ENGINEERING TOMORROW

Annual Report 2015

www.danfoss.com

Find us here: **Danfoss.com**

www.facebook.com/danfoss

www.twitter.com/danfoss

http://plus.google.com/+danfoss

www.youtube.com/danfossgroup

www.linkedin.com/company/danfoss

Contents

Management Review

Financial Statements

With leading expertise in refrigeration and air conditioning, controls for electric motors, heating systems for buildings and cities, and hydraulic solutions to power agricultural and construction machinery, our impact can be felt everywhere.

Quality, innovation and reliability are rooted in our DNA. Our technologies and products can be trusted to push the boundaries for what is possible, deliver exceptional performance and answer the real needs of our customers.

We see opportunities everywhere – from feeding a growing population, to saving energy, to letting everyone enjoy a more comfortable, better quality of life. We aim to rise to ever more complex challenges and, through knowledge and hard work, engineer solutions that achieve more with less.

This is what drives us. To realize more of the potential of this amazing world. And engineer the dreams of tomorrow, today. Our ambition is to realize the vast potential for better infrastructure, improved food supply, higher energy productivity and more climate-friendly solutions. For our customers, we aim to deliver unprecedented quality, reliability and innovation in everything we do.

Watch how Danfoss is 'Engineering Tomorrow' here.


We are
engineering tomorrow

Danfoss at a glance

Danfoss engineers technologies that enable the world of tomorrow to do more with less. We meet the growing need for infrastructure, food supply, energy efficiency and climate-friendly solutions.

Key facts

61

factories in **20 countries** and Danfoss sells its products in more than **100 countries**

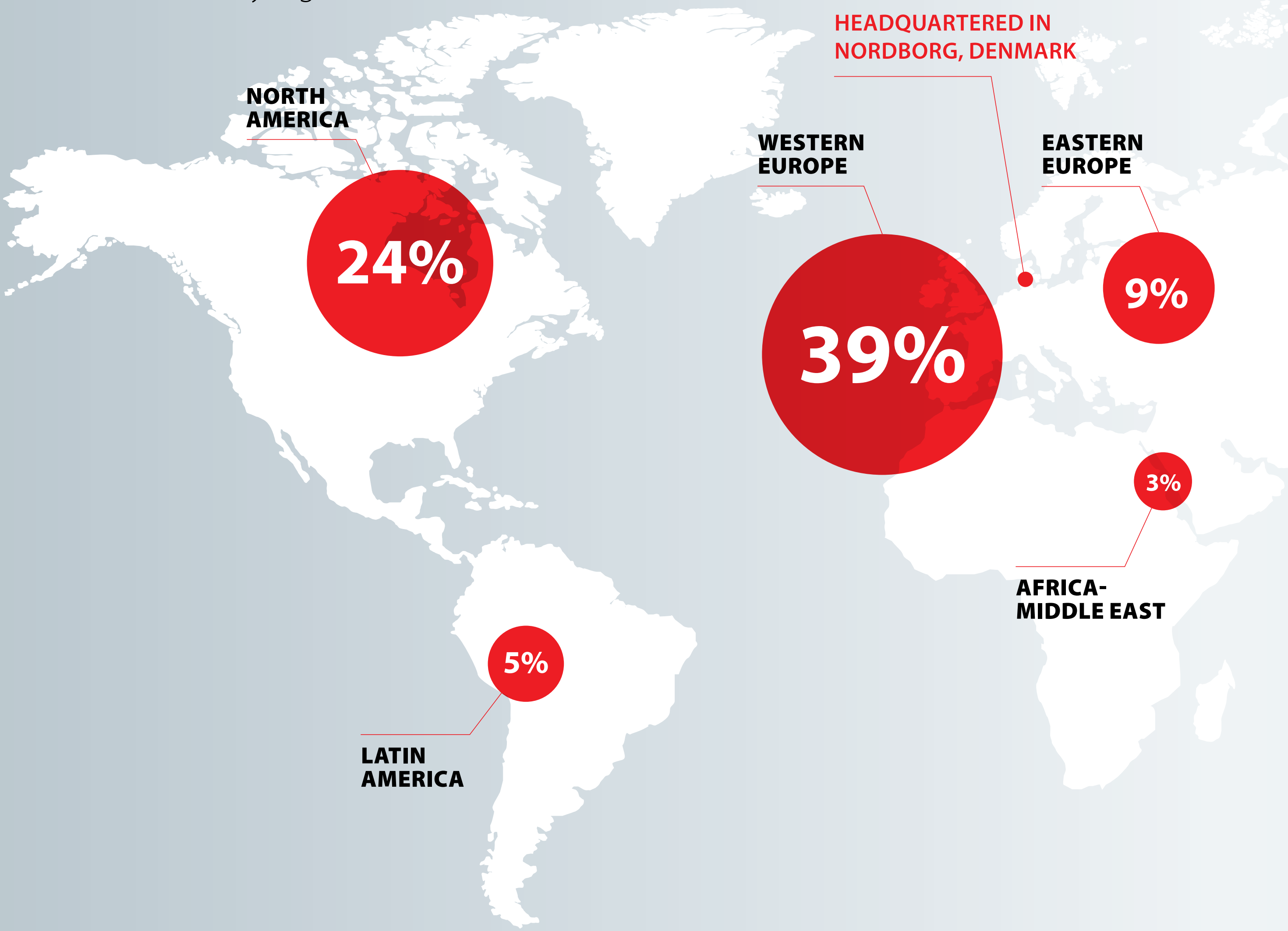
23,420

employees dedicated to engineering solutions that make a difference to people and businesses worldwide

1,381

patent families

Sales distribution by regions

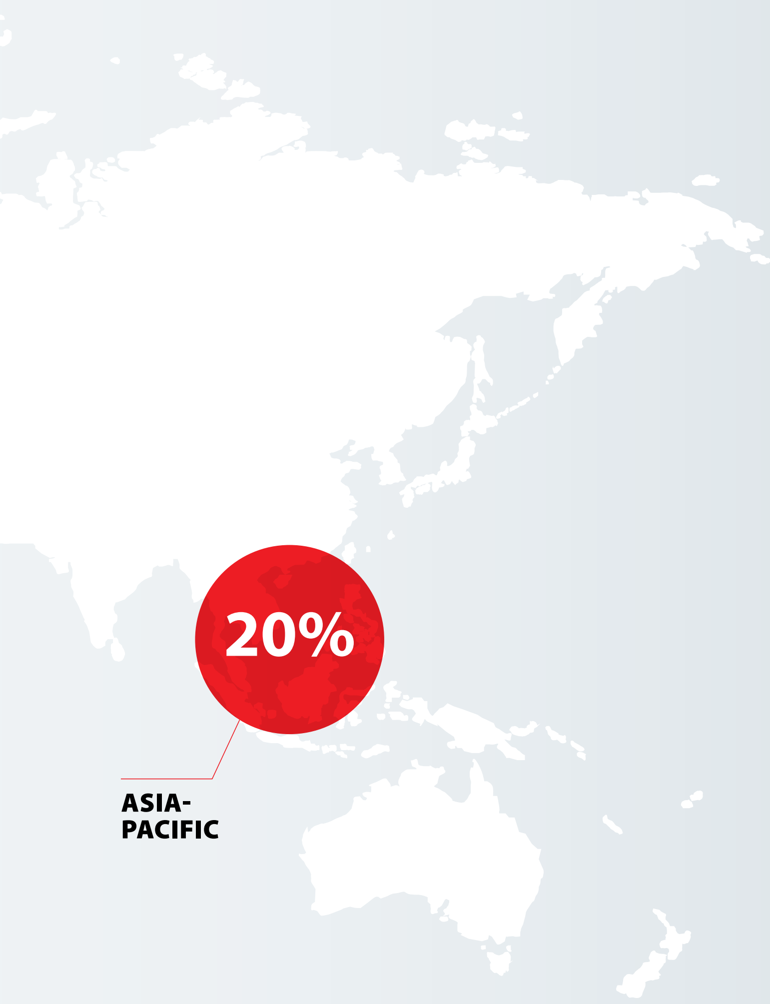


The Danfoss heritage

Danfoss has grown from a one-man business into a world leading company, by having a clear focus on quality and innovative engineering right from the beginning

1933 Danfoss was founded by engineer Mads Clausen

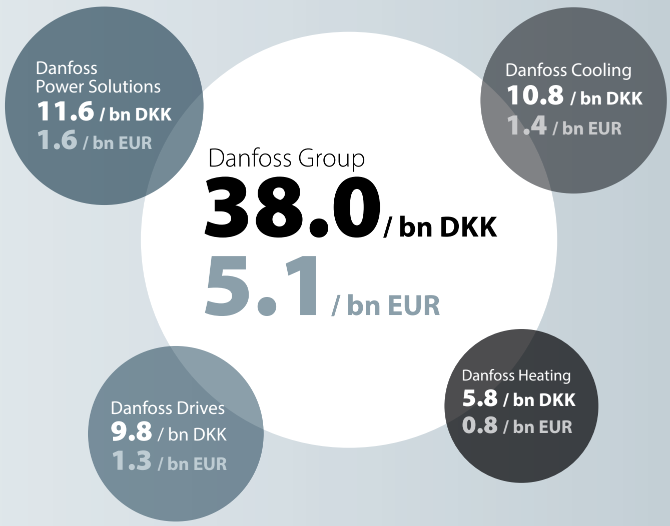
2015 Danfoss is a privately-held company and controlled by the Bitten and Mads Clausen Foundation.



Leading global positions

Since the Core & Clear strategy was initiated in 2010, the Danfoss Group has significantly strengthened its global position. Today, the Group's four business segments: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives and Danfoss Heating are among the world leaders in the markets where they are active.

Sales distribution by business segments



Our climate strategy by 2030

50%
Reduction of energy intensity in our buildings and production processes

50%
Reduction of the CO_2 intensity in consumed energy

Our approach to sustainability
We play an active role in sustainable global development where social responsibility, the environment and climate considerations go hand-in-hand with sound business development. Our approach rests on two pillars:

- Danfoss will continue to be a reliable business partner;
- Danfoss is a world-leader in the supply of technologies; solutions that support the growing need for sustainable food supply, modern infrastructure, efficient energy utilization, and better climate control.

2015 **highlights**

	Total net sales	Sales growth	R&D spend	Free cash flow (before M&A)
m DKK	**38,031**	**11%**	**1,607**	**3,397**
m EUR	**5,099**	**11%**	**215**	**456**

Financials in brief

In 2015, the Danfoss Group maintained good performance and delivered financial results in line with expectations. The year was characterized by continuing low, global growth conditions and the business environment remained mixed across markets and regions.

