

ENGINEERING
TOMORROW



Interim announcement

1st 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 ...

- Employing 23,300 employees globally
- Products sold in over 100 countries worldwide
- 61 factories in 20 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)

	Q1 YTD 2015	Q1 YTD 2016	Change in %	2015
Profit and loss accounts:				
Net sales	9,385	9,423	0%	38,031
Operating profit before depreciation, amortization, impairment and other operating income and expenses etc.	1,411	1,435	2%	6,148
Operating profit before depreciation, amortization and impairment (EBITDA)	1,352	1,422	5%	6,021
Operating profit excl. other income and expenses etc.	930	984	6%	4,235
Operating profit (EBIT)	871	971	11%	4,097
Financial items, net	-87	-94	-8%	-356
Profit before tax	783	877	12%	3,741
Net profit	509	616	21%	2,597
Balance sheet:				
Total non-current assets	26,561	25,560	-4%	26,168
Total assets	39,341	37,568	-5%	37,219
Total shareholders' equity	14,762	15,880	8%	15,424
Net interest-bearing debt	11,300	9,301	-18%	9,640
Net assets	23,754	22,733	-4%	22,613
Cash flow statement:				
Cash flow from operating activities	437	439	0%	4,667
Cash flow from investing activities	-242	-244	1%	-1,619
Acquisition of intangible assets and property, plant and equipment.	-147	-240	63%	-1,176
Acquisition of subsidiaries and activities	-17	0	***	-223
Acquisition(-) and sale of other investments etc.	-79	-4	-95%	-220
Free Cash flow	195	195	0%	-3,048
Free cash flow before M&A	291	195	-33%	3,397
Cash flow from financing activities	-304	4	***	-3,416
Key figures:				
Local currency growth (%)	6	2	-4	5
EBITDA margin excl. other operating income etc. (%)	15.0	15.2	0.2	16.2
EBITDA margin (%)	14.4	15.1	0.7	15.8
EBIT margin excl. other operating income etc. (%)	9.9	10.4	0.5	11.1
EBIT margin (%)	9.3	10.3	1.0	10.8
Equity ratio (%)	37.5	42.3	4.8	41.4
Leverage ratio (%)	76.5	58.6	-17.9	62.5
Net interest bearing debt to EBITDA ratio	2.0	1.5	-0.5	1.6
Number of employees (end of period)	23,901	23,316	-585	23,420

Financial review

The Danfoss Group had a good start to 2016 and delivered results in line with expectations. Total net sales were DKK 9,423m, which was 2% above the same period last year in local currency. Earnings (EBIT) were improved by 11% to reach DKK 971m.

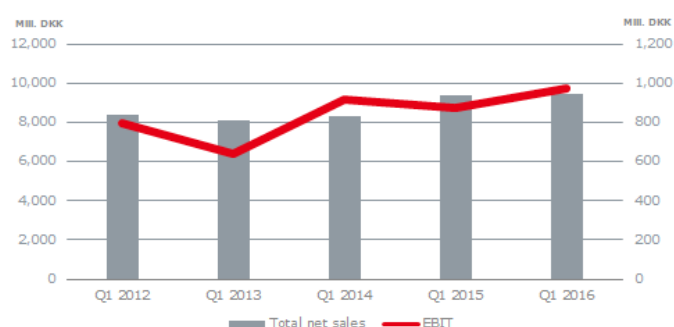
Net sales

In the first quarter of the year, the Group's total net sales increased to DKK 9,423m against DKK 9,385m. In local currency, growth was 2%. In terms of market share development in the first quarter the overall trend for the Group was stable with some specific business areas with a slightly positive trend for example in the Cooling business in categories such as compressors, controls and heat exchangers.

performance above the same period last year. For Danfoss Drives, the ongoing merger is progressing well. However, the business segment had a soft start to the year as activity levels in some heavy industry sectors have been subdued following a period of low commodity prices.

After several quarters with positive currency impact, changes in exchange rates resulted in a slightly negative impact on the top line in the first three months of 2016.

