

ENGINEERING
TOMORROW



Interim announcement

1st to 3rd quarter 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

25,200 employees globally

Factories in **20** countries

Products sold in more than **100** countries worldwide

Top 3 regions:



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Financial highlights

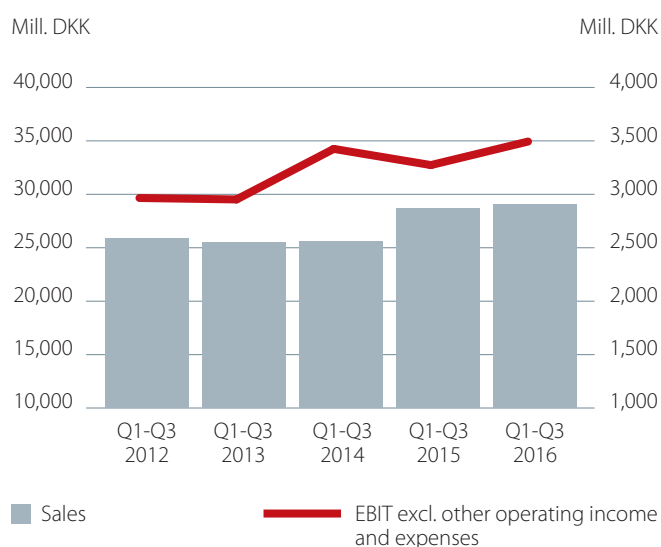
Mill. DKK
(unless otherwise stated)

	Q3 2015	Q3 2016	Change in %	Q3 YTD 2015	Q3 YTD 2016	Change in %	2015
Profit and loss accounts:							
Net sales	9,483	9,729	3%	28,722	29,124	1%	38,031
Operating profit before depreciation, amortization, impairment and other operating income and expenses etc.	1,749	1,731	-1%	4,716	4,862	3%	6,148
Operating profit before depreciation, amortization and impairment (EBITDA)	1,745	1,695	-3%	4,578	4,796	5%	6,021
Operating profit excl. other income and expenses etc.	1,275	1,262	-1%	3,274	3,504	7%	4,235
Operating profit (EBIT)	1,273	1,250	-2%	3,141	3,462	10%	4,097
Financial items, net	-132	-71	46%	-311	-253	19%	-356
Profit before tax	1,141	1,180	3%	2,830	3,209	13%	3,741
Net profit	778	822	6%	1,895	2,249	19%	2,597
Balance sheet:							
Total non-current assets				25,689	27,473	7%	26,168
Total assets				37,538	40,517	8%	37,219
Total shareholders' equity				14,856	16,574	12%	15,424
Net interest-bearing debt				10,350	10,244	-1%	9,640
Net assets				22,847	24,319	6%	22,613
Cash flow statement:							
Cash flow from operating activities				2,986	3,412	14%	4,667
Cash flow from investing activities				-949	-2,889	204%	-1,619
Acquisition of intangible assets and property, plant and equipment.				-656	-949	45%	-1,176
Acquisition of subsidiaries and activities				-111	-1,868	***	-223
Acquisition(-) and sale of other investments etc.				-183	-72	-61%	-220
Free Cash flow				2,037	523	-74%	-3,048
Free cash flow before M&A				2,257	2,428	8%	3,397
Cash flow from financing activities				-2,347	-239	-90%	-3,416
Key figures:							
Local currency growth (%)	5	5	1	6	4	-2	5
EBITDA margin excl. other operating income etc. (%)	18.4	17.8	-0.6	16.4	16.7	0.3	16.2
EBITDA margin (%)	18.4	17.4	-1.0	15.9	16.5	0.6	15.8
EBIT margin excl. other operating income etc. (%)	13.4	13.0	-0.4	11.4	12.0	0.6	11.1
EBIT margin (%)	13.4	12.9	-0.6	10.9	11.9	1.0	10.8
Equity ratio (%)				39.6	40.9	1.3	41.4
Leverage ratio (%)				69.7	61.8	-7.9	62.5
Net interest bearing debt to EBITDA ratio				1.8	1.6	-0.2	1.6
Number of employees (end of period)				23,488	25,234	1,746	23,420

Financial update

The Danfoss Group maintained the growth momentum and delivered results for the first nine months of 2016 in line with expectations. Sales in local currency increased 4% to DKK 29,124m. Earnings (EBIT) improved 10% to DKK 3,462m. The full-year expectations are confirmed.

Sales and EBIT



Sales

The first nine months of 2016 were characterized by growth, mainly driven by the Danfoss Group's targeted growth initiatives and an increasing market share.