The demand for energy efficiency and increased focus on climate-friendly solutions were strong drivers for Danfoss technologies supporting an improved performance in the two business segments Danfoss Cooling and Danfoss Drives. On the other hand, for the Danfoss Power Solutions business segment, results were impacted by a downturn in the global mobile hydraulics market due to low activity levels in the global agricultural sector as well as lower construction activity in China. Also, Danfoss Heating had a challenging year due to the economic downturn in Russia and slowdown in China.

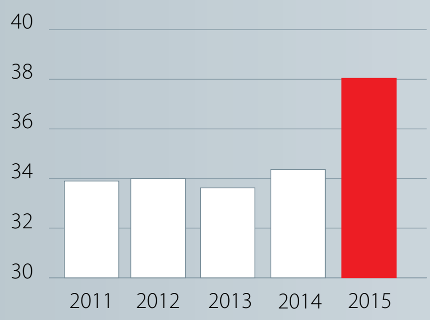
For the Group, net sales were at DKK 38,031m against DKK 34,375m in 2014. The improvement corresponds to 11% growth. In local currency, growth was 5%. EBIT excluding other operating income/expenses was DKK 4,235m against DKK 4,356m. EBIT was improved to DKK 4,097m against DKK 3,925m last year, which is equal to an increase of 4%. Net profit was at DKK 2,597m record-high and 13% above last year. The free cash flow before M&A was DKK 3,397m against DKK 3,389m in the year-earlier period.

In conclusion, the Group's performance in 2015 was satisfactory.

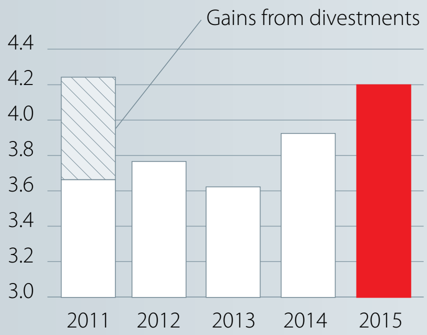
2015 Expectations compared to results

Expectations		Results
Net sales including the full-year impact of the acquisition of Vacon expected to grow by 9-14%.	→	Danfoss generated net sales of **DKK 38,031m** equal to **11% growth**
Operating profit, EBIT excluding other income and expenses, expected to be on par with 2014.	→	EBIT excluding other income and expenses reached **DKK 4,235m** against **DKK 4,356m**

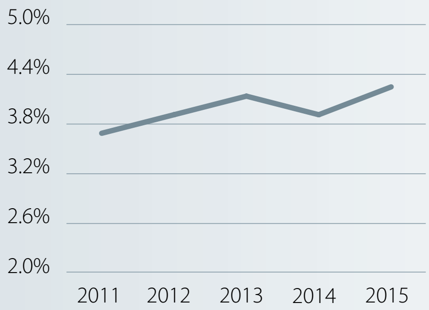
Net sales
bn DKK the last five years



EBIT
bn DKK the last five years



R&D
spend the last five years



EBIT excluding other income and expenses	EBIT	Equity	Equity ratio
4,235	**4,097**	**15,424**	**41.4%**
568	**549**	**2,067**	**41.4%**

Most important events in 2015

Successful Vacon merger
In December 2014, Danfoss acquired the Finnish drives manufacturer Vacon, and the new Danfoss Drives business segment was formed by merging Vacon and the Danfoss drives business, Power Electronics. The merger has been successful and the first year has gone well for Danfoss Drives. While merging the two businesses, the business segment has managed to keep a firm focus on serving customers, harvesting synergies and maintaining strong performance. Combining the two companies, Danfoss Drives is now the world's second-largest AC drives manufacturer.

Strong innovation year
In 2015, we invested a record-high DKK 1,607m in innovation. Focus was very much on digitalization, and several new innovative products utilizing technologies within connectivity and big data were launched during the year. Examples are the digital actuator Novocon, the new electro-hydraulic steering solution for off high-way machinery called PVED-CLA, and the Danfoss Link heating system controlled by your smartphone.

Successful safety program
The key performance indicator in measuring employee safety, the Lost Time Injury Frequency (LTIF), dropped from 4.4 in 2014 to 3.4 in 2015. This significant improvement was obtained via our new global "Safety on the shop floor" program which during 2015 was implemented in all Danfoss factories around the world.

Quality at the next level
In 2015, another 19 Danfoss factories became compliant with the ISO/TS16949 quality standard - one of the world's strictest quality standards. A significant milestone in the roll-out as three business segments; Danfoss Cooling, Danfoss Drives, and Danfoss Heating are now fully compliant with the TS16949 requirements.

M&A's
Danfoss acquired DAF Enerji; a company within the district heating market in Turkey. Turkey is a country with a high growth potential for Danfoss and especially for the Danfoss Heating Business segment; proved in 2015 by Danfoss Heating growing above 30% in local currency in Turkey. The acquisition is a key element in further strengthening our heating business and taking the next step to further accelerate growth in Turkey.
Danfoss also acquired the Dutch software company Advitronic Engineering B.V. This is an investment in capabilities and technology related to connectivity and Internet of Things. This will strengthen the Danfoss Cooling business segment, in particular, and the business segments' position within the food retail industry worldwide as an innovative partner in smart store solutions and enterprise management systems.

Lowering the energy consumption
Danfoss launched in November 2015 a new climate strategy, which builds on what the company has already achieved. Danfoss' energy intensity, measured as energy consumption per million DKK net sales, has been reduced by 29% since 2007. The new strategy requires Danfoss to cut the company's energy intensity by 50% before 2030. Meaning that we only use half as much energy to keep the wheels of business running. The consumed energy shall by 2030 emit half as much CO_2 per MWh.

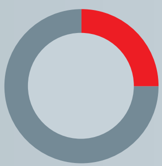
Global climate agreement
At COP21 in Paris, 196 countries reached a historic agreement to limit global warming. All 196 countries have submitted plans for how they will contribute to this green transition. Several of these plans include initiatives to increase energy efficiency e.g. via district energy systems and wastewater treatment. Accordingly, for Danfoss being a company that engineers energy efficient solutions that enable the world of tomorrow to do more with less, the framework of the agreement holds concrete, vast long-term potential.

A strong **global footprint**

Danfoss has a strong global footprint with 61 factories in 20 countries, and the Group sells its products in more than 100 countries.

North America

12 factories
Sales companies in **2** countries
3,406 employees



24% share of net sales

North America is a strategically important market for Danfoss. The US is Danfoss' largest country in terms of net sales. Danfoss holds a strong position and has a strong presence in this market. This mature market has a strong economy; it is the largest manufacturing economy in the world, and the home for Danfoss' top, global customers. Energy efficiency in buildings, a changing refrigerant landscape and reshoring are major trends in North America that represent significant growth opportunities for Danfoss.

Latin America

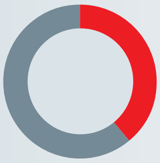
3 factories
Sales companies in **5** countries
1,203 employees

5% share of net sales

Danfoss has been present in Latin America for many decades, with sales companies in the main countries all around the region. Brazil is Danfoss' largest country in terms of net sales in the region. Having food as one of the most important exported commodities, Danfoss supports the region with numerous solutions from production to processing and from transportation to storage. Also, within improvement and expansion of the infrastructure in the region, Danfoss plays a key role. Accordingly, the region holds great potential for the business segments Danfoss Cooling and Danfoss Power Solutions, in particular.

Western Europe

20 factories
Sales companies in **17** countries
9,536 employees



39% share of net sales

Western Europe is the number one region in Danfoss in terms of net sales, with Germany being the largest market in the region. Danfoss has a very strong footprint in the Western Europe region. The Western European countries continue to hold a number of growth opportunities for Danfoss, particularly due to ambitious plans to improve energy efficiency in the region. 'Energiewende', which is the transition of Germany's energy portfolio to be dominated by renewable energy, energy efficiency, and sustainable development, is a concrete example of how a mature market continues to be a growth pocket with huge potential for Danfoss.

Eastern Europe

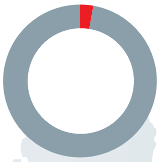
12 factories
Sales companies in **12** countries
3,908 employees

9% share of net sales

Russia, followed by Poland and Czech Republic are the top three markets in this region. Danfoss was one of the first companies to rapidly set up a business in the Eastern European countries, when the region opened up. Today, Danfoss has a strong organization and enjoys a good reputation. In combination, the fairly cold climate, an increased focus on energy efficiency and the large number of district heating systems hold great potential for Danfoss. The investments in new energy systems are significant. One concrete example illustrating the potential is that in the period from 2015 to 2020 the European Union plan to invest up to EUR 17bn in increased energy efficiency in the Eastern European countries.

Africa-Middle East

1 factory
Sales companies in **3** countries
195 employees



3% share of net sales

The Africa and Middle East region is the most diversified region in Danfoss. Despite being characterized by a volatile business climate in parts of the region, Africa and the Middle East are also representing a promising potential, with in general a growing population and increasing urbanization, fast-growing economies and focus on more efficient energy systems in the oil-producing countries. Also, a wide range of Danfoss solutions are addressing key challenges in the region such as the scarcity in power supply, as well as within the almost non-existent food cold chain. One of the countries in this region with a large growth potential is Turkey: cold winters and hot summers create a demand for heating and cooling technologies.

Asia-Pacific

13 factories
Sales companies in **11** countries
5,172 employees

20% share of net sales

Asia-Pacific is Danfoss' largest region in terms of sourcing, and a large proportion of Danfoss production is located there. China is the Group's largest market in the region. Despite the economic growth rates slowing down over recent years China continues to hold major potential within urban district heating projects and the build up of the food cold chain, which Danfoss helps to develop. The second-largest market in the region is India, which is also identified as offering a significant growth potential for Danfoss. In particular, within the food cold chain and air conditioning markets.

Danfoss **is well positioned**

Thanks to four strong business segments with leading market positions and clear competitive advantages Danfoss is driving long-term value creation.

"The key to our sustained strong performance lies in a persistent focus on sustainable, long-term value creation and utilizing our distinct, core competencies: Leading Positions, Application Knowledge, and Innovation."

