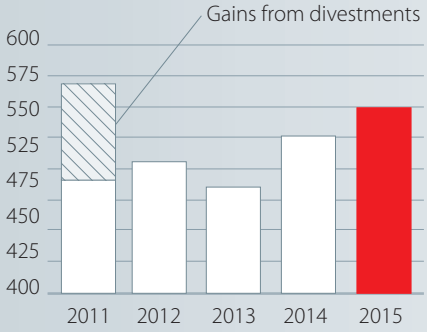
For the Group, net sales were at EUR 5,099m against EUR 4,611m in 2014. The improvement corresponds to 11% growth. In local currency, growth was 5%. EBIT excluding other operating income/expenses was EUR 568m against EUR 584m. EBIT was improved to EUR 549m against EUR 526m last year, which is equal to an increase of 4%. Net profit was at EUR 348m record-high and 13% above last year. The free cash flow before M&A was EUR 456m against EUR 455m in the year earlier period.

In conclusion, the Group's performance in 2015 was satisfactory.

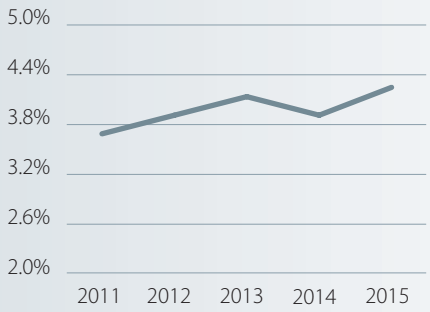
Net sales
bn EUR the last five years



EBIT
bn EUR the last five years



R&D
spend the last five years



Key facts

61

factories in **20 countries** and Danfoss sells its products in more than **100 countries**

23,420

employees dedicated to engineering solutions that make a difference to people and businesses worldwide

1,381

patent families

EBIT excluding other income and expenses	EBIT	Equity	Equity ratio
568	**549**	**2,067**	**41.4%**

Most important events in 2015

Successful Vacon merger

In December 2014, Danfoss acquired the Finnish drives manufacturer Vacon, and the new Danfoss Drives business segment was formed by merging Vacon and the Danfoss drives business, Power Electronics. The merger has been successful and the first year has gone well for Danfoss Drives. While merging the two businesses, the business segment has managed to keep a firm focus on serving customers, harvesting synergies and maintaining strong performance. Combining the two companies, Danfoss Drives is now the world's second-largest AC drives manufacturer.

Strong innovation year

In 2015, we invested a record-high EUR 215m in innovation. Focus was very much on digitalization, and several new innovative products utilizing technologies within connectivity and big data were launched during the year. Examples are the digital actuator Novocon, the new electro-hydraulic steering solution for off high-way machinery called PVED-CLA, and the Danfoss Link heating system controlled by your smartphone.

Successful safety program

The key performance indicator in measuring employee safety, the Lost Time Injury Frequency (LTIF), dropped from 4.4 in 2014 to 3.4 in 2015. This significant improvement was obtained via our new global "Safety on the shop floor" program which during 2015 was implemented in all Danfoss factories around the world.

Quality at the next level

In 2015, another 19 Danfoss factories became compliant with the ISO/TS16949 quality standard - one of the world's strictest quality standards. A significant milestone in the roll-out as three business segments; Danfoss Cooling, Danfoss Drives, and Danfoss Heating are now fully compliant with the TS16949 requirements.

M&A's

Danfoss acquired DAF Enerji; a company within the district heating market in Turkey. Turkey is a country with a high growth potential for Danfoss and especially for the Danfoss Heating Business segment; proved in 2015 by Danfoss Heating growing above 30% in local currency in Turkey. The acquisition is a key element in further strengthening our heating business and taking the next step to further accelerate growth in Turkey.
Danfoss also acquired the Dutch software company Advitronic Engineering B.V. This is an investment in capabilities and technology related to connectivity and Internet of Things. This will strengthen the Danfoss Cooling business segment, in particular, and the business segments' position within the food retail industry worldwide as an innovative partner in smart store solutions and enterprise management systems.

Lowering the energy consumption

Danfoss launched in November 2015 a new climate strategy, which builds on what the company has already achieved. Danfoss' energy intensity, measured as energy consumption per million DKK net sales, has been reduced by 29% since 2007. The new strategy requires Danfoss to cut the company's energy intensity by 50% before 2030. Meaning that we only use half as much energy to keep the wheels of business running. The consumed energy shall by 2030 emit half as much CO_2 per MWh.

Global climate agreement

At COP21 in Paris, 196 countries reached a historic agreement to limit global warming. All 196 countries have submitted plans for how they will contribute to this green transition. Several of these plans include initiatives to increase energy efficiency e.g. via district energy systems and wastewater treatment. Accordingly, for Danfoss being a company that engineers energy efficient solutions that enable the world of tomorrow to do more with less, the framework of the agreement holds concrete, vast long-term potential.

