

ENGINEERING
TOMORROW



Interim announcement

1st Quarter 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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CONTENT OVERVIEW

- 4 —○ Financial highlights
 - 5 —○ Financial review
 - 7 —○ Segments
 - 9 —○ Expectations for 2015
 - 10 —○ Quarterly financial highlights
-



Financial highlights

Mill. DKK
(unless otherwise stated)

	Q1 YTD 2014	Q1 YTD 2015	Change in %	2014
Profit and loss accounts:				
Net sales	8,303	9,385	13%	34,375
Operating profit before depreciation, amortization, impairment and other operating income and expenses	1,401	1,411	1%	6,079
Operating profit before depreciation, amortization and impairment (EBITDA)	1,341	1,352	1%	5,661
Operating profit excl. other income and expenses	996	930	-7%	4,356
Operating profit (EBIT)	913	871	-5%	3,925
Financial items, net	-79	-87	-10%	-449
Profit before tax	834	783	-6%	3,476
Net profit	555	509	-8%	2,290
Balance sheet accounts:				
Total non-current assets	15,760	26,561	69%	25,822
Assets	26,436	39,341	49%	36,883
Total shareholders' equity	11,946	14,762	24%	13,242
Net interest-bearing debt	3,913	11,300	189%	11,439
Net assets	15,785	23,754	50%	22,432
Cash flow accounts:				
Cash flow from operating activities	405	437	8%	4,351
Cash flow from investing activities	-178	-242	-36%	-10,576
Acquisition of intangible assets and property, plant and equipment.	-215	-147	32%	-996
Acquisition of subsidiaries and activities	0	-17	0%	-7,377
Acquisition(-) and sale of other investments etc.	37	-79	-314%	-2,203
Free Cash flow	227	195	-14%	-6,225
Free cash flow before M&A	228	291	28%	3,389
Cash flow from financing activities	-490	-304	38%	6,194
Key figures:				
Local currency growth	8	6	-1	5
EBITDA margin excl. other operating income etc. (%)	16.9	15.0	-1.8	17.7
EBITDA margin (%)	16.2	14.4	-1.7	16.5
EBIT margin excl. other operating income etc. (%)	12.0	9.9	-2.1	12.7
EBIT margin (%)	11.0	9.3	-1.7	11.4
Equity ratio (%)	45.2	37.5	-7.7	35.9
Leverage ratio (%)	32.8	76.5	43.7	86.4
Net interest bearing debt to EBITDA ratio	0.7	2.0	1.3	2.0
Number of employees (end of period)	22,286	23,901	1,615	24,117

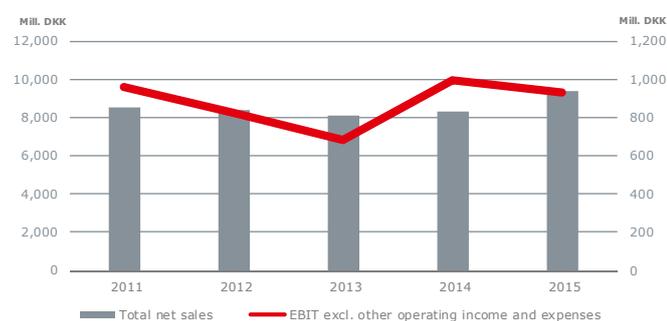
Financial review

The Group delivered good performance and the results were in line with expectations. Total net sales were 6% above the same period last year in local currency. Earnings were slightly below the strong first quarter of 2014, while the free cash flow before M&A was above last year.