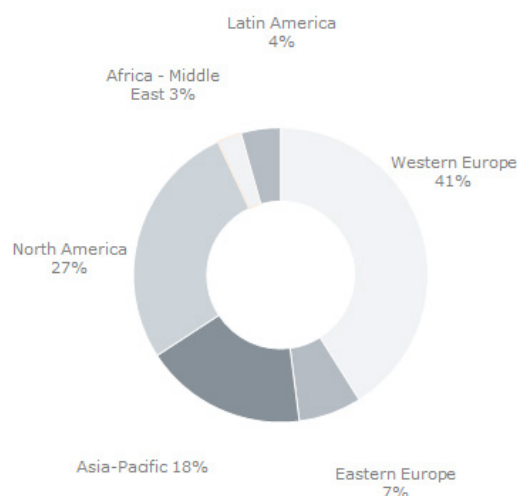
Total net sales and EBIT



Market trends

From a business perspective, the increasing awareness of the potential in energy efficiency and the need for creating more sustainable and climate-friendly energy systems remain the strong, fundamental market drivers for the Danfoss business segments. Demand for Danfoss technologies is also driven by the need for modern infrastructure and safe food supply. However, the overall macroeconomic scenario of low, global growth and mixed business environment across markets and sectors characterizing most of 2015 continued in the first quarter of 2016. In particular, the continued low prices on commodity goods caused low investment levels in the global agriculture, marine, oil & gas and mining sectors. On the other hand, the Group's continued strategic initiatives to identify and utilize growth pockets continued to deliver increasing positive impact. Concrete examples are the growth momentum in countries such as India, Turkey and Mexico, where the Group has invested significantly in accelerating growth. 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.

Sales distribution by regions



The increase in sales was mainly driven by continued strong sales momentum in Danfoss Cooling. Also, the business segments Danfoss Power Solutions and Danfoss Heating regained some traction in sales and delivered sales

In Europe, the sales in local currency in most parts of the region were at level with last year. However, in Southern Europe, the strong sales momentum from the latter part of 2015 continued into 2016 with 7% growth in local currency. The positive trend in the Southern European countries is driven by all four business segments. In Russia, the activity level continued to be impacted by the economic downturn, and market conditions remained challenging.

In the Americas, the mixed performance across the product categories, where Danfoss is present, has continued into 2016.

In North America, Danfoss Cooling continued to benefit from the overall positive trend in the US economy, whereas Danfoss Drives declined due to a softening of the drives market in the region. Danfoss Power Solutions saw improvement in the first quarter of the year in North America following a couple of challenging quarters in the region, and the segment saw sales at level with the same period last year. In Latin America, in the areas outside Brazil, the Group saw some growth in local currency in the first quarter, mainly driven by continued solid performance in Danfoss Cooling. In Brazil, the market continued to be soft due to the overall economic slowdown in the country.

In the Asia-Pacific region including China, sales in local currency were at level with last year. The market conditions in the region remains mixed across sectors. In the first quarter of the year, Danfoss Heating saw solid growth rates in China, whereas Danfoss Drives was impacted by softer market conditions in the Asia-Pacific region in general.

In the high-growth potential regions, Turkey and India, the Group's targeted investments continued to have a positive impact on the sales development. Especially in India, the growth momentum has been strong for several quarters.

Operating profit

The Group's earnings performance was strong in the first quarter. Operating profit (EBIT) amounted to DKK 971m, against DKK 871m, which is equal to an increase of 11%. The improvement is due to the increased sales and a continued strong momentum in the continuous efforts to improve the supply chain in areas such as productivity, quality and procurement.

Accordingly, the Group's profitability was lifted, as the EBIT margin improved to 10.3%, against 9.3% in the first quarter last year.

Net profit amounted to DKK 616m, against DKK 509m in the same period in 2015, which is equal to an increase of 21%.

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 37,568m, against DKK 39,341m. The lower level was due to lower trade working capital and amortizations.

The Group's equity amounted to DKK 15,880m, against DKK 14,762m at March 31, 2015. The increase was due to accumulated profits. This resulted in an improvement of the equity ratio to 42.3% against 37.5% last year.

