

ENGINEERING  
TOMORROW



# Interim announcement

## 1<sup>st</sup> Half-year 2015



# Danfoss at a glance

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 heating 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 global player 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.

## Danfoss...

- Employing 24,000 employees globally
- Products sold in over 100 countries worldwide
- 63 factories in 19 countries
- Top 3 regions: Europe, North America and Asia-Pacific
- Headquartered in Nordborg, Denmark

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# Financial highlights

Mill. DKK  
(unless otherwise stated)

	Q2 2014	Q2 2015	Change in %	1st half-year 2014	1st half-year 2015	Change in %	2014
<b>Profit and loss accounts:</b>							
Net sales	8,617	9,854	14%	16,920	19,239	14%	34,375
Operating profit before depreciation, amortization, impairment and other operating income and expenses	1,450	1,556	7%	2,851	2,966	4%	6,079
Operating profit before depreciation, amortization and impairment (EBITDA)	1,448	1,481	2%	2,789	2,833	2%	5,661
Operating profit excl. other income and expenses	1,043	1,070	3%	2,039	2,000	-2%	4,356
Operating profit (EBIT)	1,042	997	-4%	1,955	1,868	-4%	3,925
Financial items, net	-83	-91	-10%	-163	-178	-9%	-449
Profit before tax	959	906	-6%	1,792	1,689	-6%	3,476
Net profit	632	608	-4%	1,187	1,117	-6%	2,290
<b>Balance sheet:</b>							
Total non-current assets				18,029	25,994	44%	25,822
Total assets				29,064	38,533	33%	36,883
Total shareholders' equity				11,783	14,602	24%	13,242
Net interest-bearing debt				6,639	11,519	74%	11,439
Net assets				15,953	23,799	49%	22,432
<b>Cash flow statement:</b>							
Cash flow from operating activities				1,071	1,121	5%	4,351
Cash flow from investing activities				-2,673	-641	76%	-10,576
Acquisition of intangible assets and property, plant and equipment.				-456	-359	21%	-996
Acquisition of subsidiaries and activities				0	-112	***	-7,377
Acquisition(-) and sale of other investments etc.				-2,217	-170	***	-2,203
Free Cash flow				-1,602	480	***	-6,225
Free cash flow before M&A				660	686	4%	3,389
Cash flow from financing activities				1,340	-797	***	6,194
<b>Key figures:</b>							
Local currency growth (%)	3	5	2	5	6	1	5
EBITDA margin excl. other operating income etc. (%)	16.8	15.8	-1.0	16.8	15.4	-1.4	17.7
EBITDA margin (%)	16.8	15.0	-1.8	16.5	14.7	-1.8	16.5
EBIT margin excl. other operating income etc. (%)	12.1	10.9	-1.2	12.1	10.4	-1.7	12.7
EBIT margin (%)	12.1	10.1	-2.0	11.6	9.7	-1.9	11.4
Equity ratio (%)				40.5	37.9	-2.6	35.9
Leverage ratio (%)				56.3	78.9	22.6	86.4
Net interest bearing debt to EBITDA ratio				1.2	2.0	0.8	2.0
Number of employees (end of period)				22,633	23,775	1,142	24,117

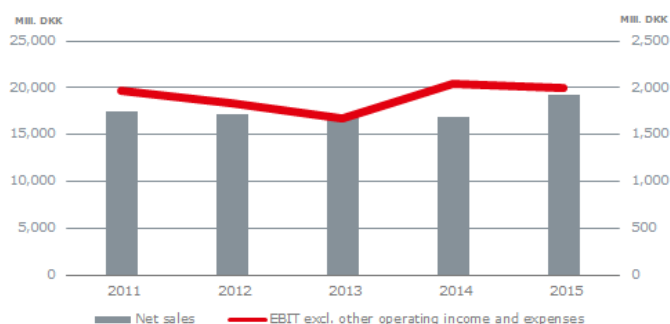
# Financial review

In the first half-year of 2015, the Danfoss Group delivered results in line with expectations. The net sales were 6% above the same period last year in local currency. The free cash flow before M&A was above the year-earlier period, while earnings were at level with last year.

