

ENGINEERING
TOMORROW



Interim announcement

1st Half-year 2016



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.

Key facts

23,500 employees globally

61 factories in 20 countries

Products sold in over 100 countries worldwide

Top 3 regions:



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Financial highlights

Mill. DKK
(unless otherwise stated)

	Q2 2015	Q2 2016	Change in %	1st half-year 2015	1st half-year 2016	Change in %	2015
Profit and loss accounts:							
Net sales	9,854	9,972	1%	19,239	19,395	1%	38,031
Operating profit before depreciation, amortization, impairment and other operating income and expenses etc.	1,556	1,697	9%	2,966	3,132	6%	6,148
Operating profit before depreciation, amortization and impairment (EBITDA)	1,481	1,680	13%	2,833	3,102	9%	6,021
Operating profit excl. other income and expenses etc.	1,070	1,257	17%	2,000	2,242	12%	4,235
Operating profit (EBIT)	997	1,241	24%	1,868	2,212	18%	4,097
Financial items, net	-91	-88	3%	-178	-182	-2%	-356
Profit before tax	906	1,152	27%	1,689	2,029	20%	3,741
Net profit	608	812	34%	1,117	1,428	28%	2,597
Balance sheet:							
Total non-current assets				25,994	25,663	-1%	26,168
Total assets				38,533	38,184	-1%	37,219
Total shareholders' equity				14,602	15,851	9%	15,424
Net interest-bearing debt				11,519	9,484	-18%	9,640
Net assets				23,799	22,813	-4%	22,613
Cash flow statement:							
Cash flow from operating activities				1,121	1,596	42%	4,667
Cash flow from investing activities				-641	-643	0%	-1,619
Acquisition of intangible assets and property, plant and equipment.				-359	-588	64%	-1,176
Acquisition of subsidiaries and activities				-112	4	***	-223
Acquisition(-) and sale of other investments etc.				-170	-59	-65%	-220
Free Cash flow				480	953	99%	-3,048
Free cash flow before M&A				686	976	42%	3,397
Cash flow from financing activities				-797	-622	-22%	-3,416
Key figures:							
Local currency growth (%)	5	6	1	6	4	-2	5
EBITDA margin excl. other operating income etc. (%)	15.8	17.0	1.2	15.4	16.1	0.7	16.2
EBITDA margin (%)	15.0	16.8	1.8	14.7	16.0	1.3	15.8
EBIT margin excl. other operating income etc. (%)	10.9	12.6	1.7	10.4	11.6	1.2	11.1
EBIT margin (%)	10.1	12.4	2.3	9.7	11.4	1.7	10.8
Equity ratio (%)				37.9	41.5	3.6	41.4
Leverage ratio (%)				78.9	59.8	-19.1	62.5
Net interest bearing debt to EBITDA ratio				2.0	1.5	-0.5	1.6
Number of employees (end of period)				23,775	23,517	-258	23,420

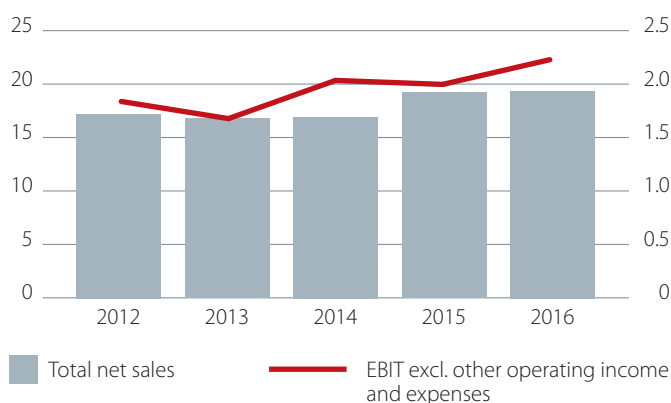
Financial update

The Danfoss Group had a satisfactory first half-year and continued the strong performance. Total net sales were DKK 19,395m, which was 4% above the same period last year in local currency. Earnings (EBIT) were improved by 18% to reach DKK 2,212m.