In 2015, we continued our ambitious journey to further improve Danfoss' global position. We delivered good financial performance with results in line with expectations, and despite mixed market conditions our market share developed positively. At Group level, our net sales grew by 11%, and 5% in local currency, while operating profit (EBIT) was improved by 4%. Furthermore, net profit increased by 13% to the record-level of DKK 2.6bn and also growing slightly faster than the topline. Finally, the free cash flow before M&A matched the high 2014-level. The key to our sustained strong performance lies in a persistent focus on sustainable, long-term value creation and utilizing our distinct, core competencies: Leading Positions, Application Knowledge and Innovation.

Creating customer value
For several years we have invested above industry average in innovation, and 2015 was no exception. The Danfoss Group reinvested 4.2% of net sales or a little more than DKK 1.6bn in research and development. These investments resulted in the launch of many new innovative products utilizing new digital technology; concrete examples are the first intelligent electro-hydraulic steering solution for off-high-way machinery or the Danfoss Link heating system controlled by your smartphone. Furthermore, significant highlights of the year were the opening of our new Application Development Center (ADC) in Nordborg, Denmark, and breaking ground to the next ADC in Florida, US. At an ADC facility we can demonstrate performance and test customer applications enhanced with Danfoss solutions in a real-life environment.

A year of digitalization
Our Application Development Centers around the world are key to leveraging our deep application knowhow and new technologies to drive innovation in close cooperation with our customers. During 2015, in line with our focus on innovation as a driver of increased customer value we took acquisition steps to further strengthen the Groups innovation profile. We acquired the Dutch company Advitronic Engineering B.V.; specialized in technology that connect all vital control systems in supermarkets and utilizing collected data to optimize the applications and systems. Furthermore, in September, we engaged in a partnership with the American software company LineStream Technologies Inc., which produces software-based control solutions for configuration of automation systems.

Organizing for growth
Having strong core businesses with leading market positions globally is a key element in driving competitive advantage. When in December 2014 we acquired the Finnish drives manufacturer Vacon and merged it with the Danfoss drives business, we secured a position as a world leading player in the drives market. The merger paved the way for establishing four strong business segments with complementary product and market portfolios: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives and Danfoss Heating. We successfully implemented this new organizational structure in the first quarter of 2015, and during the year we have further tailored the business to accelerate growth by strengthening the regional organization bringing Danfoss even closer to our customers.

Looking ahead
In the short term, visibility remains low, and we anticipate the overall global low growth scenario and mixed market conditions to continue. More specifically, we expect the challenging market conditions in Russia to continue. We also expect that the global mobile hydraulics market will remain fairly soft. This is a cyclical market sensitive to fluctuations in especially the agricultural sector. Conversely, we see the momentum in the US economy driving increased investments in several industries. And also in Europe, we see growth rates slowly gaining more traction.

On the long term, the constant need for new infrastructure and safe food supply remain drivers of the demand for the kind of solutions that we provide. Furthermore, the growing awareness of the potential and need for investing in increased energy efficiency and climate-friendly solutions will drive increased demand for innovative technologies. In this perspective, it is very positive that the COP21 in Paris ended with a historic agreement. This is a strong signal that across the globe nations and cities are willing to create the much-needed green transition. As experts in energy-efficiency and having the solutions ready, Danfoss is well positioned, and we have good reason to be optimistic about the future.

Continuing the journey
2015 was a good year for Danfoss. More than 23,400 colleagues made sure that our customers experienced great commitment and engagement. Now, we are very much looking forward to continuing the cooperation together with all our stakeholders to make sure, that the coming year will be characterized by innovation, dedication and great results.

On behalf of the Danfoss Executive Committee,

Niels B. Christiansen

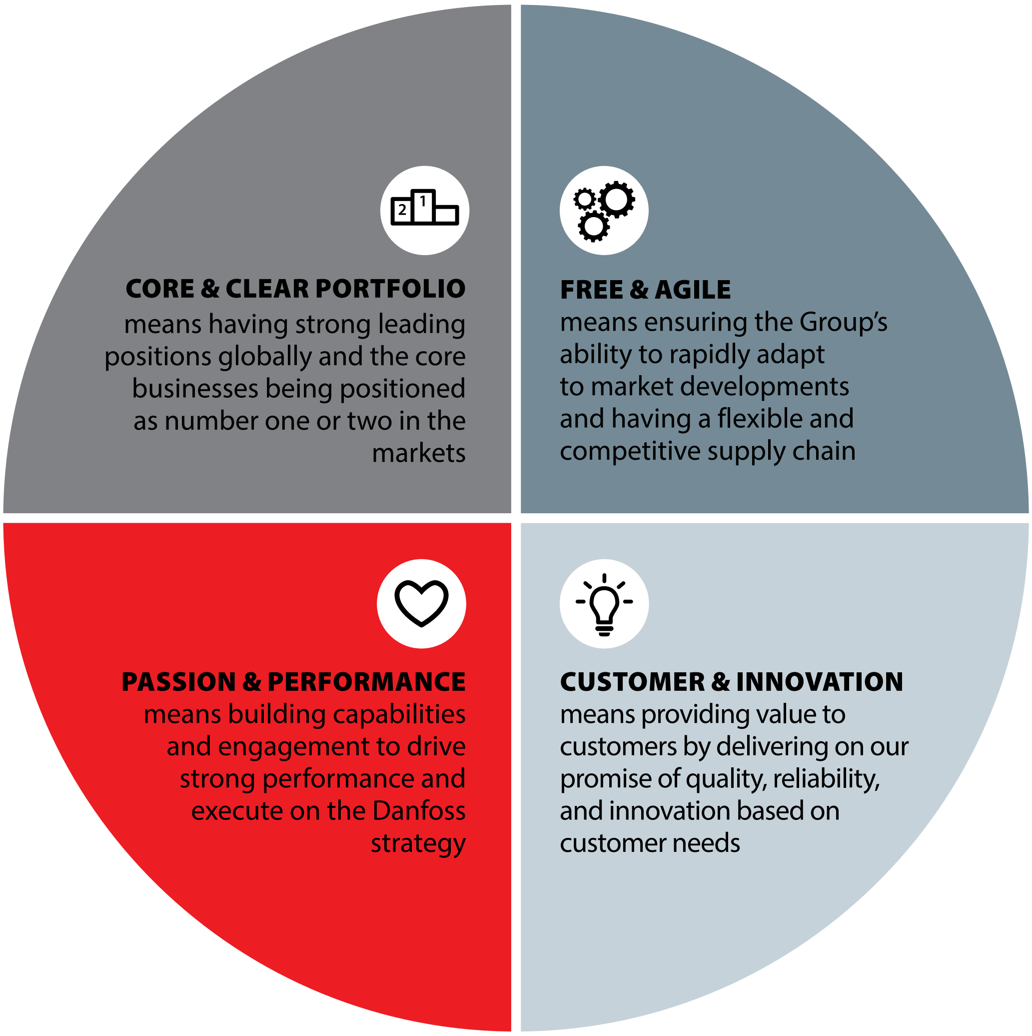
"In short, Core means that we concentrate our efforts on the areas where we create the most value and where we possess unique competencies. Clear means that we focus on our customers, constantly reduce complexity and increase transparency."

The Core & Clear **strategy**

The Core & Clear strategy

The Danfoss Core & Clear strategy forms the foundation of all our strategic activities, and our business model is made operational through Core & Clear. In short, Core means that we concentrate our efforts on the areas where we create the most value and where we possess unique competencies. Clear means that we focus on earning customer loyalty through quaility, reliability and innovation.

The four focus areas:



Our promise:

Earn customer loyalty through excellence in

QUALITY	RELIABILITY	INNOVATION

The Danfoss strategy Core & Clear is founded in four overarching focus areas, each representing one of the Group's strategic priorities to deliver on our promise to our customers.

The four focus areas: Core & Clear Portfolio, Free & Agile, Customer & Innovation and Passion & Performance.

Core & clear portfolio

Core & Clear Portfolio is about having strong, leading positions globally with the core businesses being positioned as number one or two in their markets. This is achieved through organic growth as well as acquisitions of well-performing companies. Besides the core businesses, focus is on a few, strategic businesses adjacent to the core, and on strong globalization of the businesses.

3 key priorities:

- We have made acquisitions as well as divestments to build a portfolio of core businesses in market-leading positions, and acquisitions will continue to contribute to accelerate profitable growth.
- We have few, strategic bold adjacencies. Over time, these adjacencies shall mature, grow and be transferred to our core businesses.
- We have a strong focus on continuously globalizing, and positioning the business to reap scale advantages and leverage the growth opportunities in emergingn as well as mature markets.

2015 highlights

New organization implemented

The focus on having the core businesses positioned as number one and two in their markets has been part of Core & Clear since 2010. One important brick in this puzzle fell into place on the verge of 2015, as Danfoss made the strategic acquisition of the Finnish drives manufacturer Vacon. The Danfoss drives business, Power Electronics and Vacon, is a perfect match with complementary product and market portfolios. With this acquisition, Danfoss secured a position as one of the world's leading players in the drives market. Moreover, the closing of the Vacon deal paved the way for establishing a new organizational structure with four strong and market-leading business segments.

The reorganization into these four segments took effect from the beginning of 2015 and was implemented during the first quarter of the year. This new organization is tailored to empower the business segments to execute on the Get Going part of the Core & Clear journey. The four business segments are: Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating.

Free & agile

Free & Agile is about ensuring the Group's ability to rapidly adapt to market developments and having a flexible and competitive Supply Chain. Focus is on constantly maintaining a strong free cash flow, utilizing our scale, and having a one-company approach to drive improvements and transparency.

3 key priorities:

- Via Danfoss Business System programs, we are using best practice processes and standards across the Group, and our employees are enabled to minimize losses, optimize profitability, increase reliability, drive innovation, and secure high quality across the entire Supply Chain.

- Solid financial performance is in the heart of the Core & Clear strategy, and we drive strong cash performance by reducing days of trade working capital, inventories and lead time and having a well-structured procurement process with a strong focus on quality and delivery.
- We are using a "One Company – One Way" approach to align processes across Danfoss, by aiming for global coverage to gain maximum scale, and by outsourcing non-core activities per default.

2015 highlights

Continued strong cash flow
Alongside, we have launched the Get Going part of Core & Clear, where focus is on accelerating profitable growth, attention remains very much on ensuring that what we call "the Basics" are continuously improved ensuring that the Group stays agile and our foundation remains strong. In particular, we have strong focus on maintaining a constant strong free cash flow. In 2015, the Group delivered a strong cash performance of DKK 3,397m driven by reduced days of trade working capital. Inventories and lead time, procurement, and CAPEX are kept under good control. Strong cash performance allows us to invest in developing Danfoss and grow the business.

