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Annual Report
2018

ENGINEERING
TOMORROW

Danfoss

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About this report

This Annual Report 2018 is published as an electronic publication only and made available at www.danfoss.com. The Annual Report has been prepared and published in English and is released on February 28, 2019.

The Annual Report has been presented in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Tailored annual reporting

Danfoss has tailored the annual reporting towards the needs of our various stakeholders with three annual publications:

1. Annual Report 2018, which focuses on legally required information and includes the financial results for the fiscal year.

2. Sustainability Report 2018, which constitutes the Group’s “Communication on Progress” (COP) under the UN Global Compact and provides an insight into our initiatives within sustainability and corporate social responsibility.

3. Corporate Governance Report 2018, which comprises the Group’s compliance on the recommendations of corporate governance.

These publications constitute the total annual reporting of the Danfoss Group and can be read individually or combined, depending on interests.

Danfoss has never been more relevant

Global mega-trends transform our world. Massive urbanization, food supply for a growing population and climate change, in combination with the increasing global focus on the Paris Agreement and UN's Sustainable Development Goals, fit right into our business context. The potential is huge – by combining our application know-how and innovative engineering to create smart sustainable solutions, we help our customers to build more competitive positions. We also play a significant role in the transition towards more electrification and lower carbon emissions, making the world's energy consumption more sustainable. That is how Danfoss helps to build a better future – with a short payback time – this is actually good business.

In 2018, we delivered a year of strong growth and significant investments in the future, leading to a robust result within range of our guidance – despite increasing market volatility towards the end of the year. We grew 7 percent in local currency – a result of our ability to continuously win market share through strategic growth initiatives and investments in industry-leading technologies. This continuous, strong financial performance including a low leverage ratio allows us to continue to expand and develop Danfoss as a leader within our industries.

We continued to strengthen the business and invested in new technologies and our digital transformation to drive growth and customer relevance across the globe. We invested a record EUR 255m, equal to 4.2 percent of sales, into innovation. During the year, we closed on four acquisitions, and we have announced the acquisition of another two companies. This will strengthen our core businesses, digital offerings and solutions for electrification.

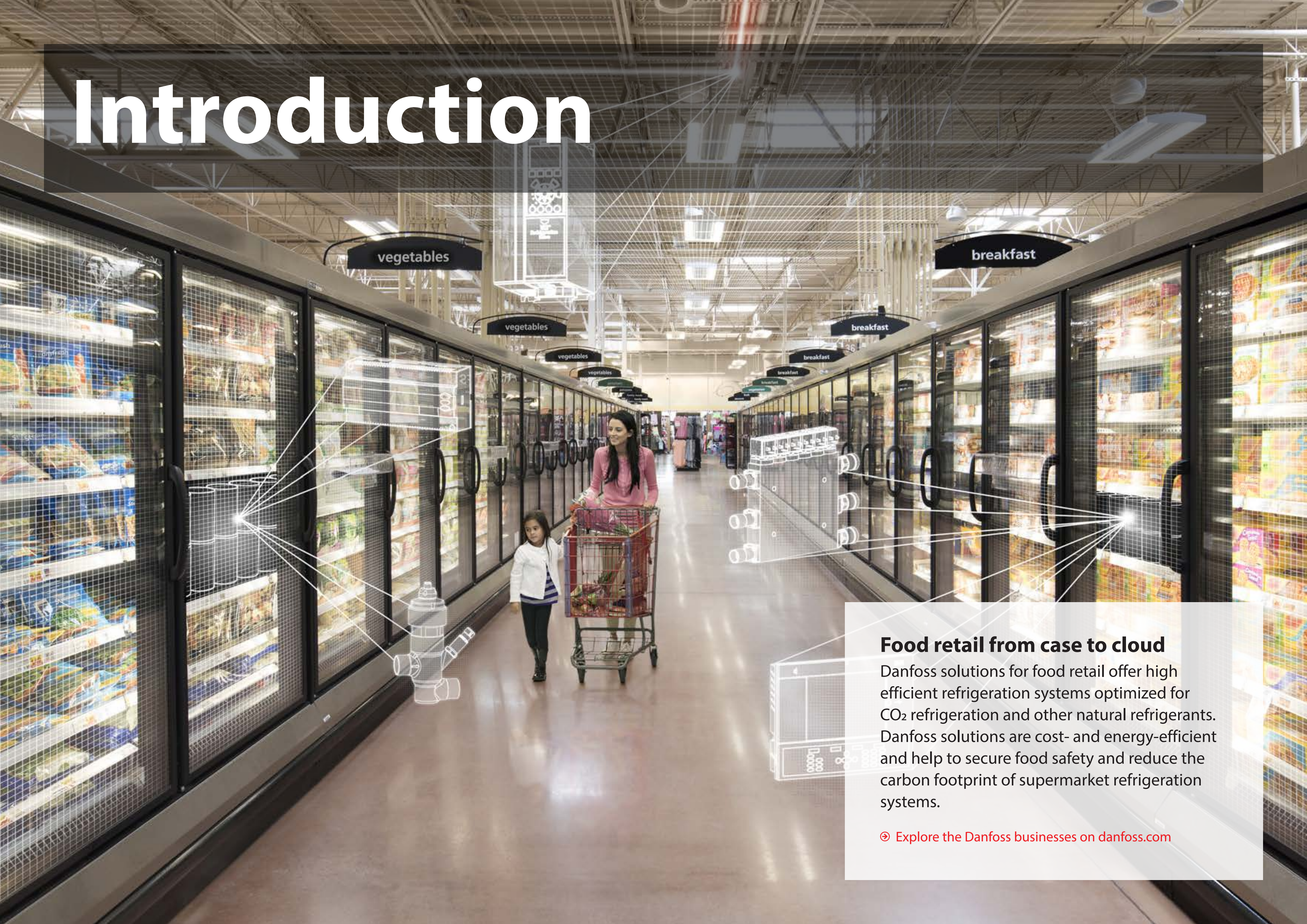
The key reason for our significant investments is to offer our customers innovative and competitive solutions. We see a clear pull for solutions to reduce emissions as well as ensuring efficiency and productivity gains. This is driving electrification, enabling off-highway vehicles, vessels and cars to go hybrid or electric and widespread use of digital technology to make infrastructure and buildings smart and more efficient.

The potential of digital technologies offering connected products and services, data intelligence, and user-friendly control systems is key in our digital transformation. In 2018, we gained further momentum in the implementation of our new common IT platform, One ERP, which in the future will help us deliver a best-in-industry customer experience. We also made progress in the digital development of our entire value chain from R&D to the shop floor, where robots, increased use of data and 3D printing allow us to deliver better and more flexible services and solutions faster to our customers.

All of this is about teamwork. At Danfoss, we are a team of 27,795 excited colleagues deeply engaged in working with our customers to find the best solutions for their needs – to enable their success in a changing world.

Kim Fausing
President & CEO

Introduction



Food retail from case to cloud

Danfoss solutions for food retail offer high efficient refrigeration systems optimized for CO_2 refrigeration and other natural refrigerants. Danfoss solutions are cost- and energy-efficient and help to secure food safety and reduce the carbon footprint of supermarket refrigeration systems.

Explore the Danfoss businesses on danfoss.com

2018 at a glance

See the financial highlights on page 20

Highlights

Employees	Factories	R&D sites	Sales EURbn	Growth in local currency	EBIT margin
27,795	71	23	6.1	7%	10.6%

Danfoss in brief

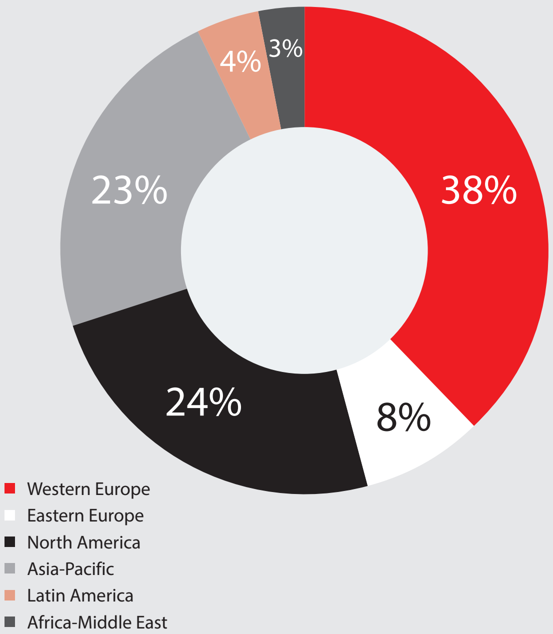
We engineer technologies, which enable the world to reduce energy consumption and ensure an efficient use of resources.

We produce and sell an extensive range of products and solutions for refrigeration, air conditioning, heating, motor control and off-highway machinery. We also provide solutions for renewable energy, such as solar and wind power, as well as district energy infrastructure for cities.

Danfoss is a global Group, 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 electronic controls for powering off-highway vehicles used in construction, agriculture and road-building industries. Danfoss Cooling is a market leader in the air-conditioning and refrigeration industry. Danfoss Drives is a leading player within low and medium voltage AC drives, power modules and stacks for several industries. Danfoss Heating enjoys leading positions within residential and commercial heating as well as district energy.

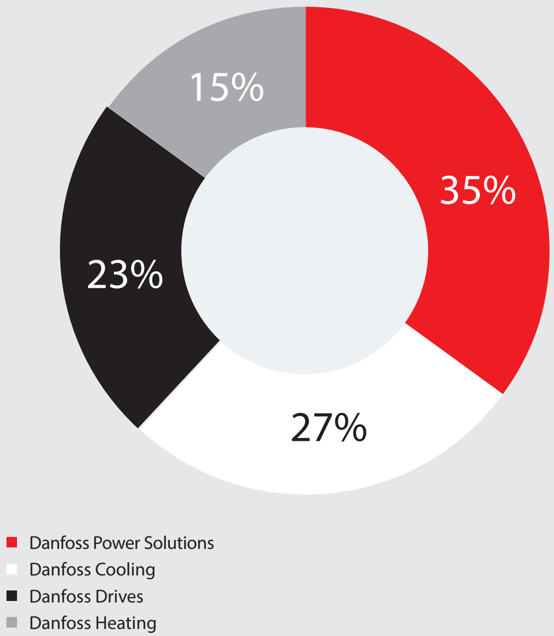
Danfoss is a privately owned company, founded by Mads Clausen in 1933. Today, the company is controlled by Bitten & Mads Clausen's Foundation.

Sales split on regions



Read more about markets on pages 7 and 21

Sales split on segments



Read more about segments on pages 18 and 24

2018 at a glance

See the financial highlights on page 20

Highlights

EBIT EURm	Free cash flow before M&A / EURm	Leverage ratio	Net interest-bearing debt to EBITDA ratio	Equity ratio
648	362	36.2%	1.0	46.1%

Strong growth and robust results

2018 showed strong growth and robust results considering the global economic environment. We maintain our long-term focus on strengthening Danfoss through high investments in our digital transformation, growth initiatives and new technology to create the best possible basis for future growth.

In 2018, Danfoss delivered 7% growth in local currency, leading to net sales of EUR 6,098m. Earnings (EBIT) reached EUR 648m, corresponding to an EBIT margin of 10.6%, and net profit was up 4% on last year to EUR 463m. Cash flow was according to plan with a free cash flow before mergers and acquisitions of EUR 362m.

The growth was broadly based, but particularly Danfoss Power Solutions had very strong growth. Regionally, we saw strong growth in North America, Western Europe and Asia-Pacific, the latter driven by strong growth in China.

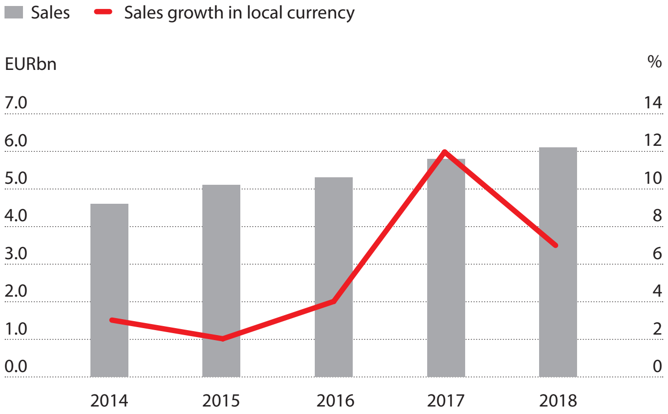
The year reflected increased spending on innovation and digitalization, enabling new solutions for our customers. Furthermore, the year reflected increasing commodity prices and newly imposed tariffs, which were partly offset by improved internal efficiency and effective pricing management.

See the financial review on page 21

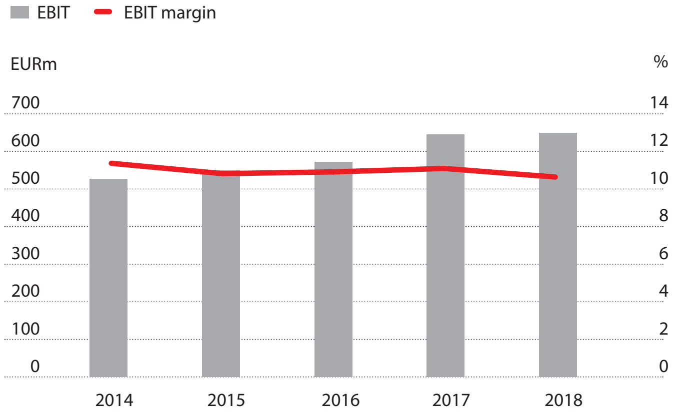
Results compared to outlook

Outlook for 2018	Results in 2018
Maintain or expand our market share.	Sales increased 7% in local currency, corresponding to sales growth above market average.
Maintain profitability measured as margin at the 2017 level.	Results came within range of 2017 with operating profit (EBIT) reaching EUR 648m, corresponding to an EBIT margin of 10.6%. In 2017, EBIT was EUR 645m, corresponding to an EBIT margin of 11.1%.

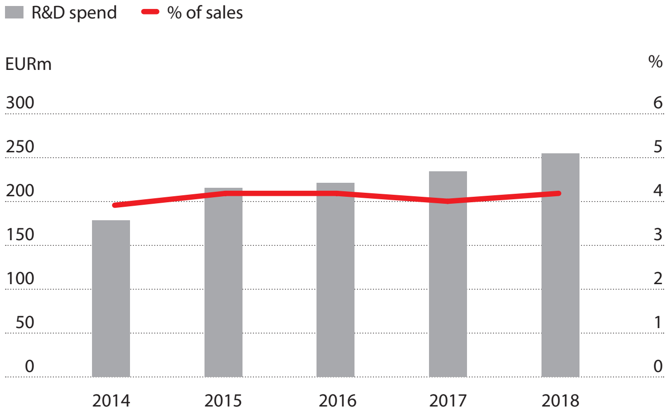
Sales and growth



Earnings



Innovation spend



Products sold in more than 100 countries around the world

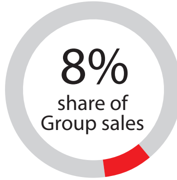
Western Europe

22 factories
Sales companies in 17 countries
10,753 employees

Western Europe represents the largest share of Group sales and continues to hold interesting growth opportunities, as the EU is pushing for improved energy efficiency. Germany is our largest market in the region, but countries like Italy, France, Denmark, and the United Kingdom are also among our top markets in the region.

Eastern Europe

15 factories
Sales companies in 12 countries
5,057 employees



Russia, Poland, and the Czech Republic are the top three markets in Eastern Europe. The fairly cold climate and a large number of district energy systems represent growth opportunities for Danfoss, supported by the EU's plans to improve energy efficiency in Europe, including the Eastern European countries.

North America

15 factories
Sales companies in 2 countries
4,269 employees

The US is our largest country in terms of sales. We have a strong position and presence in this significant market, where many of Danfoss' global key customers are located. Energy efficiency in buildings, a changing refrigerant landscape and reshoring together with agricultural and infrastructure investments are major trends in North America, representing a growth potential for Danfoss.

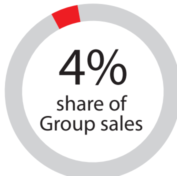
Asia-Pacific

15 factories
Sales companies in 11 countries
6,111 employees

China is our top market in the Asia-Pacific region. Countries like India, Japan, and South Korea are also among our large markets in the region, which is also a significant region in terms of sourcing and production. The region holds significant growth opportunities for Danfoss, especially within urban district energy projects, build-up of the cold-chain and air-conditioning markets as well as infrastructure and construction markets.

Latin America

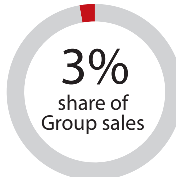
3 factories
Sales companies in 5 countries
1,353 employees



Brazil and Mexico are the two largest countries in terms of sales in Latin America. In this region, Danfoss delivers solutions for the air-conditioning market and for cold chain, ranging from production and processing to refrigerated transportation and storage. The region represents a growth opportunity for Danfoss, especially within improvement and expansion of the infrastructure, agricultural and cold chain.

Africa-Middle East

1 factory
Sales companies in 3 countries
252 employees



Generally, the Africa-Middle East region is characterized by a growing population, increasing urbanization, and focus on more efficient energy systems. Key challenges, such as scarcity in power supply and an almost non-existent cold chain, represent growth opportunities. However, the political and economic situation in some parts of the region are leading to volatile market conditions.

Outlook 2019

In 2019, Danfoss expects to expand or maintain its market share, while increasing the profitability compared with the 2018 level and at the same time continuing the high level of investments in digitalization and electrification to drive future growth and long-term sustainable value creation.

In 2019, our key focus continues to be on ensuring profitable growth. In 2018, we grew faster than most of the markets and industries we operate in, and we expect this development to continue in 2019.

We expect to maintain a high level of investments in our digital transformation, new digital technologies and electric solutions and at the same time increase the profitability measured as margin compared with the 2018 level.

For the global industrial sector, the growth projections have become softer towards the end of 2018, and the visibility for 2019 is low, as we see uncertainty increasing in several markets. This can mainly be ascribed to the increasing uncertainty globally, created by the current geopolitical environment, and in particular the ongoing trade conflicts and the impact from Brexit. Accordingly, sudden changes in Danfoss' key regions and significant markets could have a negative impact on the Group's performance.

2019 expectations

Based on the above, for 2019, Danfoss expects to expand or maintain its market share, while increasing the profitability measured as margin compared with the 2018 level, following continued investments in digitalization and electrification.

Specific key factors, which could affect the Group's financial performance in 2019:

- The current global geopolitical environment is characterized by a high level of uncertainty and low visibility. Accordingly, sudden changes in major markets could have a negative impact on the demand for Danfoss products and solutions and the Group's performance in general.
- The Group's continued strategic initiatives to accelerate profitable growth, organic as well as acquisitive, are expected to generate a positive impact on the market share development.
- The solid cash flow performance is expected to continue, enabling the financing of future potential acquisitions to add new technologies to the portfolio and companies, which constitute a strategic good match to our business segments.
- Increasing prices on commodities, such as crops, metals and oil, which are driving demand in the global agriculture, marine and other heavy industry sectors, are associated with considerable volatility, leading to low visibility as well as having a direct impact on our own raw materials.
- Fluctuations in foreign exchange rates may affect top-line growth.

Forward-looking statements

This Annual Report includes forward-looking statements on various matters, e.g. expected earnings, future expansion of market share, future profitable growth. Such statements are subject to risks and uncertainties, because various factors, many of which are beyond Danfoss' control, may cause actual developments and results to differ materially from the expectations set out in the Annual Report.

Such factors include, but are not limited to, the geopolitical environment, general economic and business conditions, changes in commodity prices impacting the demand for Danfoss' solutions and services, competition in the industrial sectors, in which the business segments are operating, fluctuations in foreign exchange rates, interest rates or our own raw material prices, changes in climate policy, legislation, regulation or standards, and uncertainty in connection with acquisitions or potential acquisitions and divestments.

Unless required by law, Danfoss is under no duty and undertakes no obligation to update or revise any forward-looking statements after the publication of this Annual Report.

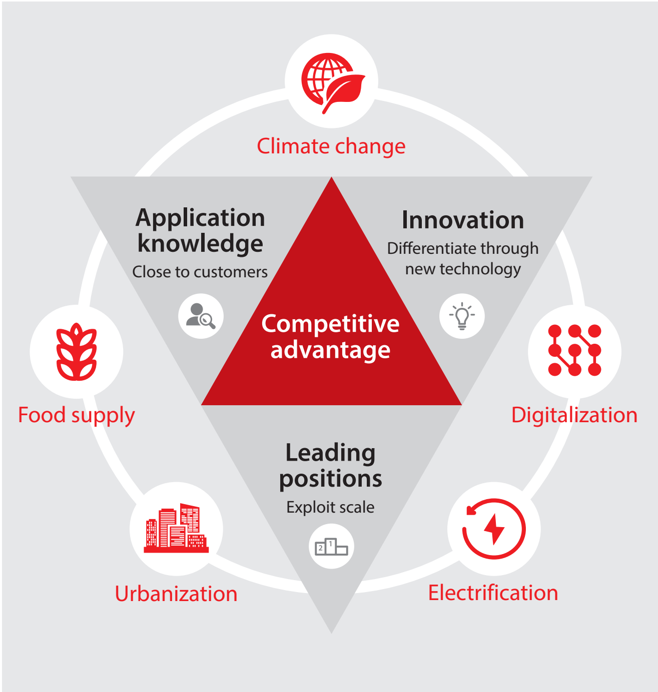
Our business

Postgraduate Program

We are building a better future and talents are playing a vital part. Our global Postgraduate Program opens great opportunities to develop a career, for example, by working across functions and borders, exploring different cultures, and being part of the Danfoss family. Read more in the Sustainability Report 2018.

Business model

Our business model builds on competitive advantages: Application knowledge, innovation and leading positions. Key elements are an aligned approach across the Group, our operational setup with extensive, global coverage, and a strong regional presence close to customers.



Mega-trends

Our business model links to global mega-trends, which are driving new opportunities for Danfoss. Our mechanical, electrical and software engineering enable bold innovation and constant improvement. The mega-trends change the way we do business, our customers' needs and expectations, and inspire us to engineer a sustainable, energy-efficient future. We engineer tomorrow.

The mega-trends, which are described at the following pages, are addressing our prioritized Sustainable Development Goals (SDGs). We have incorporated the SDGs into our Sustainability Program. Read more about our Sustainability Program and how we contribute to the SDGs in the Sustainability Report 2018.

Application knowledge

Across the Group, customer application knowledge and deep technical expertise are driving differentiation as well as customer value. The operational setup is designed to ensure local empowerment and close cooperation with customers. We invest in initiatives that enable our sales and R&D teams to turn their know-how and application understanding into performance-enhancing advantages for our customers.

Innovation

Innovation is in our DNA. We focus our innovation in the core; meaning that we are focused on constantly developing our technologies, products and processes in the core businesses. It is our unique application knowledge and our ability to understand customer needs combined with access to new and advanced technologies that drive innovation at Danfoss. We invest above industry average to take full advantage of innovation and take the lead within IoT and connectivity.

Leading positions

In the global manufacturing industry, global reach, size, and scale matter. Therefore, it is a key element in our business model that the business segments hold leading positions as either a number one or two in their industries. Our shared operating model further helps to drive scale advantages, increased customer value and a world-class supply chain, and we share a unique business system with a strong focus on safety, quality, delivery, and cost.

Digitalization

The world has gone digital. Every day, the digital transformation is picking up speed, transforming our society, our energy systems, and the industries we operate in.

What we do

To increase customer value, Danfoss develops and provides digital solutions and advanced services based on innovative software and connectivity. Some examples are the modern thermostat Danfoss Link® used in heating solutions and BELT telematics used in off-highway machinery, providing customers additional data and analytics for optimal management. Furthermore, we are improving the digital customer experience with better end-to-end processes between our supply chain and our customers, enabled by the new common IT system, One ERP, in combination with the corporate website, danfoss.com.

In our innovation, we use digital technology to bring speed into Research & Development, for example by using simulation and 3D printing, and we optimize our production by implementing smart technology. Just one example is the Danfoss refrigeration and air-conditioning compressor factory in Wuqing, China, where operators are supplied with components by autonomous robot vehicles and use intelligent bluetooth-connected tools, which automatically detect if an assembly process is being incorrectly performed. The factory has been recognized as one of the world's smartest factories by the World Economic Forum from among 1,000 candidate sites.

A full digital district energy solution

Advances in computing power and efficiency have enabled more powerful and sophisticated analytics, such as artificial intelligence (AI) and automation. Danfoss software tools provide a full suite of digital software for district energy utilities. Connected field devices integrate with optimization systems – improving energy efficiency and reducing operational cost.

Danfoss MyDrive Connect

Internet of Things is the concept of connecting everyday objects to networks to enable people to remotely control processes or manage devices. An app connected to a wireless display unit placed on the outside of an otherwise inaccessible air-handling unit, enables our customer to perform the same troubleshooting as would previously have been done via the display inside the unit – creating speed and cost-efficiency in their daily work.

Sources: Digitalization & Energy, International Energy Agency, 2017 / Peter Asmus, Principal Research Analyst at Navigant Research, 2017

Electrification

The world is engaged in a global transition from fossil to green energy. As electricity generation shifts to more renewable sources, electrification creates further environmental benefits by shifting many end-uses away from fossil fuel sources.

What we do

With electrification comes great opportunities to enhance the flexibility, efficiency and environmental performance of almost any application or system, leading to increased customer value. Danfoss has a range of innovative technologies, for example solutions used for power conversion in wind turbines and solar. Several of our technologies can also be seen in automotive applications, for example customized silicon carbide (SiC) power modules, which are used in electric and hybrid cars. In the off-highway market, we help manufacturers to meet goals related to efficiency and to meet strengthened emissions regulations by providing electric solution technology for hybrid and electric vehicles with integrated and smarter systems. In the marine and offshore industry, we help shipyard and vessel owners to optimize operational performance and minimize environmental impact by providing flexibility in design and installation.

As we have seen customer demand grow, we are investing heavily to further strengthen our capabilities within electrification. For example, with the acquisitions of the technology businesses Visedo in 2017 and AXCO-Motors in 2018, which have made Danfoss the world's number one in electric solutions for off-highway and marine transport technology.

Electric and hydraulic solutions

Infrastructure and transportation are important for the cities of tomorrow. Off-highway mobile vehicles, such as construction machines, are benefiting from available Danfoss electric solution technology to achieve improved productivity, increased energy efficiency and significant reductions of noise and emissions.

Electric vehicles and charging

The global energy transition is leading to widespread electrification, which allows us to manage, control and optimize power conversion efficiently. Danfoss AC drives are used for converting electrical power from one form to another. Danfoss also provides innovative technologies and customized power modules, which are used in a wide range of automotive applications, such as electric traction inverters, electrical power steering and chargers, leading to sustainable energy consumption and reduced emissions.

Sources: Bloomberg, New Energy Outlook, 2017 / International Energy Agency, Energy Technology Perspectives, 2017

Urbanization

Today there are 7.6 billion people on the planet. By 2050, the world population will reach a total of 9.8 billion people, and as the population grows, urbanization is accelerating. Each year, around 77 million people move from rural to urban areas, meaning, that by 2050, 70 percent of the population will be living in cities against 54 percent today.

What we do

The growing population and increased urbanization will lead to higher living standards and a demand for comfort. To support this, the need for construction and refurbishment of residential and commercial buildings will be massive. Moreover, the urban growth will entail new infrastructure for transportation, water, power, heating, cooling, and waste handling.

In all this infrastructure, Danfoss has the technologies, which can save energy and increase efficiency – and by adding the digital dimension to our solutions, and contributing to connecting the world's energy systems, we are part of making the urbanization sustainable. A few examples are our skillfully engineered components, solutions and services used in road-building machinery and district energy systems, for heating and air conditioning of buildings, refrigeration in supermarkets, as well as precision motor control in elevators, lifts and escalators.

Waterborne systems for heating in multi-family homes

Efficient cities are key in reducing greenhouse gas emissions and improving the health of the world's population as well as overall quality of life. In the cities of tomorrow, renewable-generated electricity and waterborne systems are being increasingly integrated, creating one integrated smart-energy system. Danfoss provides automation and energy-control solutions enabled by cloud and connectivity, helping to increase energy efficiency and reduce energy consumption and operational cost.

Danfoss drives

Moving people and goods are crucial to our modern ways of living. Ensuring reliable elevators, lifts and escalators depends on high-precision motor control. Using available Danfoss technology such as variable frequency control of all fans, pumps and lifts, it is possible to ensure optimal energy efficiency, while keeping safety and comfort at the highest level, and achieving significant CO_2 reduction.

Sources: NOAA, Global Climate Change Indicators, 2018 / International Energy Agency, Energy Technology Perspectives, 2016

Food supply

A third of all food produced for human consumption is either lost or wasted due to an incomplete cold chain. Furthermore, food wastage has a major environmental impact: Food that is harvested, but ultimately lost or wasted, consumes about a quarter of all water used by agriculture and accounts for about 8 percent of global greenhouse gas emissions.

What we do

Danfoss products and solutions play a vital role in food supply, from helping to optimize the harvest on farms and the efficiency in the food production to making refrigerated transportation and storage of food possible worldwide.