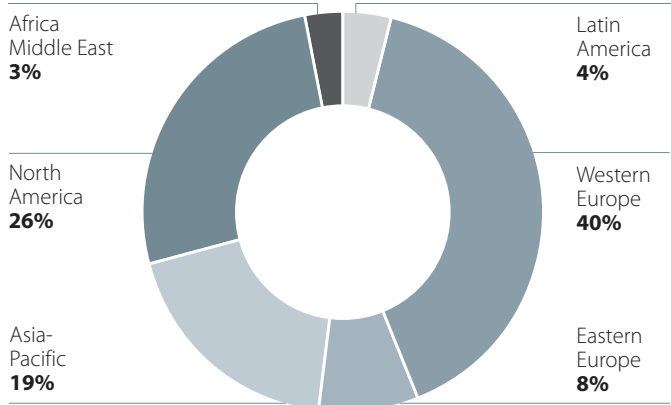
Net sales

The Danfoss Group continued the growth trend from the first quarter into the second quarter of 2016. For the first half-year, the Group's total net sales increased to DKK 19,395m against DKK 19,239m. In local currency, growth was 4%. The slightly increasing trend in market share also continued from the first quarter into the second, mainly driven by increasing market share in categories in the Cooling and Heating Segments, such as compressors, controls and heat exchangers.

Total net sales and EBIT / bn DKK
1st Half-year 2016



Sales distribution by regions
1st Half-year 2016



All Danfoss business segments saw growth in local currency in the first half-year. However, the increase in sales continued to be driven by solid sales momentum in Danfoss Cooling and a growing momentum in the Danfoss Heating business segment. Both business segments delivered sales well above last year, whereas Danfoss Power Solutions and Danfoss Drives had low growth. For Danfoss Drives, the start to the year was soft due to low activity levels in some heavy industry sectors. However, the business segment returned to solid growth in the second quarter, outbalancing the decline in the first quarter.

The negative impact on the top line from declining exchange rates continued from the first quarter into the second quarter.

Market trends

Overall, the mixed business environment across markets and sectors characterizing most of 2015 has continued in 2016, mainly due to the low prices on commodity goods causing relatively low investment levels in the global agriculture, marine, off-shore and mining sectors. However, during 2016, the Danfoss Group has experienced a positive development in many of its key markets, such as North America, Europe and China, due to the increasing awareness of the potential in energy efficiency and the need for creating more sustainable and climate-friendly energy systems, among other things. Also, a growing focus on safe food supply and modern infrastructure is driving the demand for Danfoss technologies. Furthermore, the Group's constant focus on growth initiatives delivered a positive impact. A concrete example is the growth momentum in countries such as India and Mexico. Also, on a business segment level, a strategic refocusing of sales activities towards specific, vertical markets with strong growth potential has shown a positive effect on the market share development.

In Europe, in particular, the Group's efforts to accelerate growth have paid off during the first six months of 2016. With almost half of the Group's total sales coming from this region, the increasing growth momentum has a very positive impact. Sales in local currency in most parts of the region were above last year, including the large Danfoss markets in Northern and Central Europe. In Southern Europe, the strong sales momentum from the latter part of 2015 continued into 2016, but also in Eastern Europe, growth rates have been stable for several quarters.

In Russia, the activity level continued to be impacted by the economic downturn, and market conditions remained challenging.

In North America, the overall impression remains positive although performance was mixed across the business segments and product categories resulting in sales in the first six months being at level with last year. Danfoss Cooling continued the strong growth momentum, whereas growth at Danfoss Drives declined primarily due to low activity levels in some of the heavy industries in the region. Also Danfoss Power Solutions recorded a slight decline in sales due to overall low activity levels in the mobile hydraulics market in the region.

Also in Latin America, market conditions were mixed during the first half-year. In Brazil, the activity level continued to be impacted by the economic downturn, whereas Mexico showed solid growth in local currency, mainly driven by continued solid performance in Danfoss Cooling.

In the Asia-Pacific region, including China, sales in local currency were slightly above last year although the market conditions in the region continue to be mixed across sectors. The growth was driven by improved sales in China, mainly due to solid growth rates in the Danfoss Heating segment, whereas, generally, sales in other parts of the region were at level with last year. The Group's strong momentum in India continued with high double-digit growth rates.