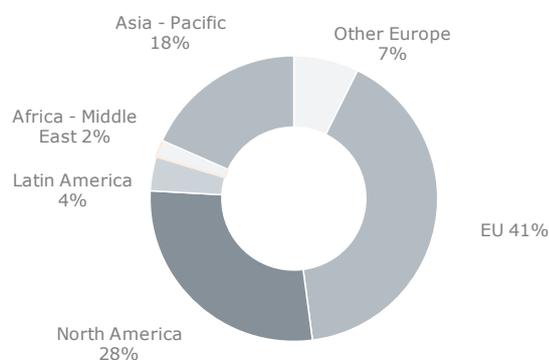
Total net sales

In the first quarter of the year, the Group's total net sales increased to DKK 9,385m against DKK 8,303m, corresponding to 13% growth. After several quarters with negative currency impact, changes in exchange rates driven by appreciation of the US dollar resulted in a positive impact on the top line in the first three months of 2015. In local currency, growth was 6%.

Total net sales and EBIT excl. other operating income and expenses, Q1 2015



Net sales per region, Q1 2015



A part of the Danfoss Core & Clear strategy is to utilize the Group's financial strength to generate growth via acquisitions to strengthen the core businesses. At the end of 2014, Danfoss acquired the Finnish drives manufacturer Vacon.

The additional sales from this acquisition have contributed to lifting the total net sales for the Group.

The performance across the four business segments varied and reflected the mixed, global market conditions, also demonstrating the natural diversification effect at Group level. Lower activity and investment levels in the agriculture market resulted in softer sales performance in Danfoss Power Solutions. Danfoss Heating was negatively impacted by the overall economic downturn in Russia and, in particular by the uncertainty following the currency fluctuations of the ruble. 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 in the first three months of 2015 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 economic outlook is getting more positive in North America, and to some extent also in Europe.

The Group's targeted investments in Turkey and India continued to pay off and the growth rates for the two regions in the first quarter were 12% and 22% respectively, in local currency.

In Europe, sales were 10% above last year in local currency helped by the additional sales from Vacon.

In Russia, due to the economic downturn and, in particular a significant depreciation of the ruble in the latter part

of 2014, market conditions in the beginning of the year were difficult. Consequently, the activity level in the region dropped significantly. The shift in market conditions has affected the Danfoss Heating business segment in particular. However, with recovered and stabilized exchange rates, the market has started to show signs of slight recovery. Danfoss has experienced significant fluctuations in Russia before, and history shows that the right strategy is to persist and defend the strong market position, and a number of activities are being implemented in order to defend market shares.

In North America, sales in local currency were slightly above last year. However, the picture was mixed across the product categories where Danfoss is present. Danfoss Cooling and Danfoss Drives continued to benefit from the overall increased momentum in the US economy. Danfoss Power Solutions, however, saw declining sales due to lower activity level in the agriculture market, following a drop in crop prices which impacted the market for mobile hydraulics. Latin America was also above last year in local currency mainly due to additional sales from Vacon.

In China, sales in local currency, including the additional sales from Vacon, were slightly above last year. However, the trend in the region has been growth gradually slowing down. However, China still holds great potential and Danfoss continues to have a strong focus on the region.

Operating profit

The Group's earnings developed in line with expectations taking into account the planned integration of Vacon. Operating profit (EBIT) excluding other operating income and expenses was DKK 930m against DKK 996m in the strong first quarter of 2014 - equal to a decline of 7%. The decrease is mainly due to the impact of the softened performance in Danfoss Heating, following the negative development in the Russian market, and Danfoss Power Solutions being affected by a softening agricultural market.

Accordingly, operating profit (EBIT) amounted to DKK 871m, against DKK 913m in the same period in 2014, equal to a decrease of 5%.

Balance sheet

The Group's equity amounted to DKK 14,762m against DKK 11,946m at March 31, 2014. The increase is mainly due to the profit made the last four quarters. The equity ratio was 37.5% against 45.2% end of same quarter last year. The lower equity ratio is due to the acquisition of the Finnish drives manufacturer Vacon. Total assets amounted to DKK 39,341m against DKK 26,436m end of same quarter last year – again the increase is related to the acquisition of Vacon.