Danfoss offers a broad range of digital techniques to monitor and optimize agricultural production processes. By combining sensors, robots, GPS, mapping tools and data-analytics software, farmers receive feedback in real time and can then deliver water, pesticide or fertilizer in calibrated doses just to the areas that need it.

Furthermore, our cold chain solutions help to secure that products remain at the correct temperature and humidity, optimizing food safety and security – while lowering the CO_2 footprint. One example is our cost-effective and energy-efficient cold-room solutions, saving up to 20 percent in energy costs. Or take our food retail solutions, which offer highly efficient refrigeration systems optimized for CO_2 refrigeration and other natural refrigerants. They provide a low total cost of ownership, while at the same time reducing the carbon footprint of the supermarket refrigeration system.

Enabling higher productivity

The world's growing population is driving increased demand for food. Ensuring efficient and productive farming practices in agricultural machines, such as tractors, sprayers and harvesters, is therefore crucial. Danfoss solutions support and enable smart farming solutions, increasing the productivity of every acre of land.

Energy-efficient cold-room solutions

Global food security and minimized food wastage can be ensured by temperature control. Using state-of-the-art cold storage, food items can be stored at varying loads – ensuring high-quality food safety and minimal food loss from farm to fork. Danfoss cold-room solutions are cost-effective and energy efficient, reducing operational expenditure by saving 15-20 percent in energy costs vis-à-vis conventional cold stores.

Sources: FAO, Global Food Losses and Waste, 2014 / FAO, Food wastage footprint, 2013

Climate change

The planet's average surface temperature has risen about 1.1 degrees Celsius since the late 19th century, a change driven largely by increased carbon dioxide and other human-made emissions into the atmosphere. Most of the warming has occurred in the past 35 years, with 17 of the 18 warmest years on record occurring since 2001.

What we do

Danfoss contributes to combatting climate change through our energy-efficient and electrification technologies, allowing the world to get more from less. This mindset is built into all our technologies. No matter what we produce, the goal is always to optimize performance, increase efficiency, and minimize impact on the environment.

Through our innovative technologies, we have a huge impact on the solutions needed for the world to mitigate the most serious effects of global warming. Just one example is the technology we provide, which enables off-highway machines, ferries and cars to go hybrid or electric.

Furthermore, Danfoss delivers technologies and solutions for connected smart energy systems, creating enormous opportunities to reduce carbon emissions. A few examples are connecting electricity, heating and cooling, and the integration of various energy sources, such as renewables and recovered energy from data centers or supermarkets. This will contribute to creating the synergies needed to increase efficiency and deliver on the United Nation's global action plan to keep global warming below two degrees Celsius as set out in the Paris Agreement.

Air conditioning of buildings

Energy efficiency is the largest contributor to global greenhouse gas reductions towards 2050. Danfoss' wide portfolio and unique technical expertise in every core component supporting chiller optimization result in energy savings of up to 40 percent during operation. The Danfoss oil-free Turbocor® series of centrifugal compressors use environmentally friendly refrigerants and deliver the highest energy efficiency on the market.

Energy-efficient hybrid machinery

Sustainable energy consumption depends on efficiency and the ability to integrate more sustainable energy sources. Danfoss provides full electric power and control solutions for hybrid off-highway vehicles, leading to higher flexibility, energy efficiency and environmental performance.

Sources: United Nations, World Population Prospects, 2017 / World Resources Institute, Accelerating Building Efficiency, 2016 / United Nations, SDG facts & figures, 2015

Strategy

Every day we strive to meet our aspiration through our strategy "Core & Clear – Going Great", which is bringing our customers into the center of everything we do.

We want to be a faster, more agile and less complex Danfoss, bringing the customer perspective into the middle of everything we do. The Core & Clear strategy continues, and the key elements of the previous phases of Core & Clear have been integrated into the new phase Going Great, which was launched in 2018.

There are four strategic focus areas to Going Great: Leading Portfolio, Customers & Growth, Innovative Solutions, and Lean & Agile. All of this is built on Our Foundation, which is our high-performing, diverse teams, who make the strategy come alive.

The Core & Clear strategy forms the foundation of all our strategic activities and makes the business model operational. Living the strategy and delivering on the strategic focus areas are how we strive to meet our aspiration every day to drive long-term sustainable results.

In short, "Core" means that we concentrate on our core businesses and core competencies, where we create the most value. "Clear" means that we focus on earning customer loyalty through excellence in quality, reliability and innovation which is our clear promise to our customers.

Core & Clear – Going Great

Our aspiration
We engineer tomorrow and build a better future

Our strategy

Leading Portfolio

Customers & Growth

Innovative Solutions

Lean & Agile

Our foundation
High-performing diverse teams

Our Aspiration

To engineer is to unleash opportunities. All over the world, engineering solves challenges and drives progress in our society. Our four businesses provide the energy-efficient systems and innovative solutions, which are needed to build a better future.

Our Foundation

Going Great has a strong focus on people and the power of our high-performing, diverse teams, driving innovation and better results. We focus our energy on how we achieve our ambitious goals through frontline passion, entrepreneurship to reduce complexity and development of highly competent and engaged teams. Our Behaviors are further described in the Sustainability Report 2018.

Core & Clear – Going Great

Our aspiration
We engineer tomorrow and build a better future

Our strategy
Leading Portfolio | Customers & Growth
Innovative Solutions | Lean & Agile

Our foundation
High-performing diverse teams

Our Strategy
Four focus areas contain our strategic initiatives and define how we will develop Danfoss.

Leading Portfolio
Leading Portfolio is about accelerating growth and strengthening our leading positions as number one or two globally in the respective industries of the four business segments. This is achieved through organic growth as well as acquisitions of well-performing companies. We also do strategic acquisitions to add new technologies to the product portfolio.

Customers & Growth
Customers & Growth is about putting our customers' needs at the center of everything we do in every part of Danfoss to fuel and accelerate our profitable growth momentum. We constantly focus on excellent customer service by being fast, easy and relevant to do business with. A key lever is a best-in-industry digital infrastructure with a seamless end-to-end digital customer experience.

Innovative Solutions
Innovative Solutions is about higher customer value. Customers should turn to Danfoss for connected products and solutions and value-adding services. We use our deep application knowledge, new technology and digitalization to drive the differentiation. To fuel the digital transformation, we invest significantly in electronics and software capabilities, and we use incubation projects to accelerate. Speed is a key lever, for example by increasing use of 3D printing and simulation.

Lean & Agile
Lean & Agile is about becoming faster, more agile and less complex. We want to be the best at safety, quality, delivery and cost in the markets, in which we operate. We are building a flexible supply chain that reacts fast to the needs of the customer. Key is a strong IT infrastructure and smart factories. To create increased competitive advantage, we stay focused on being lean and agile – Harvesting the potential of digital technologies and fighting unnecessary complexity.

Business segments

Danfoss Power Solutions

7,625
employees worldwide

25
factories in 12 countries

Products and solutions
Engineered hydraulic, electric and electronic components optimized for total machine management:
- Hydrostatic pumps and motors
- Electronic components and software
- Orbital motors
- Steering solutions
- Hydraulic and electro-hydraulic proportional valves
- Electric motors, converters and storage

The solutions are part of applications such as tractors, harvesters, road graders, cranes and vessels, helping to move, lift, push and pull.

Customers and industries
- Original equipment manufacturers (OEMs)
- Distributors

Operating within agricultural, construction, road building, marine and specialty markets.

Danfoss Cooling

6,179
employees worldwide

15
factories in 10 countries

Products and solutions
Cooling solutions are energy efficient and minimize the impact of cooling on global warming:
- Compressors and condensing units
- Valves and electronic controllers
- Sensors
- High-pressure pumps
- Heat exchangers

The solutions are part of applications such as chillers, rooftop air-conditioning systems and cold-storage solutions used in residential and commercial buildings.

Customers and industries
- Original equipment manufacturers (OEMs)
- Distributors and contractors
- Installers and end-users

Operating within food retail, air conditioning and industrial and commercial refrigeration.

Danfoss Drives

4,645
employees worldwide

11
factories in 7 countries

Products and solutions
AC drives enable optimal process and speed control of electric motors:
- Low- and medium-voltage AC drives
- Stacks and power modules

The solutions are used to provide optimal operation of pumps, fans, chillers, conveyors, electric vehicles, hybrid systems and power conversion.

Customers and industries
- Original equipment manufacturers (OEMs)
- Distributors and system integrators
- Installers and end-users

Operating within machine manufacturing, water treatment, food & beverage, heating, ventilation and air-conditioning (HVAC) systems, marine & offshore, automotive and renewable energy generation.

Danfoss Heating

4,898
employees worldwide

24
factories in 11 countries

Products and solutions
Advanced components, solutions and service for:
- Heating and cooling systems
- Radiator valves and thermostats
- Floor heating and heat pumps
- Heat cost allocators
- Heat exchangers

The solutions are used in buildings such as single or multi-family houses, office buildings and in district heating networks.

Customers and industries
- Original equipment manufacturers (OEMs)
- Distributors and designers
- Installers and end-users

Operating within heating, ventilation and air-conditioning (HVAC) systems, hydronic balancing and district energy.

Our performance

Digital factory

The digital journey has started... the one where robots and data become a larger part of our daily lives. In 2018, we have made a crucial step forward in the digital development of our innovation and factories, where 3D printing, robots and increased use of data allow us to deliver even better quality to our customers – faster and more flexible.

Financial highlights

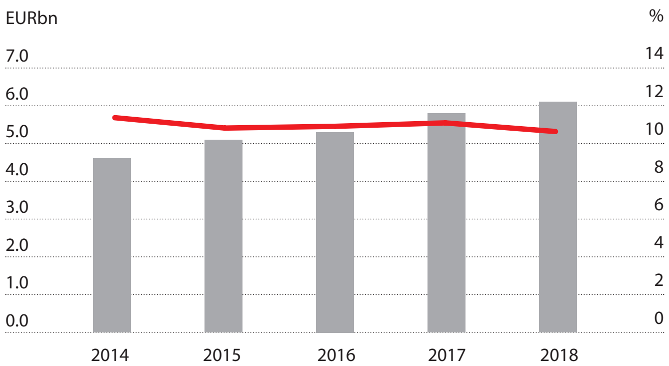
EURm	2014	2015	2016	2017	2018	DKKm 2017	DKKm 2018
PROFIT AND LOSS ACCOUNTS							
Net sales	4,611	5,099	5,271	5,827	6,098	43,342	45,452
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	815	824	838	923	929	6,868	6,926
Operating profit before depreciation, amortization and impairment (EBITDA)	784	798	811	882	926	6,557	6,899
Operating profit excl. other income and expenses, etc.	584	568	589	685	685	5,094	5,101
Share of profit from associates and joint ventures after tax	-25	9	4	2	-33	13	-243
Operating profit (EBIT)	526	549	572	645	648	4,797	4,827
Financial items, net	-60	-47	-44	-49	-45	-364	-332
Net profit	307	348	394	445	463	3,308	3,446
BALANCE SHEET							
Total non-current assets	3,469	3,507	3,788	3,883	3,886	28,908	29,022
Total assets	4,955	4,987	5,457	5,583	5,760	41,562	43,009
Total shareholders' equity	1,779	2,067	2,325	2,569	2,654	19,125	19,822
Net interest-bearing debt	1,537	1,292	1,284	1,050	962	7,814	7,184
CASH FLOW STATEMENT							
Cash flow from operating activities	584	626	693	742	673	5,521	5,014
Cash flow from investing activities	-1,419	-217	-494	-405	-227	-3,014	-1,689
Acquisition of intangible assets and property, plant and equipment	-133	-157	-226	-281	-302	-2,092	-2,247
Acquisition/disposal of subsidiaries and activities	-990	-30	-251	-103	88	-765	653
Acquisition of other investments, etc.	-296	-30	-17	-21	-13	-157	-96
Free cash flow	-835	409	199	337	446	2,507	3,325
Free cash flow before M&A	455	456	459	445	362	3,307	2,700
Cash flow from financing activities	830	-458	-175	-373	-424	-2,777	-3,165
FINANCIAL RATIOS							
Local currency growth (%)	3	2	4	12	7	12	7
EBITDA margin, excl. other operating income, etc. (%)	17.7	16.2	15.9	15.8	15.2	15.8	15.2
EBITDA margin (%)	17.0	15.7	15.4	15.1	15.2	15.1	15.2
EBIT margin, excl. other operating income, etc. (%)	12.7	11.1	11.2	11.8	11.2	11.8	11.2
EBIT margin (%)	11.4	10.8	10.9	11.1	10.6	11.1	10.6
Return on invested capital (ROIC)	19.4	16.3	16.3	17.8	17.9	17.8	17.9
Return on invested capital (ROIC) after tax	13.2	11.4	12.0	13.0	13.4	13.0	13.4
Return on equity (%)	18.4	17.6	17.2	17.3	17.0	17.3	17.0
Equity ratio (%)	35.9	41.4	42.6	46.0	46.1	46.0	46.1
Leverage ratio (%)	86.4	62.5	55.2	40.9	36.2	40.9	36.2
Net interest bearing debt to EBITDA ratio	2.0	1.6	1.6	1.2	1.0	1.2	1.0
Dividend pay-out ratio (%)	21.8	20.4	17.0	18.1	17.4	18.1	17.4
Dividend per 100 DKK share	6.6	6.9	6.7	8.1	8.1	60.2	60.2

Key figures and financial ratios are defined in Note 25.

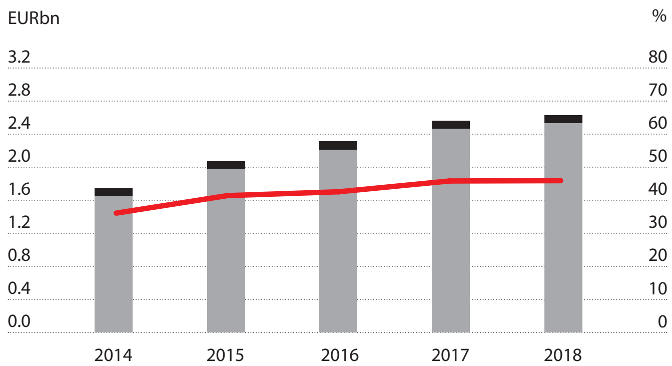
Financial review

After high investments in digitalization and growth initiatives, Danfoss continued to deliver robust results considering the global economic environment: 7% growth in local currency led to net sales of EUR 6,098m. Earnings (EBIT) reached EUR 648m, corresponding to an EBIT margin of 10.6%. Cash flow was in line with expectations with a free cash flow before M&A of EUR 362m.

Sales and EBIT margin



Equity



Sales

In 2018, Danfoss delivered 7% growth in local currency. Net sales grew EUR 271m to EUR 6,098m (2017: 5,827m). The reported growth was 5% after a negative currency impact of -2%, mainly due to the decline in the US dollar in comparison with last year.

Growth was broadly based, but particularly Danfoss Power Solutions continued the very strong growth momentum. From a regional perspective, we had strong growth in the mature markets of North America and Western Europe. The Asia-Pacific region was also a significant growth driver, driven by strong growth in China mainly in the first six months of 2018.

During the second half of 2018, Danfoss experienced a slow-down in growth in some markets, especially in China, due to the uncertainty created by the current geopolitical environment and, in particular, ongoing trade conflicts. However, in general, we see a clear pull in the market to make infrastructure and buildings smart and efficient and also to drive electrification forward.

In North America, all Danfoss business segments showed growth led by a very strong performance in the Danfoss Power Solutions segment. For Danfoss Power Solutions, specifically, the demand was driven by continued high activity levels within construction and road building.

In Asia-Pacific, growth was driven by increased sales in China across the Danfoss business segments. The demand in China was supported by high national investments within construction and road building, in addition to a strong political focus on energy efficiency and reduction of carbon emissions, which is benefiting the sales of Danfoss components and solutions across the business.

In Western Europe, growth was driven by the Danfoss Power Solutions and Danfoss Drives segments. Demand was driven by increasing investment levels within infrastructure, which is benefiting the sales of Danfoss digital technologies and electronic control systems.

See Note 1,
page 49, for more information on business and geographical segment reporting

Earnings

Operating profit (EBIT) amounted to EUR 648m (2017: 645m), leading to an EBIT margin of 10.6% (2017: 11.1%). A combination of improved internal efficiency as well as effective pricing management was partly offsetting the impact from higher commodity prices and newly imposed tariffs. The EBIT was positively impacted by the gain from the divestment of the heat pump business Thermia, but negatively impacted by one-off costs related to integration of acquired companies and factory consolidation. Furthermore, 2018 saw a negative impact from the 20% shareholding of SMA Solar Technology AG.

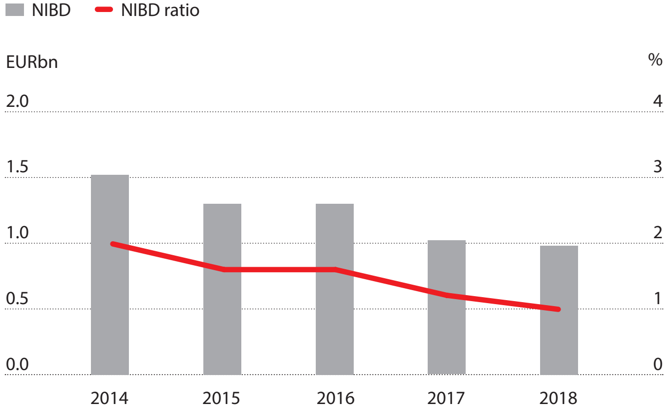
Profit before tax amounted to EUR 603m (2017: 596m), leading to a net profit of EUR 463m (2017: 445m), up 4% on last year. The effective tax rate for 2018 was 23.2% (2017: 25.4%).

Assets and liabilities

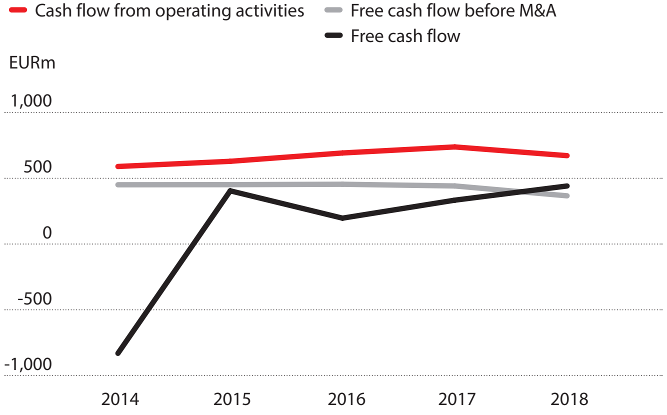
At December 31, 2018, total assets increased 3% to EUR 5,760m (2017: 5,583m), driven by the higher activity level, which resulted in increased trade working capital.

Equity increased 3% to EUR 2,654m (2017: 2,569m), mainly influenced by the profit of the year, dividend payments and share buyback. Consequently, the equity ratio, calculated as equity relative to total assets, was 46.1% (2017: 46.0%), and the return on equity was 17.0% (2017: 17.3%).

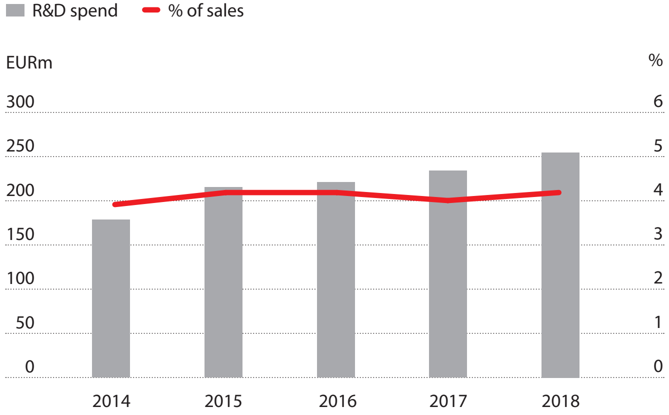
Net interest-bearing debt (NIBD)



Cash flow



Innovation spend



Net interest-bearing debt was reduced by EUR 88m to EUR 962m (2017: 1,050m), leading to a net interest-bearing debt to EBITDA ratio of 1.0 (2017: 1.2). The acquisitions completed in 2018 were financed by the cash flow. The Group has a BBB credit rating assigned by Standard & Poor's with a stable outlook, see Note 11, page 62, for more information.

The non-current interest-bearing debt maturing after more than 12 months amounted to EUR 1,007m (2017: 1,023m), corresponding to 95% (2017: 92%) of the total interest-bearing debt. At year end, the Group had unutilized and long-term committed credit facilities of EUR 1.1bn (2017: 1.0bn) in addition to cash and cash equivalents and ordinary operating credits.

Cash flow

Ensuring a strong cash performance remains a key priority for Danfoss, as we aim to use the free cash flow before mergers and acquisitions (M&A) for acquisitions, which will further strengthen our business, for repayment of interest-bearing debt and for dividend distribution to owners. See more information on dividends in the corporate governance section on page 32 and Note 11, page 62.

The free cash flow amounted to EUR 446m (2017: 337m), mainly due to the proceeds from the divestment of the heat pump business Thermia. In 2017, the cash flow was impacted by acquisitions, leading to a higher cash flow from investing activities last year.

Cash flow from operating activities of EUR 673m (2017: 742m) was impacted by changes in working capital, due to the higher activity level. The sales growth is consuming more working capital, and for that reason we work consistently with management of our payables and inventories as well as ensuring timely payment for our products, solutions and services.

Consequently, the free cash flow before M&A amounted to EUR 362m (2017: 445m). The lower level can mainly be ascribed to the planned one-off export VAT payment in the beginning of 2018, following a legislative change in Denmark, the higher trade working capital driven by growth, and increased investments in digitalization and production capacity.

Innovation

Ensuring a high level of investments in innovation remains a key priority to drive the long-term sustainable growth for Danfoss. The innovation activities were concentrated around digitalization of the portfolio and on developing energy-efficient and value-adding solutions in the business segments. The acquisitions support the innovation activities of Danfoss, and we expect to see continuously innovative solutions resulting from our acquisitions in the short to medium term.

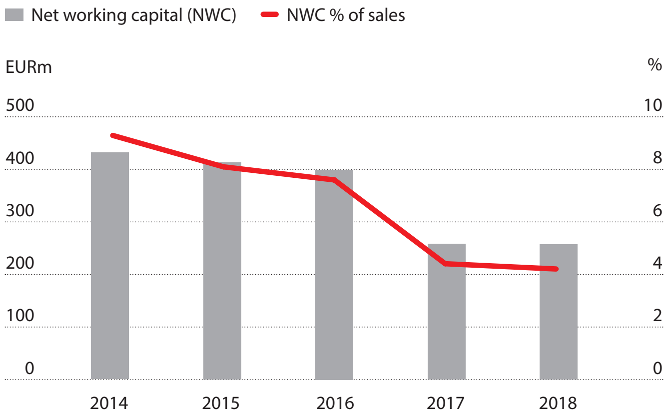
In 2018, the research and development spend increased 9% to EUR 255m (2017: 234m), corresponding to 4.2% of sales (2017: 4.0%). During the year, Danfoss filed 156 (2017: 105) new patent applications, and 534 (2017: 340) patents were granted to the Group. At year-end, Danfoss had a total of 1,543 (2017: 1,399) patent families.

Divestment and acquisitions

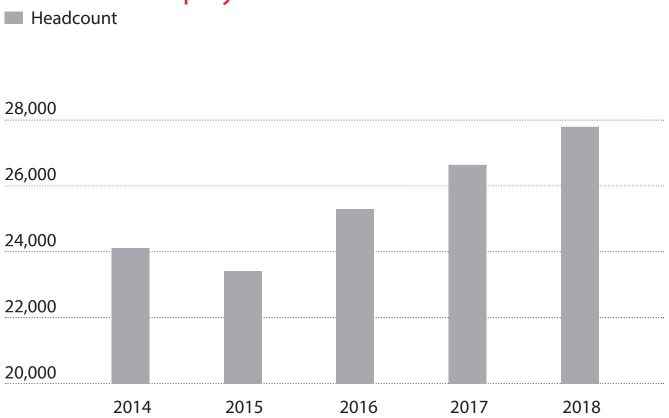
Danfoss has a long-term focus on strengthening the business by offering the best possible solutions for our customers and partners. In 2018, Danfoss completed one divestment and four acquisitions, which have added new digital technologies and electric solutions to the product portfolio. Furthermore, we announced the acquisition of another two companies in 2018.

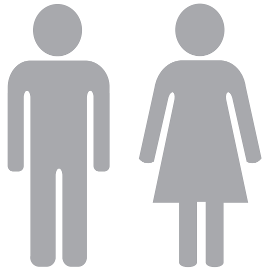
On April 16, 2018, Danfoss announced the divestment of the company Thermia, which includes Danfoss Värmepumpar AB in Sweden and its activities in Finland and Norway. With this strategic step, Danfoss ensures a clear focus on the core of the heat pump activities, delivering advanced components and technologies for heat pumps.

Net working capital



Number of employees





27,795
employees worldwide
+1,150
in 2018

On July 12, 2018, Danfoss announced an agreement to acquire the remote-control business from the Spanish company Ikusi. The remote-control business includes equipment and technologies for wireless operation and control of truck-mounted cranes, winches, off-road machines, and other applications. The acquisition reflects Danfoss' strategic focus on utilizing connectivity as a competitive advantage.

On August 31, 2018, Danfoss announced the acquisition of the Finnish business AXCO-Motors – a technology leader in large mobile electric solutions. The business includes design, manufacturing, sales and service for electric motors and generators for hydro, marine and mobile electric solutions. The acquisition reflects Danfoss' strategic focus on adding more electric products to the product portfolio and will enable Danfoss to serve customers with a total package of optimal solutions to reduce emissions and benefit from the efficiency and productivity gains that these electric solutions bring in off-highway mobile machines.

On October 24, 2018, Danfoss announced the acquisition of the majority shares of Artemis Intelligent Power Ltd. (AIP), an R&D and engineering company based in Scotland, specializing in hydraulic system development. The acquisition includes AIP's Digital Displacement® technology, which will provide Danfoss with a competitive advantage in developing innovative products and systems for off-highway mobile machines. The transaction is subject to necessary approvals and is expected to close in the first half of 2019.

On November 9, 2018, Danfoss announced the acquisition of the privately held Danish company OE3i Holding ApS, which develops and provides innovative software, digital solutions and advanced services for planning and optimizing energy. With this technology acquisition, Danfoss will accelerate and increase its already strong market position in the district energy industry.

On November 15, 2018, Danfoss announced the acquisition of AAIM Controls Inc., located in Waynesboro, Pennsylvania, USA. The company enjoys a leading position in the industrial refrigeration market in North America and offers a strong portfolio and broad expertise in electronic regulation and control automation. The acquisition will enable Danfoss to meet customer requirements for bundled solutions and complete systems.

On December 19, 2018, Danfoss announced the acquisition of the privately held Hydraulik Nord Fluidtechnik, a supplier of hydraulic steering based in Germany. The acquisition will further strengthen Danfoss' innovative and efficient product offerings to the agriculture market and confirms our strategic focus on building leading positions. The transaction is subject to necessary approvals and is expected to close in the first half of 2019.

Employees

On December 31, 2018, the number of employees had increased by 1,150 to 27,795 employees, mainly due to the higher activity level.

Events occurring after the balance sheet date

On January 21, 2019, Danfoss entered into a definitive merger agreement with the publicly traded company UQM Technologies Inc. located in Colorado, United States, pursuant to which Danfoss will acquire all outstanding common shares of UQM. The transaction includes the entire business of UQM, comprising design, manufacturing, sales and services for high-efficiency electric motors, generators, power electronic controllers and fuel cell compressor drives. The transaction is subject to necessary approvals and is expected to close in the second quarter of 2019.

We are not aware of any other events after the balance sheet date of December 31, 2018, which expectedly could have a material impact on the Group's financial position.

Business segments review

See further financial information on the segments in Note 1, page 49

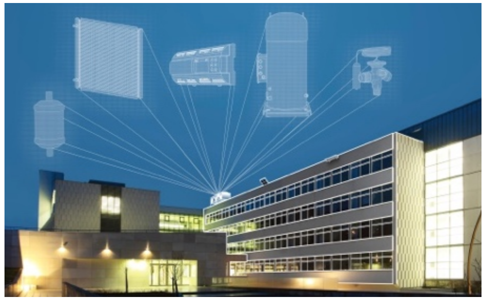
Danfoss Power Solutions

Financial results 2018 / EURm

Sales	2,109
Growth in local currency	16%
Reported growth	13%
EBIT*	338
EBIT margin*	16.0%

Danfoss Power Solutions delivered very strong sales growth and a profitability at level with last year. Growth was driven by successful growth initiatives and a continued upturn in the off-highway market, in particular within global construction and road building. The segment delivered growth across the world with North America, Asia-Pacific and Western Europe being significant growth drivers.

Danfoss Cooling



Financial results 2018 / EURm

Sales	1,617
Growth in local currency	4%
Reported growth	2%
EBIT*	239
EBIT margin*	14.7%

Danfoss Cooling delivered solid growth and a profitability below last year. The sales performance varied across the regions and product categories, as some markets are growing fast, and others are characterized by lower growth. The segment saw the highest growth rates in the Asia-Pacific and Western Europe regions.