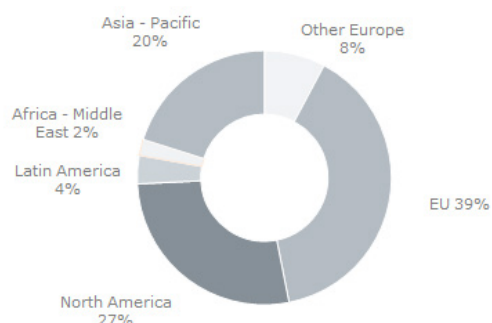
## Net sales

In the first half-year of 2015, the Group's net sales increased to DKK 19,239m against DKK 16,920m, corresponding to a 14% improvement. Compared to the same period last year, changes in exchange rates driven by appreciation of the US dollar resulted in a positive impact on the top line in the first six months of 2015. In local currency, the improvement was 6%.

## Net sales & EBIT excl. other operating income and expenses – half-year numbers



## Sales distribution by regions



A part of the Danfoss Core & Clear strategy is to strengthen the core businesses and generate growth via acquisitions of well-performing companies. By the end of 2014, Danfoss acquired the Finnish drives manufacturer Vacon. Consequently, the additional sales from this acquisition have contributed to lifting the net sales for the Group in 2015.

Across the Group's four business segments (Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating), the varying performance, which characterized the first quarter of the year, continued in the second quarter. The varying performance reflected the mixed, global market conditions; however, also demonstrating the natural diversification effect at Group level.

Lower activity and investment levels in the mobile hydraulics market resulted in softer sales performance in Danfoss Power Solutions. Danfoss Heating continued to be negatively impacted by the overall economic downturn in Russia. Although the Russian market seems to have somewhat stabilized and the business climate is gradually adapting to the new economic reality, in particular, the significant currency volatility impacted results in the segment negatively in the half-year. The business segments Danfoss Cooling and Danfoss Drives continued with good momentum and strengthened their sales performance.

In conclusion, the Group delivered good sales performance in line with overall expectations.

## Market trends

The need for new infrastructure, efficient food supply, energy efficiency and climate-friendly solutions continued to be the overall drivers of the demand for Danfoss technologies. However, as expected, the global, overall market conditions continued to be characterized by low growth.

From a regional point of view, macroeconomic developments have, over the recent quarters, gradually changed the global scenario. Growth momentum in some of the large emerging economies has for various reasons gradually come down, while the economies in North America and to some extent Europe are showing an emerging growth trend.

The Group's targeted investments in Turkey and India continued to pay off. Especially in India, where Danfoss inaugurated a new production and innovation campus last year, the growth momentum has been strong for several quarters. Growth in the first half-year was 21% in local currency.

In Europe, sales were 9% above last year in local currency.

In Russia, due to the economic downturn and, in particular, the significant depreciation of the Ruble in the latter part of 2014, market conditions are difficult. Consequently, the activity level in the region has dropped significantly. However, Danfoss has experienced significant fluctuations in Russia before, and history shows that the right strategy is to persist and defend the strong market position.

In North America, sales in local currency were at level with last year. However, the mixed performance across the product categories, where Danfoss is present, continued in the second quarter also. Danfoss Cooling and Danfoss Drives continued to drive increased sales benefiting from the overall momentum in the US economy. Danfoss Power Solutions, however, continued to see lower sales in the region mainly due to softness in the agricultural market, which has impacted the market for mobile hydraulics.

Latin America was above last year in local currency.

In China, sales in local currency were slightly above last year. The trend of gradually lower activity levels continued due to the Chinese economy slowing down. However, the business climate varies across sectors and, accordingly, the Danfoss business segments are facing mixed business conditions. Driven by the increased focus on energy-efficiency and sustainable development, the China region continues to hold great potential for Danfoss, and the Group continues to have a strong focus on the region.

### **Operating profit**

Taking into account the ongoing integration of Vacon, the Group's earnings developed in line with expectations. The operating profit (EBIT) excluding other operating income and expenses in the first half-year was with DKK 2,000m on a par with the level of DKK 2,039m in the same period last year.

The operating profit (EBIT) amounted to DKK 1,868m, against DKK 1,955m in the same period in 2014, which is equal to a decrease of 4%.

### **Balance sheet**

The Group's equity amounted to DKK 14,602m against DKK 11,783m at June 30, 2014. The increase was mainly due to accumulated profit. The equity ratio was 37.9% against 40.5% last year. The lower equity ratio was due to the

acquisition of the Finnish drives manufacturer Vacon. Total assets amounted to DKK 38,533m against DKK 29,064m last year – again, the increase is related to the acquisition of Vacon.