Safety first
To ensure employees' health and safety our new global "Safety on the shop floor" program was during 2015 implemented in all factories around the world. The program contributed to the continued improvement of employee safety and the key performance indicator in measuring employee safety, the Lost Time Injury Frequency (LTIF), was improved by 22% in 2015 compared to the year before.

Continued productivity improvements
In 2015, Danfoss obtained substantial productivity improvements contributing to improving an already competitive and flexible supply chain. Starting out the year at already high levels, at Group level we achieved double-digit productivity improvements across our factories. Also at business segment level, for the first time all segments achieved double digit productivity improvement. At the same time, we continued to reduce complexity in the business, and improving transparency across product families and business areas. Continuing to streamline our procurement activities, we have further reduced the number of suppliers to bring benefits in the form of closer cooperation, less complexity, better quality, faster delivery, and better prices.

Customer & innovation

Customer & Innovation is about providing value to customers by delivering on our promise of quality, reliability and innovation. We constantly focus on what matters most for our customers and what value Danfoss can offer. We do so by using our in-depth application knowledge, understanding our customers' needs, being easy to do business with and innovating products that drive differentiation.

3 key priorities:

- To further accelerate growth we invest in opportunities with high potential in the business segments, geographical areas, and across segments.
- Quality and delivery are what matter most to our customers. Therefore,

The Core & Clear tracks:

Core & Clear is executed in different tracks:

Get the Basics Right
Get the Basics Right provides a strong and scalable foundation for all activities in Danfoss. Focus is on what we call our "engine room", e.g. high quality, on-time deliveries, less complexity, improved customer focus, optimized procurement, improved and more fine-tuned processes everywhere in the organization.

Get Going
Get Going has a strong focus on accelerating profitable growth by taking market share; what we call building a powerful sales machine including having leading business positions, a strong brand, an innovation pipeline with growth impact, and investing in the best opportunities for growth.

we strive to always improve on these key parameters, using systematic approaches and common best practice processes.

- We see innovation as a way to drive profitable growth, and product technologies relevant to the core businesses are systematically sourced, developed and shared across Danfoss.

2015 highlights

Digitalization driving innovation
For Danfoss, 2015 marked a temporary peak of a new innovation era with digitalization as a key lever, and across all four business segments we launched several new products utilizing the benefits of connectivity, software and big data.

One example is the digital actuator NovoCon®. The digital actuator connects the heating or cooling system to the building management systems creating a perfect connection between superior hydronic performance and building automation. The benefits of this digital solution are time savings during installation, remote commissioning and fine tuning, access to system data, and remote identification of valve blockages or installation errors.

We also launched a new electro-hydraulic steering solution for off-highway machinery called PVED-CLS; the industry's first intelligent steering option with full safety integration. Being directly connected with GPS and by using sensors, this steering solution ensures precise, unwavering drive trajectories, and with this automation comes easier operation, higher productivity and reduced driver fatigue.

A third example was the introduction of Danfoss Link™ system that provides intelligent and energy-efficient heating solutions for smart home heating. The system can be controlled via your smartphone, and it automatically regulates and controls the temperature for radiators and floor heating to provide perfect indoor comfort for homeowners while reducing overall heating costs.

Acquisitions of innovative technologies
During the year, we have successfully landed strategic acquisitions of innovative technologies. We acquired 30% of the American software company LineStream Technologies Inc. LineStream produces software-controlled solutions for the automation sector. With the investment, Danfoss and LineStream enter into a partnership, which will simplify commissioning of Danfoss' frequency converters and improve performance. Furthermore, we acquired the Dutch software company Advitronic Engineering B.V. Advitronic Engineering is an investment in capabilities related to connectivity and Internet of Things, and this investment will strengthen our business and position within the food retail industry and smart store solutions for supermarkets worldwide.

Quality taken to the next level
We invest significantly to stay at the forefront of global engineering and quality standards. A key element of this journey is for all business areas to comply with the ISO/TS16949 quality standard. This is one of the world's strictest quality standards. In 2015, another 19 Danfoss factories achieved the goal. In total, 38 factories are now fully compliant. This achievement marks a significant milestone in the roll-out as three business segments, Danfoss Cooling, Danfoss Drives, and Danfoss Heating are now compliant with the standard requirements. Danfoss Power Solutions will be fully compliant by the end of 2016.

Passion & performance

We want Danfoss to be a great and safe place to work. And Passion & Performance is about building capabilities and engagement to drive strong performance and execute on the Danfoss strategy. Focus is on a strong performance orientation, common processes and tools, a systematic development of competencies creating a high level of engagement, and at the same time improved performance.

3 key priorities:

- Our employees are our most important asset, and we drive passion and performance through leadership, diversity, and winning teams.
- We have solid management tools and KPIs on all relevant areas providing a fact-based foundation for decision-making across the Group.
- Danfoss Business System is how we drive global coverage of best practice tools and processes.

2015 highlights

Employee engagement
The successful implementation of the many strategic initiatives relies strongly on engaged employees committed and capable of turning strategic direction into action and strong results. Danfoss conducts employee engagement surveys every other year, and the 2015 survey showed continued high employee engagement at 76 measured on a scale from 1 to 100; a high level compared to external benchmarks. Due to updates in the surveys over the years, results cannot be directly compared; however engagement is significantly above the score of 67 in 2007 where we started monitoring the employee engagement.

Performance management
Twice a year, we conduct a survey on Performance Management. Here, we measure our leaders' ability to communicate clarity of direction and having quality dialogues in setting objectives and providing regular feedback. The survey results show that our leaders continue to have a strong focus on performance, which is critical to our success. In second half-year 2015, the survey overall result was 79 on a scale from 1 to 100. In 2010, when Core & Clear was launched, the score was 62.

Employee development
We have a systematic approach to developing employee competencies and talent management programs. This ensures that we have skilled employees, solid leadership, and a strong talent pipeline. In 2015, this approach to employee development was further improved by the development of a globally aligned performance management process. The new process supports the execution of the Core & Clear strategy through creating one common and simple approach towards managing performance using clear objective setting, on-going dialogues with the employees to review the objectives as well as development needs. Furthermore, the updated process enables quality in the regular dialogues continuing to create clarity of direction and engagement.

Our aspiration:

We are engineering tomorrow.

We passionately push boundaries on results and reputation.

Our way of **working**

As an organization, we place our customers and employees at the center of everything we do. Our behaviors in action guide us in bringing our Core & Clear strategy to life.

Earn customer loyalty

- Establish trust and respect
- Think customer in everything we do

We earn customer loyalty when we act to serve the customer in everything we do - no matter what our role is. We can be counted on to work with the customer always in the forefront of our minds and we strive to earn respect and trust from all our customers.

Embrace diversity

- Value differences
- Be inclusive

We embrace diversity when we value and encourage the viewpoint, experience and knowledge of those who are different from ourselves and when we work with purpose to learn and grow as one Danfoss.

Go beyond the ordinary

- Push boundaries to innovate and continuously improve
- Learn from successes as well as mistakes

We go beyond the ordinary with a mindset where we strive to learn, grow and improve on a continued basis. We remain curious to explore how to improve and find ways to push ourselves to successfully fulfill our Danfoss goals and our own potential.

Honor commitments

- Be entrusted to take ownership
- Deliver as promised

We honor commitments when we live up to our promises and keep our word. We honor commitments in the way we service customers, the way we keep our promises to each other as colleagues and in how we deliver our results.

Lead by example

- Show and encourage engagement
- Role model the way

We lead by example when we act as role models every day and encourage others to do the same to build engagement. We lead by example when we foster a positive atmosphere at work.

Think Danfoss

- Take initiatives to leverage synergies
- Support others in succeeding

We think Danfoss when we think beyond our own team and seek the advantages of working across. Thinking Danfoss is an expression of our passion to succeed as one.

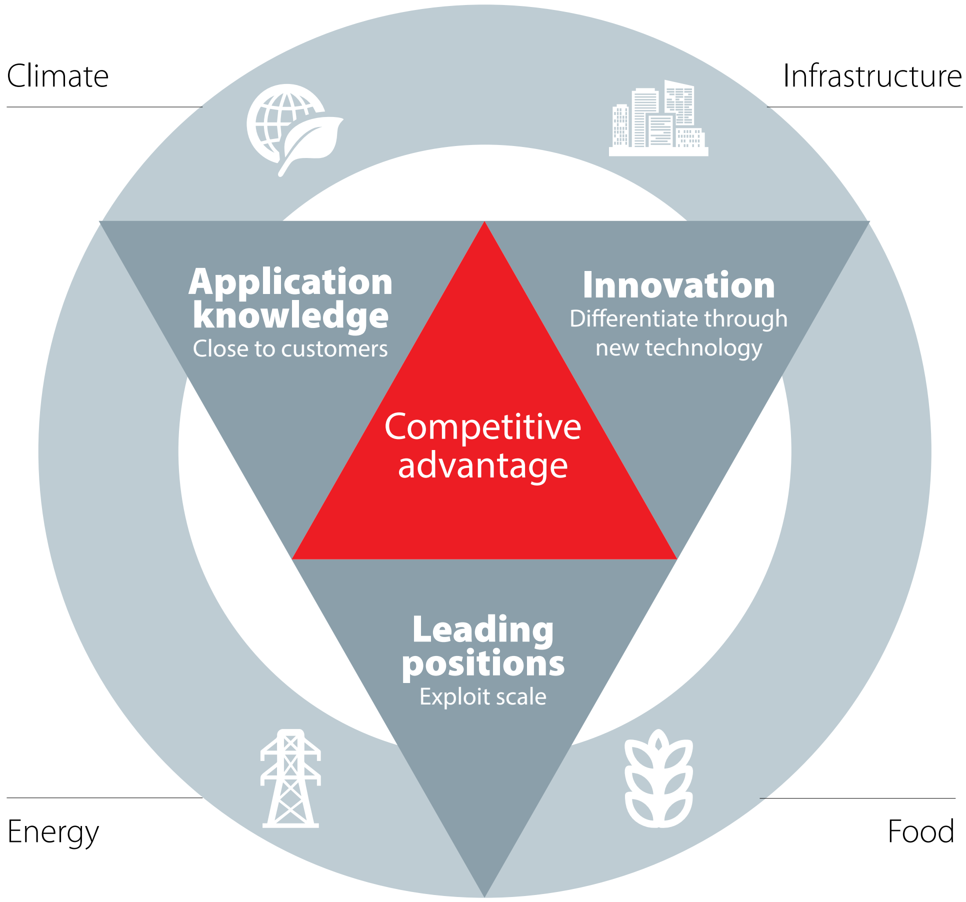
"Our business model is based on a strong "One Company" approach and our three distinct core competencies common to the Group's four business segments: Leading Positions, Application Knowledge, and Innovation."