Danfoss Drives

Financial results 2018 / EURm

Sales	1,420
Growth in local currency	5%
Reported growth	3%
EBIT*	119
EBIT margin*	8.4%

Danfoss Drives delivered solid growth and a profitability below last year. However, when excluding the result from the 20% shareholding in SMA Solar Technology AG, Danfoss Drives delivered a good improvement in profitability. The sales performance was driven by the drives part of the segment. The segment saw growth across the world with a significant impact from Western Europe and Asia-Pacific.

Danfoss Heating

Financial results 2018 / EURm

Sales	929
Growth in local currency	-3%
Reported growth	-4%
EBIT*	120
EBIT margin*	12.9%

Danfoss Heating delivered negative growth, due to the effect of the divestment of the heat pump business Thermia. The profitability was above last year, helped by the gain from the divestment. Sales varied across the regions with the highest growth rates in North America and Asia-Pacific, whereas the segment saw challenging market conditions in Russia and Turkey.

* Segment EBIT excluding corporate costs not allocated to segments

Financial highlights, Quarterly

See definition of the financial ratios in Note 25, page 87

EURm	Q1 2017	Q2 2017	Q3 2017	Q4 2017	2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	2018
PROFIT AND LOSS ACCOUNTS										
Net sales	1,437	1,498	1,432	1,460	5,827	1,474	1,567	1,528	1,529	6,098
Operating profit before depreciation, amortization, impairment and other operating income and expenses, etc.	212	244	261	206	923	232	245	244	208	929
Operating profit before depreciation, amortization and impairment (EBITDA)	205	228	244	205	882	222	266	243	195	926
Operating profit excl. other income and expenses, etc.	150	183	203	149	685	174	184	182	145	685
Operating profit (EBIT)	139	167	187	152	645	166	204	178	100	648
Financial items	-9	-18	-12	-10	-49	-10	-12	-12	-11	-45
Profit before tax	130	149	175	142	596	156	192	167	88	603
Net profit	93	107	126	119	445	113	140	122	88	463
BALANCE SHEET										
Total non-current assets	3,792	3,725	3,696	3,883	3,883	3,890	3,847	3,862	3,886	3,886
Total assets	5,675	5,600	5,556	5,583	5,583	5,804	5,821	5,853	5,760	5,760
Total shareholders' equity	2,423	2,372	2,466	2,569	2,569	2,679	2,471	2,571	2,654	2,654
Net interest-bearing debt	1,256	1,350	1,171	1,050	1,050	1,037	1,269	1,138	962	962
CASH FLOW STATEMENT										
Cash flow from operating activities	71	132	361	742	742	48	99	334	673	673
Cash flow from investing activities	-52	-112	-172	-405	-405	-48	11	-88	-227	-227
Acquisition of intangible assets and property, plant and equipment	-49	-94	-152	-281	-281	-49	-111	-184	-302	-302
Acquisition/disposal of subsidiaries and activities	-1	-11	-13	-103	-103	0	131	101	88	88
Acquisition of other investments, etc.	-2	-7	-7	-21	-21	1	-9	-5	-13	-13
Free cash flow	19	20	189	337	337	0	110	246	446	446
Free cash flow before M&A	20	32	203	445	445	0	-17	148	362	362
Cash flow from financing activities	-3	-28	-210	-373	-373	2	-115	-237	-424	-424
FINANCIAL RATIOS										
Local currency growth (%)	12	11	13	12	12	9	8	7	4	7
EBITDA margin, excl. other operating income, etc. (%)	14.7	16.3	18.2	14.2	15.8	15.7	15.7	16.0	13.6	15.2
EBITDA margin (%)	14.3	15.2	17.0	14.0	15.1	15.1	17.0	15.9	12.8	15.2
EBIT margin, excl. other operating income, etc. (%)	10.4	12.2	14.2	10.2	11.8	11.8	11.8	11.9	9.5	11.2
EBIT margin (%)	9.7	11.1	13.0	10.4	11.1	11.3	13.0	11.7	6.5	10.6
Equity ratio (%)	42.7	42.4	44.4	46.0	46.0	46.2	42.5	43.9	46.1	46.1
Leverage ratio (%)	51.8	56.9	47.5	40.9	40.9	38.7	51.3	44.3	36.2	36.2
Net interest-bearing debt to EBITDA ratio	1.5	1.6	1.4	1.2	1.2	1.2	1.4	1.2	1.0	1.0
Number of employees	25,528	25,828	26,161	26,645	26,645	26,926	27,141	27,753	27,795	27,795

Key figures and financial ratios are defined in Note 25.

Governance

The E-ferry Ellen

The groundbreaking E-Ferry will soon be launched in Denmark with the help of Danfoss. The fully electric-powered ferry will have the largest battery capacity at sea for this type of vessel and will operate without CO_2 emissions. Ellen is one of the world's most powerful electric ferries and will be deployed between the Danish islands of Ærø and Als, the latter being the location of the Danfoss headquarters in Denmark.

Sustainability

Sustainability is an important and integrated part of the way we operate our business. While our products and services are helping the world to grow in a more sustainable way, we also look inwards to optimize our own production and services.

Energy and emissions	2017	2018
Total energy consumption (GWh)	594	638
Energy intensity (MWh/EURm)*	106	105
Energy productivity (EURm/GWh)*	9.5	9.5
Total CO_2 emissions (1000 tons)	244	264
CO_2 intensity (tons CO_2/EURm)*	43.4	43.4

* **Energy intensity:** MWh consumed energy per EURm net sales / **Energy productivity:** EURm net sales per GWh consumed energy / **CO_2 intensity:** Tons CO_2 emitted per EURm net sales

Danfoss became a signatory to the UN Global Compact Initiative in 2002 and continues to support the Global Compact as governing principles in the Group's sustainability efforts.

This is a summary of Danfoss' annual Sustainability Report, which serves as the Communication on Progress Report to the UN and as Danfoss' report on corporate responsibility, as required under section 99a of the Danish Financial Statements Act.

Our commitment to sustainability

In 2018, we revised our Sustainability Program to reduce complexity and highlight the importance of working with the Sustainable Development Goals and contributing to an improved knowledge of sustainability in society. We aim to further strengthen and develop our Sustainability Program in line with requirements under the Paris Agreement and science-based targets.

Danfoss is working with several global organizations, e.g. Sustainable Energy for All, to increase focus on smart energy thinking, leading to lower energy consumption and costs as well as lower greenhouse gas emissions.

Our Climate Strategy 2030

We want our customers and the world to use less energy, but we have not forgotten our own footprint. With the Danfoss Climate Strategy 2030, we set ambitious targets for our own business back in 2015. Our aim is to halve the energy intensity of our operations as well as halving the CO_2 intensity of the energy used, in both cases measured against the base year 2007.

To achieve our climate targets, we have implemented many measures to reduce our energy consumption and drive greener technology investments in buildings and processes, and we are well underway. Since 2007, we have reduced the energy intensity of our operations by 43% and the CO_2 intensity of the energy used by 25%, mainly through energy-saving projects in the largest factories, accounting for 84% of the total energy consumption. See more details in the Sustainability Report 2018.

Business ethics and human rights

In 2018, Danfoss continued the initiative "Taking Ethics to the next level". We commit to live up to the UN Guiding Principles for Human Rights and have deployed human rights due diligence and integration in Russia, Brazil and Mexico. To ensure a high degree of local ownership for the due diligence process, focus is on building capacity to handle human rights aspects at country level.

Companies are required to report which of the human rights are most salient to them; meaning which of the rights could be most severely impacted by the operation of the company. This is detailed in the Sustainability Report 2018.

Regulations like the UK Modern Slavery Act and California Transparency Act require Danfoss to handle issues like forced labor, if we were to be faced with this. Outsourced facility management services, like cleaning and construction, have been included in the human rights due diligence process in Russia, Brazil and Mexico.

Diversity

Our high-performing, diverse and engaged teams are the foundation for achieving our ambitions to significantly grow and develop Danfoss. In 2018, a survey on performance management reached an overall score of 80 on a 100-point scale, showing that Danfoss leaders have set a clear direction and had an ongoing dialogue with their teams.

We aim to employ a diverse workforce that reflects society in terms of culture, nationality, gender and age. In 2018, employees of more than 100 different nationalities worked in the Danfoss Group. The diversity target has been to increase the percentage of female managers to 20% by 2017 from 18% in 2014. In 2018, the percentage of female managers was 19%, which is the same as in 2017. We recognize that we need to make further steps and in 2019, the target will be reviewed.

Danfoss aims at a gender composition in the Board of Directors, which reflects that of the rest of the Group, and has a target of

Health and safety	2017	2018
Lost time injuries (LTI)	135	123
Lost time injury frequency (LTIF)	3.4	2.8

having at least one female member of the Board of Directors, who is elected at the Annual General Meeting. Danfoss meets this target.

Safety First!

The global "Safety First!" program was established in 2015 as Danfoss' systematic approach to a safe workplace. Focus is on clear, aligned procedures and processes to ensure a safe working environment and prevent accidents across all Danfoss sites. The program enhances the focus on safety for all Danfoss employees, visitors, and all other people working within or for Danfoss.

Danfoss' total LTIF – Lost Time Injury Frequency – was 2.8 in 2018 versus 3.4 the previous year. The LTIF is the number of incidents that result in absence from work of one or more days beyond the day of the incident per one million hours worked. While the overall incidence rate on injuries was reduced, a fatal incident tragically occurred in 2018, when a Danfoss operations employee in the US suffered injuries while at work.

We aim to be amongst the leaders when it comes to safety and have set a goal of reducing the Group LTIF by 50% by the end of 2019 from the 2017 result. To achieve the ambitious target of halving the global LTIF in only two years, priorities focus on enhanced safety processes and tools. In 2018, programs focusing on hand & finger injuries, trips & slips, and machine safety were developed and launched. Further programs for safety leadership, powered industrial vehicles, and safety awareness are being developed and implementation will commence in the first quarter of 2019.

SUSTAINABLE DEVELOPMENT GOALS

Prioritized Sustainable Development Goals

Through internal actions and by supporting local and global initiatives and organizations, Danfoss is an active supporter of the Sustainable Development Goals (SDGs). We contribute to all SDGs, but we focus our efforts towards the four SDGs, which touch our core business:

SDG 6: Clean water and sanitation

We provide solutions for water and wastewater handling to optimize and reduce energy consumption. This leads to increased energy efficiency and lower operating costs in, for example, a wastewater treatment plant.

SDG 7: Affordable and clean energy

Danfoss is a world leader in energy-efficient technologies. Improved energy efficiency helps us meet the growing demand for energy and ensure access to reliable and modern energy, which all can afford.

SDG 11: Sustainable cities and communities

We help build roads, buildings and energy systems for the world's growing cities and support progress for people, communities and businesses across the world.

SDG 12: Responsible consumption and production

Our sustainable technologies and service concepts ensure the perfect conditions for food in temperature-controlled environments and help achieve near-zero downtime on store applications to improve food safety and reduce food loss and waste.

Risk management and compliance

We manage risks and opportunities effectively to grow and stay profitable in increasingly complex business environments.

Danfoss takes a systematic and holistic approach to managing risk. Maintaining efficient risk management is a cornerstone as well as a prerequisite for running a profitable business and acting in a rapid and flexible way when conditions change.

Risk Governance

Overall, the Board of Directors performs risk oversight and the Audit Committee assesses the effectiveness of the Risk Management process. The Group Executive Team is responsible for executing risk management, ensuring that policies and processes are effective at all relevant levels. Responsibility for the day-to-day risk management activities lies with the respective managers and corporate functions.

Compliance

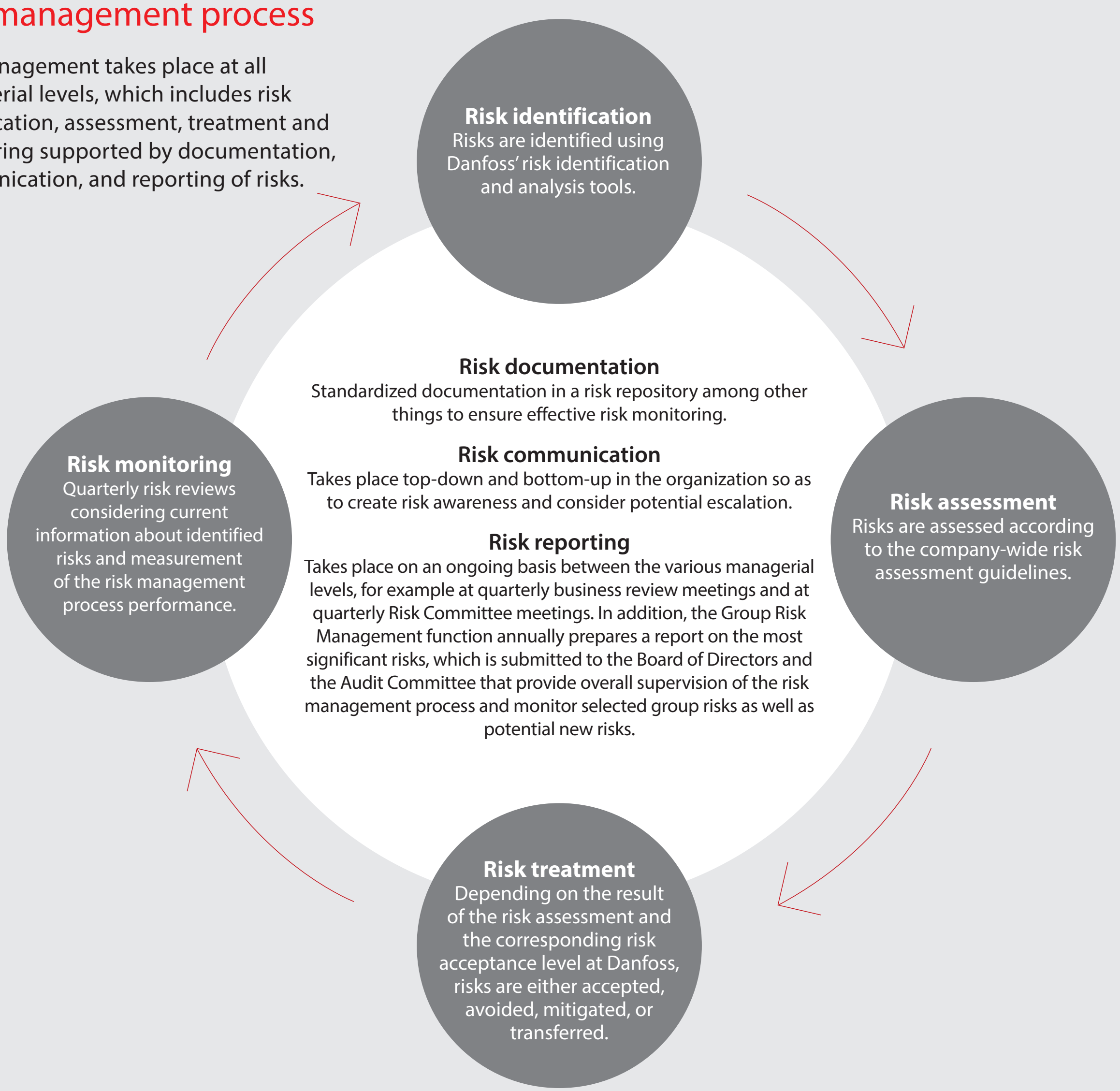
We support transparent business practice and recognize our responsibility as a global organization. Working together with governments, NGOs, and other global enterprises, Danfoss actively participates in creating a level and fair playing field. To walk the talk and minimize the risk of non-compliance, we have developed and implemented compliance programs in many areas.

Compliance programs

Our systemized compliance programs contain clear ownership, policy setting, operational procedures as well as recurring training and awareness activities. To ensure progress, all

Risk management process

Risk management takes place at all managerial levels, which includes risk identification, assessment, treatment and monitoring supported by documentation, communication, and reporting of risks.



For a description of the internal controls and risk management structure in relation to financial reporting, reference is made to the statutory report on corporate governance, cf. Article 107b of the Danish Financial Statements Act. See www.danfoss.com > About > Financial information > Corporate Governance.

activities are monitored and regularly audited by the internal audit function.

In 2018, we maintained a high focus on the data privacy processes and implementation of the EU data privacy regulation, which came into effect on May 25, 2018. Based on our Binding Corporate Rules, approved by the Danish data protection authorities, we implemented a Data Privacy Handbook, developed training and completed other activities to comply with the new legislation.

Furthermore, the Export Control Compliance Program was strengthened by including processes for secondary sanctioned party screening. Along with the implementation of our new common IT solution, One ERP, all import and export transactions are screened against sanction lists. We have also started to work rules and guidance pertaining to a anti-money laundering into the Compliance Program.

Compliance hotlines

We operate two hotlines, which are available for our business partners and employees. One such hotline is the whistleblower hotline, the Ethics Hotline, which enables employees and business partners to anonymously report any concern they might have concerning internal standards and legislation. The Ethics Hotline is also set up to serve as channel for data privacy complaints. In 2018, a total number of 77 reports were managed by the Ethics Hotline. Corrective actions, including disciplinary action, were taken for all substantiated allegations, and none of the reports have had a material impact on Danfoss.

Risk overview

Like its industry peers, Danfoss is exposed to risks. No single risk can threaten the existence of Danfoss – now or in the future – but Danfoss is exposed to the following general and basic risks:

- Global market conditions, including a sustained stronger focus on energy-efficient and socially sustainable solutions.
- The five global mega-trends which affect Danfoss, our technologies and the way we do business. The mega-trends are described on page 11-15.
- Fair and equal access to markets.
- Global economic growth.
- Developments in key markets.
- Customer relations and reputation, including our ability to build business on trust and integrity.
- Competitive strength and innovation, including the ability to support customers in providing efficient solutions, high product quality and attractive cost levels.
- Financial sustainability, including our ability to fund new growth.

The Group Executive Team has defined an additional three risks, which are currently very important due to their nature. These three specific risks are described in the overview below, which does not include financial risks. Financial risks are described in Note 15, page 68.

Specific risk areas

See Note 15, page 68, for further information on financial risks

Disruption of IT Systems

Risk

A disruption of IT systems, for example caused by a cyber-attack, would restrict the ability of a Danfoss manufacturing site to produce or deliver on time. This might have a significant impact on business operations and customer satisfaction, and consequently damage Danfoss' reputation.

Mitigation

Danfoss has completed various activities to manage the risk of a disruption of IT systems. Business continuity and disaster recovery plans as well as back-up processes and datacenters are regularly reviewed, tested and improved.

There is continuous monitoring and learning about incidents occurring outside Danfoss, triggering the check of related potential vulnerabilities at Danfoss, to be followed by corresponding containment and mitigation.

One ERP project

Risk

Implementing the IT platform, One ERP (Enterprise Resource Planning), across Danfoss is a fundamental part of our digital transformation, enabling growth and a best-in-industry Digital Customer Experience. The project will migrate several, currently used ERP systems into one platform to reduce complexity, give Danfoss the agility and speed to focus on innovation, and support connected products and services. Migration of Danfoss operations to the new system holds risks of stopping or slowing business services, which could impact our customers and damage Danfoss' reputation.

Mitigation

As part of the One ERP project, Danfoss has established a strong project governance. A specific project risk management function identifies project risks, assesses them, and prepares mitigation plans, which are being implemented and monitored regularly.

Geopolitical conflicts

Risk

Increasing geopolitical conflicts create uncertainty and low visibility in some of our significant markets.

Mitigation

A close monitoring of the effects and consequences of these geopolitical developments is in place to prepare mitigation plans and thereby mitigate the impacts on Danfoss and Danfoss' stakeholders. Overall, we aim at driving more localization in our supply chain. Below are some examples:

- Brexit: a task force is focusing on logistics risks to Great Britain and delivery to Ireland.
- Trade and tariff conflict between US and China: Drive more localization and a flexible supply chain.
- Trade sanctions: Danfoss continues to follow trade sanctions and closely monitors political situations to take appropriate action.

Corporate governance

This is a summary of Danfoss' annual statutory report on corporate governance, which serves as our legally required reporting on governance and internal controls, cf. section 107b of the Danish Financial Statements Act.

Legislation provides the overall framework for the Group's governance, but corporate governance determines how the business is managed within this framework. The Group structure supports management values and determines a clear distribution of management responsibilities. These well-defined principles drive the interaction between the Group's management, the owners, and other stakeholders. The Group's Articles of Association and a comprehensive set of internal management and control procedures also form part of corporate governance within Danfoss.

Management structure

Danfoss has a two-tier management system consisting of the Board of Directors and the Group Executive Team, including the CEO and CFO. The Board of Directors sets out the general direction for the company by approving strategies and targets, and the Group Executive Team develops and executes the strategy and handles the day-to-day management.

The Board of Directors

The Board of Directors consists of eight members elected at the Annual General Meeting (AGM) and four employee-elected members. The Board of Directors appoints a Chairman and one or two Vice-Chairmen from among its members.

The Board of Directors has the overall responsibility for the company's activities. Shareholder-elected members of the Board of Directors are elected for the term until the following year's AGM. Pursuant to Danish legislation, employee representatives serve on the Board for four years and may be re-elected. The most recent employee election took place in 2018.

The Board of Directors meets at least five times a year and holds extraordinary meetings, when required. All members of the Board of Directors are expected to participate in the meetings. The aggregate competencies of the members of the Board of Directors are regularly assessed to ensure consistency with the Group's requirements.

Audit Committee

The entire Board of Directors performs the function of the Audit Committee. The Chairman of the Audit Committee conducts regular meetings with the corporate functions and internal audit outside Board meetings. The committee's activities and tasks are set out in its rules of procedure. Four meetings were held in 2018.

Internal audit

Danfoss has an internal audit function to carry out independent internal checks. The internal audit function presents its conclusions directly to the Audit Committee or its chairman. The internal audit function provides independent and objective audits to ensure:

- The Group has a comprehensive set of internal management and control procedures and processes, as well as segregation of duties and functions. This also includes the Group's IT systems.
- The Group follows good administrative practice.

The internal audit function visited several Group companies in 2018. No matters of material importance to the Group's overall risk management and control environment were detected.

Bond program

In November 2014, Danfoss filed a Euro Medium Term Program on the Irish Stock Exchange, and consequently, Danfoss is a Class D company with listed bonds. Danfoss complies with the rules set out in section 107b, subsection 1, no. 6, of the Danish Financial Statements Act applicable to companies with listed bonds, including the exceptions regarding issuers of bonds above EUR 100,000.

Shareholders
At the end of 2018, Danfoss had approximately 2,650 registered shareholders. Approximately three in four shareholders were resident in Denmark.

Share capital
Danfoss' share capital amounts to DKK 997m and is divided into two share classes: Class A shares accounting for DKK 425m and Class B shares accounting for DKK 572m. A-shares entitle holders to ten votes for every DKK 100 nominal value of shares held. B-shares entitle holders to one vote for every DKK 100 nominal value of shares held.

Class A shareholders have a pre-emption right to A-shares in the event of share capital increases. Apart from this, no shares carry special rights. Bitten & Mads Clausen's Foundation and the Clausen family hold all issued A-shares and several B-shares corresponding to 99.86% of the votes.

See note 11, page 62, for more information.

Share price
The price of Danfoss shares is set once a year, based on a valuation prepared by Danske Markets immediately before the AGM held in April. The calculation of the share price is based on the financial performance of Danfoss, the Group's expectations for the upcoming year, its ability to meet expectations, the financial development of several comparable companies and their expectations for the future, as well as general developments in the stock market. In 2018, the price was set at DKK 6,981 per share.

Dividends and Annual General Meeting
The AGM will be held in Sønderborg, Denmark, on April 26, 2019. The Board of Directors will recommend that a dividend of 17.3% of the Group's net profit be paid for 2018, corresponding to EUR 8.1 or DKK 60.2 per DKK 100 share.

For a detailed description of Danfoss' position on the recommendations issued by the Committee on Corporate Governance, reference is made to the Statutory Report on Corporate Governance 2018, which is available at the corporate website www.danfoss.com.

Shareholders with more than 5% of share capital

Shareholder	Shares	Votes
Bitten & Mads Clausen's Foundation, Nordborg, Denmark, and its subsidiaries	47.93%	86.13%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.47%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.29%
Karin Clausen, Holte, Denmark	6.24%	1.30%

Board of Directors

Jørgen M. Clausen
Chairman of the Board of Directors

Born: 1948
Nationality: Danish
Appointed: 2009

Special competencies:
Professional experience managing a Danish-based global company and extensive knowledge of engineering, strategy, organization and performance, and business administration. Long-time experience from other board memberships.

Other current positions:
- Chairman of the Board of Applied Biomimetic A/S.
- Member of the Board of Fonden Universe Science Park.
- Member of the Board of miniBOOSTER Hydraulics A/S.
- Owner of SaltPower ApS, Denmark

Björn Klas Otto Rosengren
Vice-Chairman of the Board of Directors

Born: 1959
Nationality: Swedish
Appointed: 2010
Considered independent

Special competencies:
International experience from executive management positions in global corporations focusing on profitable growth. Extensive experience with strategy development and execution, performance transformation and business administration.

Other current positions:
- President & CEO of Sandvik AB.

Mads-Peter Clausen
Member of the Board of Directors

Born: 1976
Nationality: Danish
Appointed: 2014

Special competencies:
International experience from executive management positions and strong strategic, organizational and communicative skills. Extensive knowledge of business administration, engineering and board work.

Other current positions:
- Senior Director, Oil Free Solutions, Danfoss A/S.
- Member of the Board of miniBOOSTER A/S, Denmark.

Per Falholt
Member of the Board of Directors

Born: 1958
Nationality: Danish
Appointed: 2017
Considered independent

Special competencies:
Professional experience from Research & Development, product innovation and development of new biotechnologies for products, applications and processes. Extensive experience with talent development, global partnerships and relations.

Other current positions:
- Chairman of the Board of Governors, Technical University of Denmark (DTU).
- Board member in Cytovac A/S, Denmark.
- Scientific Consultant, Corbion, the Netherlands.
- Chairman of the Board of Fonden Universe Science Park.
- Chairman of the Board of Medical Cannabis Association Denmark.
- Strategy consultant at the Novo Nordisk foundation.
- Chairman of the Board of DHI Foundation.

Connie Hedegaard
Member of the Board of Directors

Born: 1960
Nationality: Danish
Appointed: 2016
Considered independent

Special competencies:
Professional experience as Minister and EU Commissioner with extensive knowledge of climate, environmental and energy challenges on an international level. Expert on the global sustainable development and the green transition.

Other current positions:
- Chairman of the Board of the sustainability foundation, KR Foundation.
- Chairman of the Board of the green think tank, CONCITO.
- Chairman of OECD's Round Table on Sustainable Development.
- Chairman of Berlingske Media.
- Member of the Board of Aarhus University, Denmark.
- Member of the Board of NORDEX.
- Member of Volkswagen's Sustainability Board.

William Ervin Hoover Jr.
Member of the Board of Directors and Chairman of the Audit Committee

Born: 1949
Nationality: American
Appointed: 2007
Considered independent

Special competencies:
International experience with management, mergers and acquisitions, performance transformation, organizational changes and supply chain. Extensive knowledge of business administration and board work.

Other current positions:
- Chairman of the Board of ReD Associates Holding A/S, Denmark.
- Deputy Chairman of the Board of GN Store Nord A/S (Great Nordic), Denmark.
- Member of the Board of Lego Foundation, Denmark.
- Member of the Board of Specialist People Foundation.
- Member of the Board of Neopost A/S, Denmark

Board of Directors

Jürgen Reinert
Member of the Board of Directors

Born: 1968
Nationality: German
Appointed: 2015
Considered independent

Special competencies:
International experience with executive management and business administration as well as strong strategic, organizational and communicative skills. Expert within electrical engineering (drives, electric vehicles, renewable energy) and science, and extensive knowledge from other board positions.

Other current positions:
- Chief Executive Officer (CEO) in SMA Technology AG, Germany
- Member of the Board of Kraftelektronik AB, Sweden.

Mika Vehviläinen
Member of the Board of Directors

Born: 1961
Nationality: Finnish
Appointed: 2018
Considered independent

Special competencies:
Professional experience with executive management of multinational corporations and extensive experience with performance transformation, organizational changes, mergers and acquisitions, and Internet of Things.

Other current positions:
- President and CEO in Cargotec.
- Chairman of the Innovation and Competence development for Artificial Intelligence, Ministry of Trade and Industry, Finland.

Sandra Nørgaard Bertelsen
Member of the Board of Directors

Born: 1982
Nationality: Danish
Appointed: 2014

Special competencies:
Employee-elected member of the Board of Directors.

Other current positions:
- HR Director, HR Operations North Europe, Danfoss A/S, Denmark.

Marianne Godballe
Member of the Board of Directors

Born: 1984
Nationality: Danish
Appointed: 2018

Special competencies:
Employee-elected member of the Board of Directors.

Other current positions:
- Senior Design Technician and shop steward, Danfoss A/S, Industrial Automation, Nordborg, Denmark.
- Member of the Board of Danfoss Employee Foundation, Denmark.
- Chairman of "TL-klubben", Danfoss A/S SydDanmark.
- Local President of Junior Chamber International, Sønderborg, Denmark.

Lars Grau
Member of the Board of Directors

Born: 1963
Nationality: Danish
Appointed: 2014

Special competencies:
Employee-elected member of the Board of Directors.