Net interest-bearing debt stood at DKK 11,519m at June 30, 2015, compared to DKK 6,639m at the same time last year. The increase in debt is related to the financing of the acquisition of Vacon in 2014. The level of debt is equal to 2.0 × EBITDA of the last four quarters, which is within the target range of 0 to 2 times EBITDA.

### **Cash flows**

The free cash flow before mergers and acquisitions was maintained at a high level, amounting to DKK 686m and above the level of DKK 660m in the first half-year last year. The improvement is driven by lower investments in fixed assets and improved cash flow from operating activities. The free cash flow including mergers and acquisitions was DKK 480m against DKK –1,602m in the same period last year. The amount consisted of cash flow from operating activities of DKK 1,121m and DKK –641m cash flow from investing activities.

### **Innovation**

Danfoss continues the high level of investments in research and development of new products and technologies. In the first six months of the year, the Group increased its investment in product development to DKK 842m, compared to DKK 638m in the same period last year. Measured as a percentage of sales, investment was 4.4% against 3.8%.

### **Employees**

The Danfoss Group had 23,775 employees at June 30, 2015, against 24,117 at the beginning of the year.

# Segments

As of January 1, 2015, the Danfoss Group reorganized the business structure, going from two business segments to four business segments. Accordingly, the Group is reporting in four business segments: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating.

## Danfoss Power Solutions

Danfoss Power Solutions is a leading player in the market for off-highway mobile hydraulics. The segment covers three divisions: Hydrostatics, Work Function, Controls, as well as some stand-alone businesses. Within each division, the segment plays a leading role in R&D, design, manufacture and the sale of innovative and performance-enhancing hydraulic and electronic systems and components. These products are used in mobile machinery operating in the agriculture, construction, material handling, and specialty equipment markets.

For Danfoss Power Solutions, the first half of 2015 has been characterized by difficult market conditions. Total net sales in the segment were, due to the appreciation of the US dollar, slightly above the same period last year. However, in local currency, total net sales were below last year. Sales performance in Danfoss Power Solutions has been impacted by the overall market trends in the areas, where the segment operates. Most significantly, the agricultural market in the US and Europe remained, also in the second quarter, weak together with a softening in the construction and oil & gas markets in the US. Also, the Chinese mobile industry market has decreased from weaker construction and roadbuilding business.

In conclusion, Danfoss Power Solutions has seen softer markets in the first quarter continuing in the second quarter of the year resulting in lower sales compared to last year, but retained good profitability driven by continued focus on operational performance and productivity improvements.

## Danfoss Cooling

Danfoss Cooling is a world-leading supplier of components in the air-conditioning and refrigeration industry. The segment supplies solutions on a global scale within commercial refrigeration, industrial refrigeration, air-conditioning, supermarket refrigeration, and industrial automated systems. With more than 10,000 components, including compressors, valves, sensors and switches, Danfoss Cooling provides its customers with innovative, energy-saving and precise control solutions.

Danfoss Cooling sustained the good performance from the first quarter in the second quarter of the year. With the excep-

tion of Europe, in the first half-year of 2015, Danfoss Cooling recorded growth in local currency in the segment's primary markets – most significantly in North America and China. Also, the strong focus on the high-growth potential in India continued to benefit the segment with double-digit growth realized.

Overall, total net sales in local currency in the segment were slightly above last year, and earnings in the segment also improved.

## Danfoss Drives

Danfoss Drives is a leading player in the market for low voltage AC drives. Danfoss Drives is the result of the merger in progress of the Danfoss drives business, Power Electronics, and Vacon. Being experts in drives, the business segment offers optimum process control and energy efficiency for electric motors. Main customer segments include, among others, HVAC, marine & offshore, mining, lifts & elevators, and food & beverage. Danfoss Silicon Power is also part of the Danfoss Drives segment; this business develops and manufactures power modules and stacks for a number of industries, like the automotive and wind industries.