Business model and segments

Our business model

The Danfoss business model is designed to drive sustainable, long-term value creation. The model is based on our distinct, core competencies driving competitive advantage, thereby creating the foundation for our four business segments to utilize global growth opportunities within infrastructure, food, climate and energy.

Business model



Danfoss **Core Competences**

The business model is based on a strong "One Company" approach and our three distinct core competencies common to the Group's four business segments: Leading Positions, Application Knowledge, and Innovation.

Leading Positions
In the global manufacturing industry, global reach, size, and scale matter. Therefore we must be a significant player in the markets where we operate, and it is a key element in Danfoss' business model that our business segments hold leading positions as either number one or two in their industries. Moreover, to drive scale advantages, increased customer value, and a world-class supply chain we have developed Danfoss Business System; a systematic approach with programs to drive continuous improvements via aligned best practice processes across the Group. The Danfoss Business System programs focus on four key elements. In order of

priority: Safety, Quality, Delivery, and Cost. First of all, we want our employees to be safe. And a production environment characterized by a high level of safety is a prerequisite for being able to focus on increased customer value through top product quality and excellence in on-time delivery. Finally, to maintain competitiveness, we are constantly focused on improving our productivity and utilizing our scale to drive lower cost.

Application Knowledge
Across the Group, deep customer application knowledge and unique technical expertise are what make Danfoss stand out from our competitors. We know our customers and their applications so well that we can stay one step ahead. A key element in the Danfoss business model is our operational setup with extensive, global coverage and strong regional presence. This setup is designed to ensure local empowerment and high proximity and close cooperation with global as well as local customers. Furthermore, we invest in initiatives that enable our R&D engineers to turn their deep knowhow and application understanding into customer advantages by improving the performance or enhancing our customers' products.

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 our innovation. Further, we innovate to differentiate, and we develope and acquire new technologies to drive strong differentiation. We want to provide our customers with solutions they are going to need tomorrow - thereby putting them in a better position.

The Danfoss **Growth Themes**

Our business model focuses on utilizing global opportunities within our four growth themes: infrastructure, food, energy and climate. The four themes are linked to our business model as overall themes driving future global growth opportunities for Danfoss – and at the same time areas where Danfoss makes a difference and why what we do matters.

INFRASTRUCTURE
By 2030, a further 1.5 billion people will live in cities. The demand for infrastructure to support this is massive. We help build the roads, buildings and energy systems for the world's growing cities and support progress for people, communities and businesses across the world. A well-functioning infrastructure is the vehicle for transforming low and middle income countries into emerging or developing nations. Our solutions are fit for developing the cities of tomorrow.

ENERGY
No matter what we produce, the goal is to optimize performance, increase efficiency and minimize waste. This means that today we are a world leader in the field of energy-efficient technologies that enable our customers and society as a whole to get more from less. Energy that we don't use doesn't pollute and doesn't cost money. By picking the low-hanging fruits that energy-efficient technologies offer, we can meet the growing energy demand, boost the economy and afford renewable energy sources.

FOOD
We help meet the constant need for more and better food by improving agricultural productivity and keeping food fresh all the way to consumers in the most efficient and safe way with minimum waste. Our products are everywhere, whether you look in a grain harvester, at the workings of the cold room and conveyor belt at a slaughterhouse or behind the refrigeration counters of a supermarket.

CLIMATE
Danfoss combines a comfortable and healthy indoor climate with energy and cost savings, and protection of the environment. Danfoss supplies technology for renewable energy within wind, solar and automotive. While meeting the global climate challenge, Danfoss' products also contribute to human productivity and well-being indoors by optimizing heating, ventilation and air conditioning systems to suit individual needs and lifestyles.

Danfoss **Power Solutions**

Danfoss Power Solutions is one of the world's leading players in the mobile hydraulics market. The business segment is highly specialized in mobile hydraulics and provides world-class solutions for the construction, agriculture, and other off-highway vehicle markets.

Key facts

5,792 employees
Sales activities in more than **80 countries**
18 factories in 10 countries
In 2015, Power Solutions' net sales amounted to **DKK 11.6bn**

Net sales

31%
of the Danfoss Group's net sales

Top 3 regions

Solutions
As one of the industry's largest players, Danfoss Power Solutions works in partnership with its customers to design, manufacture and sell a complete range of engineered hydraulic and electronic components – all optimized for system solutions – including hydrostatic transmissions, mobile electronics and software, orbital motors, steering components and proportional valves. Power Solutions' proven competencies continue to provide industry-leading products to push, pull, propel, lift, haul, harvest and more, with the precision, power density, and efficiency only hydraulics can provide.

Customers and industries
Power Solutions provides innovative products and solutions to OEMs (original equipment manufacturers) and distributors for market segments such as agriculture, construction, road building, material handling, turf care and specialty markets. Power Solutions components and solutions are found in applications like backhoe loaders, wheel loaders, excavators, skid steer loaders, concrete pumps, rollers, pavers, road graders, cranes, aerial lifts, fork lift trucks, telehandlers, tractors, agricultural sprayers, combines, snow clearing, street sweepers, forestry equipment and lawn mowers.

Innovative industry pioneer
Power Solutions is an industry pioneer in a mature market. The business segment introduced the first hydrostatic transmissions, orbital motors, steering units and load-sensing proportional valves. Today, seamless integration of electronics, software and hydraulics results in optimized total machine management. Danfoss Power Solutions continuously invests in research and development activities that support its identified growth opportunities. These growth opportunities include areas like seamlessly integrated electronic controls, telematics, electrification and other intelligent solutions.

Danfoss **Cooling**

Danfoss Cooling is a leading player in the air-conditioning and refrigeration industry with the most complete offering. The business segment is an industry frontrunner in energy-efficient engineering and strong application expertise within commercial refrigeration, industrial refrigeration, air-conditioning, and supermarket refrigeration.

Solutions

With more than 10,000 components, including compressors, valves, sensors and heat exchangers, Danfoss Cooling provides its customers with innovative, energy-saving and precise control solutions. The business segment supplies components and solutions to air-conditioning systems in many different buildings like hotels, airports, shopping malls, train stations and other buildings that need energy-efficient and comfortable air conditioning. Danfoss Cooling also provides customers with solutions on a global scale within commercial, industrial and supermarket refrigeration systems. Furthermore, Danfoss Cooling is a market leader with innovative solutions like variable speed scroll compressors and the pioneering Danfoss Turbocor oil-free compressors.

Customers and industries

Danfoss Cooling sells its products via original equipment manufacturers (OEMs), wholesalers, contractors and installers, and in food retail, the segment also sells service oriented solutions directly to the end-users. The segment offers solutions to typical air conditioning applications like chillers and rooftop air-conditioning systems in commercial and residential buildings. Danfoss Cooling also targets the food and beverage industry, supermarkets with total store solutions, and makes cold storage and cold room solutions for the industrial refrigeration market. Moreover, Danfoss Cooling plays an important role in refrigerated transportation, refrigerated food processing applications - for example dairies, breweries, slaughterhouses, fisheries, as well as water treatment.

Strong foundation for growth

Danfoss Cooling has a very strong market position due to broad product solutions and global presence. The segment addresses the global need for safe, reliable and energy-efficient refrigeration and air conditioning. Danfoss identified growth themes, namely infrastructure, food, climate, and energy also drive demand for Danfoss Cooling solutions. Leveraging on the cooling application expertise, the segment continuously develops new solutions to introduce new technologies e.g. within connectivity, new refrigerants, the game-changing Turbocor oil-free compressor technology and the segment's unique innovative heat exchanger technology.

Key facts

5,890 employees
Sales activities in more than **100 countries**
11 factories in 8 countries
In 2015, Danfoss Cooling net sales amounted to **DKK 10.8bn**

Net sales

28%

of the Danfoss Group's net sales

Top 3 regions

Danfoss **Drives**

Danfoss Drives is a leading player in the market for low voltage AC drives. The key competitive advantage for Danfoss Drives is unique expertise and application knowledge, and Danfoss Drives is driven by passion to develop, manufacture and sell the best AC drives in the world and provide customers with efficient product lifecycle services.

Key facts

4,811 employees
Sales activities in **80 countries**
13 factories in 7 countries
In 2015, Danfoss Drives' net sales amounted to **DKK 9.8bn.**

Net sales

26%
of the Danfoss Group's net sales

Top 3 regions

Solutions
AC drives enable optimal process control and energy-efficient speed control of electric motors. AC drives are used, for example, in pumps, fans, elevators, escalators, conveyors and compressors. Danfoss Drives solutions also play a key role when energy is produced from renewable sources. The segments technology allows significant energy savings to be obtained and clean energy to be produced from renewable sources, such as wind. Danfoss Silicon Power is also part of the Danfoss Drives business segment. It develops and manufactures power modules and stacks for automotive, renewable and industrial applications.

Customers and industries
Danfoss Drives supplies AC drives to nearly all industry segments and to civil engineering projects. Typical customer sectors include food & beverage, refrigeration, machine manufacturing, water treatment, building automation, marine and offshore, renewable energy generation, and mining as well as elevators and escalators, heating, ventilation, and air-conditioning (HVAC) systems. Danfoss Drives sells its products via multiple sales channels and directly to end-users.

Growth potential in drives
The outlook for long-term growth in the AC drives market is positive. The growth potential in the market can be seen in the fields which are also the Danfoss growth themes, namely infrastructure, food, energy and climate. Increased energy-efficiency from using AC drives is key to achieving a more sustainable energy usage of tomorrow. Moreover, the efficient use of energy is a precondition for global growth and increased prosperity.

Danfoss **Heating**

Danfoss Heating is a key player within the heating industry. The business segment is leading in a number of advanced heating components and systems that deliver comfort and energy efficiency and enhanced heating performance in residential and commercial buildings as well as in district energy systems.

Solutions

Danfoss Heating supplies heating components and systems within residential heating, commercial heating, and district energy for optimal comfort while reducing energy consumption. Within each business area, Danfoss Heating is a leading player and offers a wide range of energy efficiency solutions to customers globally. The products and solutions from Danfoss Heating do not only deliver superior performance and value today, but also create a sustainable platform for tomorrow to meet pressing demands for energy efficiency.