Sales increased 1% to DKK 29,124m against DKK 28,722m after the third quarter last year. Contrary to last year, the topline growth measured in DKK was negatively impacted by the lower exchange rates. Measured in local currency, growth was 4%.

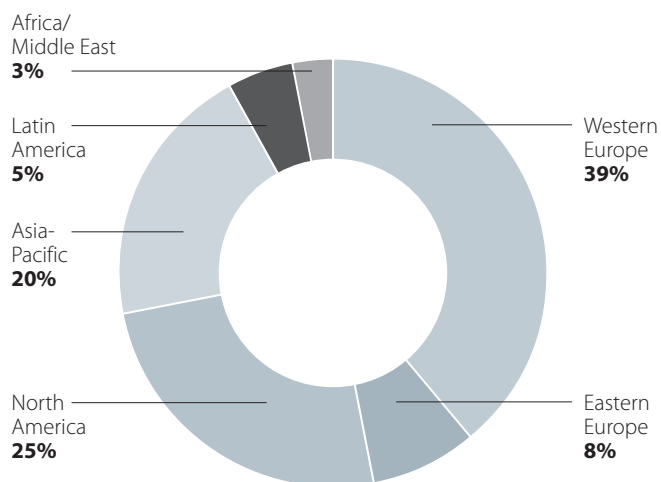
The positive sales development was driven by a solid momentum in Danfoss Cooling and good growth traction in Danfoss Heating. Both business segments delivered sales well above last year, while Danfoss Power Solutions and Danfoss Drives experienced low growth.

Market trends

The mixed business environment across markets and sectors, which characterized the first two quarters, continued into the third quarter of 2016. The varying market conditions are mainly caused by continued low prices on commodity goods, resulting in relatively low investment levels in the global agriculture, marine, off-shore, and mining sectors. However, during 2016, the Group experienced a positive development in several key markets, such as Europe, China and some markets in North America.

The increase in sales during 2016 has been driven by a higher awareness of the potential in energy efficiency in addition to a growing need and legislative requirements for creating more sustainable and climate-friendly energy systems. Furthermore, in the developing countries, the need for safe food supply and modern infrastructure is driving the demand for Danfoss technologies. In relation to the Danfoss Group's focus on growth initiatives, the strategic refocusing of sales activities towards specific, vertical markets with a strong growth potential continues to show a positive effect on the market share development. Finally, countries with a high potential, such as India delivering double-digit

Sales split on regions
First nine months 2016



growth rates all year, have also contributed to the overall improved sales performance.

In Europe, the efforts to accelerate growth paid off during the first nine months of 2016. With almost half of total sales coming from this region, the increasing growth momentum had a very positive impact. The growth momentum was particularly strong in the Southern and Eastern parts of Europe, while the market conditions in Russia remained challenging, reflecting the difficult economic situation of the country.

In North America, the sales were at the same level as last year, due to a mixed performance across business segments and product categories. Danfoss Cooling continued the strong growth momentum, whereas sales in Danfoss Power Solutions and Danfoss Drives declined, due to low activity levels in the mobile hydraulics market and some of the heavy industries.

In the Asia-Pacific region, including China, sales in local currency increased on last year. The growth was mainly driven by increasing sales in China, but also other countries in the region saw good growth. Furthermore, the growth momentum in India remained very strong.

In Latin America, the mixed market conditions from the first half-year continued into the third quarter. Brazil continued to be impacted by the soft economic situation in the country, but the third quarter 2016 showed indications of a recovery in the future market conditions. Other countries in the region saw some growth in local currency.

Operating profit

After the first nine months of 2016, the strong earnings performance was maintained with the operating profit (EBIT)

improving by 10% to DKK 3,462m against DKK 3,141m. The improvement was attributable to the increased sales and the continuous efforts to improve the supply chain in areas such as productivity, quality and procurement. EBIT in the third quarter was impacted by one-off transaction costs related to acquisitions and increasing investments in digital initiatives.

The profitability improved, as reflected in the 1 percentage-point higher EBIT margin of 11.9% against 10.9% in the previous year.

The net profit increased 19% to DKK 2,249m against DKK 1,895m, primarily driven by the improved EBIT.

Balance sheet

Total assets increased to DKK 40,517m against DKK 37,538m at September 30, 2015. The higher level can be ascribed to the acquisitions completed in the third quarter 2016.

The equity increased to DKK 16,574m from DKK 14,856m at September 30, 2015, mainly due to accumulated profits. Consequently, the equity ratio was 40.9% against 39.6%.