FINANCIAL HIGHLIGHTS

EURm

	2011	2012	2013	2014	2015
INCOME STATEMENT					
Net sales	4,550	4,569	4,509	4,611	5,099
Operating profit before depreciation, amortization, impairment and other operating income and expenses etc.	715	733	744	815	824
Operating profit before depreciation, amortization and impairment (EBITDA)	797	772	711	759	807
Operating profit excl. other operating income and expenses etc.	490	501	519	584	568
Share of profit from associates and joint ventures after tax	2	0	1	-25	9
Operating profit (EBIT)	569	507	486	526	549
Financial items, net	-137	-57	-49	-60	-47
Profit before tax from continuing operations	432	450	436	466	502
Profit from discontinued operations	-125	0	0	0	0
Net profit	176	315	307	307	348
BALANCE SHEET					
Total non-current assets	2,344	2,284	2,152	3,469	3,507
Total assets	3,783	3,722	3,501	4,955	4,987
Total shareholders' equity	1,695	1,902	1,534	1,779	2,067
Net interest-bearing debt	623	361	552	1,537	1,292
Net assets	2,292	2,249	2,074	3,014	3,030
CASH FLOW STATEMENT					
Cash flow from operating activities	451	570	596	584	626
Cash flow from investing activities	-28	-177	-123	-1,419	-217
Acquisition of intangible assets and property, plant and equipment	-164	-158	-134	-133	-157
Acquisition of subsidiaries and activities	148	-26	0	-990	-30
Acquisition (-)/sale of other investments etc.	-12	6	11	-296	-30
Free cash flow	423	393	473	-835	409
Free cash flow before M&A	279	405	471	455	456
Cash flow from financing activities	-340	-374	-486	830	-458
NUMBER OF EMPLOYEES					
Number of employees	23,430	23,092	22,463	24,117	23,420
CONVERSION FACTOR BETWEEN DKK AND EUR					
P&L account and cash flow statement (average exchange rate 100 EUR)	745.07	744.35	745.78	745.49	745.87
Balance sheet (exchange rate as of December 31, 100 EUR)	743.40	746.04	746.03	744.36	746.26
FINANCIAL RATIOS					
Local currency growth (%)	8	-3	2	5	5
EBITDA margin excl. other operating income etc. (%)	15.7	16.0	16.5	17.7	16.2
EBITDA margin (%)	17.5	16.9	15.8	16.5	15.8
EBIT margin excl. other operating income etc. (%)	10.8	11.0	11.5	12.7	11.1
EBIT margin (%)	12.5	11.1	10.8	11.4	10.8
Return on invested capital (ROIC)	23.1	21.4	22.2	19.4	16.3
Return on invested capital (ROIC) after tax	17.5	15.2	15.9	13.2	11.4
Return on equity (%)	9.0	17.8	18.2	18.4	17.6
Equity ratio (%)	44.8	51.1	43.8	35.9	41.4
Leverage ratio (%)	36.8	19.0	36.0	86.4	62.5
Net interest bearing debt to EBITDA ratio	0.8	0.5	0.8	2.0	1.6
Dividend pay-out Ratio (%)	25.0	17.1	35.0	21.8	20.4
Dividend per 100 DKK share	31.5	39.2	78.3	48.9	51.8

In situations where the key figures 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 definitions.

INCOME STATEMENT

January 1 to December 31

EURm	Note	2014	2015
Net sales	1	4,611	5,099
Cost of sales	2	-2,979	-3,312
GROSS PROFIT		**1,632**	**1,787**
Research and development costs	2	-178	-215
Selling and distribution costs	2	-663	-773
Administrative expenses	2	-207	-231
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**584**	**568**
Other operating income and expenses	2	-33	-28
Share of profit from associates and joint ventures after tax	3	-25	9
OPERATING PROFIT (EBIT)	1	**526**	**549**
Financial income	4	5	10
Financial expenses	5	-65	-57
PROFIT BEFORE TAX	1	**466**	**502**
Tax on profit	6	-159	-154
NET PROFIT		**307**	**348**
Attributable to:			
Shareholders in Danfoss A/S		282	319
Minority interests		25	29
		307	**348**

STATEMENT OF COMPREHENSIVE INCOME

January 1 to December 31

EURm	Note	2014	2015
NET PROFIT		**307**	**348**
OTHER COMPREHENSIVE INCOME			
Actuarial gain/loss (-) on pension and healthcare plans	15	-38	2
Tax on actuarial gain/loss on pension and healthcare plans	14	13	-1
Items that cannot be reclassified to profit or loss		**-25**	**1**
Foreign exchange adjustments on translation of foreign currency into DKK etc.		105	82
Fair value adjustment of hedging instruments:			
Hedging of net investments in subsidiaries		-3	2
Hedging of future cash flows		-18	46
Hedging transferred to net sales in the income statement		-3	-36
Tax on hedging instruments		6	-2
Items that can be reclassified to profit or loss		**87**	**92**
OTHER COMPREHENSIVE INCOME AFTER TAX		**62**	**93**
TOTAL COMPREHENSIVE INCOME		**369**	**441**
Attributable to:			
Shareholders of Danfoss A/S		336	404
Minority interests		33	37
		369	**441**