Customers and industries

Typical customer applications include district heating and cooling applications, hydronic balancing of systems, hydronic or electric floor heating, heat pumps, oil burner components and self-acting or connected radiator thermostats. Danfoss Heating works in both the electrical and hydronic channels with distributors, HVAC designers and original equipment manufacturers (OEMs), and is active in reaching end-consumers and installers through a mix of channels. Danfoss Heating plays an important role in district energy systems and offers complete solutions, ranging from critical components, substations, monitoring, and service. Danfoss Heating delivers one of the broadest and strongest product ranges in the industry within residential buildings. Danfoss Heating is one of the leading hydronic experts in the commercial domain and works closely with building management companies, designers, and installers to ensure optimal balancing and energy efficiency in e.g. office buildings, schools, and hotels.

High potential linked to growth themes

The emergence of climate and energy as a political priority has spurred an increased interest in district heating and cooling as well as energy efficiency gains to be realized within buildings. Following COP21 in Paris, the 196 countries being part of the agreement to limit global warming have submitted plans for how they will contribute to this green transition. Several of these plans include initiatives to increase energy efficiency e.g. via district energy systems. Danfoss Heating strongly supports and actively engages in the development of new energy models that will make energy systems more secure, competitive and sustainable in the long run to address climate change and air pollution.

Key facts

3,948 employees
Sales activities in more than **100 countries**
19 factories in 11 countries
In 2015, Danfoss Heating's net sales amounted to **DKK 5.8bn.**

Net sales

15%

of the Danfoss Group's net sales

Top 3 regions

"Overall, the need for new infrastructure, efficient food supply, energy efficiency and climate-friendly solutions remained the overall drivers of the demand for Danfoss technologies."

Financial review and outlook

FINANCIAL HIGHLIGHTS

DKKm

	2011	2012	2013	2014	2015
PROFIT AND LOSS ACCOUNTS					
Net sales	33,904	34,007	33,628	34,375	38,031
Operating profit before depreciation, amortization, impairment and other operating income and expenses etc.	5,327	5,454	5,549	6,079	6,148
Operating profit before depreciation, amortization and impairment (EBITDA)	5,941	5,750	5,304	5,661	6,021
Operating profit excl. other operating income and expenses etc.	3,653	3,729	3,870	4,356	4,235
Share of profit from associates and joint ventures after tax	16	-2	8	-187	67
Operating profit (EBIT)	4,242	3,767	3,624	3,925	4,097
Financial items, net	-1,024	-421	-369	-449	-356
Profit before tax from continuing operations	3,218	3,372	3,255	3,476	3,741
Profit from discontinued operations	-931	0	0	0	0
Net profit	1,314	2,339	2,285	2,290	2,597
BALANCE SHEET					
Total non-current assets	17,422	17,038	16,052	25,822	26,168
Total assets	28,124	27,768	26,116	36,883	37,219
Total shareholders' equity	12,597	14,193	11,443	13,242	15,424
Net interest-bearing debt	4,634	2,691	4,116	11,439	9,640
Net assets	17,037	16,775	15,476	22,432	22,613
CASH FLOW STATEMENT					
Cash flow from operating activities	3,359	4,245	4,444	4,351	4,667
Cash flow from investing activities	-209	-1,321	-917	-10,576	-1,619
Acquisition of intangible assets and property, plant and equipment	-1,220	-1,169	-1,004	-996	-1,176
Acquisition of subsidiaries and activities	1,106	-191	0	-7,377	-223
Acquisition (-)/sale of other investments etc.	-95	39	87	-2,203	-220
Free cash flow	3,150	2,924	3,527	-6,225	3,048
Free cash flow before M&A	2,078	3,019	3,513	3,389	3,397
Cash flow from financing activities	-2,530	-2,779	-3,623	6,194	-3,416
NUMBER OF EMPLOYEES					
Number of employees	23,430	23,092	22,463	24,117	23,420
FINANCIAL RATIOS					
Local currency growth (%)	8	-3	2	5	5
EBITDA margin excl. other operating income etc. (%)	15.7	16.0	16.5	17.7	16.2
EBITDA margin (%)	17.5	16.9	15.8	16.5	15.8
EBIT margin excl. other operating income etc. (%)	10.8	11.0	11.5	12.7	11.1
EBIT margin (%)	12.5	11.1	10.8	11.4	10.8
Return on invested capital (ROIC)	23.1	21.4	22.2	19.4	16.3
Return on invested capital (ROIC) after tax	17.5	15.2	15.9	13.2	11.4
Return on equity (%)	9.0	17.8	18.2	18.4	17.6
Equity ratio (%)	44.8	51.1	43.8	35.9	41.4
Leverage ratio (%)	36.8	19.0	36.0	86.4	62.5
Net interest bearing debt to EBITDA ratio	0.8	0.5	0.8	2.0	1.6
Dividend pay-out Ratio (%)	25.0	17.1	35.0	21.8	20.4
Dividend per 100 DKK share	31.5	39.2	78.3	48.9	51.8

In situations where the ratios have been defined according to "Recommendations & Key Figures 2015", as prepared by the Danish Association of Financial Analysts, the ratios are computed according to these definitions.

Financial **review**

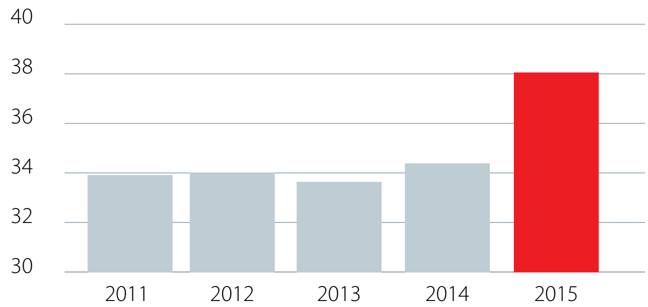
In 2015, for the Group, net sales were at DKK 38,031m against DKK 34,375m in the same period last year. The improvement corresponds to 11% growth. In local currency, growth was 5%. EBIT was DKK 4,097m against DKK 3,925m last year, which is 4% above last year. Net profit was at DKK 2,597m record-high and 13% above last year. The free cash flow before M&A was DKK 3,397m against DKK 3,389m in the year-earlier period.

In 2015, the Danfoss Group increased its net sales to DKK 38,031m against DKK 34,375m in 2014, corresponding to an 11% improvement, making 2015 a record year in terms of reported net sales. In local currency, the net sales growth was 5%. Across the Group's four business segments (Danfoss Power Solutions, Danfoss Cooling, Danfoss Drives, and Danfoss Heating), the year was characterized by varying sales performance. The varying performance reflected the overall continued global low-growth environment and the generally very mixed market conditions; however, it also demonstrated the natural diversification effect at Group level.

Part of the aim of our Core & Clear strategy is to strengthen the core businesses via organic sales growth and acquisitions of well-performing companies. Accordingly, both organic growth and acquisitive growth are key elements in driving long-term value creation and we measure growth including both elements.

In December 2014, Danfoss acquired the Finnish drives manufacturer Vacon. Consequently, the additional sales from this acquisition have also contributed to lifting the Group's net sales in 2015. Furthermore, compared to 2014, changes in exchange rates, driven by appreciation of the US dollar, continued to have a positive impact on the top line of approximately 6%.

Net sales / bn DKK



In conclusion, in 2015, the Danfoss Group delivered sales performance in line with expectations.

Market trends

The need for new infrastructure, efficient food supply, energy efficiency and climate-friendly solutions remained the overall drivers of the demand for Danfoss technologies.

In particular, the globally increasing awareness of the potential in energy efficiency and the need for creating more sustainable and climate-friendly energy systems were strong market drivers. However, as mentioned above, the global, overall market conditions continued to be characterized by low growth, and the business environment was mixed across markets and regions. Most significantly, the mobile hydraulics market, where Danfoss Power Solutions operates, was down due to lower construction activity and low crop prices.

As expected, the business environment in Russia remained difficult, and the Chinese market continued to slow down. Conversely, high growth potential countries like Mexico, India, and Turkey continued with strong growth, and also markets in the US and Europe showed a positive trend in 2015. Thus, for the Danfoss Group, the year confirmed the overall global trend of a change in the macroeconomic scenario. Major emerging markets like Russia and Brazil have declined, while China has slowed down and at the same time growth momentum seems to be gradually building in some of the more mature regions and new emerging economies.

In Europe, market conditions varied. In the Eastern European region, in the areas outside Russia, the growth momentum increased during the year, driven by improved performance in the Danfoss Heating and Danfoss Drives business segments. In Russia, the activity level continued to be significantly impacted by the economic downturn, and market conditions remained difficult. The volatility in the Russian market continued to be high and closely related to the fluctuations of the Ruble and oil prices. Consequently, net sales in Russia measured in DKK dropped significantly compared to last year. Danfoss' strategy in

Key figures

DKKm	2014	**2015**
Income statement		
Net sales	34,375	**38,031**
EBIT	3,925	**4,097**
Net profit	2,290	**2,597**
Balance sheet		
Intangible fixed assets	15,732	**16,046**
Property, plant and equipment	6,558	**6,682**
Total assets	36,883	**37,219**
Other information		
Net investment excluding M&A	996	**1,176**
Depreciation/amortization/Impairment	1,738	**1,926**
Number of employees		
Number of employees	24,117	**23,420**
Key figures		
EBIT margin	11.4	**10.8**

Russia is to persist and defend the strong market position, and in local currency, sales in Russia were close to the level of 2014. For the whole Eastern European region sales grew by 6% in local currency. The Western European region grew by 9% in local currency. During the year, the most significant market change in the region took place in the Southern European countries, in particular in Spain, where a positive growth trend has emerged, mainly driven by improved sales performance in the Danfoss Cooling business segment.

In the Americas, except for a downturn in the mobile hydraulics market impacting the Power Solutions business segment, 2015 was a good year for Danfoss. In the North America region, the Danfoss Drives business segment, in particular, continued to drive strong sales growth, while also Danfoss Cooling benefitted from the overall positive trend in the US economy. For the Danfoss Power Solutions business segment, however, the sales in the region declined. Consequently, at Group level, net sales in local currency in North America continued to be at level with last year. However, excluding Danfoss Power Solutions the growth was double-digit in local currency. In Latin America, sales were 7% above last year in local currency, driven by strong sales growth in markets like Mexico, Argentina and Chile whereas sales in Brazil declined.