Operating profit

The Group's strong earnings performance continued from first quarter into the second quarter. Operating profit (EBIT) amounted to DKK 2,212m against DKK 1,868m, which is equal to an increase of 18%. The improvement was due to the increased sales and the good momentum in the continuous efforts to improve the supply chain in areas such as productivity, quality and procurement.

Accordingly, the Group's profitability was up compared to last year, as the EBIT margin improved by 1.7%-point to 11.4%, against 9.7% in the same period last year.

Net profit reached a new record-level for a first half-year and amounted to DKK 1,428m, against DKK 1,117m in the same

period in 2016, which is equal to an increase of 28%. The main drivers of the improved net profit were an increase in EBIT and a lower effective tax rate compared to last year.

Balance sheet

Total assets amounted to DKK 38,184m, against DKK 38,533m at June 30, 2015. The lower level was due to lower trade working capital and amortizations.

The Group's equity amounted to DKK 15,851m, against DKK 14,602m at June 30, 2015. The increase was mainly due to accumulated profits. This resulted in an improvement of the equity ratio, reaching 41.5% against 37.9% in the same period last year.

Compared to the level of DKK 11,519m as at June 30, 2015, the net interest-bearing debt was reduced and stood at DKK 9,484m as at June 30, 2016. The level of net interest-bearing debt is equal to 1.5 × EBITDA of the last four quarters: accordingly, the Group sits comfortably within the guidance of the BBB credit rating assigned by S&P.

Cash flows

The free cash flow before mergers and acquisitions amounted to DKK 976m, against DKK 686m in the first half-year last year. The increase was due to higher earnings and improved trade working capital. The free cash flow was DKK 953m, against DKK 480m in the same period last year. The amount consisted of cash flow from operating activities of DKK 1,596m, and DKK -643m cash flow from investing activities.

Innovation

In the first six months of the year, Danfoss invested DKK 815m in innovation compared to DKK 842m in the same period last year. Measured as a percentage of sales, investment was 4.2% against 4.4%.

Employees

The Danfoss Group had 23,517 employees at June 30, 2016, against 23,420 at the beginning of the year.

Events occurring after June 30, 2016

On July 7, 2016, Danfoss signed an agreement to acquire full ownership of privately-held Sondex Holding A/S, Denmark.

Sondex is a leader in heat transfer technologies and develops, produces and markets heat exchangers, headquartered in Kolding, Denmark, and employs approximately 1,200 employees worldwide, and the annual revenue amounts to approximately DKK 1bn. The acquisition confirms the strategic focus on building leading positions through organic growth and acquisitions within Danfoss' existing core business areas. Sondex represents an ideal match to the heat exchanger business of Danfoss. Combining Sondex and the existing Danfoss Heat Exchanger business is a lever to develop the already strong market position in district energy and HVAC, and to increase relevance within other industries. The combined Danfoss and Sondex heat exchanger business will be integrated into the Danfoss Heating business segment. The parties have not disclosed the purchase price or other conditions of the transaction.

On July 12, 2016, Danfoss announced an agreement for the acquisition of U.S.-based White Drive Products, Inc. White Drive Products, Inc. is a leading manufacturer of hydraulic drive products, headquartered in Hopkinsville, Kentucky, USA, and employs approximately 700 employees worldwide, and the annual revenue amounts to approximately USD 100m. Also this acquisition is part of Danfoss' strategic focus on building leading positions within the existing core business areas. White Drive Products, Inc. complements the Danfoss business segment, Danfoss Power Solutions, and merging White Drive Products Inc. into Danfoss Power Solutions' Work Function Division is a significant strengthening of the business segment's global position within hydraulic motors. The parties have not disclosed the purchase price or other conditions of the transaction.

The above transactions are not expected to have a material impact on the previously announced outlook for the financial year 2016, as reported in the Annual Report 2015. The closing of both transactions is dependent on regulatory approval.

Segments

The Danfoss Group is organized with 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 Hydrostatics, Work Function and Controls. Within each business area, 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.

During the first half of 2016, Danfoss Power Solutions has been impacted by a continued soft market situation within global construction and agriculture. This has led to overall low activity levels in the mobile hydraulics market. Conversely, the turf market, in which the segment is also active, has been experiencing a positive sales development. The segment has experienced positive growth rates throughout all global regions, apart from a decline in North America driven by negative growth within agriculture and material handling markets, and, in total, net sales in local currency increased only slightly compared to last year.