STATEMENT OF FINANCIAL POSITION

As of December 31

EURm **ASSETS**	Note	2014	2015
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	7	**2,114**	**2,150**
PROPERTY, PLANT AND EQUIPMENT	8	**881**	**895**
Investments	3	302	329
Pension benefit plan assets	15	11	14
Non-current receivables		5	4
Deferred tax assets	14	156	115
OTHER NON-CURRENT ASSETS		**474**	**462**
TOTAL NON-CURRENT ASSETS		**3,469**	**3,507**
CURRENT ASSETS			
INVENTORIES	9	**549**	**559**
Trade receivables	10	695	712
Receivable corporation tax	17	59	71
Derivative financial instruments (positive fair value)	16	2	2
Other receivables		85	93
RECEIVABLES		**841**	**878**
CASH AND CASH EQUIVALENTS	16	**96**	**43**
TOTAL CURRENT ASSETS		**1,486**	**1,480**
TOTAL ASSETS		**4,955**	**4,987**

STATEMENT OF FINANCIAL POSITION

As of December 31

EURm **LIABILITIES AND SHAREHOLDERS' EQUITY**	Note	**2014**	**2015**
SHAREHOLDERS' EQUITY			
Equity, shareholders in Danfoss A/S	11	1,650	1,970
Minority interests		129	97
TOTAL SHAREHOLDERS' EQUITY		**1,779**	**2,067**
LIABILITIES			
Provisions	12	53	50
Deferred tax liabilities	14	264	260
Pension and healthcare benefit plan obligations	15	172	163
Borrowings	16	1,487	1,244
Derivative financial instruments (negative fair value)	16	5	4
Other non-current debt		34	43
NON-CURRENT LIABILITIES		**2,015**	**1,764**
Provisions	12	83	83
Liabilities under share incentive programs	13	11	6
Borrowings	16	149	107
Trade payables		480	518
Debt to associates and joint ventures		2	3
Corporation tax	17	40	40
Derivative financial instruments (negative fair value)	16	14	30
Other debt		382	369
CURRENT LIABILITIES		**1,161**	**1,156**
TOTAL LIABILITIES		**3,176**	**2,920**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**4,955**	**4,987**

STATEMENT OF CASH FLOWS

January 1 to December 31

EURm	Note	2014	2015
Profit before tax		466	502
Adjustments for non-cash transactions	18	266	261
Change in working capital	19	26	40
CASH FLOW GENERATED FROM OPERATIONS		**758**	**803**
Interest received		2	2
Interest paid		-29	-38
Dividends received		1	1
CASH FLOW FROM OPERATIONS BEFORE TAX		**732**	**768**
Paid tax	17	-148	-142
CASH FLOW FROM OPERATING ACTIVITIES		**584**	**626**
Acquisition of intangible assets		-13	-27
Acquisition of property, plant and equipment		-152	-147
Proceeds from sale of property, plant and equipment		32	17
Acquisition of subsidiaries etc.	20	-990	-31
Proceeds from disposal of subsidiaries etc.	20		1
Acquisition (-)/sale of other investments etc.	21	-296	-30
CASH FLOW FROM INVESTING ACTIVITIES		**-1,419**	**-217**
FREE CASH FLOW		**-835**	**409**
Cash repayment of (-)/cash proceeds from interest-bearing debt		958	-312
Repurchase of treasury shares		-2	-42
Addition/disposal of minority interests		1	-5
Dividends paid to shareholders in the Parent Company		-106	-66
Dividends paid to minority shareholders		-21	-33
CASH FLOW FROM FINANCING ACTIVITIES		**830**	**-458**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**-5**	**-49**
Cash and cash equivalents as of January 1		99	96
Foreign exchange adjustment of cash and cash equivalents		2	-4
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**96**	**43**

STATEMENT OF FREE CASH FLOW ADJ. FOR ACQUISITION AND DISPOSAL OF SUBSIDIARIES ETC. (M&A)

Free cash flow		-835	409
Acquisition of subsidiaries etc.	20	990	31
Proceeds from disposal of subsidiaries etc.	20		-1
Acquisition (-)/sale of other investments	21	300	17
FREE CASH FLOW BEFORE M&A		**455**	**456**

The cash flow statement cannot be derived on the basis of the Annual Report alone.

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