Other current positions:
- Shop Steward and skilled worker at Danfoss Nordborg, Denmark.
- Member of the Board of Danish El Federal in South Jutland, Denmark.

Jens Peter Rosendahl Nielsen
Member of the Board of Directors

Born: 1957
Nationality: Danish
Appointed: 2006

Special competencies:
Employee-elected member of the Board of Directors.

Other current positions:
- Senior Shop Steward and skilled worker at Danfoss Kolding, Denmark.
- Chairman of the Board of Danfoss Employee Foundation, Denmark.
- Member of the Board of Metal Kolding and LO-Kolding, Denmark.

The presentations include the Board members, their positions and competencies as of February 28, 2019

The complete presentations are available at www.danfoss.com

Group Executive Team

Kim Fausing
President & CEO

Born: 1964
Employed at Danfoss since 2007

Registered officer with the Danish Business Authority since 2008

Board activities:
- Deputy Chairman in SMA Solar Technology AG, Germany
- Board member in Hilti AG, Liechtenstein

Jesper V. Christensen
Executive Vice President & CFO

Born: 1969
Employed at Danfoss since 1993

Registered officer with the Danish Business Authority since 2013

Board activities:
- Board member in Danish Crown A/S, Denmark
- Board member in the Confederation of Danish Industries, Denmark
- Board member in The Manufacturing Industry, Denmark

Eric Alström
Segment President, Danfoss Power Solutions

Born: 1966
Employed at Danfoss since 2012

Board activities:
- Deputy Chairman in Hempel A/S, Denmark

Jürgen Fischer
Segment President, Danfoss Cooling

Born: 1963
Employed at Danfoss since 2008

Board activities:
- Member of the Steering Board of the European Partnership for Energy and the Environment, EPEE
- Member of the Global Panel on Access to Cooling, part of the Cooling for All initiative

Vesa Laisi
Segment President, Danfoss Drives

Born: 1957
Employed at Danfoss since 2014

Lars Tveen
Segment President, Danfoss Heating

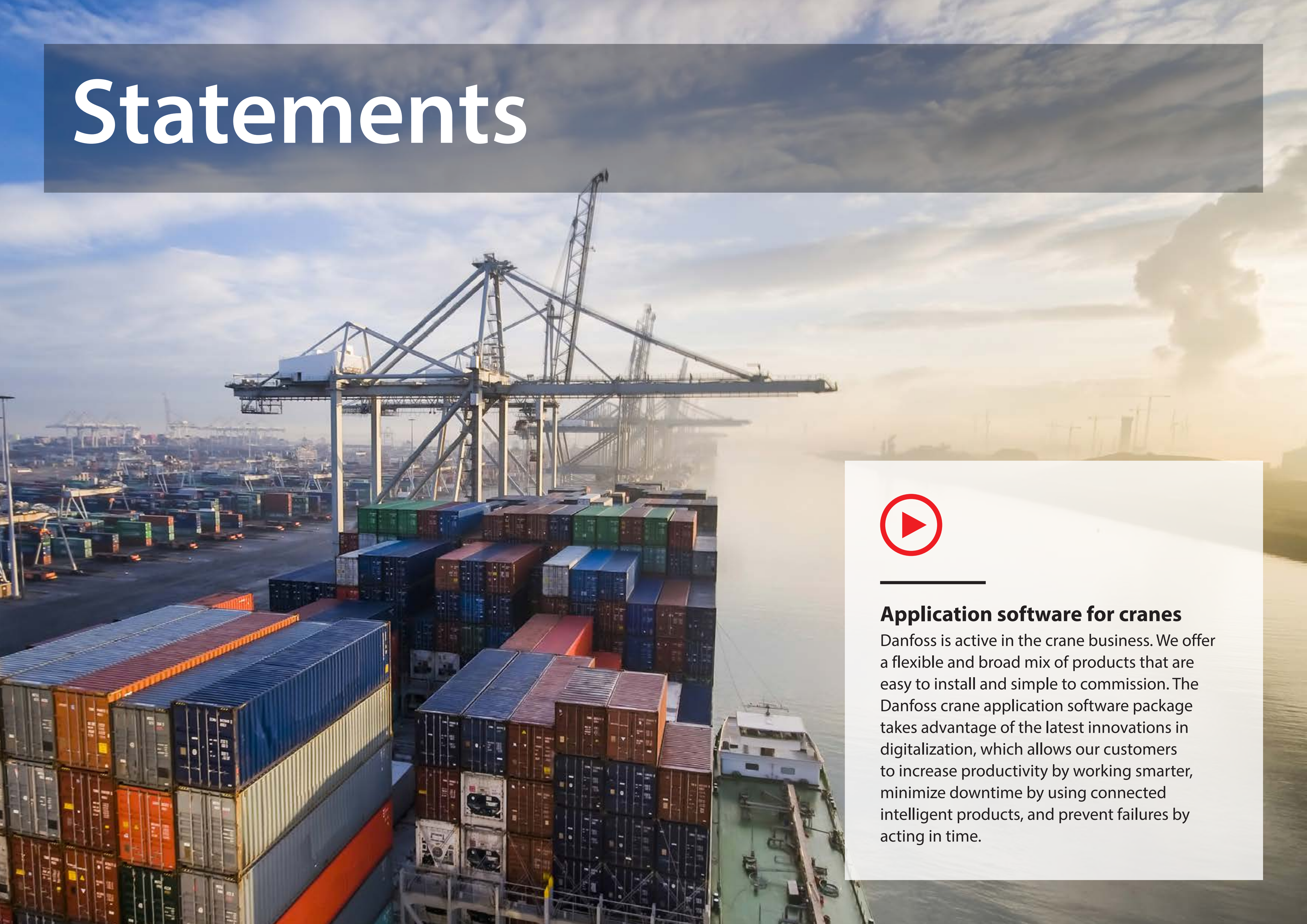
Born: 1963
Employed at Danfoss since 1989

Board activities:
- Board Chairman in the ProjectZero Foundation, Denmark
- Board member in The Energy Industry, Denmark
- Board member in The Danish Energy Agency, EUDP, Denmark
- Board member in Green Energy Denmark
- Board member in SKAKO A/S, Denmark

The presentations include the members of the top management team as of February 28, 2019

The complete presentations are available at www.danfoss.com

Statements



Application software for cranes

Danfoss is active in the crane business. We offer a flexible and broad mix of products that are easy to install and simple to commission. The Danfoss crane application software package takes advantage of the latest innovations in digitalization, which allows our customers to increase productivity by working smarter, minimize downtime by using connected intelligent products, and prevent failures by acting in time.

Management's statement

The Board of Directors and the CEO and CFO have today considered and adopted the Annual Report of Danfoss A/S for the financial year January 1 – December 31, 2018.

The Annual Report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at December 31, 2018, of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2018.

In our opinion, the Management's Review includes a true and fair account of the development in the operations and financial circumstances of the Group and the Parent Company, of the results for the year and of the financial position of the Group and the Parent Company as well as a description of the most significant risks and elements of uncertainty facing the Group and the Parent Company.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Nordborg, February 28, 2019

CEO and CFO

Kim Fausing

Jesper V. Christensen

Board of Directors

Jørgen M. Clausen, Chairman

Björn Klas Otto Rosengren

Mads-Peter Clausen

Per Falholt

Connie Hedegaard

William Erwin Hoover Jr.

Jürgen Reinert

Mika Vehviläinen

Sandra Nørgaard Bertelsen

Marianne Godballe

Lars Grau

Jens Peter Rosendahl Nielsen

Independent Auditor's Report

To the shareholders of Danfoss A/S

Report on the audit of the Consolidated Financial Statements and Parent Company Financial Statements

Our opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at December 31, 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year January 1 to December 31, 2018 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Consolidated Financial Statements and Parent Company Financial Statements of Danfoss A/S for the financial year January 1 to December 31, 2018, pp 42-90 and 93-116 comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and notes, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the "Financial Statements".

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were first appointed auditors of Danfoss A/S on April 25, 2014 for the financial year 2014. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 5 years including the financial year January 1 to December 31, 2018.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Statements for 2018. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Intangible assets Intangible assets might be impaired due to changes in the global economic situation and changes in the Group's strategy. We focused on this area as the determination of whether or not an impairment charge for intangible assets is necessary involves significant estimates and judgments made by Management, including especially: • estimation of future cash flows and the key assumptions underlying Management's expectations; • expected synergies; • long term growth rates; and • discount rates applied in discounting future cash flows. Refer to Notes 7, 19 and 26 in the Consolidated Financial Statements.	Our audit procedures included assessing the Group's impairment model. We inspected the process of identifying impairment indicators and the process for impairment testing at the cash generating unit level. In addition, we obtained impairment tests prepared by Management and evaluated the reasonableness of estimates and judgments made by Management in preparing these. Special focus was given to the key drivers of the future cash flows, including net revenue growth, cost development, efficiency improvements, capital expenditure and working capital as well as the discount rates and long-term growth rates applied.
Uncertain tax positions The Group operates in a complex multinational tax environment where transfer pricing assessments can be challenged by the tax authorities in the different countries. As a result, the Group is on an ongoing basis part in tax disputes with domestic and foreign tax authorities. We focused on this area as the valuation of tax assets and liabilities is associated with uncertainty and judgment. Refer to Notes 6, 13, 16 and 26 in the Consolidated Financial Statements.	We evaluated relevant controls regarding completeness of records of uncertain tax positions and Management's procedure for estimating the valuation of tax assets and liabilities relating to tax disputes. In understanding and evaluating Management's judgments, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgmental positions taken in tax returns and current estimates and developments in the tax environment. We evaluated the Group's model for valuation of deferred tax assets including the forecast used to estimate the expected future taxable income.

Statement on Management's Review

Management is responsible for Management's Review, pp 3-35 and 92.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.
Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act.

We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aarhus, February 28, 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no 33771231

Claus Lindholm Jacobsen
State Authorised Public Accountant
mne23328

Mads Melgaard
State Authorised Public Accountant
mne34354

Group accounts and notes

The thermostat

Driven by urban growth, the need for construction and refurbishment of residential and commercial buildings is projected to be massive. The radiator thermostat Danfoss Eco™ improves comfort and indoor climate, while reducing the energy bill. Since 1943, Danfoss has manufactured around 350 million radiator thermostats, thereby reducing 650 million tons of CO_2. In 2018, Danfoss Eco™ was recognized with three prestigious design awards: a Ret Dot, a Danish Design Award, and a German Design Award.

Income statement

January 1 to December 31

EURm	Note	2017	2018
Net sales	1	5,827	6,098
Cost of sales	2	-3,787	-4,035
GROSS PROFIT		**2,040**	**2,063**
Research and development costs	2	-234	-255
Selling and distribution costs	2	-853	-855
Administrative expenses	2	-268	-268
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**685**	**685**
Other operating income and expenses	2	-42	-4
Share of profit from associates and joint ventures after tax	3	2	-33
OPERATING PROFIT (EBIT)		**645**	**648**
Financial income	4	3	3
Financial expenses	5	-52	-48
PROFIT BEFORE TAX		**596**	**603**
Tax on profit	6	-151	-140
NET PROFIT		**445**	**463**
Attributable to:			
Shareholders in Danfoss A/S		404	424
Minority interests		41	39
		445	**463**

Statement of comprehensive income

January 1 to December 31

EURm	Note	2017	2018
NET PROFIT		**445**	**463**
OTHER COMPREHENSIVE INCOME			
Actuarial gain/loss (-) on pension and healthcare plans	14	17	-9
Tax on actuarial gain/loss on pension and healthcare plans	13	-13	1
Items that cannot be reclassified to income statement		**4**	**-8**
Foreign exchange adjustments on translation of foreign currency into EUR		-63	-5
Recycling of foreign exchange adjustments on disposal of foreign companies			6
Fair value adjustment of hedging instruments:			
Hedging of net investments in subsidiaries		1	-2
Hedging of future cash flows		18	-9
Hedging transfered to inventory		-1	-4
Tax on hedging instruments		-4	3
Items that can be reclassified to income statement		**-49**	**-11**
OTHER COMPREHENSIVE INCOME AFTER TAX		**-45**	**-19**
TOTAL COMPREHENSIVE INCOME		**400**	**444**
Attributable to:			
Shareholders of Danfoss A/S		369	399
Minority interests		31	45
		400	**444**

Statement of financial position

As of December 31

EURm	Note	2017	2018
ASSETS			
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	7	**2,371**	**2,311**
PROPERTY, PLANT AND EQUIPMENT	8	**1,064**	**1,169**
Investments	3	328	292
Pension benefit plan assets	14	22	19
Non-current receivables		8	7
Deferred tax assets	13	90	88
OTHER NON-CURRENT ASSETS		**448**	**406**
TOTAL NON-CURRENT ASSETS		**3,883**	**3,886**
CURRENT ASSETS			
INVENTORIES	9	**660**	**755**
Trade receivables	10	862	864
Receivable corporation tax	16	17	39
Derivative financial instruments (positive fair value)	15	10	1
Other receivables		122	165
RECEIVABLES		**1,011**	**1,069**
CASH AND CASH EQUIVALENTS	15	**29**	**50**
TOTAL CURRENT ASSETS		**1,700**	**1,874**
TOTAL ASSETS		**5,583**	**5,760**

Statement of financial position

As of December 31

EURm	Note	2017	2018
LIABILITIES AND SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Equity, shareholders in Danfoss A/S	11	2,455	2,525
Minority interests		114	129
TOTAL SHAREHOLDERS' EQUITY		**2,569**	**2,654**
LIABILITIES			
Provisions	12	108	112
Deferred tax liabilities	13	235	228
Pension and healthcare benefit plan obligations	14	136	133
Borrowings	15	1,023	1,007
Other non-current debt		47	53
NON-CURRENT LIABILITIES		**1,549**	**1,533**
Provisions	12	43	49
Borrowings	15	92	56
Trade payables		776	883
Debt to associates and joint ventures		4	2
Corporation tax	16	54	65
Derivative financial instruments (negative fair value)	15	1	9
Other debt		495	509
CURRENT LIABILITIES		**1,465**	**1,573**
TOTAL LIABILITIES		**3,014**	**3,106**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,583**	**5,760**

Statement of cash flows

January 1 to December 31

EURm	Note	2017	2018
Profit before tax		596	603
Adjustments for non-cash transactions	17	274	270
Change in working capital	18	64	-13
CASH FLOW GENERATED FROM OPERATIONS		**934**	**860**
Interest received			3
Interest paid		-45	-37
Dividends received		3	4
CASH FLOW FROM OPERATIONS BEFORE TAX		**892**	**830**
Paid tax	16	-150	-157
CASH FLOW FROM OPERATING ACTIVITIES		**742**	**673**
Acquisition of intangible assets		-64	-64
Acquisition of property, plant and equipment		-241	-247
Proceeds from sale of property, plant and equipment		24	9
Acquisition of subsidiaries	19	-104	-41
Proceeds from disposal of subsidiaries	19	1	129
Acquisition of other investments, etc.	20	-21	-13
CASH FLOW FROM INVESTING ACTIVITIES		**-405**	**-227**
FREE CASH FLOW		**337**	**446**
Cash repayment of interest-bearing debt	21	-817	-816
Cash proceeds from interest-bearing debt	21	596	751
Purchase of treasury shares		-54	-249
Disposal of minority interests		-2	
Addition of minority interests			3
Dividends paid to shareholders in the Parent Company		-67	-80
Dividends paid to minority shareholders		-29	-33
CASH FLOW FROM FINANCING ACTIVITIES		**-373**	**-424**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**-36**	**22**
Cash and cash equivalents as of January 1		68	29
Foreign exchange adjustment of cash and cash equivalents		-3	-1
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**29**	**50**
FREE CASH FLOW BEFORE M&A		**445**	**362**

The cash flow statement cannot be derived on the basis of the Annual Report alone. The definition of Free cash flow before M&A is available under financial ratios in Note 25, page 87

Statement of changes in equity

EURm	Share capital	Share premium	Hedging reserves	Currency translation	Reserve own shares	Other reserves	Reserves	Proposed dividends	Equity, shareholders in Danfoss A/S	Minority interest	Total equity
BALANCE AS OF JANUARY 1, 2017	**134**		-6	73	-4	1,943	**2,006**	**67**	**2,207**	**115**	**2,322**
Net profit						323	**323**	**81**	**404**	**41**	**445**
Foreign exchange adjustments of foreign companies				-53			**-53**		**-53**	**-10**	**-63**
Fair value adjustment of hedging instruments			17	1			**18**		**18**		**18**
Actuarial gain/loss (-) on pension and healthcare plans						17	**17**		**17**		**17**
Tax on other comprehensive income			-4			-13	**-17**		**-17**		**-17**
Total other comprehensive income			13	-52		4	**-35**		**-35**	**-10**	**-45**
Total comprehensive income for the period			13	-52		327	**288**	**81**	**369**	**31**	**400**
Dividends to shareholders								**-67**	**-67**	**-29**	**-96**
Purchase of minority interests										**-3**	**-3**
Purchase of treasury shares					-54		**-54**		**-54**		**-54**
Capital increase		**10**			-10		**-10**				
Total transactions with owners		**10**			-64		**-64**	**-67**	**-121**	**-32**	**-153**
BALANCE AS OF DECEMBER 31, 2017	**134**	**10**	7	21	-68	2,270	**2,230**	**81**	**2,455**	**114**	**2,569**
Net profit						344	**344**	**80**	**424**	**39**	**463**
Foreign exchange adjustments of foreign companies				-5			**-5**		**-5**	**6**	**1**
Fair value adjustment of hedging instruments			-13	-2			**-15**		**-15**		**-15**
Actuarial gain/loss (-) on pension and healthcare plans						-9	**-9**		**-9**		**-9**
Tax on other comprehensive income			2	1		1	**4**		**4**		**4**
Total other comprehensive income			-11	-6		-8	**-25**		**-25**	**6**	**-19**
Total comprehensive income for the period			-11	-6		336	**319**	**80**	**399**	**45**	**444**
Dividends to shareholders						1	**1**	**-81**	**-80**	**-33**	**-113**
Purchase of treasury shares					-249		**-249**		**-249**		**-249**
Capital increase										**3**	**3**
Total transactions with owners					-249	1	**-248**	**-81**	**-329**	**-30**	**-359**
BALANCE AS OF DECEMBER 31, 2018	**134**	**10**	-4	15	-317	2,607	**2,301**	**80**	**2,525**	**129**	**2,654**

Notes

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Note 1 Segment reporting

EURm

BUSINESS SEGMENTS	2017						2018					
	Danfoss Power Solutions	Danfoss Cooling	Danfoss Drives	Danfoss Heating	Other areas	**GROUP**	Danfoss Power Solutions	Danfoss Cooling	Danfoss Drives	Danfoss Heating	Other areas	**GROUP**
INCOME STATEMENT												
Net sales	1,872	1,591	1,372	971	21	5,827	2,109	1,617	1,420	929	23	6,098
Depreciation/amortization/impairment	89	26	51	24	50	240	90	29	47	23	55	244
Share of profit from associates and joint ventures after tax			2			2		1	-34			-33
Operating profit (EBIT)	306	253	132	114	-160	645	338	239	119	120	-168	648
Financial Items					-49	-49					-45	-45
Profit before tax	306	253	132	114	-209	596	338	239	119	120	-213	603
STATEMENT OF FINANCIAL POSITION												
Total assets *)	1,264	860	1,723	796	940	5,583	1,370	915	1,690	698	1,087	5,760
Net investments, excluding M&A	69	46	28	21	117	281	91	51	33	24	103	302
Investments in associates and joint ventures		3		2		5				3	1	4
Total liabilities *)	259	207	190	115	2,243	3,014	304	219	213	117	2,253	3,106
OTHER INFORMATION												
Number of employees	6,815	6,396	4,652	5,339	3,443	26,645	7,625	6,179	4,645	4,898	4,448	27,795

For further information on the business segments see page 18.

GEOGRAPHICAL SEGMENTS	2017							2018						
	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	**GROUP**	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	**GROUP**
Net sales	2,183	496	1,307	1,387	273	181	5,827	2,289	493	1,392	1,488	271	165	6,098
Total non-current assets **)	2,650	124	285	699	16	19	3,793	2,569	133	313	743	22	18	3,798

Sales in Denmark amounts to EUR 225m (2017: 215m) and non-current assets amounts to EUR 764m (2017: 697m).

Sales in North America mainly relate to the US and represent EUR 1,395m (2017: 1,299m) and non-current assets amounts to EUR 743m (2017: 698m).

China is part of the Asia Pacific region and sales amounts to EUR 808m (2017: 727m) and non-current assets amounts to EUR 237m (2017: 209m).

*) Central functions' assets and liabilities, cash and cash equivalents, interest-bearing debt and deferred tax liabilities/assets have been included in the column "Other areas".

**) Deferred tax assets are not included.

Note 1 Segment reporting (continued)

EURm

SPECIFICATION OF OTHER AREAS - PROFIT BEFORE TAX

	2017	2018
Financial income	3	3
Financial expenses	-52	-48
Central functions, not allocated *)	-146	-168
Other	-14	
Profit before tax	-209	-213

SPECIFICATION OF OTHER AREAS - ASSETS

	2017	2018
Cash, current & non-current tax receivables	136	177
Other receivables	97	120
Central functions, not allocated tangible, and intangible fixed assets	621	697
Central functions not allocated *)	76	80
Other	10	13
Total assets	940	1,087

SPECIFICATION OF OTHER AREAS - LIABILITIES

	2017	2018
Interest-bearing debt, current & non-current tax liabilities	1,405	1,356
Other debt	534	562
Pension and healthcare plans	136	133
Central functions not allocated *)	159	194
Other	9	8
Total Liabilities	2,243	2,253

*) Central functions, not allocated, are primarily administrative expenses and assets and liabilities in central functions.

Note 2 Expenses and other operating income

EURm

A. PERSONNEL EXPENSES

	2017	**2018**
Salaries and wages	1,320	1,404
Severance payments	32	36
Social security	110	112
Pension cost - Defined contribution plans	81	84
Pension cost - Defined benefit plans excluding gains from reductions and redemptions *)	4	3
	1,547	1,639
Average number of employees	25,934	27,313
Total number of employees as of end of the year	26,645	27,795

*) Expenses for defined benefit plans are described in Note 14 Pension and healthcare obligations.

	2017	**2018**
Remuneration to the Group Executive Team and the Board of Directors:		
Salaries	8	5
Pension costs	3	1
Bonuses	13	10
Severance payments	9	
Group Executive Team	33	16
Board of Directors' fee	1	1
Total remuneration	34	17

Total remuneration for registered and former registered members of the Group Executive Team amounts to EUR 9m (2017: 26m)
In 2017 total remuneration for 4 former members of Group Executive Team is included in salaries, pensions, bonuses and severance payments.

A presentation of the Group Executive Team is available on page 33.

Note 2 Expenses and other operating income (continued)

EURm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2017	2018
Classification by nature:		
Amortization of intangible assets	90	96
Depreciation of property, plant and equipment	150	148
Depreciation/amortization and impairment losses	240	244
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	57	62
Selling and distribution costs	30	30
Administrative expenses	3	4
	90	96

C. OTHER OPERATING INCOME AND EXPENSES

	2017	2018
Gain on disposal of activities		31
Gain on disposal of property, plant and equipment	1	4
Government grants	5	6
Other	7	6
Other operating income	13	47
Loss on disposal of property, plant and equipment	-2	-2
Restructuring costs	-32	-36
Other	-21	-13
Other operating expenses	-55	-51
Other operating income and expenses	-42	-4

Restructuring costs in both years mainly relate to terminations in Denmark, Germany, USA and France.

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2017	2018
Audit fee	3	3
Other assurance engagements fee		
Tax and VAT advice		1
Other fees	1	1
Total fee to Group Auditor	4	5

Fees for other services than statutory audit of the financial statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PricewaterhouseCoopers Denmark) amounted to EUR 1.2m (2017: 0.7m). Other services than statutory audit of the financial statements comprise services relating to transfer pricing, tax audits, due diligence and agreed-upon procedures, as well as accounting advice.

Note 3 Investments

EURm	2017			2018		
	Investments in associates and joint ventures	Other investments	**TOTAL**	Investments in associates and joint ventures	Other investments	**TOTAL**
Cost as of January 1	350	18	368	353	18	371
Foreign exchange adjustments in foreign companies	-1		-1			
Additions	4		4	3	1	4
Disposals				-3		-3
Cost as of December 31	353	18	371	353	19	372
Adjustments as of January 1	-16	-15	-31	-27	-16	-43
Foreign exchange adjustments in foreign companies	2		2	-1		-1
Net profit/value adjustment	2	-1	1	-35		-35
Dividends	-3		-3	-4		-4
Disposal / Transfer	-12		-12	3		3
Adjustments as of December 31	-27	-16	-43	-64	-16	-80
Carrying amount as of December 31	326	2	328	289	3	292

Where indicators for impairment were present at the end of 2018, impairment tests were performed on the carrying amount of "Investments in associates and joint ventures". Main indicators are loss-giving activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the present value of cash flows from associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2017.

Further information on associates and joint ventures is provided in Note 5 Financial expenses, Note 15 Financial risks and instruments and Note 23 Related parties.

Note 3 Investments (continued)

EURm

MATERIAL ASSOCIATES AND JOINT VENTURES

Summarized information for associates and joint ventures, which are material to Danfoss, has been amended to reflect adjustments made for differences in the accounting policy. The financial information is stated below at their full values, not according to Danfoss' proportionate ownership interests. As SMA Solar Technology AG is a listed company, the stated financial information below is based on publicly available information.

	SMA Solar Technology AG	
	2017	**2018**
Place of business	Germany	Germany
Share of ownership	20%	20%
SUMMARIZED PROFIT AND LOSS STATEMENT (PROVISIONAL NUMBERS FOR 2018 AND 2017)		
Revenue	890	761
EBIT	45	-150
Net income	30	-174
SUMMARIZED BALANCE SHEET (Q3 NUMBERS)		
Non-current assets	386	344
Current assets	845	797
Non-current liabilities	275	255
Current liabilities	349	277
Equity	608	608
OTHER INFORMATION		
Group share of equity as of December 31	125	85
Group share of dividend received	13	3

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2018, was EUR 0.6bn (2017: 1.2bn).

IMMATERIAL ASSOCIATES AND JOINT VENTURES

In addition to the interests in associates and joint ventures disclosed above, Danfoss also has interests in a number of individually immaterial associates and joint ventures.

			2017			**2018**
Danfoss' proportionate share of:	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Profit or loss from continuing operations	-1		-1		1	1
Total comprehensive income	-1		-1		1	1
Carrying amount as of December 31	1	13	14	4	13	17

RECONCILIATION OF CARRYING AMOUNT

			2017			**2018**
	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Group share of equity of material associates and joint ventures	125		125	85		85
Goodwill concerning material associates and joint ventures	187		187	187		187
Carrying amount of immaterial associates and joint ventures	1	13	14	4	13	17
Total carrying amount as of December 31 of associates and joint ventures	313	13	326	276	13	289

For further information on associates and joint ventures, please see Note 27 Group companies.

Note 4 Financial income

EURm

	2017	2018
Interest from banks, etc.	3	3
Financial Income	3	3
Interest on financial assets measured at amortized cost	3	3

Note 5 Financial expenses

EURm

	2017	2018
Interest to banks etc.	-43	-36
Interest element on discounted liabilities		-1
Calculated interest on defined benefit plans	-3	-2
Foreign exchange losses, net	-4	-9
Fair value adjustment of share options and warrants	-2	
Loss on other investments	-1	
Borrowing costs recognized in the cost of assets	1	
Financial expenses	-52	-48
Interest on financial liabilities measured at amortized cost	-43	-37

In Foreign exchange losses, net are included fair value hedge impact of EUR -18m (2017: +20 m).
For 2018, no borrowing costs have been recognized in costs of assets. For 2017, the capitalization rate used to determine the amount of borrowing costs to be capitalized is the weighted average interest rate applicable to the entity's general borrowings during the year, in this case 2.8%.

Note 6 Tax on profit

EURm

	2017	2018
Current tax expense	-180	-156
Change in deferred tax	32	9
Adjustments concerning previous years	-3	7
	-151	-140
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Adjustment of tax in foreign subsidiaries calculated at 22.0%	3.8%	1.5%
Tax exempt income/non-deductible expenses	-2.4%	-1.7%
Effect of change in corporate tax rate	-3.7%	-0.1%
Income from associates and joint ventures after tax	-0.1%	1.2%
Adjustment of net tax assets	-0.3%	-0.3%
Other taxes	5.6%	1.8%
Adjustments concerning previous years	0.5%	-1.2%
Effective tax rate	25.4%	23.2%

	2017	2018
Tax on profit (income statement)	-151	-140
Tax on fair value adjustment of hedging instruments (other comprehensive income)	-4	3
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	-13	1
Total taxes	-168	-136

The enactment of US tax reform as of December 22, 2017, impacted the total taxes in 2017. Effect of change in corporate tax rate was impacted by an income from adjusting deferred tax assets and liabilities and other taxes were impacted by an expense from transition tax.