In conclusion, Danfoss Power Solutions has experienced slightly improved sales in a difficult business environment of continued soft market conditions. The slightly higher sales and strong focus on continuous improvements in the supply chain has led to profitability performance above last year.

Danfoss Cooling

Danfoss Cooling is world-leading 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 fitting just about any need.

Danfoss Cooling has been performing strongly for a longer period, and the first half-year of 2016 confirmed the positive momentum in the business segment. Currency fluctuations had a negative impact on the segment's sales, but, in local currency, sales were well above the same period last year. The segment recorded sales growth in many of its primary markets like North America and most parts of Europe. The increased focus on growth opportunities in India and Turkey, the Middle East and Africa continued to benefit the segment, and Danfoss Cooling recorded high double-digit growth in these regions.

In conclusion, for Danfoss Cooling, the first half-year of 2016 was characterized by continued strong performance. Profitability in the segment continued to be above last year, driven by the increased sales, continued productivity improvements and good control of the fixed expenses.

Danfoss Drives

Danfoss Drives is a leading player in the market for low-voltage AC drives. Being experts in drives, the business segment offers optimum process control and energy efficiency for electric motors and main industrial sectors 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 power modules and stacks for a number of industries, like the automotive and the wind industries.

The global drives market has slowed down due to low prices on commodity goods, such as natural minerals and oil which have negatively affected the activity levels in some global, heavy industry sectors such as marine, off-shore and mining. This trend started in the latter part of 2015 and has continued in 2016. The soft market conditions impacted the sales performance in Danfoss Drives in the first quarter of the year. However, in the second quarter of the year, the business segment returned to growth, and the solid growth in the second quarter outbalanced the soft start to the year. The improved performance in the second quarter was driven by strong performance in the European markets, particularly in the Northern and Southern parts of Europe combined with continued double-digit growth in the Silicon Power business. For the half-year, sales in local currency were just above last year with lower sales levels in North America and China, whereas most parts of Europe had solid growth rates.

In conclusion, for Danfoss Drives, including the shareholding of SMA Solar Technology AG, the first half-year has been characterized by a difficult first couple of months followed by a solid second quarter. The global drives market remains fairly weak, but Danfoss Drives delivered sales in local currency just above last year and profitability close to the level of last year.

Danfoss Heating

Danfoss Heating is a leading player within the heating industry. The segment covers heating components and systems within residential heating, commercial heating and district energy for cities. This includes the entire supply of heating and cooling for optimal comfort with lowest possible 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 advanced product categories globally.

The general market conditions in Russia remained volatile and thus challenging for Danfoss Heating throughout the first half-year due to the lower oil prices and a freely floating local currency. As a consequence, the construction activities, new build and renovation remain at a relative low level in Russia. The Danfoss Heating business in Russia has been impacted by the lower market activity in general, but the segment continues to develop and defend the strong market position through a continued focus on customer relations.

On the other hand, the Heating Segment has realized continued sales growth in the Chinese and European markets. The solid performance in China and Europe was thus offsetting the slowdown in Russia. The business segment continues to be positively impacted by the strong political focus on energy efficiency and reductions of CO₂ emissions across regions. Political intentions are increasingly being converted into real projects, providing improved market conditions in general for energy efficiency products and solutions. A dedicated and differentiated customer focus, based on market-leading products and solutions, is further driving the growth in Europe and China.

In conclusion, Danfoss Heating had a good first half-year, driven by the positive development in Europe and China. Overall, net sales in the segment were above last year, and profitability has been realized at a higher level compared to last year.

Outlook for **2016**

Overall, the outlook in regard to the development of the global economic environment remains weak; visibility is low and volatility continues to be high. For the global industrial sector, in particular, the growth projections are generally subdued. However, the Group's continued strategic initiatives to accelerate profitable growth and investments in markets with high growth potential are well underway and expected to generate a positive impact on the market share development. The impact from the initiatives depends on the development of the global 2016 market conditions.

See the full 2016 Outlook in the Annual Report 2015 at danfoss.com/about/financial-information

Expectations for 2016

Expectations for the full year are confirmed.

