

Interim announcement

1st to 3rd 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 23,500 employees globally
- Products sold in over 100 countries worldwide
- 63 factories in 19 countries
- Top 3 regions: Western Europe, North America and Asia-Pacific
- Headquartered in Nordborg, Denmark

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Financial highlights

Mill. DKK
(unless otherwise stated)

	Q3 2014	Q3 2015	Change in %	Q3 YTD 2014	Q3 YTD 2015	Change in %	2014
Profit and loss accounts:							
Net sales	8,784	9,483	8%	25,704	28,722	12%	34,375
Operating profit before depreciation, amortization, impairment and other operating income and expenses	1,802	1,749	-3%	4,653	4,716	1%	6,079
Operating profit before depreciation, amortization and impairment (EBITDA)	1,737	1,745	0%	4,526	4,578	1%	5,661
Operating profit excl. other income and expenses	1,394	1,275	-9%	3,432	3,274	-5%	4,356
Operating profit (EBIT)	1,323	1,273	-4%	3,278	3,141	-4%	3,925
Financial items, net	-86	-132	-53%	-249	-311	-25%	-449
Profit before tax	1,237	1,141	-8%	3,029	2,830	-7%	3,476
Net profit	828	778	-6%	2,016	1,895	-6%	2,290
Balance sheet:							
Total non-current assets				18,737	25,689	37%	25,822
Total assets				29,811	37,538	26%	36,883
Total shareholders' equity				13,030	14,856	14%	13,242
Net interest-bearing debt				5,874	10,350	76%	11,439
Net assets				15,796	22,847	45%	22,432
Cash flow statement:							
Cash flow from operating activities				2,754	2,986	8%	4,351
Cash flow from investing activities				-3,593	-949	74%	-10,576
Acquisition of intangible assets and property, plant and equipment.				-711	-656	8%	-996
Acquisition of subsidiaries and activities				0	-111	***	-7,377
Acquisition(-) and sale of other investments etc.				-2,882	-183	***	-2,203
Free Cash flow				-839	2,037	***	-6,225
Free cash flow before M&A				2,090	2,257	8%	3,389
Cash flow from financing activities				609	-2,347	***	6,194
Key figures:							
Local currency growth (%)	3	5	2	4	6	2	5
EBITDA margin excl. other operating income etc. (%)	20.5	18.4	-2.1	18.1	16.4	-1.7	17.7
EBITDA margin (%)	19.8	18.4	-1.4	17.6	15.9	-1.7	16.5
EBIT margin excl. other operating income etc. (%)	15.9	13.4	-2.5	13.4	11.4	-2.0	12.7
EBIT margin (%)	15.1	13.4	-1.7	12.8	10.9	-1.9	11.4
Equity ratio (%)				43.7	39.6	-4.1	35.9
Leverage ratio (%)				45.1	69.7	24.6	86.4
Net interest bearing debt to EBITDA ratio				1.0	1.8	0.8	2.0
Number of employees (end of period)				22,622	23,488	866	24,117

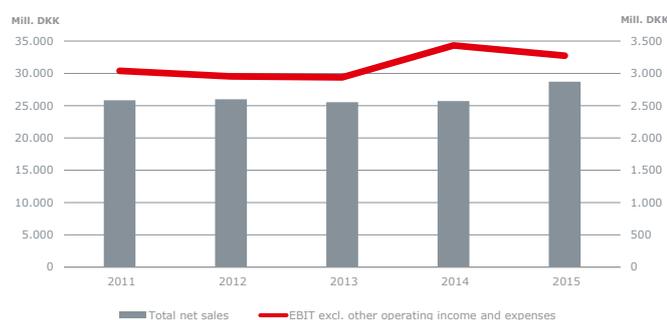
Financial review

In the first nine months of 2015, the Danfoss Group results were in line with expectations. The net sales were 12% above the same period last year - equal to 6% in local currency. The free cash flow before M&A continued to be above the year-earlier period, while earnings were slightly below last year. The full-year expectations are confirmed.

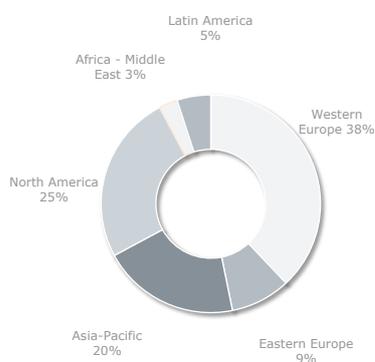
Net sales

In the first three quarters of 2015, the Group's net sales increased to DKK 28,722m against DKK 25,704m, corresponding to a 12% improvement. Compared to the same period last year, changes in exchange rates, driven by appreciation of the US dollar, continued to have a positive impact on the top line. In local currency, the net sales improvement was 6%.