Note 7 Intangible assets

EURm

	Goodwill	Internally developed software	Brand	Technology	Customer relations	Patents, trademarks and other rights	Development costs	**Total Other**	**TOTAL**
Cost as of January 1, 2017	1,722	226	156	645	388	44	71	1,530	3,252
Foreign exchange adjustments in foreign companies	-57	-8	-10	-33	-20		-3	-74	-131
Additions through acquisition of subsidiaries	99			35	9			44	143
Transfers		-36				37		1	1
Additions		63				17		80	80
Disposals		-5				-2		-7	-7
Cost as of December 31, 2017	1,764	240	146	647	376	96	68	1,574	3,338
Amortization and impairment losses as of January 1, 2017	159	155	5	311	212	35	65	783	942
Foreign exchange adjustments in foreign companies	-10	-7	-1	-22	-16		-2	-48	-58
Transfers		-20				21	-1	-1	
Amortization		11	3	42	29	2	3	90	90
Disposals		-5				-2		-7	-7
Amortization and impairment losses as of December 31, 2017	149	134	7	331	225	56	65	818	967
Carrying amount as of December 31, 2017	1,615	106	139	316	151	40	3	756	2,371
Cost as of January 1, 2018	1,764	240	146	647	376	96	68	1,573	3,337
Foreign exchange adjustments in foreign companies	16	3	4	12	7	-1	1	26	42
Additions through acquisition of subsidiaries	23			9	6			15	38
Additions		62				2		64	64
Disposals		-3				-2	-3	-8	-8
Disposals through sale of subsidiaries	-85	-2		-6	-7			-15	-100
Cost as of December 31, 2018	1,718	300	150	662	382	95	66	1,655	3,373
Amortization and impairment losses as of January 1, 2018	149	134	7	331	225	56	65	818	967
Foreign exchange adjustments in foreign companies	3	2	1	9	7	-1	1	19	22
Amortization		14	3	43	28	6	2	96	96
Disposals		-3				-2	-3	-8	-8
Disposals through sale of subsidiaries		-2		-6	-7			-15	-15
Amortization and impairment losses as of December 31, 2018	152	145	11	377	253	59	65	910	1,062
Carrying amount as of December 31, 2018	1,566	155	139	285	129	36	1	745	2,311

Additions/Disposals through acquisitions/sales of subsidiaries are further described in Note 19 Acquisition and sales of subsidiaries and activities.

Note 7 Intangible assets (continued)

EURm

IMPAIRMENT TESTS

At the end of 2018, impairment tests were performed on the carrying amount of goodwill and brand (assets with indefinite useful lives). The impairment tests were performed on business segments representing the base level of cash generating units (CGUs), to which the carrying amount of goodwill and brand can be allocated with reasonable accuracy. The basis for determining the recoverable amount is value-in-use for all cash-generating units.

Acquired activities and companies are integrated as quickly as possible into the respective business segments for optimum synergy. One consequence is that soon after it will not be possible to allocate the carrying amount of goodwill to the acquired companies and activities with reasonable accuracy, and thus it will no longer be possible to perform impairment tests on these individual acquisitions. As part of the impairment test, the net present value of the estimated net cash flow from the CGUs is compared to the carrying amount of the net assets. As acquisitions in Danfoss are made on the basis of 10-year projections, the expected cash flow is calculated on the basis of estimates for the years 2019-2028. The estimates are prepared and approved by the management in the respective CGUs and Group Management. The primary variables are sales, EBIT, working capital and investments.
The discount rates are set under consideration of a market-based cost of equity and cost of debt.

The most significant goodwill allocations as well as the most significant assumptions for the performed impairment tests have been described below.

	2017					2018				
	Danfoss Power Solutions	Danfoss Drives	Danfoss Cooling	Danfoss Heating	Other	Danfoss Power Solutions	Danfoss Drives	Danfoss Cooling	Danfoss Heating	Other
Goodwill as of December 31	236	770	254	353	2	253	770	274	267	2
Brand with indefinite useful life as of December 31	127					131				
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Discount rate before tax in %	11%	11%	11%	10%	11%	11%	10%	11%	10%	10%

The Danfoss Power Solutions brand with a carrying amount EUR 131m (2017: 127m) is not amoritized, but is tested annually for impairment. Global megatrends and industry recognition as one of the market leaders support that the brand will generate cash inflow for the Group for an indefinite period.

The weighted average growth rate until 2028 is based on past performance/management expectation of market development etc. and is estimated to be 2-7% for the business segments, which is at or above the general market development. The growth in net sales is driven by continuous high investments in innovation and market development. The expected average EBIT margins used in the impairment tests are considered reasonable taking past performance and initiatives in the business segments into consideration.

The EBIT and working capital as a percentage of sales are expected to remain unchanged during the terminal period. Investments are assumed to be at the same level as the depreciations. These assumptions are unchanged compared to the impairment tests performed in 2017. The net cash flow during the terminal period from 2029 and onwards is estimated at a 2% annual growth, which is assumed to be at or below the expected growth in the markets addressed by Danfoss.

Management does not assess that a reasonable change in the fundamental assumptions used in the impairment tests will result in recoverable amounts lower than the carrying amounts. The same conclusion was made for 2017.

Note 7 Intangible assets (continued)

Danfoss Power Solutions
The goodwill allocated to Danfoss Power Solutions derives primarily from the Danfoss Group's acquisition of the additional 38.2% of the share capital in Sauer-Danfoss Inc. (USA) in 2008, Propulsys Inc. (White Drive Products Group) (USA) in 2016 and Visedo Oy (Finland) in 2017. At the end of 2018, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to EUR 314m (2017: 344m), or approximately 57% (2017: 57%) of the corresponding Group carrying amount . The carrying amount of Technology and Customer relations is amortized until 2030 and 2032, respectively.

Danfoss Drives
The goodwill allocated to Danfoss Drives Segment derives primarily from the acquisition of Vacon (Finland) in December 2014. At the end of 2018, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 169m (2017: 190m), or approximately 31% (2017: 31%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2026 and 2029, respectively.

Danfoss Cooling
The goodwill allocated to Danfoss Cooling Segment derives primarily from the acquisitions of Scroll Technologies (USA) in 2006 and Danfoss Turbocor Compressors (USA) in 2012. At the end of 2018, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 29m (2017: 27m), or approximately 5% (2017: 4%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2032 and 2028, respectively.

Danfoss Heating
The goodwill allocated to Danfoss Heating Segment derives primarily from the acquisition of the DEVI Group (Denmark) in 2003 and Sondex Holding A/S (Denmark) in 2016. At the end of 2018, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to EUR 41m (2017: 45m), or approximately 7% (2017: 8%) of the corresponding Group carrying amount. The carrying amount of Technology and Customer relations is amortized until 2028.

Other intangible assets
At the end of 2018, Danfoss had Software in progress amounting to EUR 66m (2017: 97m) and EUR 0m (2017: 0m) capitalized development expenditure in progress. Capitalized software in progress is mainly developed internally.

In 2018, the Group performed impairment tests on the carrying amount of software in progress. The actual expenses and achieved milestones has been evaluated according to the approved project and business plans. This led to no impairment of current software assets (2017: 0m).

Note 8 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2017	840	1,373	219	149	2,581
Foreign exchange adjustments in foreign companies	-26	-27	-5	-7	-65
Additions through acquisition of subsidiaries	1	2			3
Transfers	30	63	32	-126	-1
Additions	36	37	45	150	268
Disposals	-3	-19	-50		-72
Cost as of December 31, 2017	878	1,429	241	166	2,714
Depreciation and impairment losses as of January 1, 2017	377	1,037	157		1,571
Foreign exchange adjustments in foreign companies	-6	-11	-4		-21
Transfers		-7	6		-1
Depreciation	32	96	22		150
Disposals	-3	-18	-28		-49
Depreciation and impairment losses as of December 31, 2017	400	1,097	153		1,650
Carrying amount as of December 31, 2017	478	332	88	166	1,064
Cost as of January 1, 2018	878	1,429	241	166	2,714
Foreign exchange adjustments in foreign companies	-5	-1			-6
Additions through acquisition of subsidiaries		1			1
Transfers	50	100	2	-152	
Additions	21	50	27	165	263
Disposals	-11	-26	-12		-49
Disposals through sale of subsidiaries	-8	-5			-13
Cost as of December 31, 2018	925	1,548	258	179	2,910
Depreciation and impairment losses as of January 1, 2018	400	1,097	153		1,650
Foreign exchange adjustments in foreign companies	-1	-3	-1		-5
Transfers		1	-1		
Depreciation	34	95	19		148
Disposals	-7	-25	-11		-43
Disposals through sale of subsidiaries	-5	-4			-9
Depreciation and impairment losses as of December 31, 2018	421	1,161	159		1,741
Carrying amount as of December 31, 2018	504	387	99	179	1,169

Assets held under finance leases amounts to a total carrying amount of EUR 53m (2017: 41m).

Additions/disposals through acquisitions/sales of subsidiaries are further described in Note 19 Acquisition and sale of subsidiaries and activities. The Group's finance leases mainly concerns land & buildings and IT equipment. The Group has options to acquire the leased buildings & equipment at favorable prices at the expiry of the leases.

Note 9 Inventories

EURm

	2017	2018
Raw materials and consumables	281	338
Work in progress	77	88
Finished goods and goods for resale	302	329
Inventories	660	755
Write-downs of inventories	60	61
Carrying amount of write-down inventories stated at net realizable value	31	46
Expensed adjustment of inventories to net realizable value included in cost of sales	9	11
Cost of goods sold included in cost of sales	2,920	3,143

Note 10 Trade Receivables

EURm

	2017	2018
Trade receivables before provision for bad debts	882	883
Provision for bad debts	-26	-25
Trade receivables	856	858
Receivables from associates and joint ventures	6	6
Total trade receivables	862	864
Hereof trade receivables due after 1 year	2	2
Provision for bad debts as of January 1	-26	-26
Foreign exchange adjustments in foreign companies	1	1
Additions through acquisition of subsidiaries	-3	
Change in provisions	-2	-2
Realized loss	4	2
Provision for bad debts as of December 31	-26	-25

Note 11 Share capital

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARES OR 5% OF THE VOTES

	SHARES	VOTES
The Bitten & Mads Clausen's Foundation, Nordborg, Denmark	47.93%	86.13%
Clausen Controls A/S, Sønderborg, Denmark	26.26%	5.47%
Henrik Mads Clausen, Lake Forest, USA	11.04%	2.29%
Karin Clausen, Holte, Denmark	6.24%	1.30%

DISTRIBUTION OF SHARES	A shares		B shares		Total	
	Number	DKKm	Number	DKKm	Number	DKKm
Balance as of January 1, 2017	4,250,000	425.0	5,707,111	570.7	9,957,111	995.7
Share incentive programs subscriptions			12,514	1.3	12,514	1.3
Balance as of December 31, 2017	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0
Balance as of December 31, 2018	4,250,000	425.0	5,719,625	572.0	9,969,625	997.0

Class A shares entitle the holder to ten votes for each share, while Class B shares entitle the holder to one vote for each share. The holders of Class A shares also have pre-emptive rights to Class A shares in the event of any increases in share capital. Otherwise, no shares have special rights. Resolutions regarding amendments to the Articles of Association or Danfoss A/S' dissolution require at least two-thirds of the votes cast as well as two-thirds of the voting share capital represented at the Annual General Meeting to be adopted. The share capital is fully paid in. All shares have a nominal value of 100 DKK.

DIVIDEND PER SHARE	2017		2018	
	DKK	EUR	DKK	EUR
Proposed dividend per 100 DKK share	60.2	8.1	60.2	8.1
Dividend from last year paid per 100 DKK share	50.2	6.7	60.2	8.1

Dividend payment to shareholders has no tax consequences for Danfoss A/S.

DEVELOPMENT IN THE GROUP'S HOLDING OF TREASURY SHARES (NO. OF B-SHARES OF 100 DKK)

	2017	2018
Holding as of January 1	6,589	85,043
Acquired in the year	16,351	2,082
Acquired from The Bitten & Mads Clausen's Foundation	62,403	263,573
Sold in the year	-300	
Holding as of December 31	85,043	350,698

The shareholders meeting of Danfoss A/S has authorized Danfoss A/S to buy back up to 10% of Danfoss A/S' share capital.
The total cost in 2018 for acquiring own shares amounts to EUR 249m (2017: 64m). The Group's holding of treasury shares represents 3.5% (2017: 0.9%) of the Group's share capital. The value of treasury shares held amounts to EUR 328m (2017: 70m).

CAPITAL STRUCTURE

The Capital structure of Danfoss is intended to ensure sufficient financial flexibility and stability over the cycle for the company to reach its strategic goals. It is the policy of the Group to have a "BBB credit rating", and the Group aims for a net-interest-bearing debt to EBITDA ratio and cash flow generation to net-interest-bearing debt to be in line with this policy over the cycle.

Danfoss is currently rated "BBB/A2 with a stable outlook" by Standard and Poor's. End of 2018 the net-interest-bearing debt to EBITDA ratio was 1.0 (2017: 1.2) on a reported basis. Danfoss aims to use the free cash flow before M&A for acquisitions that will develop the business further and to repay interest-bearing debt, and for dividend distribution to shareholders according to policy.

Note 12 Provisions

EURm

Provisions for warranty comprise expected costs arising during the warranty period of the Group's products. Contingent consideration consists of earn-out relating to acquisitions and other provisions mainly consist of certain employee expenses, including jubilee costs. Provisions have been discounted to net present value, if the values are significant.

				2018
	Warranty	Contingent consideration	Other	**TOTAL**
Provisions as of January 1	46	52	53	151
Foreign exchange adjustments in foreign companies			1	1
Disposals through sale of subsidiaries	-1			-1
Transferred to pension and healthcare obligations			-2	-2
Provisions used	-24	-1	-8	-33
Reversal of unused provisions	-3	-4	-3	-10
Additional provisions recognized	28	5	21	54
Interest element on provisions		1		1
Provisions as of December 31	46	53	62	161

				2018
Estimated maturity of above provisions:	Warranty	Contingent consideration	Other	**TOTAL**
Within 1 year	30	1	18	49
Between 1 and 5 years	16	43	22	81
After more than 5 years		9	22	31
Provisions as of December 31	46	53	62	161

Note 13 Deferred tax

EURm

CHANGES IN DEFERRED TAXES

	2017	**2018**
Deferred taxes as of January 1 (net) *)	-160	-145
Foreign exchange adjustment in foreign companies	5	-2
Additions through acquisition of subsidiaries	-9	-1
Adjustments concerning previous years		-2
Deferred tax recognized in the income statement	32	9
Deferred tax recognized in other comprehensive income	-13	1
Deferred taxes as of December 31 (net) *)	-145	-140

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2017	**2018**
	Deferred tax asset	Deferred tax asset
Intangible assets	5	5
Property, plant and equipment and financial assets	39	32
Current assets	27	24
Liabilities	79	92
Tax loss carry-forwards	35	41
Non-capitalized tax assets regarding tax losses	-27	-33
	158	161
Set-off within the same legal entities and jurisdiction	-68	-73
Deferred tax assets	90	88
	Deferred tax liability	Deferred tax liability
Intangible assets	126	119
Property, plant and equipment and financial assets	86	92
Current assets	14	14
Liabilities	68	71
Deferred tax regarding Danish joint taxation	9	5
	303	301
Set-off within the same legal entities and jurisdiction	-68	-73
Deferred tax liabilities	235	228

The tax asset related to tax loss carry-forwards of EUR 8m net (2017: 8m) is largely related to companies that have suffered tax losses within the last three financial years. Based on business plans and expected future taxable income in the respective companies, it is the Management's opinion that the net tax loss carry-forwards will be utilized in the future. Of the tax loss carry-forwards recognized, 91% (2017: 91%) can still be utilized after 3 years or later.

The tax value of unrecognized tax assets related to tax loss carry-forwards amounts to EUR 33m (2017: 27m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utlized. 3% of the amount (2017: 12%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 63% (2017: 75%).

Of the deferred tax liability of EUR 228m (2017: 235m), EUR 5m (2017: 9m) can be attributed to taxes relating to joint taxation with foreign subsidiaries in previous years. The Group has deferred tax liabilities concerning temporary differences in foreign subsidiaries, associates and joint ventures of EUR 19m (2017: 16m). The liabilities are not recognized, because the Group decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

Note 14 Pension and healthcare obligations

EURm

In most countries, Danfoss offers defined contribution plans which are fully funded. However, a few of the foreign subsidiaries have obligations concerning defined benefit plans which are unfunded or only partly funded.
It is the Group's policy that pension and healthcare plans within the Group should, generally, be arranged as defined contribution plans. However, in countries like the USA, the UK and Germany, there is a tradition for defined benefit plans. The geographical split of defined benefit plans is as follows:

	2017		2018	
	Gross liability	Net Liability	Gross liability	Net Liability
Germany	23%	70%	24%	68%
USA	39%	38%	39%	35%
UK	35%	-19%	33%	-17%
Other	3%	11%	4%	14%
Total	100%	100%	100%	100%

The pension plans are based on the individual employee´s salary and years of service in the company. The plans have varying requirements for risk diversification and for matching assets strategies. The majority of the liabilities are either due to deferred members and pensioners, or they are linked to minimum-return guarantees. However, some of the defined benefit plans in the UK and the USA are still linked to final salary for a closed, limited group of less than 200 (2017: 300) active employees. Danfoss is working on minimizing the defined benefit risk by integrated risk management and by changing the nature of existing plans.
All material defined benefit plans have been computed by independent actuaries.

THE GROUP'S DEFINED BENEFIT PLAN OBLIGATIONS

	2017	2018
Present value of defined benefit plan obligations	501	479
Fair value of plan assets	-387	-365
	114	114
Defined benefit plan obligations are presented in the statement of financial position as follows:		
Pension benefit plan assets	22	19
Pension and healthcare plan obligations	136	133
	114	114

Plans with a surplus have been recognized on the basis that future economic benefits are available to the Group in the form of a reduction in future contributions or a cash refund.

DEVELOPMENT IN THE PRESENT VALUE OF DEFINED BENEFIT PLAN OBLIGATIONS

	2017	2018
Provision as of January 1	532	501
Foreign exchange adjustments in foreign companies	-34	8
Pension costs for the year	4	3
Calculated interest on plan liabilities	15	13
Actuarial gains(-)/losses from changes in demographic assumptions	-10	1
Actuarial gains(-)/losses from changes in financial assumptions	16	-20
Gains from reductions and redemptions		-6
Pension income from prior years, curtailments etc.	-1	
Plan participants' contribution liabilities	1	2
Disbursed benefits from the Group	-5	-5
Disbursed benefits from plan assets	-20	-21
Net transfer from provisions	3	3
Provision as of December 31	501	479

Note 14 Pension and healthcare obligations (continued)

EURm

DEVELOPMENT IN THE FAIR VALUE OF PLAN ASSETS

	2017	2018
Plan assets as of January 1	387	387
Foreign exchange adjustments in foreign companies	-29	5
Calculated interest on plan assets	12	11
Plan participants' contribution asset	1	2
Return for the year on plan assets, excluding calculated interest	23	-28
Gains from reductions and redemptions		-6
Payments by the Group	13	14
Disbursed benefits	-20	-21
Net transfer from provisions		1
Plan assets as of December 31	387	365

A few countries may require that the liability is funded, but this is not the case in most countries. Defined benefit plans that are unfunded are mainly related to pension plans in some of the German subsidiaries and the healthcare plan in the USA. Unfunded plans amount to approximately EUR 67m (2017: 65m).

EXPENSES RELATING TO PENSION AND HEALTHCARE OBLIGATIONS

	2017	2018
Pension costs for the year	4	3
Calculated interest on liabilities	15	13
Calculated interest on assets	-12	-11
Pension income from prior years, curtailments etc.	-1	
Expensed in the income statement	6	5
Pension cost stated under cost of sales	2	1
Pension cost stated under administrative expenses	2	2
Other operating income and expenses	-1	
Interest concerning pension and healthcare obligations posted under financial items	3	2
	6	5

ESTIMATED MATURITY OF PROVISIONS

	2017	2018
Within 1 year	20	21
Between 1 and 5 years	82	86
After more than 5 years	399	372
	501	479

Note 14 Pension and healthcare obligations (continued)

EURm

PENSION PLAN ASSETS ARE SPECIFIED AS FOLLOWS:

	2017		2018	
Shares and similar securities	146	38%	114	31%
Listed corporate bonds	128	33%	135	37%
Bonds	86	22%	96	26%
Other	27	7%	20	6%
	387	100%	365	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 31% (2017: 38%) of the funds are invested in shares, which have historically been subject to value fluctuations.

SIGNIFICANT ASSUMPTIONS FOR CALCULATION OF PENSION AND HEALTHCARE OBLIGATIONS AND RELATED COSTS

	2017		2018	
	Range	Weighted average	Range	Weighted average
Discount rate	1.9-3.6%	2.7%	1.9-4.2%	3.1%
Estimated future salary increase	1.8-4.4%	3.6%	1.8-4.5%	3.5%

Life expectancy is based on relevant statistics available on the individual countries included in the calculation. The estimated return on defined benefit plan assets is based on external actuarial calculations and determined according to the composition of the assets and considering the general expectations with regard to economic developments. The Group expects to pay in EUR 17m to defined benefit plans in 2019 (2018: 20m).

SENSITIVITY ANALYSIS

	2017	2018
Reported defined benefit plan obligations	501	479
Increase in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	-35	-32
Decrease in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	+39	+37
Increase in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	+3	+2
Decrease in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	-2	-2
Increase in average life expectancy of 1 year affects the defined benefit plan obligations by	+17	+15
Decrease in average life expectancy of 1 year affects the defined benefit plan obligations by	-16	-15

Note 15 Financial risks and instruments

EURm

FINANCIAL RISKS

Danfoss's profitability, cash flow and balance sheet are exposed to financial market risks as a consequence of the Group's multinational business profile. The risks factors include currency, commodity, credit, interest rate and liquidity risks. The Group's risk management activities focus on risk mitigation, with particular emphasis on protecting the Group's cash flow and profitability in local currency.

The risk management activity of the Group is governed by the Treasury Policy, which is approved and reviewed annually by the Board of Directors. Group Treasury is the function responsible for executing the Treasury Policy and managing the Group's financial market risks in accordance with it. In general, the aim of Group Treasury's risk management activities is to mitigate risk and reduce the volatility of the Group's cash flows and earnings in local currency and not to engage in speculative transactions that increases the financial risk of the Group.

For a description of accounting policies and procedures such as applied recognition criteria and basis of measurement, please see the disclosure under Note 26 Basis for preparation and accounting policies.

CURRENCY EXPOSURE

Currency exposure consists of three elements:

1. Transaction risk: This covers both the balance sheet risk, i.e. the risk related to assets and liabilities denominated in foreign currency, and the risk related to future cash flows in foreign currency. Both risk types have direct cash flow and earnings impact and therefore are the primary focus of Danfoss' currency hedging strategy. The hedging policy is to cover all balance sheet risk and all significant future cash flow risk for a 12-month period on a rolling and layered basis. The policy for cash flow hedge ratios for 2018 and 2017 has been as follows:

0-3 months' exposure	90%
3-6 months' exposure	85%
6-9 months' exposure	80%
9-12 months' exposure	75%

The policy ratio for fair value hedging has been 100% for 2018 and 2017.

2. Translation risk: This is the risk that the P&L and Equity of Danfoss, when measured in EUR, are impacted adversely by currency movements when consolidating the financial statements of subsidiaries. Translation risk (Reporting risk) is generally not hedged. However, it is partly mitigated by keeping an appropriate capital structure in the subsidiaries of the Group in terms of equity and debt in local currency, and by drawing the Group's financing facilities in foreign currency to match the assets of the Group.

3. Economic/structural risk (strategic risk): This risk is not in scope for financial risk management. Economic/Structural currency risk is dealt with statically by keeping an appropriate balance between the geographical footprint of end markets and sourcing markets.

				2017				**2018**
NOMINAL POSITION OF SIGNIFICANT CURRENCIES	EUR	USD	GBP	**Total**	EUR	USD	GBP	**Total**
Receivables and payables	-37	-28	-4	-69	-93	-18	-5	-116
Cash and loans 1)	41	272	-7	306	-31	41	5	15
Derivative financial instruments for hedging of fair value 2)	10	-279	12	-257	118	-22	0	96
Derivative financial instruments for hedging of future cash flow	-402	-113	-37	-552	-407	-153	-35	-595

1) Besides the loans included, loans of EUR 634m (2017: 634m) are used for hedging of net investments (equity hedge). The impact on the Group's equity is EUR -2m (2017: -1m).
2) Financial instrument for hedging of fair value also includes the exposure related to inventories in countries applying foreign currency price lists.

SENSITIVITY

Probable increase in exchange rate	1%	10%	10%		1%	10%	10%	
Hypothetical impact on profit and loss for the year	0	-3	0	-3	0	0	0	0
Hypothetical impact on equity	-10	-15	-3	-28	-10	-15	-4	-29

A decrease in the exchange rates as stated would have had the opposite effect on the profit and equity. The stated sensitivities are based on the recognized financial assets and liabilities at December 31.

Note 15 Financial risks and instruments (continued)

EURm

COMMODITY RISK
Movements in commodity prices can affect the Group's earnings and cash flow. It is Danfoss' policy to ensure that significant risks related to raw materials are reduced through a combination of fixed price agreements with suppliers, active price adjustment and in some cases financial hedging. If commodity exposure is considered material, the price should be fixed for a period of between 6 months and 12 months.
Danfoss has not undertaken financial hedging of commodities in 2018 or 2017.

CREDIT RISK
The Group's credit risks primarily apply to trade receivables and bank deposits (the so-called counterparty risk). It is Danfoss' policy to minimize the risk of losses from credit risk. The counterparty risks towards banks and towards other financial partners are managed by only using solid regional and global financial partners with a credit rating of minimum "A-" or better, according to Standard & Poor's credit rating metric.

The Group applies the simplified approach to provide for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward-looking information. Out of the EUR 25m write down EUR 18m relates to overdue more than 180 days.

Trade receivables are distributed on a large number of customers and geographical areas. The geographical distribution does not differ significantly from the allocation of net sales according to Note 1. Segment reporting. Historically, the Group has only had limited losses on bad debts.

Ageing of trade receivables as of December 31:	**2017**	**2018**
Overdue less than 30 days	36	39
Overdue from 30 to 90 days	15	16
Overdue more than 90 days	22	24
Neither impaired nor overdue at the reporting date	815	810
Total Gross carrying amount	888	889
Provision for bad debts as of December 31	26	25
Net carrying amount	862	864

The carrying amount of trade receivables is estimated to represent their fair value as well as the maximum credit risk.

INTEREST RATE RISK
The Group's interest rate risk derives primarily from interest-bearing debt, cash funds and pension obligations. The Group makes use of both fixed and floating-rate loans, as well as interest rate derivatives to manage this risk. As per Danfoss' Treasury Policy, the interest rate risk on its debt portfolio should not exceed a maximum of 0.1% of Group annual revenue in case of a one-percentage-point parallel shift in interest rates across the interest rate curve.
All things being equal, an increase in the interest rate amounting to one percentage-point compared to the interest rate level on the balance sheet date, would have had the following impact on the profit for a year and equity at the end of the year:

	2017		**2018**	
	Income statement	Equity	Income statement	Equity
Cash and debt with floating interest rates	-1	-1	0	0
Hedge instruments (interest swaps)		4	0	0
	-1	3	0	0

A decrease in the interest rate level amounting to one percentage-point, compared to the interest rate level as of the balance sheet date, would have had the opposite effect. The stated sensitivities are based on the recognized financial assets and liabilities at December 31. Adjustments have not been made for instalments, borrowing, etc.

Note 15 Financial risks and instruments (continued)

EURm

LIQUIDITY RISK

It is Danfoss' financing policy to have a long-term credit rating of minimum "BBB " according to the Standard & Poor's metric, a liquidity reserve of minimum EUR 0.4bn, in terms of accessible cash and non-terminable credit facilities with an average maturity profile of at least 3 years.

At the end of 2018, Danfoss' credit rating from Standard and Poor's was "BBB/A2 with a stable outlook" and the liquidity reserve equaled EUR 1.1bn (2017: 1.0bn). In addition to this, Danfoss had cash and significant amounts of short-term credit lines. The Group considers the liquidity reserve to be adequate in relation to current plans and the market conditions in general. The average maturity profile on non-terminable credit facilities was above 3 years at the end of 2018. The Danfoss Group's loan agreements contain no financial covenants.

The major part of the Group's cash and cash equivalents of EUR 50m (2017: 29m) is placed on short-term deposits.

THE GROUP'S DEBT CATEGORIES AND MATURITIES

					2017					2018
			Maturity					Maturity		
	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	1,002	1,081	112	827	141	939	986	60	538	388
Mortgage debt	71	74		1	72	70	73	2	1	70
Finance lease liabilities	42	45	6	22	17	54	58	7	42	9
Trade payables	776	776	776			883	883	883		
Debt to associates and joint ventures	4	4	4			2	2	2		
Derivative financial liabilities	1	1	1			9	9	9		
	1,896	1,981	899	850	230	1,957	2,011	963	581	467

*) Maturity is evenly spread over the period.

The maturity analysis is based on all non-discounted cash flows, including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flows from derivative financial instruments are presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements. Operating lease liabilities and liabilities relating to the purchase of property, plant and equipment are not included in this specification, but are included in Note 23 Contingent liabilities assets and security.