Net interest-bearing debt was reduced by DKK 2bn and stood at DKK 9,301m at March 31, 2016, compared with DKK 11,300m last year. The level of debt is equal to 1.5 × EBITDA of the last four quarters, which is well within the target range of 0 to 2 times EBITDA.

Cash flows

The free cash flow before mergers and acquisitions amounted to DKK 195m, against DKK 291m in the first quarter last year. The lower level was due to higher investments in fixed assets; property, plants and equipment including investments in a new Application Development Center in Florida, USA. The free cash flow was DKK 195m, against DKK 195m in the same period last year. The amount consisted of cash flow from operating activities of DKK 439m, and DKK -244m cash flow from investing activities.

Innovation

In the first three months of the year, Danfoss invested DKK 404m in innovation compared to DKK 416m in the same period last year. Measured as a percentage of sales, investment was 4.3% against 4.4%.

Employees

The Danfoss Group had 23,316 employees at March 31, 2015, against 23,420 at the beginning of the year.

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 (DPS) 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.

Throughout 2015, Danfoss Power Solutions was impacted by a downturn in the agricultural market, which appears to continue in 2016. The soft markets within construction, material handling and distribution as well as the Chinese mobile machinery market also continued into the first quarter of 2016 leading to generally low activity levels in the mobile hydraulics market. Conversely, the turf market, in which the segment's business unit Hydro-Gear is active, has been experiencing a positive sales development. In total, net sales in local currency increased slightly compared to last year. The limited growth is mainly derived from North America and Asia-Pacific, whereas Latin America has experienced weaker revenue.

In conclusion, Danfoss Power Solutions has experienced slightly improved sales in a 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 fitting just about any need.

Danfoss Cooling has been performing strongly for a longer period, and the first quarter 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 in almost all parts of Europe. The only primary market with a negative development was China, where the business segment delivered sales slightly below the strong first quarter last year. The increased focus on growth opportunities in India continued to benefit the segment, and Danfoss Cooling recorded high double-digit growth in the region.

In conclusion, for Danfoss Cooling, the first three months of 2016 was characterized by continued strong performance. Profitability in the segment continued to be above last year, driven by the increased sales as well as 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 Danfoss Drives segment; this business develops power modules and stacks for a number of industries, like the automotive and the wind industries.

The merger of Vacon and Danfoss' former drives unit, Power Electronics, continued according to plan. However, low prices on commodity goods such as natural minerals and oil have negatively affected some of the global, heavy industry sectors such as marine, oil & gas and mining.

Consequently, activity levels in the global drives market have slowed down. This trend started in the latter part of 2015 and has continued in the first quarter of 2016. Due to the general market slowdown, Danfoss Drives has experienced a fairly slow start to the year, and net sales in local currency for the segment were slightly below the same period last year. The business segment recorded lower sales levels in several regions; however, parts of Europe stood out with solid growth rates.

In conclusion, Danfoss Drives had a fairly challenging start to the year with sales below the strong first quarter last year. Following the lower sales level, profitability was below 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 at 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.

For Danfoss Heating, the general market conditions in Russia remained challenging during the first quarter as a consequence of the low oil prices and fluctuations of the Ruble. Consequently, construction activities, new build as well as modernization, remained at a relatively 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 a strong market position with an increased focus on strengthening customer relations even further. On the other hand, the segment had a good start to the year in China and Europe with increased net sales as compared to the first quarter last year. The solid performance in China and Europe was thus offsetting the slowdown in Russia. For the business segment, the good start to the year in China should be seen in the light that energy efficiency battling high CO₂ emission and airpollution are moving up on the political and business agenda in China. The European markets have continued the solid development from 2015, spurred by positive market conditions for energy efficient heating solutions.

In conclusion, Danfoss Heating has had a good start to the year, but with mixed results across regions. Overall, net sales in the segment were above last year, and profitability has been realized at a higher level.

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 in general 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. Impact from the initiatives is dependent on the development of the global market conditions during 2016.

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

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

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