Net sales & EBIT excl. other operating income and expenses – 1st to 3rd Quarter numbers



Sales distribution by regions



Part of the aim 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 also contributed to lifting the Group's net sales in 2015.

Across the Group's four business segments (Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating), the varying sales performance, which characterized the first half-year, continued in the third quarter. The varying performance reflected the overall continued global low-growth environment and the generally very mixed market conditions; however, also demonstrating the natural diversification effect at Group level.

In conclusion, in the first three quarters of the year, the Group delivered good sales performance in line with overall expectations.

Market trends

From a market point of view, third quarter developed along the lines of the previous two quarters of 2015. Accordingly, during the first nine months of 2015, overall, the need for new infrastructure, efficient food supply, energy efficiency and climate-friendly solutions remained the overall drivers of the demand for Danfoss technologies; in particular in the markets where Danfoss Drives and Danfoss Cooling operate. Both business segments have utilized favorable market conditions in several regions and benefitted from an increased demand for energy efficiency. In particular, despite the market flatness within the overall drives market the consolidated Danfoss Drives segment has continued the positive momentum.

However, as mentioned above, the global, overall market conditions continued to be characterized by low growth, and the business environment remained mixed across markets and regions. Most significantly, the mobile hydraulics market, where Danfoss Power Solutions operates, continued to be soft due to lower construction activity and low agricultural products prices.

For Danfoss Heating, the difficult market conditions in Russia together with a slowdown in the Chinese market continued to be the key challenges; however, to some extent counter-balanced by a growing trend in the heating market in parts of Europe.

The third quarter confirmed the trend of macroeconomic developments changing the global scenario with major emerging markets like China and Russia slowing down and growth momentum gradually emerging in the more mature regions.

In Eastern Europe, market conditions differ within the region. In the areas outside Russia, the sales momentum has gone up for some time, driven by improved performance in Danfoss Heating and Danfoss Drives business segments. In Russia, the activity level continued to be impacted by the economic downturn, and market conditions remained difficult. The volatility in the Russian market continued to be high and closely related to the significant fluctuations of the Ruble and oil prices. Consequently, net sales in Russia measured in DKK in the first nine months have dropped significantly compared to the same period last year. Danfoss' strategy in Russia is to persist and defend the strong market position, which the Group previously managed to do, and in local currency sales in the region are at level with last year.

Western Europe had a growth of 9% in local currency. For a longer period, the market conditions in the region have been characterized by low growth, and this has continued in 2015. During the year, the most significant change in the region took place in the Southern European countries, where a positive growth trend has slowly emerged, mainly driven by improved sales performance in the Danfoss Cooling business segment.

In North America, the mixed performance across the product categories, where Danfoss is present, has continued. On the positive side, Danfoss Drives, in particular, has continued to drive strong sales growth, while also Danfoss Cooling has benefitted from the overall positive trend in the US economy. For Danfoss Power Solutions, however, the lower sales in the region compared to the first nine months last year continued; mainly due to the continued softness in the agricultural market. Consequently, at Group level, net sales in local currency in North America continued to be at level with last year.

Latin America continued to be above last year in local currency, driven by strong sales growth at Danfoss Cooling.

In Asia-Pacific growth was 5% in local currency compared to the same period last year. During 2015, the business environment in the region has been impacted by the Chinese economy's continuing slowdown, which, consequently, has led to varying activity levels across sectors within China and to some extent, also affected the Asia-Pacific markets outside China. As a result the Danfoss business segments are facing mixed business conditions. Especially Danfoss Power Solutions and Danfoss Heating have been impacted by lower activity in construction.

In the high-growth potential regions, Turkey and India, the Group's targeted investments pay off with a significant positive sales development. Especially in India, the growth momentum has been strong for several quarters. Growth in the first nine months of the year was 22% in local currency.

Operating profit

In the first nine months, the operating profit (EBIT) excluding other operating income and expenses was with DKK 3,274m maintained at a satisfactory level; however, slightly below the DKK 3,432m generated in the same period last year. The operating profit (EBIT) amounted to DKK 3,141m, against

DKK 3,278m in the same period in 2014, which is equal to a decrease of 4%. The slightly lower earnings are a result of the softer sales performance in the business segments Danfoss Power Solutions and Danfoss Heating. Furthermore, compared to the same period last year, the Group's earnings are impacted by integration costs, including purchase price allocations and depreciation, related to the first year of Vacon ownership.