At September 30, 2016, the net interest-bearing debt was reduced to DKK 10,244m against DKK 10,350m, leading to a net interest-bearing debt to EBITDA ratio of 1.6 against 1.8 at the same time last year. The Group has a BBB credit rating assigned by S&P with a stable outlook.

Cash flows

The free cash flow before mergers and acquisitions improved 8% to DKK 2,428m against DKK 2,257m after the first nine months last year. The increase was mainly attributable to higher earnings and a positive trade working capital development.

The cash flow from operating activities was up 14% to DKK 3,412m against DKK 2,986m, and the cash flow from investing activities totaled DKK -2,889m against DKK -949m, mainly due to acquisitions. Accordingly, the free cash flow stood at DKK 523m against DKK 2,037m at the same time last year.

Innovation

Investments in research and development increased 3% to DKK 1,218m, or 4.2% of sales, against DKK 1,180m or 4.1% in the prior-year period.

During the third quarter 2016, Danfoss announced a new partnership with Leanheat, which offers advanced and intelligent energy optimization solutions for multi-family houses and district heating. Partnering with Leanheat enables access to software technologies, which will further strengthen the business and position of Danfoss Heating.

Acquisitions

During the third quarter 2016, Danfoss completed two acquisitions. The acquisitions reflect the strategic focus on building leading positions through organic growth and acquisitions within Danfoss' existing core business areas.

On July 7, 2016, Danfoss signed an agreement to acquire full ownership of Sondex Holding A/S, Denmark. The company is a leader in heat transfer technologies with an annual revenue of approximately DKK 1bn and 1,200 employees worldwide. Closing of the transaction took place on August 31, 2016, and the company was included in the financial statements as of September 1, 2016.

On July 12, 2016, Danfoss announced an agreement for the acquisition of U.S.-based White Drive Products, Inc. The company is a leading manufacturer of hydraulic drive

products with an annual revenue of approximately DKK 669m and 700 employees worldwide. Closing occurred on September 8, 2016, and the company was included in the financial statements as of September 9, 2016.

The acquisitions 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.

Employees

The Danfoss Group had 25,234 employees at September 30, 2016, against 23,420 at the beginning of the year. The increase can primarily be ascribed to the acquisitions of Sondex and White Drive Products.

Events occurring after the balance sheet date

No significant events occurred after September 30, 2016.

Danfoss segments

The Danfoss Group consists of 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 nine months of 2016, Danfoss Power Solutions experienced a continued soft market situation within global construction and agriculture, which led to overall low activity levels in the mobile hydraulics market. Conversely, the turf market developed positively. Danfoss Power Solutions saw minor positive growth rates throughout all global regions, apart from a decline in North America, driven by negative growth within agricultural and material handling markets.

In conclusion, Danfoss Power Solutions delivered sales in local currency just above last year. However, the growth combined with a strong focus on continuous improvements in the supply chain led to an improved profitability compared to 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 continued the strong momentum, and the first nine months of 2016 confirmed the positive growth trend in the business. In local currency, sales were well above the same period last year, and sales growth was recorded in many of the key markets, such as North America, China and most parts of Europe. The increased focus on growth opportunities in India, the Middle East, and Africa continued to benefit Danfoss Cooling, recording high growth in these regions.

In conclusion, Danfoss Cooling continued the strong performance. Profitability continued to be well above last year, driven by the increased sales, continuous productivity improvements, and cost control.

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.

During the first nine months of 2016, Danfoss Drives was impacted by a slowdown in the global drives market, due to low prices on commodity goods. This has negatively affected the activity levels in some global, heavy industry sectors. In the first quarter of 2016, soft market conditions led to a sales decline, but in the second and third quarter, Danfoss Drives experienced a somewhat positive development with growth in most parts of Europe, whereas North America and Asia-Pacific realized lower sales. Growth was mainly coming from the continued double-digit growth in the Silicon Power business.

In conclusion, Danfoss Drives, which also comprises the shareholding of SMA Solar Technology AG, delivered sales in local currency just above last year and profitability close to the level of last year, despite the fairly weak global drives market.

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. Within each business area, Danfoss Heating is a leading player offering a complete range of energy-efficient solutions to customers across a number of advanced product categories globally.

Danfoss Heating continued to realize sales growth in the European and Chinese markets during the first nine months of 2016. The performance was positively supported by the strong political focus on energy efficiency and reductions of CO₂ emissions. The positive development in Europe and China helped offset the impact of the continued weak market conditions and the volatile economic situation in Russia, where the activity level in the construction market, new build and renovation, remained at a relatively low level.

In conclusion, Danfoss Heating saw a positive development during the first nine months of 2016. Overall, sales in local currency were above last year, and profitability was realized at a slightly higher level than last year.