In Asia-Pacific, growth was 4% in local currency compared to the same period last year. In 2015, the business environment in the region was impacted by the Chinese economy's continuing slowdown, which has led to varying activity levels across sectors within China. To some extent this also affected the Asia-Pacific markets outside China. As a result the Danfoss business segments faced mixed business conditions in the region and for the Group sales in China declined. Especially Danfoss Power Solutions and Danfoss Heating have been impacted by lower activity in the construction sector. On the other hand, the Group's targeted investments in India continued to pay off with a significant positive momentum with high double digit sales growth in local currency.

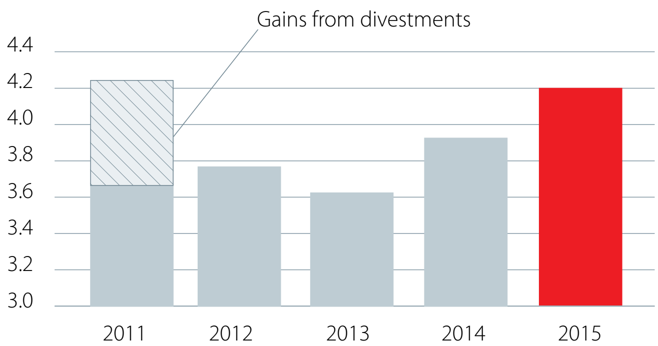
In Africa and the Middle East region, sales grew by 14% mostly driven by a continued strong sales momentum in Turkey.

Earnings

In 2015, EBIT excluding other operating income and expenses amounted to DKK 4,235m against DKK 4,356m in 2014. Earnings are compared to 2014, impacted by a combination of factors, such as a slightly lower gross profit margin due to the current market conditions for some of the business segments, and Danfoss spending relatively more on R&D related activities, and sales and distribution, while administrative expenses were maintained at the same relative ratio as in 2014. Compared to 2014, the Group's earnings were impacted by integration costs, including purchase price allocations and amotizations related to the first year of Vacon ownership.

Share of profit from associates and joint ventures after tax contributed in 2015 with DKK 67m against DKK -187m in 2014. Danfoss acquired 20% of SMA, the German producer of Solar Inverters in 2014. SMA was loss-making in 2014 but has recovered again in 2015 after finishing the restructuring announced at the end of 2014, hence affecting Danfoss' share of profits from associates positively compared to 2014.

EBIT / bn DKK



EBIT amounted to DKK 4,097m, against DKK 3,925m last year, which is equal to an increase of 4%.

Financial items totaled an expense of DKK 356m, against an expense of DKK 449m in 2014 and the reduction is mainly due to fewer negative currency adjustments concerning Rubles compared to 2014. Compared to last year, interests increased due to the financing of the acquisition of Vacon.

Thus, profit before tax increased by 8% to DKK 3,741m.

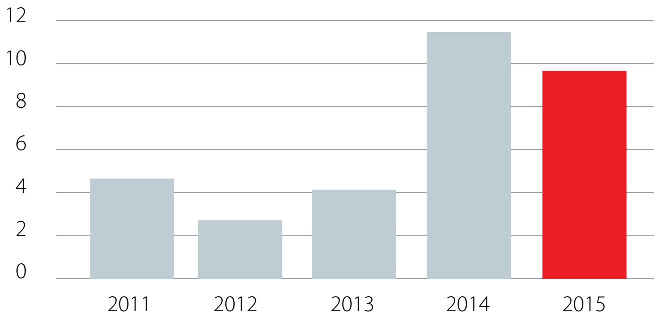
Net profit increased to the record-level of DKK 2,597m against DKK 2,290m in 2014. This is equal to an improvement of 13%. Consequently, net profit grew slightly faster than net sales in 2015. The main drivers of the improved net profit were an increase in EBIT, reduced financial expenses, and a lower effective tax rate compared to 2014.

In conclusion, the Group delivered satisfactory earnings.

Balance sheet
Total assets amounted to DKK 37,219m against DKK 36,883m last year. Total assets were impacted by foreign exchange changes mainly on the US dollar, by approximately DKK 1.1bn and approximately DKK 300m from acquisitions. On the other hand cash and purchace price amortizations reduced the balance sheet by DKK 900m.

The US dollar effect mainly affects Goodwill, Property, Plant and Equipment. Inventories and receivables increased slightly; however as a percentage of net sales (activity level) the ratio was reduced compared to last year by approximately 1% point. The Group's equity stood at DKK 15,424m at December 31, 2015, compared to DKK 13,242m at December 31, 2014. The increase is mainly due to accumulated profits for the year and resulted in an improvement of the equity ratio to 41.4% against 35.9% last year.

Net interest bearing debt / bn DKK



The return on equity was 17.6% compared to 18.4% in 2014. The decline was a result of a higher equity due to accumulated earnings and a positive currency impact.

During the second half of 2015 net interest-bearing debt was brought down by strong positive cash flows, and stood at DKK 9,640m at December 31, 2015, compared to DKK 11,439m at the same time last year. The level of debt at December 31, 2015 is equal to 1.6 × EBITDA of the last four quarters compared to the level of 2.0 × EBITDA at the same time last year. In conclusion, the debt level is well within the Group's target range of 0 to 2 times EBITDA of the last four quarters. The Group management considers the level of debt to be satisfactory.

Interest-bearing debt included DKK 9,280m (97%) noncurrent debt maturing after more than 12 months. At December 31, 2015, the Group had unutilized and long-term committed credit facilities of DKK 8.2bn. In addition to this, Danfoss had cash and cash equivalents and ordinary operating credits.

Cash flow statement
The Danfoss Group's free cash flow was positive with DKK 3,048 m in 2015 against DKK -6,225m last year. In 2014 Danfoss acquired Vacon Plc. The Group's free cash flow before mergers and acquisitions was maintained at a high level of DKK 3,397m, against DKK 3,389m in 2014.

The Group cash flow was driven by an increase in cash flow generated from operations, whereas net investments were higher than last year.

Cash flow from financing activities was mainly affected by the repayment of loans related to the Vacon acquisition.

Innovation
In 2015, Danfoss continued its high level of investments in research and development of new products and technologies. The Group's innovation activities were concentrated around digitalization of the portfolio and on developing energy-efficient and performance-enhancing solutions in the Group's core business areas. The Danfoss Group spent DKK 1,607m on product development in 2015, compared to DKK 1,331m in 2014. Measured as a percentage of sales, investment was 4.2% against 3.9% in 2014.

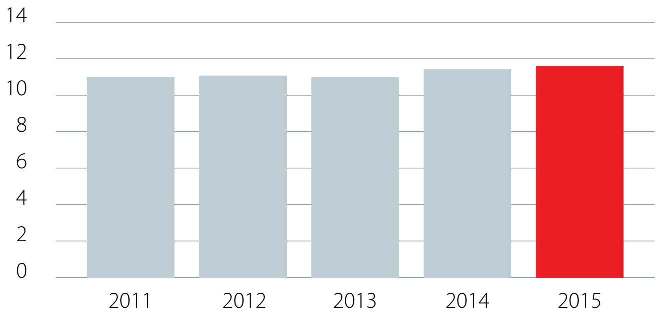
During the year, Danfoss filed 166 new patent applications, and 225 patents were granted to the Group. At December 31, 2015, the Group had 1,381 patents.

Employees
The Danfoss Group had 23,420 employees at December 31, 2015, compared to 24,117 at the year-earlier date.

Danfoss **Power Solutions**

For Danfoss Power Solutions, 2015 was characterized by a declining mobile hydraulics market; however, considering the challenging market situation the segment maintained good performance

Net sales / bn DKK



Key figures

DKKm	2014	**2015**
Income statement		
Net sales	11,406	**11,566**
Segment EBIT*	1,703	**1,579**
Balance sheet		
Intangible fixed assets	4,045	**4,008**
Property, plant and equipment	1,903	**1,445**
Total assets	8,838	**8,334**
Other information		
Net investment excluding M&A	355	**334**
Depreciation/amortization/Impairment	756	**742**
Key figures		
Segment EBIT margin	14.9	**13.6**

* Segment EBIT excluding corporate costs not allocated to segments

Throughout 2015, Danfoss Power Solutions experienced difficult market conditions. The global mobile hydraulics market has been significantly impacted by the downturn in the agricultural market and also the weakening construction and oil and gas markets in both the US and Europe. Furthermore, the Chinese mobile industry market and the distribution business in the US decreased significantly during the year.

Consequently, the business segment's net sales declined in most regions. In North America, net sales were, due to the appreciation of the US dollar, slightly above the same period last year. However, in local currency, net sales were below last year in particular due to weakening of the agricultural and construction markets in the US. In China, net sales also declined significantly following the downturn of the construction and road building business. On the other hand, the business segment saw growth in the other parts of Asia-Pacific region. And, also, in parts of Europe the segment recorded some growth.

Financial development

The business segment's net sales amounted to DKK 11,566m, against DKK 11,406m in 2014, equal to a sales decline of -8% in local currency and an increase of 1% in DKK. The sales decline in local currency reflected the soft market conditions in 2015.

In 2015, Segment EBIT (excluding corporate costs not allocated to the business segment) amounted to DKK 1,579m, against DKK 1,703m last year. The lower sales in local currency are the main reason for the lower earnings; however impact was reduced by the segments continued focus on procurement savings, productivity improvements as well as keeping good control of costs.

Danfoss **Cooling**

In 2015, profitability in Danfoss Cooling ended well above last year driven by the increased sales in several regions.

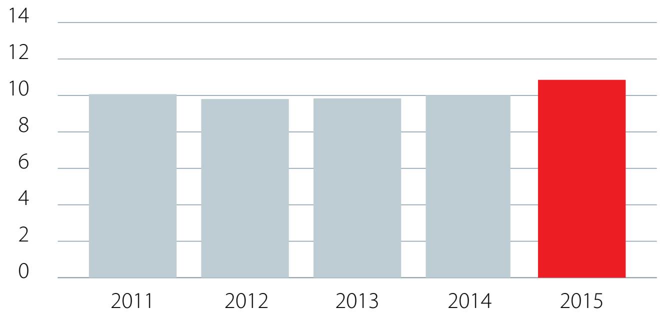
For Danfoss Cooling, 2015 was a good year characterized by continued strong performance. Currency fluctuations had a positive impact on the segment's sales, but also in local currency sales were above last year. The business segment's net sales increased in 2015 especially in the markets for refrigeration and airconditioning controls, commercial compressors and heat exchangers.

From a regional market point of view, the market conditions varied. In North America, the segment saw significant growth driven by a combination of the appreciation of the US dollar and increased momentum in the US economy in general. In Europe, the business segment saw more mixed market conditions with good growth momentum in the Eastern and Southern parts of the region. In Asia-Pacific, the pattern of mixed markets also led to slightly declining sales in some parts of the region, while the segment recorded double digit growth in India. Finally, the increased focus Africa and Middle East region also resulted in growth.