	2017	2018
Non-current liabilities	1,023	1,007
Current liabilities	873	950
	1,896	1,957

Note 15 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS BY CATEGORY

	2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS:				
Other investments	2	2	3	3
Financial assets measured at fair value via the income statement	2	2	3	3
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	2	2	1	1
Derivative financial instruments for the hedging of future cash flows	8	8		
Financial assets used as hedging instruments	10	10	1	1
Trade receivables	862	862	864	864
Other receivables	122	122	165	165
Cash and cash equivalents	29	29	50	50
Loans, receivables, cash and cash equivalents measured at amortized cost	1,013	1,013	1,079	1,079
FINANCIAL LIABILITIES:				
Contingent consideration measured at fair value via the income statatement	52	52	53	53
Interest-bearing debt	1,115	1,143	1,063	1,085
Trade payables and other debt	1,324	1,324	1,447	1,447
Financial liabilities measured at amortized cost	2,439	2,467	2,510	2,532
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	1	1	4	4
Derivative financial instruments for the hedging of future cash flows			5	5
Financial liabilites used as hedging instruments	1	1	9	9

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap curves and exchange rates. The market value of the interest-bearing debt is recognized as the present value of expected future instalment and interest payments. The discount rate applied is the Group's current borrowing rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2017.

Note 15 Financial risks and instruments (continued)

EURm

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR THE GROUP

				2017				**2018**
	Quoted prices	Observable input	Non observable input		Quoted prices	Observable input	Non observable input	
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:								
Other investments			2	2			3	3
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		2		2		1		1
Derivative financial instruments for the hedging of future cash flows		8		8				
Total financial assets		10	2	12		1	3	4
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		1		1		4		4
Derivative financial instruments for the hedging of future cash flows						5		5
Contingent consideration			52	52			53	53
Interest-bearing debt		1,143		1,143		1,085		1,085
Total financial liabilities		1,144	52	1,196		1,094	53	1,147

Note 15 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2017	2018
Carrying amount as of January 1, assets/liabilities (-)	-40	-50
Acquisitions	-38	-5
Disposals/Reversals	26	5
Gain/loss (-) in the income statement	2	
Carrying amount as of December 31, assets/liabilities (-)	-50	-50

Gain/loss (-) in the income statement is recognized under other operating income and expenses, and financial income and expenses. Fair value of the majority of the financial instruments is determined using discounted cash flow analysis.

DERIVATIVES AS OF DECEMBER 31 FOR THE GROUP

	2017						2018					
	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
USD	-420	6	2	4			-205	-11	-6	-5		
EUR	-447	-1		-1			-352		1	-1		
Other currencies	133	2	-1	4			98	3	3			
Forward exchange contracts		7	1	7				-8	-3	-5		
Interest swaps	318	2		2	-1							
Derivatives end of year		9	1	9	-1			-8	-3	-5		

At the end of 2018, unrealized gain/loss(-) on derivatives hedging foreign currency risk recognized in equity amounted to EUR -5.1m (2017: 6.7m). At the end of 2018, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to EUR 0m (2017: 1.3m). Forward exchange contracts are primarily used for hedging future sales in foreign currencies. Interest rate swaps are used to convert floating-rate liabilities to fixed rates. EUR 0m was recognized in the income statement in 2018 (2017: -0.2m) as a consequence of testing for effectiveness.
For the open foreign exchange contracts, used for USD cash flow hedges, at the end of 2018, weighted average hedge rate for USD/DKK is 6.2504 (2017: 6.4338).

Note 16 Corporation tax

EURm

	2017	2018
Corporation tax payable/receivable (-) as of January 1	-1	37
Foreign exchange adjustment in foreign companies	1	3
Paid during the year	-150	-157
Adjustments concerning previous years	3	-9
Disposals through sale of subsidiaries		-1
Current tax expenses in income statement	180	156
Current tax expenses in other comprehensive income	4	-3
Corporation tax payable/receivable (-) as of December 31	37	26
The above corporation tax is recorded as follows:		
Assets	17	39
Liabilities	54	65
	37	26

Note 17 Adjustment for non-cash transactions

EURm

	2017	2018
Depreciation/amortization and impairment	240	244
Gain(-)/loss on disposal of tangible assets and business activities		-33
Share of profit from associates and joint ventures after tax	-2	33
Financial income	-3	-3
Financial expenses	52	48
Other	-13	-19
Adjustment for non-cash transactions	274	270

The Group's other adjustments for non-cash transactions mainly consist of provisions, derivatives and defined benefit plans.

Note 18 Change in working capital

EURm

	2017	2018
Change in inventories	-71	-103
Change in receivables	-110	-41
Change in trade payables and other debt	245	131
	64	-13

Note 19 Acquisition and sale of subsidiaries and activities

EURm

Company/activity:		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid
							2017
Kavlico thin-film sensor technology from Sensata Technologies	Acquisition	Germany	June	100%	2	40	**
Prosa S.r.l.	Acquisition	Italy	June	100%	3	16	**
Visedo Oy	Acquisition	Finland	November	100%	7	85	**

Company/activity:		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Consideration paid
							2018
IKUSI Telecontrol (business unit of IKUSI Electrónica, S.L.)	Acquisition	Spain	August	100%	13	73	**
AXCO-Motors	Acquisition	Finland	September	100%	2	10	**
OE3i Holding ApS	Acquisition	Denmark	November	100%	0	4	**
AAIM Controls Inc.	Acquisition	US	November	100%	7	26	**
Thermia (Heat Pump business)	Disposal	Sweden	April	100%	70	223	**

*) Net sales in the financial year prior to the acquisition or sale.
** According to non-disclosure obligations, purchase prices are not stated.

2017 acquistions and disposals:
The largest acquisition in 2017 was the purchase of Visedo Oy, which was acquired on November 1. The company is a technology leader in high-efficiency hybrid and electrical solutions, which are used in commercial and off-highway vehicles and in the marine sector. Its sales activities are mainly in Europe and its production and R&D center are located in Finland. Visedo will be a separate business in the Power Solutions Segment. Danfoss also acquired two smaller entities, which are both part of the Cooling Segment. Disposals in 2017 were related to the Sondex Pump business. Acquisition-related costs, e.g. due diligence costs, of EUR 1.3m have been charged to expenses in the consolidated income statement for the year ending December 31, 2017.
The net sales included in the consolidated income statement of the acquired companies in 2017 are less than EUR 7m and impact on Profit before tax is around EUR -3m, with a significant part coming from PPA expenses.

2018 acquistions and disposals:
The Group only carried out minor acquistions in 2018. Ikusi and AXCO relates to the Power Solutions Segment, AAIM is relating to the Cooling Segment and OE3i is relating to the Heating Segment. Acquisition-related costs, e.g. due diligence costs, of EUR 0.4m (2017: 1.3m) have been charged to expenses in the consolidated income statement for the year ending December 31, 2018.
The net sales included in the consolidated income statement of the acquired companies in 2018 are less than EUR 10m and impact on profit before tax is around EUR -2m.

The largest diposal was the sale of the Heat Pump business, which was previously part of the Heating Segment. The Heat Pump business is mainly active in Scandinavia. The gain on the disposal is included in other operating income, cf. Note 2. The impact of the disposal on the Group's Net Sales development from 2017 to 2018 is around -1%.

The preliminary Purchase Price Allocation accounting has calculated total goodwill of EUR 23m. Goodwill arising from the acquisitions is attributable to the value of staff, know-how and synergies expected from combining the operations of the Danfoss Group and the acquired businesses. A part of the goodwill recognized is expected to be deductible for income tax purposes. The final calculation will take place within 12 months from the acquisition date, but no material changes in the allocation of the purchase prices are expected.
Revaluation done for previous year, related to Purchase Price Allocation, is included in the statement below.

Note 19 Acquisition and sale of subsidiaries and activities (continued)

EURm

The following table summarizes the consideration paid/received for acquired/sold companies, and the fair value of assets and liabilities at the closing date.

	2017 Acquisitions	**2018** Acquisitions	**2017** Disposals	**2018** Disposals
Intangible assets, except goodwill	-44	-15		
Property, plant and equipment	-4	-1		4
Other non-current assets, including deferred tax assets	-4			
Inventories	4	-3	1	10
Receivables *)	3	-5		7
Cash and cash equivalents	-3	-1		6
Interest-bearing debts	3			
Provisions, including deferred tax liabilities	21	2		-1
Trade and other payables	5	1	-1	-13
Net assets acquired	-19	-22		13
Recycling of foreign exchange adjustments on disposal of foreign companies				6
Goodwill /profit on disposal	-99	-23		116
Net assets, including goodwill(-)/profit on disposal	-118	-45		135
Cash and cash equivalents	4	1	1	-6
Consideration, net of cash	-114	-44	1	129
Change in short-term payables/ receivables / provisions	10	3		
Net cash paid(-)/received	-104	-41	1	129

*) receivables in acquisitions includes provision for bad debt of EUR 0.5m (2017: 3.2m)

Note 20 Acquisition/ Sale of other investments

EURm

	2017	**2018**
Purchase of shares and other securities	-5	-4
Increase/decrease of lending	-16	-9
	-21	-13

Note 21 Change in liabilities arising from financing activities

EURm

	Short-term borrowings	Long-term borrowings	**TOTAL**
Carrying amount as of January 1, 2017	439	937	1,376
Cash repayment	-364	-453	-817
Cash proceeds	13	582	595
Acquisitions of subsidiaries	3		3
Acquisitions of lease liabilities	4	23	27
Other	-3	-66	-69
Carrying amount as of December 31, 2017	92	1,023	1,115
Cash repayment	-395	-421	-816
Cash proceeds	341	410	751
Acquisitions of lease liabilities	5	11	16
Other	13	-16	-3
Carrying amount as of December 31, 2018	56	1,007	1,063

The Group's other change in liabilities arising from financing activities mainly consists of foreign exchange adjustments and short-term and long-term borrowings reclassification.

Note 22 Contingent liabilities, assets and security

EURm

SECURITY

	2017	2018
Carrying amount of land and buildings pledged as security for bank loans and mortgages	111	123
Leasing assets pledged as security for leasing commitments	3	17
Carrying amount of interest-bearing liabilities with security in assets	117	126

In connection with disposal of subsidiaries, ordinary guarantees and warranties have been issued. These guarantees and warranties are considered to have no impact on the Group's financial position beyond what has been stated in the annual report.

CONTINGENT LIABILITIES

Danfoss A/S is party to a small number of disputes, lawsuits and legal actions, including tax disputes. It is the view of the management that the outcome of these legal actions will have no other significant impact on Danfoss A/S' financial position beyond what has been recognized and stated in the Annual Report.

OPERATING LEASES (LEASE EXPENSES)

Operating lease payments fall due as follows:	2017	2018
Buildings:		
Less than 1 year	26	30
Between 1 and 5 years	49	54
More than 5 years	28	41
Equipment, etc.:		
Less than 1 year	18	14
Between 1 and 5 years	15	14

The Group expensed EUR 63m in operating lease payments in 2018 (2017: 60m) and they relate mainly to buildings and equipment. There were no significant contingent lease payments in 2018 or 2017.

OPERATING LEASES (LEASE INCOME)

Operating lease payments fall due as follows:	2017	2018
Less than 1 year	1	1
Between 1 and 5 years	2	

The Group recognized operating lease income of EUR 3m in 2018 (2017: 2m). The above rentals relate mainly to buildings.

CONTRACTUAL OBLIGATIONS

	2017	2018
Service contract commitment other than leases	54	47
Inventories	133	140
Property, plant and equipment	48	44
Purchase commitments	235	231

Note 23 Related parties

EURm

Danfoss A/S' related parties comprise the Bitten & Mads Clausen's Foundation and other shareholders with significant ownership interests, cf. Note 11 Share capital, as well as subsidiaries, associates, joint ventures, the Board of Directors and the Group Executive Team. Further, related parties comprise companies, in which the above-mentioned persons have controlling interest, joint controlling interests, or significant influence.

BITTEN & MADS CLAUSEN's FOUNDATION, OTHER SHAREHOLDERS AND OTHER RELATED COMPANIES

The Bitten & Mads Clausen's Foundation, which holds 47.93% of the shares in Danfoss A/S and controls 86.13% of the voting power, has the controlling influence.

In the financial year, a limited number of transactions have taken place between the Bitten & Mads Clausen's Foundation, its other subsidiaries and certain shareholders of the Clausen family. The transactions comprise of service and financial transactions and they have been made according to the arm's length principle, or on a cost-covering basis. The total payment to the Danfoss Group does not exceed EUR 3.3m (2017: 3.3m).
In the financial year, the Bitten & Mads Clausen's Foundation sold shares in Danfoss A/S at a value of EUR 246.4m back to the company (2017: 51.2m).
Around 96% of Danfoss A/S' dividend payments are related to the Bitten & Mads Clausen's Foundation and shareholders from the Clausen family.

BOARD OF DIRECTORS AND GROUP EXECUTIVE TEAM

In the financial year, no transactions took place with the Board of Directors and Group Executive Team other than the transactions as a result of conditions of employment, except for the following:

The Group has a rental agreement for a property in Italy with Chairman of the Board Jørgen M. Clausen. The rental agreement runs until and including 2023. The rent payment amounted to EUR 0.2m in 2018 (2017: 0.2m).
Besides that, companies in which Mads-Peter Clausen and Jørgen M. Clausen have significant ownership interests, have sold goods and services of less than EUR 0.7m (2017: 0.7m) to the Danfoss Group.
All transactions were performed on an arm's length basis.

For further information about the salaries of the Board and Group Executive Team, see Note 2 Expenses and other operating income, section A. Personnel expenses.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2017	2018
Sales of goods and services	40	44
Purchases of goods and services	16	15

Transactions besides the above transactions with joint ventures and associates are described in Note 3 Investments, Note 4 Financial income, Note 5 Financial expenses, and Note 15 Financial risks and instruments.

Note 24 Events after the balance sheet date

Subsequent to December 31, 2018, on January 21, 2019, Danfoss entered into a definitive merger agreement with the publicly traded company UQM Technologies Inc. located in Colorado, United States, pursuant to which Danfoss will acquire all outstanding common shares of UQM. The transaction is subject to necessary approvals and is expected to close in the second quarter of 2019.

Note 25 Basis for preparation and accounting policies

Danfoss A/S is a company domiciled in Denmark. The Annual Report for the period January 1 - December 31, 2018, comprises the consolidated financial statements of Danfoss A/S and its subsidiaries (the Group).

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

As of 2018, Danfoss has changed its presentation currency from DKK to EUR. The transition reflects that the main part of the Group's revenue is generated outside Denmark and that EUR is the prevailing functional currency within the Group. Consequently, the Annual Report is presented in EUR, rounded to the nearest million unless otherwise indicated. Comparative figures have been restated accordingly. The functional currency of the Parent Company is DKK.

The Annual Report has been prepared on the basis of the historical cost convention except for the following assets and liabilities, which are measured at fair value: derivative financial instruments, financial instruments classified as available for sale, liabilities related to share options and warrants, contingent considerations from business combinations as well as pension and healthcare obligations. Non-current assets and disposal groups held for sale are measured at the lower carrying amount before the reclassification and fair value less costs to sell.

Changes in accounting policies

Danfoss A/S has implemented the standards and interpretations that have taken effect for 2018.

IFRS 9, Financial instruments: The standard introduces an expected loss model for impairment losses on loans and receivables. This new model has not significantly changed impairment losses compared to those incurred under IAS 39.

The number of classification categories for financial assets is reduced to three: amortized cost, fair value through the income statement and fair value through other comprehensive income. Danfoss is presently only using the methods amortized cost, and fair value through profit and loss. Furthermore, simplified rules on hedge accounting are introduced, but these changes have not impacted the financial statements.

IFRS 15, Revenue from contracts with customers: A new standard on revenue recognition that replaces IAS 11 and IAS 18 among others. The standard may potentially affect revenue recognition in a number of areas, including identification of performance obligations, timing of revenue recognition, recognition of variable considerations, and principal versus agent considerations. The standard also includes a large number of new disclosure requirements.

The implementation of the new standard does not have a material impact on the financial statements due to the following:

- The majority of the revenue is generated from the sale of products to sales terms not effected by the new standard.
- The remaining revenue is related to sale of services, such as installation services, after-sales services and project sales. In materiality, revenue is recognized over time for these services.
- Recognition of a few variable considerations have changed, but these do not have a material impact on the financial statements.
- Identified contract assets and liabilities are not material.

Remaining new standards and interpretations effective for 2018 are not relevant to the Group.

New financial reporting regulations

A number of standards and interpretations have been issued that are not mandatory for Danfoss A/S in the preparation of the 2018 Annual Report.

IFRS 16, Leases: The new standard is effective for financial years beginning on or after January 1, 2019. Going forward, the lessee is required to recognize all leases as a lease liability and a lease asset in the balance sheet, with two exceptions: short-term leases (less than 12 months) and leases relating to low-value assets. It must furthermore be considered whether the agreement is a lease or a service arrangement. The Group will apply a simplified transition approach without restating any comparative information. As of 1st January 2019, property, plant and equipment are expected to increase between EUR 135-145m, deferred tax assets are expected to increase between EUR 1-2m and borrowings are expected to increase between EUR 140-150m. The net impact on retained earnings is expected to between EUR 5-6m.

IFRIC 23, Uncertainty over income tax treatments: The amendment will be effective for financial years beginning on or after 1 January 2019. The interpretation clarifies that it must be determined whether each tax position is to be treated individually or collectively with other uncertain tax positions. The assessment should be based on the assumption that the tax authorities have the same knowledge of the enterprise's circumstances and, therefore, the assessment should disregard any detection risk. This determination may be based on e.g. how tax statements are prepared, or how the enterprise expects the tax authorities to treat the uncertain tax positions. The uncertain tax position must be recognized if it is probable that the enterprise will have to pay or receive refunds. The uncertain tax position must be measured so as to better reflect the receivable/liability and the related uncertainty. The Management has assessed the standard will not have any material impact for the Group.

The Group has assessed the remaining issued but not yet effective standards and interpretations to not have any relevance to the Group

Accounting policies

The accounting policies set out below have been consistently applied in respect of the financial year and the comparative figures.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Danfoss A/S and subsidiaries, in which Danfoss A/S directly or indirectly holds more than 50% of the voting rights, or otherwise controls the company's financial and operating policies with a view to obtaining a yield or other benefits from its activities. Companies in which the Group has between 20% and 50% of the voting rights and exercises a significant influence, but does not control, are considered associates or joint ventures when the joint venture conditions of IFRS 11 are met. When assessing whether Danfoss A/S exercises control or significant influence or joint control, potential voting rights, which can be utilized at the balance sheet date, are taken into account.

The consolidated financial statements are prepared by aggregating the financial statements of the Parent Company and the individual subsidiaries, which have all been prepared in accordance with the accounting policies of Danfoss A/S.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of the identifiable net assets and recognized contingent liabilities at the acquisition date. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends and realized and un-realized profits and losses on transactions between the consolidated companies are eliminated. Un-realized losses are eliminated in the same way as unrealized profits, provided that no impairment has occurred.

In the consolidated financial statements, the items of subsidiaries are recognized in full. The minority interests' proportionate share of the profit/

Note 25 Basis for preparation and accounting policies

loss for the year is recognized as part of the Group's profit/loss for the year and as a separate share of the Group's equity.

The companies included in the Group are disclosed in the section "Group Companies".

Business combinations

Newly acquired or established companies are recognized in the consolidated financial statements from the acquisition date, and divested companies are recognized in the consolidated income statement until the time of divestment. Comparative figures are not restated for newly acquired companies. Unless divested companies are classified as discontinued operations, comparative figures are not restated.

When the Danfoss Group takes over control of acquired companies, the purchase method is applied. This means that the identifiable assets and liabilities, including contingent liabilities, of the acquired companies are stated at fair value at the acquisition date.

Identifiable intangible assets are recognized if they can be separated or arise from a contractual right. The tax effect of revaluations is recognized. The time of takeover is the day when the Danfoss Group de facto obtains control of the acquired company.

The consideration for a business comprises the fair value of the consideration agreed upon, in the form of assets transferred, liabilities assumed and equity instruments issued. If part of the consideration is contingent on future events or in compliance with agreed conditions, that part of the consideration is recognized at fair value at the acquisition date. Costs attributable to business combinations are recognized directly in the income statement when incurred. When a business is taken over in more than one transaction (step acquisition), previously acquired investments are revalued at fair value at the acquisition date, and value adjustments are recognized in the income statement under other operating income or other operating expenses. Management estimates the fair value of the total investment acquired immediately on completion of the step acquisition. Fair value is measured at the cost of the total investment acquired.

If uncertainty exists at the acquisition date concerning the identification or measurement of acquired assets, liabilities or contingent liabilities, initial recognition is made at provisional fair values. If it subsequently becomes apparent that the fair value of identifiable assets and liabilities, including contingent liabilities, differs from the assumed fair value at the acquisition date, the calculation is adjusted retroactively, including goodwill, until 12 months following the acquisition. The effect of the adjustments is recognized in the opening equity and comparative figures are restated, if material. Subsequently, goodwill is not adjusted. Changes in estimates of contingent consideration are recognized directly in the income statement.

Any excess of the cost over the fair value of the identifiable assets and liabilities, including contingent liabilities (goodwill), is recognized as goodwill under intangible assets. Goodwill is not amortized, but is subject to annual impairment tests. The initial impairment test is carried out before the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which form the basis for subsequent impairment tests. Identification of cash-generating units is based on the Group's cash flow, in accordance with the structure in the internal financial reporting. Such cash flow does not always follow the legal structure of the Group.

Goodwill and fair value adjustments related to the acquisition of a foreign unit with a functional currency other than the Danfoss Group's presentation currency are treated as assets and liabilities belonging to the foreign unit and converted to the functional currency of the foreign unit at the exchange rate on the transaction day.

Gain or loss on disposal of subsidiaries, associates or joint ventures are stated as the difference between the sales amount or the disposal amount and the carrying amount of net assets, including goodwill at the date of disposal, less disposal costs.

Minority interests

On initial recognition, minority interests are measured either at fair value or at their proportionate share of the fair value of the acquired company's identifiable assets, liabilities and contingent liabilities. In the case of the former, goodwill is recognized in respect of the minority interests' ownership share in the acquired company, whereas in the latter case, goodwill is not recognized as a part of minority interests.

The measurement of minority interests is determined for each transaction and stated in the notes under the description of acquired companies.

Foreign currency translation

For each of the reporting enterprises in the Group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting enterprise operates. Transactions denominated in currencies other than the functional currency are considered transactions denominated in foreign currencies. On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Currency gains and losses arising on translation are recognized in the income statement under financial items. Non-monetary assets and liabilities denominated in foreign currencies are recognized at the foreign exchange rates at the transaction date.

On recognition in the consolidated financial statements of companies with a functional currency other than EUR, the income statements are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date.

An average exchange rate for each month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized directly in equity under a separate translation reserve. The foreign exchange adjustment is allocated between the equity of the Parent Company and of the minority shareholders.

Foreign exchange adjustments of balances which are considered part of the total net investment in companies with a different functional currency than EUR, are recognized directly in the equity under a separate reserve for foreign exchange adjustments. Likewise, foreign exchange gains or losses are recognized in the consolidated financial statements (directly in the equity under a separate reserve for foreign exchange adjustments) concerning the part of loans and derivative financial instruments, which has been allocated for currency hedging of net investments made in these companies, and which effectively protects against similar currency rate gains or losses on net investments in the company.

On disposal of wholly-owned foreign units, the foreign exchange adjustments, which have been accumulated in equity via other comprehensive income, and which can be ascribed to the unit, are

Note 25 Basis for preparation and accounting policies

reclassified from "Translation reserve" to the income statement, together with any gains or losses from the disposal.

On disposal of partially-owned foreign subsidiaries, the part of the translation reserve related to minority interests is not recognized in the income statement.

Repayments of balances, which are considered part of the net investment, are not considered a partial disposal of the subsidiary.

Income Statement

Net sales from contracts with customers

The Group is selling products and services in areas such as refrigeration, air conditioning, heating, motor control, and off-highway machinery. Net sales of products for resale and finished goods are recognized in the income statement when control of the products has been transferred to the customer. Control is transferred when the products are delivered, which occurs when the Group has objective evidence that all criteria for transfer of risk has been satisfied. Sales are only recognized to the extent that it is highly probable that a significant reversal will not occur. Products are often sold with retrospective volume discounts. Net sales are measured at the fair value of the consideration agreed, excluding VAT, duties and discounts in relation to the sale. Accumulated experience is used to estimate variable considerations (expected value method). The validity of assumptions and estimates are reassessed at each reporting date. Because of historical accurate estimates, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur.

Related service income is recognized in the income statement as the services are rendered. Accordingly, the recognized sale corresponds to the sales value of the work performed during the year. This is determined based on the actual costs incurred relative to the total expected costs. The sale of services is recognized in the income statement when the aggregated income and expenses of the service contract can be reliably measured, and it is probable that the Group will receive the financial benefits, including payments.

The Group's standard payment terms is 30 days net from the date of invoice or current month +15 days, however there may be country specific deviations from the standard payment terms. The Group does not expect to have any contracts where the period between the transfer of the promised products or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money. A receivable is recognized when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

The Group's obligation to repair or replace faulty products under the standard warranty terms is recognized as a provision.

Cost of sales

Cost of sales comprises costs incurred in generating the year's net sales. Such costs include cost of sales or manufacturing costs, including direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases, and depreciation.

Research and development cost

Research and development costs include costs that do not qualify for capitalization including costs, like wages and salaries and consumables.

Selling and distribution costs

Selling and distribution costs comprise costs related to distribution of products sold during the year and sales staff, advertising and exhibition expenses etc., including depreciation. Furthermore, provisions for bad debt are included.

Administrative expenses

Administrative expenses comprise expenses in relation to administrative staff, management, office premises, office expenses etc., including depreciation.

Other operating income and expenses

Other operating income and expenses comprise items secondary to the principal activities of the companies, including gains/losses on disposal of non-current assets and companies, impairment losses, employee termination expenses and government grants. Government grants related to income are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants related to purchase of property, plant and equipment are deducted at the carrying amount of the asset.

Share of profit from investments in associates and joint ventures

The proportionate share of the results of associates and joint ventures after tax is recognized in the consolidated income statement after elimination of the proportionate share of intra-group profits/losses and less goodwill impairment.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, realized and unrealized gains and losses on securities that are valued through the income statement, debt and transactions denominated in foreign currencies, amortization of financial assets and liabilities and surcharges and refunds under the Tax Prepayment Scheme etc. Also included is the interest element of finance leases and gains and losses on derivative financial instruments, which are not designated as hedging arrangements.

Borrowing costs incurred in relation to general borrowing activities or loans, which relate directly to the purchase, construction or development of qualifying assets, are allocated to the cost of such assets.

Balance sheet

Intangible assets

Goodwill

Goodwill is initially recognized in the balance sheet at cost and allocated to cash-generating units as described under "Business combinations". Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

Development projects, software, patents and licenses

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or utilization opportunity within the company is demonstrated, and where the company intends to produce, market or use the project, are recognized as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net selling price can cover cost of sales, selling and distribution costs and administrative expenses and development costs. Other development costs are recognized in the income statement when incurred.

Recognized development projects are measured at cost less accumulated amortization and impairment. Cost includes direct and indirect expenses, including salaries and borrowing costs incurred from specific and general borrowing directly pertaining to the development of development projects.

Note 25 Basis for preparation and accounting policies

Completed development projects, including software, are generally amortized on a straight-line basis over 4 to 8 years. Development projects in progress are not amortized, but annually tested for impairment.

Patents and licenses are measured at cost less accumulated amortization and impairment. Patents are amortized on a straight-line basis over the patent period and licenses are amortized over the shorter of the contract period and the useful life. Patent and contract periods are normally 5-10 years.

Other intangible assets

Other intangible assets, including intangible assets acquired in a business combination, which typically comprise technology and customer relations, are amortized on a straight-line basis over the expected useful life, which is typically a period of 10 to 20 years.

Intangible assets, including trademarks, with indefinite useful lives are not amortized, but are tested annually for impairment.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less costs to sell and the carrying amount at the selling date. Gains or losses are recognized in the income statement under 'Other operating income and expenses'.

Property, plant and equipment

Land and buildings, plant and machinery and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price, expenses for materials, components, sub-suppliers, direct salary expenses, borrowing costs incurred from specific and general borrowing, which directly pertain to the construction of the individual asset and for self-produced assets as well as indirect construction costs. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, and depreciated separately.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognized in the carrying amount of the asset, if it is probable that the costs will result in future economic benefits. All costs incurred for ordinary repairs and maintenance are recognized in the income statement as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives, which are as follows:

Buildings and building components	10-30 years
Plant and machinery	4-8 years
Equipment	2-6 years

The depreciable amount of an asset is determined based on the residual value of the asset less any impairment charges. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount of the asset, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates. Depreciation is recognized in the income statement under 'Costs of sale', 'Distribution costs' or 'Administrative expenses'.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the selling price less costs to sell and the carrying amount at the selling date. Gains or losses are recognized in the income statement under 'Other operating income and expenses'.

The cost of assets held under finance leases is recognized at the acquisition date at the lower of fair value of the assets and the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or the Group's alternative interest rate is used as discount rate. Assets held under finance leases are depreciated and amortized like other property, plant and equipment.