Danfoss Drives had a good first six months of 2015, thereby continuing the good momentum from 2014 in both the former Danfoss drives business, Power Electronics, and Vacon. The merger plan continues according to schedule, whilst the segment has managed to keep a firm focus on serving the customers and maintaining strong performance. Total net sales for the consolidated segment were above the same period last year in local currency. The segment recorded higher sales in most regions, and growth rates in local currency were double-digit in several regions; impact on the topline continued to be most significant from the improved performance in North America and Central Europe, which are key markets for the segment.

Profitability in the consolidated segment was significantly above last year, driven by the transfer of the former Danfoss solar inverter business to German SMA solar technology AG as well as increased sales, procurement savings from a consolidated spend and continued productivity improvements.

In conclusion, the segment continued to improve sales and profitability.

## Danfoss Heating

Danfoss Heating is a leading player within the heating industry. The segment covers heating components and systems within residential and commercial heating and district energy for cities for the entire supply of heating and cooling - to intelligent home solutions for optimal comfort while reducing energy consumption. Within each business area, Danfoss Heating is a leading player and offers a complete range of energy-efficient solutions to customers across a number of product categories globally.

For Danfoss Heating, the challenging start to the year continued in the second quarter as the segment remained significantly affected by the difficult market conditions in Russia. Russia is a key market for Danfoss Heating, especially in the district heating business, and as expected the downturn in the Russian economy and the currency volatility, in particular, impacted results in the segment negatively in the first six months. Danfoss Heating has experienced significant fluctuations in Russia, before and activities to defend the strong market position in Russia are ongoing.

On the positive side, the segment continues to experience good development in several parts of Europe. Sales into these regions, which account for over half of Danfoss Heating's sales, have to some extent counterbalanced the negative sales development in Russia.

Overall, the total net sales were below last year and profitability was negatively impacted by developments in Russia.



# Sustainability highlights

## **Safety**

Danfoss has a strong focus on safety. In 2014, the Group initiated a global safety program – ‘Safety on the shop floor’ which enhances the focus on safety in all Danfoss factories around the world.

The increased focus on safety has led to significant improvements and fewer injuries. The number of Lost Time Injuries (LTI), which led to more than one day’s absence in the first half of 2015, was 55 compared to 80 in the same period in 2014. The Lost Time Injury Frequency (LTIF), which is defined as the number of Lost Time Injuries per 1 million worked hours, was 3.1 in the first half of 2015. The corresponding figure in the same period of 2014 was 4.5; and 4.4 for the whole of 2014. The Lost Day Rate (LDR) is the number of lost days caused by Lost Time Injuries per 1 million worked hours, and this amounted to 58 in the first six months of 2015 compared to 44 in the same period of 2014.

## **Resource consumption**

Danfoss continues the work to reduce CO2 emissions at the 15 largest factories in accordance with the objective to cut emissions by 25% (relative to the 2007 level) by 2025. Activities include refurbishment of ventilation and air-conditioning systems, replacement of lighting and installation of movement sensors, and installing frequency converters to optimize pumps, fan and processes.

In 2015, the Group has new sites in China, India and USA reporting for the first time, further increasing the coverage and monitoring of the Group’s CO2 emissions.

Excluding the sites reporting for the first time in 2015, Danfoss continued to lower its emissions and resource consumptions;

in the first half-year of 2015 the total energy consumption decreased by 1% (electricity decreased by 1% and energy consumption for heating increased by 1%) and the emitted CO2 was 1% lower - all compared to the same period last year.

Including the new sites reporting for the first time in 2015, Danfoss factories emitted 114,500 tons of CO2. Emissions amounted to 109,900 tons in the same period of 2014. In the period, Danfoss consumed electricity amounting to 190 million kWh, compared to 186 million kWh in the year-earlier period of 2014. The energy consumption for heating was 110 million kWh in the first half of the year, equal to the consumptions in the same period of 2014. In the first six months of 2015, Danfoss’ water consumption for processing and sanitary purposes was 378,000 m3 against 368,000 m3 in the same period of 2014.

# Expectations for **2015**

The net sales forecast, including full-year impact of the acquisition of Vacon, is raised, and net sales (reported) are now expected to grow by 9-14% (previously 5-10%).

Underlying profitability is expected to slightly improve through the continuous operational improvements and the targeted strategic initiatives already launched. However, integration cost in the first year of Vacon ownership is expected to keep operating profit (EBIT) excluding other income and expenses on par with 2014.

The expectations do not include the impact of potential divestments, discontinued activities, or acquisition of companies/activities.