Outlook for **2016**

Unchanged 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.

The outlook is unchanged relative to the outlook published in the Annual Report 2015, which is available 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 an EBIT margin at the same level as in 2015.

Quarterly financial highlights

Mill. DKK
(unless otherwise stated)

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015	Q1 2016	Q2 2016	Q3 2016
Profit and loss accounts								
Net sales	9,385	9,854	9,483	9,309	38,031	9,423	9,972	9,729
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	1,731
Operating profit before depreciation, amortization and impairment (EBITDA)	1,352	1,481	1,745	1,443	6,021	1,422	1,680	1,695
Operating profit excl. other income and expenses etc.	930	1,070	1,275	960	4,235	984	1,257	1,262
Operating profit (EBIT)	871	997	1,273	956	4,097	971	1,241	1,250
Financial items, net	-87	-91	-132	-46	-356	-94	-88	-71
Profit before tax	783	906	1,141	911	3,741	877	1,152	1,180
Net profit	509	608	778	702	2,597	616	812	822
Balance sheet								
Total non-current assets	26,561	25,994	25,689	26,168	26,168	25,560	25,663	27,473
Total assets	39,341	38,533	37,538	37,219	37,219	37,568	38,184	40,517
Total shareholders' equity	14,762	14,602	14,856	15,424	15,424	15,880	15,851	16,574
Net interest-bearing debt	11,300	11,519	10,350	9,640	9,640	9,301	9,484	10,244
Net assets	23,754	23,799	22,847	22,613	22,613	22,733	22,813	24,319
Cash flow statement (YTD)								
Cash flow from operating activities	437	1,121	2,986	4,667	4,667	439	1,596	3,412
Cash flow from investing activities	-242	-641	-949	-1,619	-1,619	-244	-643	-2,889
Acquisition of intangible assets and property, plant and equipment	-147	-359	-656	-1,176	-1,176	-240	-588	-949
Acquisition of subsidiaries and activities	-17	-112	-111	-223	-223	0	4	-1,868
Acquisition(-) and sale of other investments etc.	-79	-170	-183	-220	-220	-5	-59	-72
Free Cash flow	195	480	2,037	3,048	3,048	195	953	523
Free cash flow before M&A	291	686	2,257	3,397	3,397	195	976	2,428
Cash flow from financing activities	-304	-797	-2,347	-3,416	-3,416	4	-622	-239
Key figures								
Local currency growth (%)	6	5	5	5	5	2	6	5
EBITDA margin excl. other operating income etc. (%)	15.0	15.8	18.4	15.4	16.2	15.2	17.0	17.8
EBITDA margin (%)	14.4	15.0	18.4	15.5	15.8	15.1	16.8	17.4
EBIT margin excl. other operating income etc. (%)	9.9	10.9	13.4	10.3	11.1	10.4	12.6	13.0
EBIT margin (%)	9.3	10.1	13.4	10.3	10.8	10.3	12.4	12.9
Equity ratio (%)	37.5	37.9	39.6	41.4	41.4	42.3	41.5	40.9
Leverage ratio (%)	76.5	78.9	69.7	62.5	62.5	58.6	59.8	61.8
Net interest bearing debt to EBITDA ratio	2.0	2.0	1.8	1.6	1.6	1.5	1.5	1.6
Geographical segments								
Net sales								
Western Europe	3,776	3,676	3,637	3,561	14,650	3,814	3,903	3,702
Eastern Europe	679	834	1,004	888	3,405	658	810	969
Asia - Pacific	1,705	2,039	2,024	1,947	7,715	1,698	2,062	2,193
North America	2,511	2,559	2,087	2,121	9,278	2,585	2,434	2,119
Latin America	472	469	470	475	1,886	414	445	492
Africa - Middle East	242	277	261	317	1,097	254	318	254
Total	9,385	9,854	9,483	9,309	38,031	9,423	9,972	9,729
Number of employees								
Western Europe	9,724	9,637	9,558	9,536	9,536	9,471	9,483	9,677
Eastern Europe	3,996	3,915	3,893	3,908	3,908	3,874	3,900	4,450
Asia - Pacific	5,336	5,302	5,223	5,172	5,172	5,157	5,212	5,899
North America	3,432	3,453	3,410	3,406	3,406	3,402	3,411	3,671
Latin America	1,286	1,340	1,266	1,203	1,203	1,207	1,301	1,274
Africa - Middle East	127	128	138	195	195	205	210	263
Total	23,901	23,775	23,488	23,420	23,420	23,316	23,517	25,234

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

Date of publication: **November 9, 2016**

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