Danfoss expects to maintain or expand its market share, while maintaining EBIT margin at level with 2015.

Quarterly financial highlights

Mill. DKK
(unless otherwise stated)

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Q1 2016	Q2 2016
Profit and loss accounts							
Net sales	9,385	9,854	9,483	9,309	38,031	9,423	9,972
Operating profit before depreciation, amortization, impairment and other operating income and expenses etc.	1,411	1,556	1,749	1,432	6,148	1,435	1,697
Operating profit before depreciation, amortization and impairment (EBITDA)	1,352	1,481	1,745	1,443	6,021	1,422	1,680
Operating profit excl. other income and expenses etc.	930	1,070	1,275	960	4,235	984	1,257
Operating profit (EBIT)	871	997	1,273	956	4,097	971	1,241
Financial items, net	-87	-91	-132	-46	-356	-94	-88
Profit before tax	783	906	1,141	911	3,741	877	1,152
Net profit	509	608	778	702	2,597	616	812
Balance sheet							
Total non-current assets	26,561	25,994	25,689	26,168	26,168	25,560	25,663
Total assets	39,341	38,533	37,538	37,219	37,219	37,568	38,184
Total shareholders' equity	14,762	14,602	14,856	15,424	15,424	15,880	15,851
Net interest-bearing debt	11,300	11,519	10,350	9,640	9,640	9,301	9,484
Net assets	23,754	23,799	22,847	22,613	22,613	22,733	22,813
Cash flow statement							
Cash flow from operating activities	437	1,121	2,986	4,667	4,667	439	1,596
Cash flow from investing activities	-242	-641	-949	-1,619	-1,619	-244	-643
Acquisition of intangible assets and property, plant and equipment	-147	-359	-656	-1,176	-1,176	-240	-588
Acquisition of subsidiaries and activities	-17	-112	-111	-223	-223	0	4
Acquisition(-) and sale of other investments etc.	-79	-170	-182	-220	-220	-5	-59
Free Cash flow	195	480	2,037	3,048	3,048	195	953
Free cash flow before M&A	291	686	2,257	3,397	3,397	195	976
Cash flow from financing activities	-304	-797	-2,347	-3,416	-3,416	4	-622
Key figures							
Local currency growth (%)	6	5	5	5	5	2	6
EBITDA margin excl. other operating income etc. (%)	15.0	15.8	18.4	15.4	16.2	15.2	17.0
EBITDA margin (%)	14.4	15.0	18.4	15.5	15.8	15.1	16.8
EBIT margin excl. other operating income etc. (%)	9.9	10.9	13.4	10.3	11.1	10.4	12.6
EBIT margin (%)	9.3	10.1	13.4	10.3	10.8	10.3	12.4
Equity ratio (%)	37.5	37.9	39.6	41.4	41.4	42.3	41.5
Leverage ratio (%)	76.5	78.9	69.7	62.5	62.5	58.6	59.8
Net interest bearing debt to EBITDA ratio	2.0	2.0	1.8	1.6	1.6	1.5	1.5
Geographical segments							
Net sales							
Western Europe	3,776	3,676	3,637	3,561	14,650	3,814	3,903
Eastern Europe	679	834	1,004	888	3,405	658	810
Asia - Pacific	1,705	2,039	2,024	1,947	7,715	1,698	2,062
North America	2,511	2,559	2,087	2,121	9,278	2,585	2,434
Latin America	472	469	470	475	1,886	414	445
Africa - Middle East	242	277	261	317	1,097	254	318
Total	9,385	9,854	9,483	9,309	38,031	9,423	9,972
Number of employees							
Western Europe	9,724	9,637	9,558	9,536	9,536	9,471	9,483
Eastern Europe	3,996	3,915	3,893	3,908	3,908	3,874	3,900
Asia - Pacific	5,336	5,302	5,223	5,172	5,172	5,157	5,212
North America	3,432	3,453	3,410	3,406	3,406	3,402	3,411
Latin America	1,286	1,340	1,266	1,203	1,203	1,207	1,301
Africa - Middle East	127	128	138	195	195	205	210
Total	23,901	23,775	23,488	23,420	23,420	23,316	23,517

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

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