In conclusion, considering the ongoing integration of Vacon and challenging market conditions for some of the business segments, the Group delivered solid earnings in line with expectations.

Balance sheet

The Group's equity amounted to DKK 14,856m against DKK 13,030m at September 30, 2014. The increase is mainly due to accumulated profit. The equity ratio was 39.6% against 43.7% last year. The lower equity ratio is related to the acquisition of the Finnish drives manufacturer Vacon.

Total assets amounted to DKK 37,538m against DKK 29,811m last year – again, the increase is related to the acquisition of Vacon.

During the third quarter, net interest-bearing debt was brought down and stood at DKK 10,350m at September 30, 2015, compared to DKK 11,519m at half-year and DKK 5,874m at the same time last year. The increase in debt over last year is due to the financing of the acquisition of Vacon in 2014. The level of debt at September 30, 2015 is equal to 1.8 × EBITDA of the last four quarters compared to the half-year level of 2.0 × EBITDA of the last four quarters. In conclusion, the debt level is within the Group's target range of 0 to 2 times EBITDA.

Cash flows

Amounting to DKK 2,257m, the free cash flow before mergers and acquisitions continued to be strong, and above the level of DKK 2,090m in the first nine months last year. The improvement was driven by lower investments in fixed assets and improved cash flow from operating activities. The free cash flow including mergers and acquisitions was DKK 2,037m against DKK –839m in the same period last year. The amount consisted of cash flow from operating activities of DKK 2,986m and DKK –949m cash flow from investing activities.

Innovation

Danfoss maintains a high level of investments in research and development of new products and technologies. In the first nine months of the year, the Group increased its investments in product development by 21% to reach DKK 1,180m, compared to DKK 972m in the same period last year. Measured as a percentage of sales, investments were 4.1% against 3.8%.

Employees

The Danfoss Group had 23,488 employees at September 30, 2015, against 24,117 at the beginning of the year.

Segments

As of January 1, 2015, the Danfoss Group reorganized its 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 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 three quarters of 2015 have been characterized by difficult market conditions. 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, 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 Western Europe remained, also in the third quarter, weak together with a softening in the construction in the US. Also, the Chinese mobile industry market has continued at a low sales level due to weaker construction and road-building business.

Despite the very difficult market conditions in the first three quarters, profitability has been maintained at a good level although slightly below last year, driven by continued focus on improved operational performance, productivity improvements and lowering of fixed expenses.

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.

For Danfoss Cooling, the first nine months of 2015 has been characterized by good performance. Currency fluctuations had a positive impact on the segments sales, but also in local currency sales were above the same period last year. Especially in the first half-year, the segment recorded sales growth in many of its primary markets like North America and China, and India continued to benefit the segment with high growth rates as well. In the third quarter, growth in North America were more modest and, in China, sales were at level with last year. Eastern Europe as well as the southern part of the Western Europe region showed a positive sales trend. Profitability in the segment continued to be well above last year, driven by the increased sales as well as continued productivity improvements and good control of the fixed expenses.

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

Danfoss Drives

Danfoss Drives is a leading player in the market for low voltage AC drives. Danfoss Drives is the result of the merger of the former Danfoss Power Electronics business 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 nine months of 2015, and during the third quarter, the merger continued according to plan. From a market perspective, over the year, growth

has slowed. However the segment has continued to deliver strong performance by keeping a firm focus on serving the customers. Net sales in local currency for the segment were due to the merger of Vacon significantly above last year. Also, when excluding the additional sales from Vacon, sales in the segment were slightly above the same period last year despite the overall flat global market. The segment recorded the highest growth rates in India. But also North America, Asia-Pacific and Eastern Europe recorded growth.

Profitability in the consolidated segment continued to be 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 the 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 heating, commercial heating and district energy for cities for the entire supply of heating and cooling 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 difficult market conditions in Russia

together with a slowdown in the Chinese market continued to be the key challenges with the most significant impact in Russia, as the region is a key market for Danfoss Heating, especially in the district heating business. With the business climate gradually adapting to the new economic reality, the situation in the region seemed to have stabilized by the end of the first half-year. However, during the third quarter, the volatility returned to the market following significant fluctuations of the Ruble and oil prices. Consequently, construction activities, new build as well as modernization, remained significantly impacted by the economic situation. The segment's activities to defend the strong market position in the region continue as the difficult business environment is expected to continue for some time.

In other parts of Europe, during the third quarter of the year the segment gained stronger growth momentum, thereby continuing the good development from the first half-year. The growth in Europe was most significant in the northern and eastern parts of the region. Considering that Europe accounts for more than half the sales in Danfoss Heating, the strong development in the region has somewhat counter-balanced the negative sales development in Russia.