Assets held under operating leases are systematically expensed over the lease period.

Impairment of non-current assets

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment, initially before the end of the acquisition year. Similarly, development projects in progress are subject to an annual impairment test. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized.

The carrying amount of other non-current assets is tested annually for evidence of impairment. When there is evidence that assets may be impaired, an impairment test is made. Impairment is tested by calculating the recoverable amount. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. The value in use is determined as the present value of expected future cash flows from the asset or the cash-generating unit (CGU). If the fair value or value in use cannot be determined on individual assets, the recoverable amount is determined as the fair value of expected future cash flows from activities or the cash-generating unit (CGU) to which the asset belongs. Impairment losses are recognized in the income statement if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.

Impairment of assets is reversed to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after depreciation or amortization, had the asset not been impaired. However, impairment of goodwill is never reversed.

Financial assets

Investments in associates and joint ventures are measured in the consolidated financial statements according to the equity method at the proportionate share of the enterprises including additional value from acquisitions, including goodwill and deduction or addition of proportionate shares of unrealized intra-group profits and losses. Investments in associates and joint ventures are tested for impairment, when evidence of impairment exists. Securities are measured at fair value through the income statement.

Inventories

Inventories are measured at cost. Where the estimated selling price less any costs of completion and selling (net realizable value) is lower than cost, inventories are written down to this lower value. Cost is calculated on the basis of the weighted average method or the FIFO method. The cost of work in progress and finished goods comprises the cost of raw materials and consumables, conversion costs and other costs directly or indirectly attributable to the goods. Indirect production overheads comprise maintenance and depreciation of production facilities and plant as well as administration and management of factories.

Receivables

Receivables are measured at amortized cost. Receivables are written down for bad debt losses based on the simplified approach to providing for expected credit losses, which requires expected lifetime losses to be recognized from initial recognition of receivables. Impairment losses are calculated as the difference between carrying amount and present value of expected cash flows, including the expected realizable value of any collateral provided.

Note 25 Basis for preparation and accounting policies

The discount rate is the effective interest rate used at the time of initial recognition of the receivable.

Equity

Share capital
The share capital comprises the nominal portion of the amounts paid in accordance with the subscription for shares. Share capital can only be released according to the rules relating to capital reduction.

Share premium
Share premium comprises amounts not included in the nominal share capital, which have been paid by the shareholders in connection with capital increases, and gains and losses from the sale of treasury shares. The reserve is part of the company's free reserves.

Reserve for proposed dividends
Dividends are recognized as a liability at the date when they are adopted at the Annual General Meeting. Proposed dividends for the financial year are included in equity under proposed dividends.

Hedging reserve
In connection with hedging of future sales and purchase transactions (cash flows), changes in the fair value of instruments qualifying for hedge accounting (documentation etc.) are recognized in the statement of comprehensive income under hedging reserve, until the hedged transaction is transferred to inventories. The recognized changes in the fair value are recognized in the hedging reserve under equity.

Currency translation reserve
Foreign exchange differences arising on the translation of the opening balance of equity of foreign companies at the exchange rates at the balance sheet date, and on translation of income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized directly in a separate translation reserve in the statement of comprehensive income under the item 'Foreign exchange adjustments of foreign companies'.

Foreign exchange adjustments of non-current balances with foreign subsidiaries and associates, which are considered additions to or deductions from the subsidiaries' equity as well as foreign exchange adjustments of hedging transactions for the purpose of hedging the Group's net investments in subsidiaries, are also recognized directly in the consolidated statement of comprehensive income. The translation reserve in the equity comprises the Parent Company shareholders' share of the foreign exchange adjustments. On complete or partial disposal of a foreign entity or on repayment of balances which constitute part of the net investment in the foreign entity, the share of the cumulative amount of the exchange differences recognized in other comprehensive income relating to that foreign entity is recognized in the income statement when the gain or loss on disposal is recognized.

Reserve for own shares
The reserve for own shares comprises the acquisition cost for the company's portfolio of treasury shares. The dividend from treasury shares is recognized directly in the retained earnings in equity. Gains and losses from the sale of treasury shares are recognized in share premium.

Provisions
A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event in the financial year or previous years, and it is probable that the settlement of the obligation may lead to an outflow of the Group's financial resources, which can be reliably measured at the balance sheet date. The amount recognized as a provision is Management's best estimate of the expenses required to settle the obligation. In measuring provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

For the measurement, a pre-tax discount factor is used which reflects the current market interest rate level and the specific risks related to the liability. Changes in present values for the financial year are recognized under financial expenses.

Warranty provisions are recognized as the underlying goods and services are sold based on warranty costs incurred in the financial year and in previous years.

Provisions for restructuring and employee termination costs are made when the Group has agreed on a detailed and formal plan, and the Group has started implementing the plan or has announced the plan to the persons affected. Restructuring provisions do not include costs for the ongoing operations during the restructuring phase.

Employee shares
On the granting of employee shares, any bonus element is recognized as an expense under personnel costs. The counter entry is recognized directly in equity. The bonus element is determined at the subscription date as the difference between the fair value and the subscription price of the shares.

Pension obligations and defined benefit healthcare plans
The Group has entered into pension schemes and similar arrangements with the majority of the Group's employees. In addition, the Group has healthcare plans contributing with payment for medical expenses for certain employee groups in the USA after their retirement.

Contributions to defined contribution plans, where the Group currently pays fixed pension payments to independent pension funds, are recognized in the income statement in the period to which they relate, and any contributions outstanding are recognized in the balance sheet as other debt.

For defined benefit pension and healthcare plans, the Group is under an obligation to pay a specific benefit upon retirement (e.g. a fixed amount or a percentage of the exit salary). For these plans, an annual actuarial calculation (Projected Unit Credit method) is made of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension and healthcare obligations.

Pension and healthcare costs for the year are recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in assets and liabilities and realized amounts determined at year end constitutes actuarial gains or losses and is recognized directly in other comprehensive income. If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognized as past service costs. Past service costs are recognized immediately, provided that the benefits have already vested. If the benefits have not vested, the past service costs are expensed in the income statement over the period in which the changed benefits vest.

If a pension or healthcare plan constitutes a net asset, the asset is only recognized if it offsets future refunds from the plan or will lead to reduced future payments to the plan.

Note 25 Basis for preparation and accounting policies

Other long-term employee benefits
Similarly, other long-term employee benefits are recognized based on an actuarial calculation. However, actuarial gains and losses are recognized in the income statement immediately. Other long-term employee benefits include jubilee benefits.

Financial liabilities, other than derivatives
Financial liabilities are initially recognized at fair value less transaction costs. Subsequently, they are measured at amortized cost. Amortized cost implies the recognition of a constant effective interest rate to maturity. Amortized cost is calculated as initial cost less any principal repayments and plus or minus the cumulative amortization of any difference between cost and nominal amount. Any capitalized residual obligation on finance leases is recognized in the balance sheet as a liability. The interest element of the lease payment is expensed in the income statement under financial items.

Derivative financial instruments
Derivative financial instruments, such as forward exchange contracts or options and commodity contracts, are recognized and measured at fair value. Positive and negative fair values of derivative financial instruments are shown as separate items in the balance sheet. Set-off of positive and negative values is only made when the Company has the right and the intention to settle several financial instruments net.

Provided that the documentation requirements etc. are met, hedge accounting is applied to the instruments. In connection with hedging of future sales and purchase transactions (cash flows), changes in the fair value of instruments qualifying for hedge accounting are recognized in the statement of comprehensive income under the hedging reserve until the hedged transaction is occurs in the balance sheet.

At this point, gains or losses relating to such hedging transactions are transferred from the statement of comprehensive income and are recognized in the same item as the hedged transaction. If the instruments do not qualify for hedge accounting, changes in market value are recognized directly in the income statement under financial items.

Corporation tax and deferred tax
Companies belonging to Danfoss A/S are generally liable to pay tax in the countries where they are domiciled. The current tax includes both Danish and foreign income taxes.

Income statement
The current and deferred taxes for the year are recognized in the income statement, except for tax related to transactions recognized in the statement of comprehensive income or directly in equity.

Surcharges, premiums and refunds relating to tax payments are recognized in financial income and expenses.

Balance sheet
Current tax payable and receivable are recognized in the balance sheet as tax computed on the taxable income for the year, adjusted for tax paid under the tax prepayment scheme. In the course of conducting business globally, transfer pricing disputes with tax authorities may occur and management judgment is applied to assess the possible outcome of such disputes. The most probable outcome is used as measurement method.

Deferred tax liabilities and deferred tax assets are measured according to the balance sheet liability method, which means that all temporary differences between the carrying amount and the tax base of assets and liabilities are recognized in the balance sheet as deferred tax liabilities and deferred tax assets, respectively. Exceptions are any tax incurred by selling shares in subsidiaries and which the Group can identify as being a tax liability and tax relating to goodwill, which is not deductible for tax purposes. Deferred tax assets are recognized at the expected value of their utilization; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Adjustment is made for deferred tax resulting from elimination of unrealized intra-Group profits and losses. Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallize as current tax.

Statement of Cash flows
The statement of cash flows shows the cash flows from operating, investing and financing activities for the year, and cash equivalents at the beginning and the end of the year. The cash flow effect of acquisitions and disposals of companies is shown separately under cash flows from investing activities.

Cash flows relating to acquired companies are recognized in the statement of cash flows at the acquisition date, and cash flows relating to divested companies are included until the disposal date.

Cash flows from operating activities
Cash flows from operating activities are calculated according to the indirect method on the basis of profit before tax/profit before tax from continuing operations and adjusted for non-cash operating items, changes in working capital, paid financial items, received dividend and paid corporation taxes.

Cash flows from investing activities
Cash flows from investing activities comprises payment in connection with the acquisition and disposal of companies and activities, intangible assets and property, plant and equipment as well as securities classified as investing activities. Acquisitions of assets under finance leases are treated as non-cash transactions.

Cash flows from financing activities
Cash flows from financing activities comprise changes in the size or composition of the share capital, the raising and repayment of long-term and short-term bank debt, acquisition of minority interests, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents
Cash and cash equivalents comprise bank account deposits and cash balances.

Segment information
The segment information applies to the internal management reporting and is prepared according to the Group's accounting policies. Segment income, expenses, assets and liabilities comprise those items, which can be allocated on a reliable basis. Items, which are not allocated, primarily include income and expenses incurred by corporate functions, deferred tax (assets and liabilities), receivable and payable tax, other receivables and payables, cash and interest-bearing liabilities.

Non-current segment assets are those non-current assets, which are used directly for segment operations, including intangible assets and property, plant and equipment as well as investments in associates and joint ventures. The majority of the Group's buildings are recognized under Other areas in the segment reporting, as buildings are managed and operated by a real-estate unit. The segments are instead charged with rent/lease expenses for the use of these assets.

Current assets are those current assets which are used directly for segment operations, including inventories and trade receivables.

Segment liabilities comprise both non-current and current liabilities derived from segment operations, including trade payables and warranty obligations as well as other provisions.

Note 25 Basis for preparation and accounting policies

Trade between segments takes place on market terms or on a cost recovery basis.

Financial ratios

Earnings per share (EPS) and diluted earnings per share (DEPS) are calculated in accordance with IAS 33.

The financial ratios in the Annual Report are calculated in the following manner:

Local currency growth
Sales growth adjusted for exchange rate translation effects

EBITDA margin excluding other operating income, etc.
Operating profit (EBIT) before depreciation, amortization, impairment and other operating income and expenses and profit from associates & joint ventures /Net sales

EBITDA margin
Operating profit (EBIT) before depreciation, amortization, impairment and profit from associates & joint ventures /Net sales

EBIT margin excluding other operating income, etc.
Operating profit (EBIT) excluding other operating income and expenses and profit from associates & joint ventures /Net sales

EBIT margin
Operating profit (EBIT)/Net sales

Return on Invested Capital (ROIC)
Operating profit (EBIT)/average invested capital

Invested Capital
Net interest bearing debt added to Shareholders' Equity

Return on Invested Capital (ROIC) after tax
EBIT after tax/average invested capital excluding tax

Invested capital excluding tax
Net interest bearing debt and tax balance sheet items (net) added to shareholders' equity

EBIT after tax
Operating profit (EBIT) reduced with tax on profit

Return on equity
Net profit after minority interests' share/average equity excluding minority interests

Equity ratio
Equity/total assets

Leverage ratio
Interest bearing debt/equity at year-end

Net interest-bearing debt to EBITDA ratio
Interest-bearing debt less interest-bearing assets/EBITDA

Dividend pay-out ratio
Total dividends distributed to shareholders/net profit

Dividend ratio per share
Total dividends distributed to shareholders/total shares

Free cash flow before M&A
Free cash flow before acquisition of subsidiaries, proceeds from disposal of subsidiaries and acquisitions/sales of other investments

Note 26 Critical accounting estimates

As a consequence of the accounting policies, determining the carrying amount of certain assets and liabilities requires estimates of how future events will affect the value of these assets and liabilities at the balance sheet date.

The volatility of the global economy and the financial markets has made it more difficult to forecast the development of some future key assumptions – such as liquidity risk, credit risk, interest level and capital management etc. Therefore, Danfoss provides additional information about items in the consolidated financial statements whose carrying amount is at risk of being adjusted considerably over the next few years. Estimates which are significant for the preparation of the financial statements include goodwill, investments in associates and joint ventures, assessment of depreciation, amortization and impairment of non-current assets, measurement of deferred tax assets and measurement of pension and healthcare obligations. The estimates used are based on Management assumptions, which are assessed to be reliable, but which are inherently subject to uncertainty.

Accordingly, Danfoss is subject to risks and uncertainties, which may cause actual results to differ from these estimates. For the Group, the measurement of intangible assets could be materially affected by significant changes in estimates and assumptions on which the measurement is based.

Impairment of goodwill

In performing the annual impairment test of goodwill, an assessment is made of whether the individual units of the enterprise (cash generating units) to which goodwill relates will be able to generate sufficient positive net cash flows to support the value of goodwill and other net assets of the unit.

Due to the nature of the Group's operations, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty due to changes in the global economic situation and changes in the strategy of the Group. This uncertainty is reflected in the chosen discount rate. The impairment test of goodwill and the particularly sensitive parts of the test are described in detail in Note 7 Intangible assets.

Impairment of associates and joint ventures

Danfoss performs impairment tests concerning investments in associates and joint ventures whenever indicators for impairment are present. Due to the nature of the operations of the investments, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty. The investments in associates and joint ventures are described in more detail in Note 3 Investments.

Useful life and residual value of non-current assets

Non-current assets are measured at cost less accumulated amortization, depreciation and impairment. Amortization and depreciation is made on a straight-line basis over the useful lives of the assets, taking into account the asset's residual value. Expected useful lives and residual values are determined based on historical experience and expectations of the future use of the non-current assets. The expectations for future use and residual values may not be met, which may lead to a future reassessment of useful lives and residual values and a need for impairment write-downs or the incurrence of gain or losses on the disposal of the non-current assets.

The amortization and depreciation periods used are described in the accounting policies in Note 25, and the value of non-current assets is disclosed in Note 7 Intangible assets and Note 8 Property, plant and equipment.

Measurement of recognized tax assets and liabilities

Deferred taxes, including the tax value of tax loss carryforwards, are recognized at their expected value. The assessment of deferred tax assets regarding tax loss carryforwards is based on the expected future taxable income of the respective units and the expiration date of the losses. Please see Note 13 Deferred tax assets and liabilities for unrecognized deferred tax assets.

In the course of conducting business globally, transfer pricing disputes with tax authorities may occur and Management judgment is applied to assess the possible outcome of such disputes. The most probable outcome is used as measurement method, and Management believes that the provision made for uncertain tax positions not yet settled with local authorities is adequate. However, the actual obligation may deviate and is dependent on the results of the litigation and settlement with the relevant tax authorities. Corporation tax is disclosed in Note 16 Corporation tax.

Defined benefit plans and healthcare obligations

The Group has established defined benefit plans with certain employees at some of the Group's foreign companies. The plans place the Group under an obligation to pay a certain benefit in connection with retirement (e.g. in the form of a fixed amount at retirement or a share of the employee's exit salary). The pension obligations are determined by discounting the pension obligations at the present value. The present value is determined on the basis of assumptions about the future development in economic variables such as interest rates, inflation, mortality and disability probabilities, which are subject to some degree of uncertainty. External actuaries are used for the measurement of all significant defined benefit plans. The assumptions used are disclosed in Note 14 Pension plans and healthcare obligations.

Note 27 Group companies

Per December 31, 2018
The companies are owned 100% by Danfoss unless otherwise stated after the company name.

Danfoss A/S
Nordborg, Denmark (Parent Company)

- Subsidiary
- Associate or joint venture

Europe

Austria
- Danfoss Gesellschaft m.b.H.

Belgium
- Danfoss N.V./S.A.
- Danfoss Power Solutions BVBA
- Hydro-Gear Europe BVBA

Bulgaria
- Danfoss EOOD

Croatia
- Danfoss d.o.o.

Czech Republic
- Danfoss s.r.o.

Denmark
- BetterHome ApS – 33%
- Danfoss A/S
- Danfoss Compressors Holding A/S
- Danfoss Distribution Services A/S
- Danfoss International A/S
- Danfoss IXA A/S – 73%
- Danfoss Power Electronics A/S
- Danfoss Power Solutions ApS
- Danfoss Power Solutions Holding ApS
- Danfoss Power Solutions Holding II ApS
- Danfoss Redan A/S
- Danfoss Semco A/S – 60%
- Gemina Termix Production A/S
- Issab Holding ApS
- Sondex A/S
- Sondex Holding A/S
- Sondex Service A/S
- Sondex Rusland Holding ApS
- Sondex Teknik A/S
- Sondex Unit A/S
- OE3i ApS
- OE3i IP ApS
- OE3i Holding ApS

Estonia
- Danfoss AS

Finland
- Danfoss Power Solutions Oy Ab
- Oy Danfoss Ab
- Leanheat Oy – 46%
- Sondex Tapiro Oy Ab
- Vacon Oy
- Danfoss Editron Oy

France
- Danfoss Commercial Compressors S.A.
- Danfoss Power Solutions SAS
- Danfoss S.a.r.l.

Germany
- BD Kompressor Holding GmbH & Co. KG – 50% (joint venture)
- Danfoss Esslingen GmbH
- Danfoss Flensburg GmbH
- Danfoss GmbH
- Danfoss Power Solutions GmbH & Co. OHG
- Danfoss Power Solutions Holding GmbH
- Danfoss Power Solutions Informatic GmbH
- Danfoss Power Solutions Telekontrol GmbH
- Danfoss Sensors GmbH
- Danfoss Silicon Power GmbH
- Danfoss Werk Offenbach GmbH
- SMA Solar Technology AG – 20%
- Sondex Deutschland GmbH
- White Drive Products GmbH – in liquidation

Great Britain
- Danfoss Limited
- Danfoss Power Solutions Ltd.
- Danfoss Scotland Limited
- Senstronics Holding Ltd. – 50% (joint venture)
- Sondex (UK) Limited
- Vacon Drives (UK) Ltd. – in liquidation

Hungary
- Danfoss Ktf.
- Sondex Kft.

Iceland
- Danfoss hf.

Italy
- Danfoss Power Solutions S.r.l.
- Danfoss S.r.l.
- Sondex Italia S.r.l.

Kazakhstan
- Danfoss LLP

Latvia
- Danfoss SIA

Lithuania
- Danfoss UAB

The Netherlands
- Advitronic Engineering B.V.
- Danfoss B.V.
- Danfoss Power Solutions B.V.
- Sondex B.V.
- Sondex Holding Netherlands B.V.
- Danfoss Editron B.V.

Norway
- Danfoss AS
- Danfoss Power Solutions AS

Poland
- Danfoss Poland Sp. z.o.o.
- Danfoss Power Solutions Sp .z.o.o.
- Danfoss Saginomiya Sp. z.o.o. – 50% (joint venture)
- Elektronika S.A. – 50% (joint venture)
- Sondex Braze Sp. z.o.o.
- Sondex Poland Sp. z.o.o.
- Sondex Polska Sp. z.o.o.
- Sondex Sp. z.o.o.

Romania
- Danfoss District Heating S.R.L.
- Danfoss S.R.L.
- S.C. Sondex Production S.R.L.

Russia
- AO Ridan
- Danfoss Dzerzhinsk LLC
- Danfoss LLC
- Danfoss Power Solutions LLC
- T Plus Danfoss LLC

Serbia
- Danfoss d.o.o.

Slovakia
- Danfoss Power Solutions a.s.
- Danfoss spol. s.r.o.
- Sondex PHE s.r.o. – in liquidation

Slovenia
- Danfoss Trata d.o.o.

Spain
- Danfoss S.A.
- Danfoss Power Solutions Telecontrol, S.L.U.
- Danfoss Power Solutions S.A.

Sweden
- Danfoss AB
- Danfoss Power Solutions AB
- EP Technology AB

Switzerland
- Danfoss AG

Note 27 Group companies

Ukraine
- Danfoss T.o.v.

Africa – Middle east

Turkey
- DAF Enerji Sanayi Ve Ticaret Anonim Sirketi
- Danfoss Otomasyon ve Kontrol Urunleri Tic Ltd.
- Sondex-Tanpera

United Arab Emirates
- Danfoss FZCO – 95%
- Gulf Sondex FZCO

South Africa
- Danfoss (Pty) Ltd.
- Sondex South Africa Pty. Ltd.

North America

Canada
- Danfoss Inc.

USA
- AAIM Controls, Inc.
- Daikin-Sauer-Danfoss America LLC – 45%
- Danfoss LLC
- Danfoss Power Solutions Inc.
- Danfoss Silicon Power LLC
- Danfoss Power Solutions (US) Company
- Danfoss Power Solutions Telecontrol US Inc.
- Danfoss Power Solutions Work Function, LLC
- Danfoss Turbocor Compressors Inc.
- Hydro-Gear Inc. – 60%
- Hydro-Gear Limited Partnership – 60%
- Hydro-Gear of Indiana, LLC
- Polaris Plate Heat Exchangers, LLC
- Sondex Equipment Holding Co., LLC
- Sondex, Inc.
- Sondex Properties, Inc.
- White Hydraulics, Inc.

Latin America

Argentina
- Danfoss S.A.

Brazil
- Danfoss do Brasil Indústria e Comércio Ltda.
- Danfoss Power Solutions Ind. e. Com. Electrohidraulica Ltda.
- Sondex Brasil Ltda.
- Sondex ICP Latin America

Chile
- Danfoss Industrias Ltda.

Colombia
- Danfoss S.A.

Mexico
- Danfoss Industries S.A. de C.V.

Asia-Pacific

Australia
- Danfoss (Australia) Pty. Ltd.
- Danfoss Power Solutions Pty. Ltd.
- Sondex Australia Pty. Ltd.
- Sondex Engineering Pty. Ltd.

P. R. of China
- Danfoss Automatic Controls Management (Shanghai) Co. Ltd.
- Danfoss (Anshan) Controls Co. Ltd.
- Danfoss Industries Limited
- Danfoss (Tianjin) Limited
- Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd.
- Danfoss Plate Heat Exchanger (Hangzhou) Co., Ltd.
- Danfoss Power Solutions (Jiangsu) Co., Ltd.
- Danfoss Power Solutions Trading (Shanghai) Co., Ltd.
- Danfoss Power Solutions (Zhejiang) Co., Ltd.
- Danfoss Semco (Tianjin) Fire Protection Equipment Co., Ltd.– 60%
- Danfoss Shanghai Hydrostatic Transmission Co. Ltd.– 60%
- K Products Company Ltd.
- Sondex Heat Exchangers (Ningbo) Co. Ltd.
- Sondex Heat Exchangers (Taicang) Co. Ltd.
- Tau Energy Holdings (HK) Limited
- Vacon China Drives Co. Ltd.
- Visedo (Asia) Ltd.
- White (China) Drive Products. Ltd.
- Zheijang Holip Electronic Technology Co. Ltd.

India
- Danfoss Industries Pvt. Ltd.
- Danfoss Power Solutions India Pvt. Ltd.
- Sondex Heat Exchangers India Pvt. Ltd.

Indonesia
- PT Danfoss Indonesia
- PT Sondex Indonesia

Iran
- Danfoss Pars Private Joint Stock Company – in liquidation

Japan
- Daikin-Sauer-Danfoss Ltd. – 45%
- Danfoss Power Solutions Ltd.

Malaysia
- Danfoss Industries Sdn. Bhd.
- Sondex Heat Exchangers Malaysia Sdn. Bhd.

Philippines
- Danfoss Inc.

Singapore
- Danfoss Industries Pte. Ltd.
- Danfoss Power Solutions Pte. Ltd.
- Sondex South East Asia Pte. Ltd.

South Korea
- Danfoss Ltd.
- Danfoss Power Solutions Ltd.
- Sondex Korea LLC

Taiwan
- Danfoss Co. Ltd.

Thailand
- Danfoss (Thailand) Co. Ltd.

New Zealand
- Danfoss (New Zealand) Ltd.
- Sondex NZ Ltd.

Parent accounts and notes

Nordhavn

It is Scandinavia's largest urban development project. Over the next 50 years, Copenhagen's Nordhavn in Denmark will become a district of 40,000 residents and 40,000 workplaces. The old free port has always set its sights on new horizons. And today, Nordhavn is where the future of energy solutions will happen, and our heating and cooling technologies will set the direction, leading to high energy efficiency and reduced carbon footprint.

Management's review for Danfoss A/S

(Part of Management's review)

Danfoss A/S is the Parent Company of the Danfoss Group. In addition to holding the shares of most of the other Danfoss Group companies, an important function of the company is to fund the Group's activities. The Company also constitutes the corporate framework for some of Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. Danfoss A/S had 2,905 employees at the end of 2018.

The profit before other operating income and expenses was EUR 72m against EUR 104m in 2017. The company's operating profit was EUR 65m against EUR 88m the previous year.

Financial income and expenses amounted to a net income of EUR 212m against a net income of EUR 256m the previous year. This was mainly attributable to a decrease in distributed dividends from subsidiaries.

The profit after tax in 2018 was EUR 259m against EUR 311m the previous year.

Equity stood at EUR 2,886m at the end of 2018 against EUR 2,966m at the end of 2017. The increase was mainly attributable to recognition of the profit for the year less dividends paid to the owners.

Danfoss A/S expects net sales for 2019 to be on a level with the 2018 figures, and the company expects to report a profit in 2019.

Income statement

January 1 to December 31

EURm	Note	2017	2018
Net sales	1	1,243	1,248
Cost of sales	1	-951	-1,004
GROSS PROFIT		**292**	**244**
Research and development costs	1	-40	-35
Selling and distribution costs	1	-87	-87
Administrative expenses	1	-61	-50
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**104**	**72**
Other operating income and expenses	1	-16	-7
OPERATING PROFIT (EBIT)		**88**	**65**
Financial income	2	299	258
Financial expenses	3	-43	-46
PROFIT BEFORE TAX		**344**	**277**
Tax on profit	4	-33	-18
NET PROFIT		**311**	**259**
Attributable to:			
Proposed dividends reserve		81	80
Other reserves		230	179
		311	**259**

Statement of comprehensive income

January 1 to December 31

EURm	2017	2018
NET PROFIT	**311**	**259**
OTHER COMPREHENSIVE INCOME		
Foreign exchange adjustments on translation of DKK into EUR		-10
Fair value adjustment of hedging instruments:		
Hedging transferred to financial expenses in the income statement	2	-1
Tax on hedging instruments	-1	
Items that can be reclassified to profit or loss	**1**	**-11**
OTHER COMPREHENSIVE INCOME AFTER TAX	**1**	**-11**
TOTAL COMPREHENSIVE INCOME	**312**	**248**

Statement of financial position

As of December 31

EURm	Note	2017	2018
ASSETS			
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	5	**179**	**218**
PROPERTY, PLANT AND EQUIPMENT	6	**235**	**251**
Investments	7	3,545	2,898
OTHER NON-CURRENT ASSETS		**3,545**	**2,898**
TOTAL NON-CURRENT ASSETS		**3,959**	**3,367**
CURRENT ASSETS			
INVENTORIES		**85**	**90**
Trade receivables external		41	38
Trade receivables from subsidiaries		92	91
Short-term loans to subsidiaries		1,316	1,246
Derivative financial instruments (positive fair value)	9	10	
Other receivables		17	30
RECEIVABLES		**1,476**	**1,405**
CASH AND CASH EQUIVALENTS	9		**25**
TOTAL CURRENT ASSETS		**1,561**	**1,520**
TOTAL ASSETS		**5,520**	**4,887**

Statement of financial position

As of December 31

EURm	Note	2017	2018
LIABILITIES AND SHAREHOLDERS' EQUITY		**2017**	**2018**
SHAREHOLDERS' EQUITY		**2,966**	**2,886**
LIABILITIES			
Provisions	9	45	49
Deferred tax liabilities	8	39	31
Pension and healthcare benefit plan obligations		2	2
Borrowings	9	968	951
Other non-current debt		16	18
NON-CURRENT LIABILITIES		**1,070**	**1,051**
Provisions		6	10
Borrowings	9	37	11
Trade payables		142	183
Trade payables to subsidiaries		16	15
Borrowings from subsidiaries		1,174	615
Debt to associates and joint ventures		3	2
Corporation tax	10	4	10
Derivative financial instruments (negative fair value)	9		9
Other debt		102	95
CURRENT LIABILITIES		**1,484**	**950**
TOTAL LIABILITIES		**2,554**	**2,001**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,520**	**4,887**

Statement of cash flow

January 1 to December 31

EURm	Note	2017	2018
Profit before tax		344	277
Adjustments for non-cash transactions	11	-283	-150
Change in working capital		27	20
CASH FLOW GENERATED FROM OPERATIONS		**88**	**147**
Interest received		54	55
Interest paid		-33	-24
Dividends received		192	124
CASH FLOW FROM OPERATIONS BEFORE TAX		**301**	**302**
Paid tax	10	-26	-20
CASH FLOW FROM OPERATING ACTIVITIES		**275**	**282**
Acquisition of intangible assets		-53	-54
Acquisition of property, plant and equipment		-71	-28
Proceeds from sale of property, plant and equipment		21	1
Acquisition of subsidiaries		-128	-114
Proceeds from disposal of subsidiaries			153
Cash repayment of (-)/cash proceeds from loans to subsidiaries		15	730
Acquisition (-)/sale of other investments, etc.			-1
CASH FLOW FROM INVESTING ACTIVITIES		**-216**	**687**
FREE CASH FLOW		**59**	**969**
Cash repayment of interest-bearing debt	12	-817	-751
Cash proceeds from interest-bearing debt	12	583	692
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		296	-556
Repurchase of treasury shares		-54	-249
Dividends paid to shareholders in the Parent Company		-67	-80
CASH FLOW FROM FINANCING ACTIVITIES		**-59**	**-944**
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**0**	**25**

The cash flow statement cannot be derived on the basis of the Annual Report alone.