# Quarterly financial highlights

Mill. DKK

(unless otherwise stated)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014	Q1 2015	Q2 2015
<b>Profit and loss accounts</b>							
Net sales	8,303	8,617	8,784	8,670	34,375	9,385	9,854
Operating profit before depreciation, amortization, impairment and other operating income and expenses	1,401	1,450	1,802	1,426	6,079	1,411	1,556
Operating profit before depreciation, amortization and impairment (EBITDA)	1,341	1,448	1,737	1,135	5,661	1,352	1,481
Operating profit excl. other income and expenses	996	1,043	1,394	924	4,356	930	1,070
Operating profit (EBIT)	913	1,042	1,323	647	3,925	871	997
Financial items, net	-80	-83	-86	-201	-449	-87	-91
Profit before tax	833	959	1,237	447	3,476	783	906
Net profit	555	632	828	274	2,290	509	608
<b>Balance sheet</b>							
Total non-current assets	15,760	18,029	18,737	25,822	25,822	26,561	25,994
Total assets	26,436	29,064	29,811	36,883	36,883	39,341	38,533
Total shareholders' equity	11,946	11,783	13,030	13,242	13,242	14,762	14,602
Net interest-bearing debt	3,913	6,639	5,874	11,439	11,439	11,300	11,519
Net assets	15,785	15,953	15,796	22,432	22,432	23,754	23,799
<b>Cash flow statement</b>							
Cash flow from operating activities	405	1,071	2,754	4,351	4,351	437	1,121
Cash flow from investing activities	-178	-2,673	-3,593	-10,576	-10,576	-242	-641
Acquisition of intangible assets and property, plant and equipment	-215	-456	-711	-996	-996	-147	-359
Acquisition of subsidiaries and activities	0	0	0	-7,377	-7,377	-17	-112
Acquisition(-) and sale of other investments etc.	37	-2,217	-2,882	-2,203	-2,203	-79	-170
Free Cash flow	227	-1,602	-839	-6,225	-6,225	195	480
Free cash flow before M&A	228	660	2,090	3,389	3,389	291	686
Cash flow from financing activities	-490	1,340	609	6,194	6,194	-304	-797
<b>Key figures</b>							
Local currency growth (%)	8	3	3	7	5	6	5
EBITDA margin excl. other operating income etc. (%)	16.9	16.8	20.5	16.4	17.7	15.0	15.8
EBITDA margin (%)	16.2	16.8	19.8	13.1	16.5	14.4	15.0
EBIT margin excl. other operating income etc. (%)	12.0	12.1	15.9	10.7	12.7	9.9	10.9
EBIT margin (%)	11.0	12.1	15.1	7.5	11.4	9.3	10.1
Equity ratio (%)	45.2	40.5	43.7	35.9	35.9	37.5	37.9
Leverage ratio (%)	32.8	56.3	45.1	86.4	86.4	76.5	78.9
Net interest bearing debt to EBITDA ratio	0.7	1.2	1.0	2.0	2.0	2.0	2.0
<b>Geographical segments</b>							
<b>Total net sales</b>							
EU	3,480	3,378	3,427	3,320	13,607	3,813	3,743
Rest of Europe	735	862	1,110	982	3,689	685	809
Asia	1,324	1,528	1,600	1,687	6,139	1,586	1,919
North America incl. Mexico	2,151	2,212	1,946	2,004	8,313	2,622	2,695
Africa	60	70	61	74	264	70	72
Pacific	120	121	128	122	491	135	143
Latin America	339	344	406	375	1,464	362	333
Middle East	94	102	106	106	408	112	140
Total	8,303	8,617	8,784	8,670	34,375	9,385	9,854
<b>Number of employees</b>							
Europe excl. Denmark	7,727	7,754	7,682	8,658	8,658	8,515	8,421
North America incl. Mexico	3,861	4,077	4,105	4,286	4,286	4,306	4,396
Latin America	424	422	398	420	420	413	397
Asia-Pacific incl. China	4,887	5,002	5,007	5,392	5,392	5,355	5,322
Africa - Middle East	58	59	62	61	61	62	67
Denmark	5,329	5,319	5,368	5,300	5,300	5,250	5,172
Total	22,286	22,633	22,622	24,117	24,117	23,901	23,775

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

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