Overall, net sales in the segment continued to be below last year, and profitability remained to be negatively impacted.

Expectations for **2015**

Expectations for 2015 are confirmed.

The net sales (reported) forecast, including the full-year impact of the acquisition of Vacon, is expected to grow by 9-14%.

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	Q3 2015
Profit and loss accounts								
Net sales	8,303	8,617	8,784	8,670	34,375	9,385	9,854	9,483
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	1,749
Operating profit before depreciation, amortization and impairment (EBITDA)	1,341	1,448	1,737	1,135	5,661	1,352	1,481	1,745
Operating profit excl. other income and expenses	996	1,043	1,394	924	4,356	930	1,070	1,275
Operating profit (EBIT)	913	1,042	1,323	647	3,925	871	997	1,273
Financial items, net	-80	-83	-86	-201	-449	-87	-91	-132
Profit before tax	883	959	1,237	447	3,476	783	906	1,141
Net profit	555	632	828	274	2,290	509	608	778

Balance sheet

Total non-current assets	15,760	18,029	18,737	25,822	25,822	26,561	25,994	25,689
Total assets	26,436	29,064	29,811	36,883	36,883	39,341	38,533	37,538
Total shareholders' equity	11,946	11,783	13,030	13,242	13,242	14,762	14,602	14,856
Net interest-bearing debt	3,913	6,639	5,874	11,439	11,439	11,300	11,519	10,350
Net assets	15,785	15,953	15,796	22,432	22,432	23,754	23,799	22,847

Cash flow statement

Cash flow from operating activities	405	1,071	2,754	4,351	4,351	437	1,121	2,986
Cash flow from investing activities	-178	-2,673	-3,593	-10,576	-10,576	-242	-641	-949
Acquisition of intangible assets and property, plant and equipment	-215	-456	-711	-996	-996	-147	-359	-656
Acquisition of subsidiaries and activities	0	0	0	-7,377	-7,377	-17	-112	-111
Acquisition(-) and sale of other investments etc.	37	-2,217	-2,882	-2,203	-2,203	-79	-170	-182
Free Cash flow	227	-1,602	-839	-6,225	-6,225	195	480	2,037
Free cash flow before M&A	228	660	2,090	3,388	3,389	291	686	2,257
Cash flow from financing activities	-490	1,340	609	6,194	6,194	-304	-797	-2,347

Key figures

Local currency growth (%)	8	3	3	7	5	6	5	5
EBITDA margin excl. other operating income etc. (%)	16.9	16.8	20.5	16.4	17.7	15.0	15.8	18.4
EBITDA margin (%)	16.2	16.8	19.8	13.1	16.5	14.4	15.0	18.4
EBIT margin excl. other operating income etc. (%)	12.0	12.1	15.9	10.7	12.7	9.9	10.9	13.4
EBIT margin (%)	11.0	12.1	15.1	7.5	11.4	9.3	10.1	13.4
Equity ratio (%)	45.2	40.5	43.7	35.9	35.9	37.5	37.9	39.6
Leverage ratio (%)	32.8	56.3	45.1	86.4	86.4	76.5	78.9	69.7
Net interest bearing debt to EBITDA ratio	0.7	1.2	1.0	2.0	2.0	2.0	2.0	1.8

Geographical segments

Net sales

Western Europe	3,436	3,291	3,328	3,267	13,322	3,776	3,676	3,637
Eastern Europe	743	904	1,184	1,010	3,841	679	834	1,004
Asia - Pacific	1,431	1,629	1,701	1,782	6,542	1,705	2,039	2,024
North America	2,054	2,100	1,854	1,911	7,921	2,511	2,559	2,087
Africa - Middle East	202	237	222	232	893	242	277	261
Latin America	437	456	495	468	1,856	472	469	470
Total	8,303	8,617	8,784	8,670	34,375	9,385	9,854	9,483

Number of employees

Western Europe	9,133	9,069	9,045	9,911	9,911	9,724	9,637	9,558
Eastern Europe	3,893	3,972	3,972	4,010	4,010	3,996	3,915	3,893
Asia - Pacific	4,868	4,982	4,988	5,372	5,372	5,336	5,302	5,223
North America	3,058	3,217	3,251	3,428	3,428	3,432	3,453	3,410
Africa - Middle East	107	111	114	118	118	127	128	138
Latin America	1,227	1,282	1,252	1,278	1,278	1,286	1,340	1,266
Total	22,286	22,633	22,622	24,117	24,117	23,901	23,775	23,488

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

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