Statement of changes in equity

EURm	Share capital	Share premium	Hedging reserves	Reserve own shares	Reserve for capitalized development projects	Other reserves	Reserves	Proposed dividends	Total equity
BALANCE AS OF JANUARY 1, 2017	**134**			-4	23	2,555	**2,574**	**67**	**2,775**
Net profit						230	**230**	**81**	**311**
Software development costs					38	-38			
Fair value adjustment of hedging instruments			2				**2**		**2**
Tax on other comprehensive income			-1				**-1**		**-1**
Total other comprehensive income			1				**1**		**1**
Total comprehensive income for the period			1		38	192	**231**	**81**	**312**
Dividends to shareholders								**-67**	**-67**
Purchase of treasury shares				-54			**-54**		**-54**
Capital increase		**10**		-10			**-10**		
Total transactions with owners		**10**		-64			**-64**	**-67**	**-121**
BALANCE AS OF DECEMBER 31, 2017	**134**	**10**	1	-68	61	2,747	**2,741**	**81**	**2,966**
Net profit						179	**179**	**80**	**259**
Software development costs					32	-32			
Currency translation adjustments						-10	**-10**		**-10**
Fair value adjustment of hedging instruments			-1				**-1**		**-1**
Total other comprehensive income			-1			-10	**-11**		**-11**
Total comprehensive income for the period			-1		32	137	**168**	**80**	**248**
Dividends to shareholders						1	**1**	**-81**	**-80**
Purchase of treasury shares				-248			**-248**		**-248**
Total transactions with owners				-248		1	**-247**	**-81**	**-328**
BALANCE AS OF DECEMBER 31, 2018	**134**	**10**		-316	93	2,885	**2,662**	**80**	**2,886**

For further information on Share capital, see Note 11 Share capital, in Group section.

Notes

Note 1 Net sales, expenses and other operating income
Note 2 Financial income
Note 3 Financial expenses
Note 4 Tax on profit
Note 5 Intangible assets
Note 6 Property, plant and equipment
Note 7 Investments
Note 8 Deferred tax
Note 9 Financial risks and instruments
Note 10 Corporation tax
Note 11 Adjustment for non-cash transactions
Note 12 Change in liabilities arising from financing activities
Note 13 Contingent liabilities, assets and security
Note 14 Related parties
Note 15 Events after the balance sheet date
Note 16 General accounting policies for Danfoss A/S
Note 17 Significant accounting estimates for Danfoss A/S

Note 1 Net Sales, expenses and other operating income

EURm

A. NET SALES

	2017	2018
Sale of goods	1,005	1,000
Sale of services to Group members	238	248
	1,243	1,248

Sales of services to Group members mainly includes services sold in relation to Group functions.

B. PERSONNEL EXPENSES

	2017	2018
Salaries and wages	236	251
Severance payments	12	8
Social security	1	2
Pension cost - Defined contribution plans	19	20
	268	281
Average number of employees	2,734	2,841
Total number of employees as of end of the year	2,779	2,905

	2017	2018
Remuneration to Group Executive Team and Board of Directors:		
Salaries	7	4
Pension costs	2	1
Bonuses	12	7
Severance payments	9	
Group Executive Team	30	12
Board of Director's fee	1	1
Total	31	13

Total remuneration for registered and former registered members of Executive Management amounts to EUR 9m (2017: 26m).

Due to change of management structure the remuneration reflects the Group Executive Team from 2017.
In 2017 total remuneration for 4 former members of Group Executive Team is included in salaries, pensions, bonuses and severance payments.

Note 1 Net Sales, expenses and other operating income

EURm

C. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2017	2018
Classification by nature:		
Amortization of intangible assets	6	15
	6	15
Depreciation of property, plant and equipment	25	27
Depreciation/amortization and impairment losses	31	42
Classification of amortization/impairment of intangible assets by functions:		
Cost of sales	3	12
Selling and distribution costs	2	2
Administrative expenses	1	1
Other operating expenses	6	15

D. OTHER OPERATING INCOME AND EXPENSES

	2017	2018
Other		2
Other operating income		2
Restructuring costs	-12	-8
Other	-4	-1
Other operating expenses	-16	-9
Other operating income and expenses	-16	-7

E. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2017	2018
Audit fee	1	1
Other assurance engagements fee		
Tax and VAT advice		
Other fees	1	1
Total fee to Group Auditor	2	2

Fees for other services than statutory audit of the financial statements provided by PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab (PricewaterhouseCoopers Denmark) amounted to EUR 1.2m (2017: 0.7m). Other services than statutory audit of the financial statements comprise services relating to transfer pricing, tax audits, due diligence and agreed-upon procedures, as well as accounting advice.

Note 2 Financial income

EURm

	2017	2018
Dividend from subsidiaries and associates/joint ventures	192	124
Interest from subsidiaries	58	62
Reversal of impairment/gain on disposal of subsidiaries and associates/joint ventures	26	71
Foreign exchange gains, net	23	
Interest from banks, etc.		1
	299	258
Interest on financial assets measured at amortized cost	58	63

Note 3 Financial expenses

EURm

	2017	2018
Interest to banks, etc.	-27	-24
Foreign exchange losses, net		-8
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-8	-6
Interest to subsidiaries	-5	-8
Fair value adjustment of share options and warrants	-2	
Loss on other investments	-1	
	-43	-46
Interest on financial liabilities measured at amortized cost	-32	-32

In Foreign exchange losses, net are included fair value hedge impact of EUR -21m (2017: +17m).

Note 4 Tax on profit

EURm

	2017	2018
Current tax expense	-32	-31
Change in deferred tax	-1	8
Adjustments concerning previous years		5
	-33	-18
Tax on profit is defined as:		
Tax on profit before tax	22.0%	22.0%
Tax-exempt income/non-deductible expenses	-0.8%	-4.9%
Dividends exempt of tax	-12.3%	-9.8%
Other taxes	1.0%	0.9%
Adjustments concerning previous years	-0.1%	-1.7%
Effective tax rate	9.8%	6.5%

	2017	2018
Tax on profit (income statement)	-33	-18
Tax on fair value adjustment of hedging instruments (other comprehensive income)	-1	
Total taxes	-34	-18

Note 5 Intangible assets

EURm

	Goodwill	Internally developed software	Patents, trademarks and other rights	Development costs	Total Other	TOTAL
Cost as of January 1, 2017	62	118	32	14	164	226
Addition through merger with subsidiaries	2					2
Additions		53			53	53
Disposals		-3			-3	-3
Cost as of December 31, 2017	64	168	32	14	214	278
Amortization and impairment losses as of January 1, 2017		62	20	14	96	96
Amortization		4	2		6	6
Disposals		-3			-3	-3
Amortization and impairment losses as of December 31, 2017		63	22	14	99	99
Carrying amount as of December 31, 2017	64	105	10		115	179
Cost as of January 1, 2018	64	168	32	14	214	278
Transfers		-35	35			
Additions		54			54	54
Disposals		-1		-3	-4	-4
Cost as of December 31, 2018	64	186	67	11	264	328
Amortization and impairment losses as of January 1, 2018		63	22	14	99	99
Transfers		-20	20			
Amortization		11	4		15	15
Disposals		-1		-3	-4	-4
Amortization and impairment losses as of December 31, 2018		53	46	11	110	110
Carrying amount as of December 31, 2018	64	133	21		154	218

"Internally developed software" mainly relates to the One ERP Program described in Management's review for Group, page 30.

IMPAIRMENT TESTS

Goodwill in Danfoss A/S of EUR 64m (2017: 64m) is mainly a consequence of Danfoss A/S having merged with other Danish subsidiaries, in particular the merger with DEVI A/S in 2010.
At the end of 2018, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were perfomed on Danfoss A/S representing the base level of cash generating units (CGUs), to which the carrying amount of goodwill can be allocated with reasonable accuracy. The impairment test method is similar to the impairment test performed at Group level described in Note 7 Intangible assets in the Danfoss Group accounts.

Management does not assess that a reasonable change in the fundamental assumptions used in the impairment tests will result in a recoverable amount lower than the carrying amount. The same conclusion was made for 2017.

Note 6 Property, plant and equipment

EURm

	Land and buildings	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1, 2017	253	291	80	58	682
Transfers	14	11	20	-45	
Additions	2	2	40	27	71
Disposals		-4	-43		-47
Cost as of December 31, 2017	269	300	97	40	706
Depreciation and impairment losses as of January 1, 2017	164	261	46		471
Depreciation	7	7	11		25
Disposals		-3	-22		-25
Depreciation and impairment losses as of December 31, 2017	171	265	35		471
Carrying amount as of December 31, 2017	98	35	62	40	235
Cost as of January 1, 2018	269	300	97	40	706
Foreign exchange adjustments	-1	-1			-2
Transfers	10	18	2	-30	
Additions	3		18	23	44
Disposals		-5	-1		-6
Cost as of December 31, 2018	281	312	116	33	742
Depreciation and impairment losses as of January 1, 2018	171	265	35		471
Foreign exchange adjustments		-1			-1
Depreciation	8	10	9		27
Disposals		-5	-1		-6
Depreciation and impairment losses as of December 31, 2018	179	269	43		491
Carrying amount as of December 31, 2018	102	43	73	33	251

Assets held under finance leases amount to a total carrying amount of EUR 16m (2017: 2m).

Note 7 Investments

EURm	2017 Investments in subsidiaries	2017 Receivables from subsidiaries	2017 Investments in associates and joint ventures	2017 Other investments	2017 TOTAL	2018 Investments in subsidiaries	2018 Receivables from subsidiaries	2018 Investments in associates and joint ventures	2018 Other investments	2018 TOTAL
Costs as of January 1	2,518	761	316	18	3,613	2,623	665	316	18	3,622
Foreign exchange adjustments, etc.	-4	-92			-96	-8		-2		-10
Additions	163				163	114			1	115
Disposals	-54	-4			-58	-83	-664			-747
Costs as of December 31	2,623	665	316	18	3,622	2,646	1	314	19	2,980
Adjustments as of January 1	-124		-6	-15	-145	-56		-5	-16	-77
Value adjustment				-1	-1					
Reversed impairment	25		1		26	1				1
Impairment for the year	-3				-3	-6				-6
Disposal	46				46					
Adjustments as of December 31	-56		-5	-16	-77	-61		-5	-16	-82
Carrying amount as of December 31	2,567	665	311	2	3,545	2,585	1	309	3	2,898

Where indicators for impairment were present at the end of 2018, impairment tests were performed on the carrying amount of "Investments in subsidiaries, associates and joint ventures". Main indicators are loss-giving activities, or if the carrying amount is higher than the equity in the local accounts or, where relevant, higher than valuation using a listed share price. When performing the impairment test, the present value of cash flow from subsidiaries, associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2017.

Additions for the year to "Investments in subsidiaries" is mainly the acquisition of Danfoss Power Solutions companies relating to the simplification of Danfoss Group legal structure. Disposal for the year of "Investments in subsidiaries" mainly relates to the sales of Danfoss Värmepumpar AB.

Impairment losses for the year on "Investments in subsidiaries" of EUR 6m mainly relates to Danfoss IXA A/S and Advitronics Engineering B.V. The impairment losses are mainly due to low earnings in the entities in question during recent years.
Impairment losses/reversed impairment are reported as financial expenses/financial income.

Additions for 2017 to "Investments in subsidiaries" is mainly the acquisition of Visedo Oy and Prosa S.r.l. Disposal for the year of "Investments in subsidiaries" mainly relates to the closing of Avenir Energie.

Impairment losses for 2017 on "Investments in subsidiaries" of EUR 3m mainly relates to Danfoss IXA A/S. The impairment losses are mainly due to the fact that the entities in question have been loss-making.
Reversed impairment for 2017 on "Investments in subsidiaries" of EUR 25m is primarily related to Danfoss Distribution Services A/S and Danfoss District Heating SRL which have improved earnings in recent years.
Impairment losses/reversed impairment are reported as financial expenses/financial income.

Further information on subsidiaries, associates and joint ventures is provided in Note 2 Financial income, Note 3 Financial expenses, Note 9 Financial risks and instruments, and Note 14 Related parties.

Note 8 Deferred tax

EURm

CHANGES IN DEFERRED TAXES

	2017	2018
Deferred taxes as of January 1 (net) *)	-38	-39
Deferred tax recognized in the income statement	-1	8
Deferred taxes as of December 31 (net) *)	-39	-31

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2017	2018
	Deferred tax asset	Deferred tax asset
Liabilities	7	12
Set-off within the same legal entities and jurisdiction	-7	-12
Deferred tax assets	0	0
	Deferred tax liability	Deferred tax liability
Intangible assets	6	3
Property, plant and equipment and financial assets	11	16
Current assets	5	3
Liabilities	15	16
Deferred tax regarding Danish joint taxation	9	5
	46	43
Set-off within the same legal entities and jurisdiction	-7	-12
Deferred tax liabilities	39	31

Of the deferred tax liability of EUR 31m (2017: 39m), EUR 5m (2017: 9m) can be attributed to tax relating to joint taxation with foreign subsidiaries in previous years. Danfoss A/S has deferred tax liabilities concerning temporary differences in foreign subsidiaries and associates and joint ventures of EUR 3m (2017: 4m). The liabilities are not recognized, because Danfoss A/S decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

Note 9 Financial risks and instruments

EURm

FINANCIAL INSTRUMENTS

Below are relevant financial instrument specifications regarding Danfoss A/S. A description of financial risks can be found in the Group section see Note 15 Financial risks and instruments, to which reference is made.

CONTRACTUAL PAYMENTS ON FINANCIAL LIABILITIES

	2017					2018				
			Maturity					Maturity		
	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cash flow	0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	944	1,010	52	820	138	888	935	17	530	388
Mortgage debt	60	63		1	62	59	61		1	60
Borrowings from subsidiaries	1,174	1,174	1,174			615	615	615		
Finance lease liabilities	1	1		1		15	16	5	11	
Trade payables	142	142	142			183	183	183		
Trade payables to subsidiaries	16	16	16			15	15	15		
Debt to associates and joint ventures	3	3	3			2	2	2		
Derivative financial liabilities						9	9	9		
	2,340	2,409	1,387	822	200	1,786	1,836	846	542	448

*) Maturity is evenly spread over the period.

The maturity analysis is based on all non-discounted cash flow, including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flow from derivative financial instruments is presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements. Operating lease liabilities and liabilities relating to the purchase of property, plant and equipment are not included in this specification, but are included in Note 13 Contingent liabilities, assets and security.

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2017	2018
Non-current liabilities	968	951
Current liabilities	1,372	835
	2,340	1,786

Note 9 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS BY CATEGORY

	2017		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL ASSETS:				
Other investment	2	2	3	3
Financial assets measured at fair value in the income statement	2	2	3	3
Trade receivables	41	41	38	38
Trade receivables from subsidiaries	92	92	91	91
Short-term loans to subsidiaries	1,316	1,316	1,246	1,246
Other receivables	17	17	30	30
Cash and cash equivalents			25	25
Loans, receivables, cash and cash equivalents measured at amortized cost	1,466	1,466	1,430	1,430
Derivative financial instruments for the hedging of future cash flows	1	1		
Financial assets used as hedging instruments	1	1		
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	9	9		
Financial assets, measured at fair value in the income statement	9	9		
FINANCIAL LIABILITIES:				
Contingent consideration measured at fair value via the income statatement	40	40	40	40
Interest-bearing debt	1,005	1,032	962	986
Debt to subsidiaries	16	16	15	15
Borrowing from subsidiaries	1,174	1,174	615	615
Trade payables and other debt	263	263	298	298
Financial liabilities measured at amortized cost	2,458	2,485	1,890	1,914
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities			9	9
Financial liabilities measured at fair value in the income statement			9	9

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap prices and exchange rates. The market value of the interest-bearing debt is recognized at the present value of expected future instalment and interest payments. The discount rate applied was the Group's current borrowing rate on loans for corresponding terms. The short-term floating-rate bank debt is stated at the par value. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2017.

Note 9 Financial risks and instruments (continued)

EURm

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR DANFOSS A/S

	2017				2018			
	Quoted prices	Observable input	Non observable input	In total	Quoted prices	Observable input	Non observable input	In total
	Level 1	Level 2	Level 3		Level 1	Level 2	Level 3	
FINANCIAL ASSETS:								
Other investments			2	2			3	3
Derivative financial instruments for the hedging of future cash flow		1		1				
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		9		9				
Total financial assets		10	2	12			3	3
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities						9		9
Contingent consideration			40	40			40	40
Interest-bearing debt		1032		1,032		986		986
Total financial liabilities		1,032	40	1,072		995	40	1,035

Note 9 Financial risks and instruments (continued)

EURm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2017	2018
Carrying amount as of January 1, assets/liabilities (-)		-38
Acquisitions	-38	-2
Disposals/Reversals	1	3
Gain/loss (-) in the income statement	-1	
Carrying amount as of December 31	-38	-37

Gain/loss (-) in the income statement is recognized under other operating income and expenses, and financial income and expenses.

Fair value of the majority of the the financial instruments is determined using discounted cash flow analysis.

DERIVATIVES AS OF DECEMBER 31 FOR DANFOSS A/S

	2017						2018					
	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price/principal	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
USD	-415	8	8				-156	-11	-11			
EUR	-423	-1	-1				-329	-1	-1			
Other currencies	133	2	2				98	3	3			
Forward exchange contracts		9	9					-9	-9			
Interest swaps	318	1		2	-1							
Derivatives end of year		10	9	2	-1			-9	-9			

At the end of 2018, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to EUR 0m (2017: 1m).

Note 10 Corporation tax

EURm

	2017	2018
Corporation tax payable/receivable (-) as of January 1	-3	4
Paid during the year	-26	-20
Adjustments concerning previous years		-5
Current tax expenses in income statement	32	31
Current tax expenses in other comprehensive income	1	
Corporation tax payable/receivable (-) as of December 31	4	10
The above corporation tax is recorded as follows:		
Liabilities	4	10
	4	10

Note 11 Adjustment for non-cash transactions

EURm

	2017	2018
Depreciation/amortization and impairment	31	42
Gain(-)/loss on disposal of tangible assets and business activities		-1
Financial income	-299	-258
Financial expenses	43	46
Other, including provisions	-58	21
Adjustment for non-cash transactions	-283	-150

Note 12 Change in liabilities arising from financing activities

EURm

	Short-term borrowings	Long-term borrowings	**TOTAL**
Carrying amount as of January 1, 2017	397	905	1,302
Cash repayment	-364	-453	-817
Cash proceeds	1	582	583
Acquisitions of lease liabilities	1	1	2
Other	2	-67	-65
Carrying amount as of December 31, 2017	37	968	1,005
Cash repayment	-335	-416	-751
Cash proceeds	287	405	692
Acquisitions of lease liabilities	4	11	15
Reclassification	18	-18	
Other		1	1
Carrying amount as of December 31, 2018	11	951	962

Note 13 Contingent liabilities, assets and security

EURm

SECURITY

	2017	2018
Carrying amount of land and buildings pledged as security for bank loans and mortgages	96	101
Leasing assets pledged as security for leasing commitments	2	16
Carrying amount of interest-bearing liabilities with security in assets	61	75

In connection with disposal of subsidiaries, ordinary guarantees and warranties have been issued. These guarantees and warranties are considered to have no impact on the financial position beyond what has been stated in the Annual Report.

CONTINGENT LIABILITIES

Danfoss A/S is party to a small number of disputes, lawsuits and legal actions, including tax disputes. It is the view of the Management that the outcome of these legal actions will have no other significant impact on Danfoss A/S' financial position beyond what has been recognized and stated in the Annual Report.

OPERATING LEASES (LEASE EXPENSES)

Operating lease payments fall due as follows:	2017	2018
Buildings:		
Less than 1 year	2	1
Between 1 and 5 years	5	3
More than 5 years	4	3
Equipment, etc.:		
Less than 1 year	5	2
Between 1 and 5 years	3	1

OPERATING LEASES (LEASE INCOME)

Operating lease payments fall due as follows:	2017	2018
Less than 1 year	2	2

The operating lease income in Danfoss A/S primarily relates to the letting of buildings to the subsidiaries.

CONTRACTUAL OBLIGATIONS

	2017	2018
Service contract commitment other than leases	41	36
Inventories	43	43
Property, plant and equipment	4	5
Hereof commitments relating to succeeding year	70	72

Note 14 Related parties

For more information about related parties, see Note 23 Related parties, in Group section.

EURm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2017	**2018**
Purchases of goods and services	16	16

Transactions besides the above transactions with joint ventures and associates are described in Note 2 Financial income, Note 3 Financial expenses, Note 7 Investments and Note 9 Financial risks and instruments.

TRANSACTIONS BETWEEN DANFOSS A/S AND THE SUBSIDIARIES

	2017	**2018**
Sales of goods and services	1,117	1,148
Purchases of goods and services	426	407
Disposal of intangible assets and property, plant and equipment	1	4

Transactions besides the above transactions between Danfoss A/S and subsidiaries are described in Note 2 Financial income, Note 3 Financial expenses, Note 7 Investments, and Note 9 Financial risks and instruments.

Note 15 Events after the balance sheet date

Subsequent to December 31, 2018, there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the Annual Report.

Note 16 General accounting policies for Danfoss A/S

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2018, comprises the financial statements of Danfoss A/S.

The financial statements of Danfoss A/S have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for listed companies. Unless otherwise indicated, the Annual Report is presented in EUR rounded to the nearest million.

The Board of Directors and the Group Executive Team reviewed and approved the Annual Report 2018 on February 28, 2019, and it will be presented for approval at the Annual General Meeting to be held on April 26, 2019. The Annual General Meeting has the power to amend and reissue the financial statements.

Besides the following section, the accounting policies for Danfoss A/S are the same as for the Danfoss Group. Please refer to Note 25 in the consolidated financial statements for the Danfoss Group. The impact of new accounting standards, as described in Note 25 in the consolidated financial statements for the Danfoss Group is also assessed as immaterial to Danfoss A/S.

IFRS 16, leases: As of 1st January 2019, property, plant and equipment are expected to increase between EUR 12-15m and borrowings are also expected to increase within the same range.
The net impact on retained earnings is expected to be EUR 0m.

INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES
In Danfoss A/S' financial statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is made. If the recoverable amount is lower than cost, investments are writen down to this lower value. Impairments are recognized in Danfoss A/S' income statement under financial expenses. Reversal of impairments are recognized under financial income.

Dividends from investments in subsidiaries, associates and joint ventures are recognized in Danfoss A/S' income statement under financial income in the year, when the dividends are declared.

CORPORATION TAX AND DEFERRED TAX
Danfoss A/S is jointly taxed with its Danish subsidiaries and sister subsidiaries. Current tax and deferred tax is allocated between the jointly taxed companies. The jointly taxed companies are taxed under the tax prepayment scheme.

RESERVE FOR CAPITALIZED DEVELOPMENT PROJECTS
Danfoss A/S has established a non-distributable reserve in equity regarding development projects capitalized. This reserve will be reversed as the development projects have effect on the income statements. The amount is presented net of deferred tax.

Note 17 Significant accounting estimates for Danfoss A/S

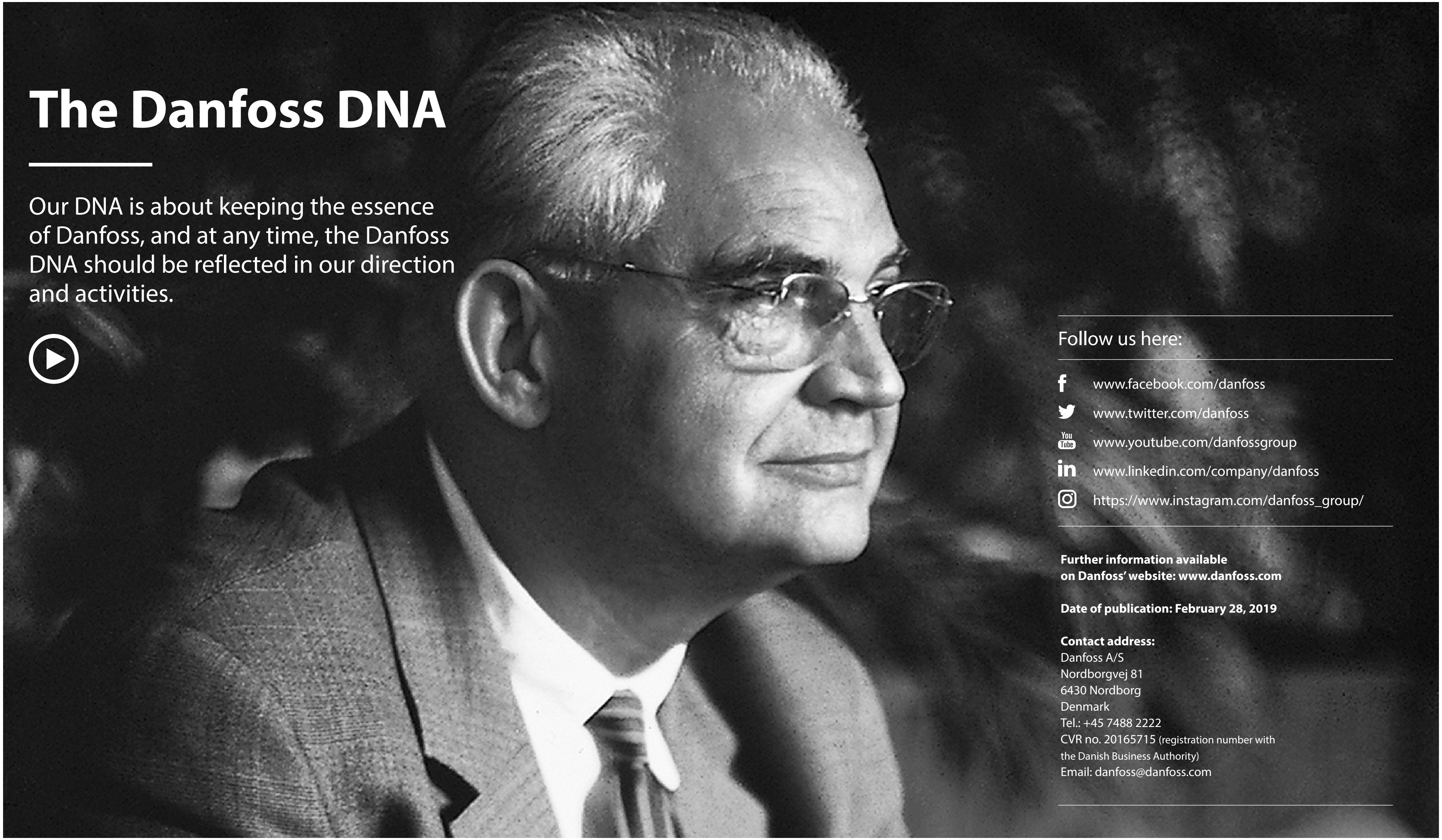
Significant accounting estimates for Danfoss A/S concern investments in subsidiaries, associates and joint ventures.

In Danfoss A/S' financial statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of indication of impairment, an impairment test is made. If the recoverable amount is lower than cost, investments are written down to this lower value.

Due to the nature of the operations of the investments, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty. The investments in subsidiaries, associates and joint ventures are described in more detail in Note 7 Investments.

ENGINEERING
TOMORROW

Danfoss



The Danfoss DNA

Our DNA is about keeping the essence of Danfoss, and at any time, the Danfoss DNA should be reflected in our direction and activities.

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

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Contact address:
Danfoss A/S
Nordborgvej 81
6430 Nordborg
Denmark
Tel.: +45 7488 2222
CVR no. 20165715 (registration number with the Danish Business Authority)
Email: danfoss@danfoss.com