Net interest-bearing debt stood at DKK 11,300m at March 31, 2015, compared with DKK 3,913m same time last year. The increase in debt is related to the financing of the acquisition of Vacon and the purchase of 20% of the shares in the German solar inverter company SMA Solar Technology AG 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 291m and above the level of DKK 228m in the first quarter last year. The improvement is driven by lower investments in fixed assets and improved cash flow from operating activities in the first quarter of the year. The free cash flow was DKK 195m against DKK 227m in the same period last year due to M&A and joint venture activities. The amount consisted of cash flow from operating activities of DKK 437m and DKK –242m cash flow from investing activities.

Innovation

In the first three months of 2015, Danfoss increased its investment in product development to DKK 416m compared to DKK 322m in the same period last year. Measured as a percentage of sales, investment was 4.4% against 3.9%.

Employees

The Danfoss Group had 23,901 employees at March 31, 2015, against 24,117 at the beginning of the year.

Segments

As of January 1, 2015, the Danfoss Group reorganized its business structure 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 four areas: hydrostatics, work function, controls and stand-alone business operations. 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.

Danfoss Power Solutions has experienced difficult market conditions in the first quarter of 2015. Total net sales in the segment were slightly above the same period last year largely driven by currency due to the appreciation of the US dollar. In local currency, total sales were below last year. Sales performance in the segment was impacted by the overall market trends in the areas, where the segment operates. Most significantly, the agricultural market in the US and Europe has been weakening together with a softening in the oil & gas market in the US. Also, the Chinese mobile industry market has decreased from weaker construction and roadbuilding business, as opposed to the remainder of the Asia-Pacific region, which has experienced growing demand in the first quarter.

In conclusion, Danfoss Power Solutions has seen softening markets resulting in lower sales compared to last year, but with a sustainable profitability driven by procurement savings 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 fitting just about any need.

Danfoss Cooling continued the momentum built in the second half of 2014 and had a good start to 2015. Total net sales performance in the segment was above last year in local currency. The business segment recorded growth in local currency in most of its primary markets – most significantly in North America and China, while Europe remained at last year's sales. Also, the strong focus on the high growth potential in India continued to benefit the segment with double-digit growth realized.

Overall, the segment's total net sales in local currency were above last year, and profitability in the segment was also improved driven by the increased sales and continued productivity improvements.

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 and main industrial sectors include, among others, HVAC, marine & offshore, mining, lifts & elevators and food & beverage. Danfoss Silicon Power is also part of Danfoss Drives segment; this business develops power modules and stacks for a number of industries, like the automotive and wind industries.

Danfoss Drives had a promising start to the year continuing the good momentum from 2014 in both the former Danfoss drives business, Power Electronics, and Vacon into 2015. The merger plan is running according to schedule, whilst the segment has managed to keep a firm focus on serving the customers – maintaining strong performance. Total net sales for the consolidated segment were above the same period last year in local currency. A key factor for the improved performance is good progress in project business. Also, the segment recorded higher sales in most regions.

Growth rates in local currency were double digit in several regions; however, impact on the topline was 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 for the period

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.

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.

Danfoss Heating has had a challenging start to 2015. Sales performance in the segment is 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 particularly the significant devaluation of the ruble in the latter part of 2014 impacted results in the segment negatively in the first quarter. Danfoss Heating has experienced significant fluctuations in Russia before, and history shows that the right strategy is to defend the strong market position. Therefore, the segment has initiated activities in order to defend the market share.

On the positive side, the segment has had a good start to the year in north-western Europe. Almost a third of Danfoss Heating sales come from this region and sales growth in the region in the first three months of 2015 to some extent counterbalanced the development in Russia.

However, overall, the segment's total net sales were below last year and profitability in the segment was also significantly impacted by the lower sales in the first quarter.

Expectations for **2015**

Net sales, including full-year impact of the acquisition of Vacon, is expected to grow by 5-10%.

Underlying profitability is expected to slightly improve through the continuous operational improvements and the targeted strategic initiatives already launched. However, integration costs 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

Quarterly financial highlights

Mill. DKK
(unless otherwise stated)

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014	Q1 2015
Profit and loss accounts:						
Net sales	8,303	8,617	8,784	8,670	34,375	9,385
Operating profit before depreciation, amortization, impairment and other operating income and expenses	1,401	1,450	1,802	1,426	6,079	1,411
Operating profit before depreciation, amortization and impairment (EBITDA)	1,341	1,448	1,737	1,135	5,661	1,352
Operating profit excl. other income and expenses	996	1,043	1,394	924	4,356	930
Operating profit (EBIT)	913	1,042	1,323	647	3,925	872
Financial income/expenses	-80	-83	-86	-201	-449	-89
Profit before tax	833	959	1,237	447	3,476	783
Net profit	555	632	828	274	2,290	509

Balance sheet accounts:

Total non-current assets	15,760	18,029	18,737	25,882	25,822	26,561
Assets	26,436	29,064	29,811	36,883	36,883	39,341
Total shareholders' equity	11,946	11,783	13,030	13,242	13,242	14,762
Net interest-bearing debt	3,913	6,639	5,874	11,439	11,439	11,300
Net assets	15,785	15,953	15,796	22,432	22,432	23,754

Cash flow accounts:

Cash flow from operating activities	405	1,071	2,754	4,351	4,351	437
Cash flow from investing activities	-178	-2,673	-3,593	-10,576	-10,576	-242
acquisition of intangible assets and property, plant and equipment.	-215	-456	-711	-996	-996	-147
acquisition of subsidiaries and activities	0	0	0	-7,377	-7,377	-17
acquisition(-) and sale of other investments etc.	37	-2,217	-2,882	-2,203	-2,203	-78
Free Cash flow	227	-1,602	-839	-6,225	-6,225	195
Free cash flow before M&A	228	660	2,090	3,389	3,389	291
Cash flow from financing activities	-490	1,340	609	6,194	6,194	-304

Key figures:

Local currency growth	8	3	3	7	5	6
EBITDA margin excl. other operating income etc. (%)	16.9	16.8	20.5	16.4	17.7	15.0
EBITDA margin (%)	16.2	16.8	19.8	13.1	16.5	14.4
EBIT margin excl. other operating income etc. (%)	12.0	12.1	15.9	10.7	12.7	9.9
EBIT margin (%)	11.0	12.1	15.1	7.5	11.4	9.3
Equity ratio (%)	45.2	40.5	43.7	35.9	35.9	37.5
Leverage ratio (%)	32.8	56.3	45.1	86.4	86.4	76.5
Net interest bearing debt to EBITDA ratio	0.7	1.2	1.0	2.0	2.0	2.0

Geographical segments

Total net sales:

EU	3,480	3,378	3,427	3,320	13,607	3,813
Rest of Europe	735	862	1,110	982	3,689	685
Asia	1,324	1,528	1,600	1,687	6,139	1,586
North America	2,151	2,212	1,946	2,004	8,313	2,622
Africa	60	70	61	74	264	70
Pacific	120	121	128	122	491	135
Latin America	339	344	406	375	1,464	362
Middle East	94	102	106	106	408	112
Total	8,303	8,617	8,784	8,670	34,375	9,385

Number of employees:

Europe excl. Denmark	7,727	7,754	7,682	8,658	8,658	8,515
North America incl. Mexico	3,861	4,077	4,105	4,286	4,286	4,306
Latin America	424	422	398	420	420	413
Asia-Pacific incl. China	4,887	5,002	5,007	5,392	5,392	5,355
Africa-Middle East	58	59	62	61	61	62
Denmark	5,329	5,319	5,368	5,300	5,300	5,250
Total	22,286	22,633	22,622	24,117	24,117	23,901

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

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