Financial development
The business segment's net sales amounted to DKK 10,796m, against DKK 9,959m in 2014, equal to a sales growth of 3% in local currency and 8% in DKK.

In 2015, Segment EBIT (excluding corporate costs not allocated to the business segment) amounted to DKK 1,533m, against DKK 1,349m last year. The main reasons for the positive development were the increased sales, as well as procurement savings, and continued productivity improvements.

Net sales / bn DKK



Key figures

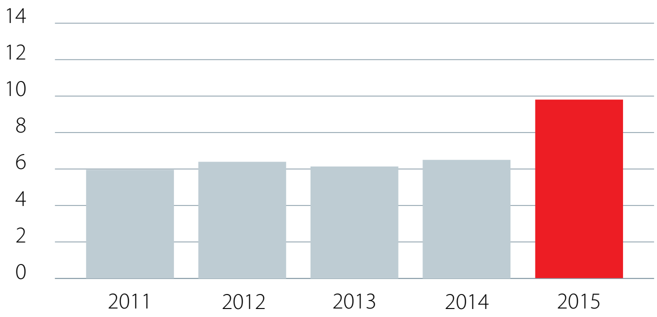
DKKm	2014	**2015**
Income statement		
Net sales	9,959	**10,796**
Segment EBIT*	1,349	**1,533**
Balance sheet		
Intangible fixed assets	2,039	**2,245**
Property, plant and equipment	715	**673**
Total assets	5,480	**5,952**
Other information		
Net investment excluding M&A	123	**140**
Depreciation/amortization/Impairment	266	**261**
Key figures		
Segment EBIT margin	13.5	**14.1**

* Segment EBIT excluding corporate costs not allocated to segments

Danfoss **Drives**

Danfoss Drives had a good 2015. Despite the ongoing merger activities the segment managed to keep a firm focus on maintaining high performance

Net sales / bn DKK



Key figures

DKKm	2014	**2015**
Income statement		
Net sales	6,478	**9,775**
Segment EBIT*	441	**963**
Balance sheet		
Intangible fixed assets	7,758	**7,628**
Property, plant and equipment	768	**726**
Total assets	13,100	**13,070**
Other information		
Net investment excluding M&A	132	**161**
Depreciation/amortization/Impairment	236	**452**
Key figures		
Segment EBIT margin	6.8	**9.8**

* Segment EBIT excluding corporate costs not allocated to segments

In December 2014, Danfoss acquired the Finnish drives manufacturer Vacon. Following the acquisition, Vacon and the former Danfoss drives business, Power Electronics, were merged, creating the new business segment; Danfoss Drives.

And the first year has gone well for Danfoss Drives. The segment has managed to maintain strong focus on serving the customers while the merger activities have been planned and executed in a staged and prioritized manner. During the year, the business segment gained more market share in spite of the merger activities and in general low-growth conditions in the drives market. The business segment's net sales increased in 2015 in key industries. From a regional point of view, Danfoss Drives recorded the highest growth rates in India and Asia-Pacific. But, also, several parts of Europe and North America showed growth.

Financial performance

The business segment's net sales amounted to DKK 9,775m, against DKK 6,478m in 2014. The additional sales from the acquisition of Vacon have contributed significantly to lifting the business segment's net sales in 2015. Including sales from Vacon, the business segment had growth of 44% in local currency and 51% in DKK.

In 2015, Segment EBIT (excluding corporate costs not allocated to the business segment) amounted to DKK 963m, against DKK 441m last year, although 2015 was negatively impacted by one-off costs related to the acquisition of Vacon. The main reason for the increase is the incorporation of Vacon. Furthermore, the successful transfer of the former Danfoss solar inverter business to German SMA solar technology AG, as well as increased sales, procurement savings from the consolidated spend, and continued productivity improvements contributed to the increased earnings.

Danfoss **Heating**

For Danfoss Heating, 2015 was characterized by good growth momentum in several parts of Europe, while Russia remained a challenge

2015 was a year of mixed market conditions for Danfoss Heating. With Russia being one of the key markets for Danfoss Heating, especially in the district heating business, the difficult business environment in the region continued to be the key challenge for the business segment. However, despite the market slowdown in the region, the demand for energy and cost efficiency in Russia remains high. Danfoss Heating managed to maintain a strong position in Russia and continued the development of its business in the region and support to local customers, as the demand for energy and cost efficiency in Russia remains significant.

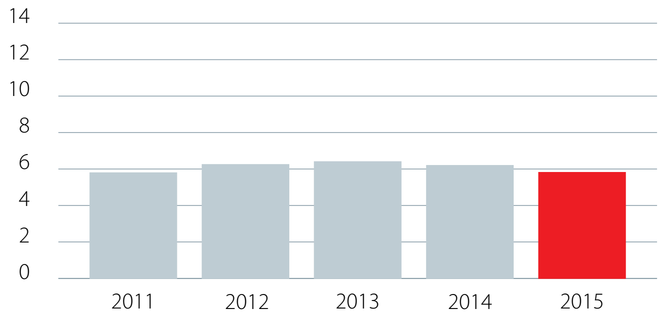
In China, the heating market was relatively challenging as the business environment in the region was impacted by the continued slowdown in the Chinese economy. In Europe, Danfoss Heating saw positive growth trends in most countries. The increased momentum in Europe to some extent counterbalanced the negative sales development in Russia and China. The business segment recorded the highest growth rates in the Northern and Eastern parts of Europe.

Financial performance

The business segment's net sales amounted to DKK 5,821m, against DKK 6,203m in 2014, equal to a sales decline of -1% in local currency and -6% in DKK. The sales decline primarily reflects the difficult market conditions in Russia.

In 2015, Segment EBIT (excluding corporate costs not allocated to the business segment) amounted to DKK 740m, against DKK 1,105m last year. The lower sales, but also intensified price pressure in several markets, were the main reason for the lower earnings. However, the impact was reduced by the segments continued focus on productivity improvements and efficiency programs across the value chain as well as good control of the fixed expenses.

Net sales / bn DKK



Key figures

DKKm	2014	**2015**
Income statement		
Net sales	6,203	**5,821**
Segment EBIT*	1,105	**740**
Balance sheet		
Intangible fixed assets	1,711	**1,836**
Property, plant and equipment	400	**390**
Total assets	3,630	**3,667**
Other information		
Net investment excluding M&A	122	**90**
Depreciation/amortization/Impairment	142	**128**
Key figures		
Segment EBIT margin	17.6	**12.6**

* Segment EBIT excluding corporate costs not allocated to segments

FINANCIAL HIGHLIGHTS, QUARTERLY

DKKm

	Q1 2014	Q2 2014	Q3 2014	Q4 2014	2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015
PROFIT AND LOSS ACCOUNTS										
Net sales	8,303	8,617	8,784	8,670	34,375	9,385	9,854	9,483	9,309	38,031
Operating profit before depreciation, amortization, impairment and other operating income and expenses etc.	1,401	1,450	1,802	1,426	6,079	1,411	1,556	1,749	1,432	6,148
Operating profit before depreciation, amortization and impairment (EBITDA)	1,341	1,448	1,737	1,135	5,661	1,352	1,481	1,745	1,443	6,021
Operating profit excl. other income and expenses etc.	996	1,043	1,394	924	4,356	930	1,070	1,275	960	4,235
Operating profit (EBIT)	913	1,042	1,323	647	3,925	871	997	1,273	956	4,097
Financial items	-80	-83	-86	-201	-449	-87	-91	-132	-46	-356
Profit before tax	833	959	1,237	447	3,476	783	906	1,141	911	3,741
Net profit	555	632	828	274	2,290	509	608	778	702	2,597
BALANCE SHEET										
Total non-current assets	15,760	18,029	18,737	25,822	25,822	26,561	25,994	25,689	26,168	26,168
Total assets	26,436	29,064	29,811	36,883	36,883	39,341	38,533	37,538	37,219	37,219
Total shareholders' equity	11,946	11,783	13,030	13,242	13,242	14,762	14,602	14,856	15,424	15,424
Net interest-bearing debt	3,913	6,639	5,874	11,439	11,439	11,300	11,519	10,350	9,640	9,640
Net assets	15,785	15,953	15,796	22,432	22,432	23,754	23,799	22,847	22,613	22,613
CASH FLOW STATEMENT										
Cash flow from operating activities	405	1,071	2,754	4,351	4,351	437	1,121	2,986	4,667	4,667
Cash flow from investing activities	-178	-2,673	-3,593	-10,576	-10,576	-242	-641	-949	-1,619	-1,619
Acquisition of intangible assets and property, plant and equipment	-215	-456	-711	-996	-996	-147	-359	-656	-1,176	-1,176
Acquisition of subsidiaries and activities	0	0	0	-7,377	-7,377	-17	-112	-111	-223	-223
Acquisition(-) and sale of other investments etc.	37	-2,217	-2,882	-2,203	-2,203	-79	-170	-182	-220	-220
Free Cash flow	227	-1,602	-839	-6,225	-6,225	195	480	2,037	3,048	3,048
Free cash flow before M&A	228	660	2,090	3,389	3,389	291	686	2,257	3,397	3,397
Cash flow from financing activities	-490	1,340	609	6,194	6,194	-304	-797	-2,347	-3,416	-3,416
KEY FIGURES										
Local currency growth (%)	8	3	3	7	5	6	5	5	5	5
EBITDA margin excl. other operating income etc. (%)	16.9	16.8	20.5	16.4	17.7	15.0	15.8	18.4	15.4	16.2
EBITDA margin (%)	16.2	16.8	19.8	13.1	16.5	14.4	15.0	18.4	13.1	15.8
EBIT margin excl. other operating income etc. (%)	12.0	12.1	15.9	10.7	12.7	9.9	10.9	13.4	10.7	11.1
EBIT margin (%)	11.0	12.1	15.1	7.5	11.4	9.3	10.1	13.4	10.3	10.8
Equity ratio (%)	45.2	40.5	43.7	35.9	35.9	37.5	37.9	39.6	41.4	41.4
Leverage ratio (%)	32.8	56.3	45.1	86.4	86.4	76.5	78.9	69.7	62.5	62.5
Net interest bearing debt to EBITDA ratio	0.7	1.2	1.0	2.0	2.0	2.0	2.0	1.8	1.6	1.6
GEOGRAPHICAL SEGMENTS										
Total net sales										
Western Europe	3,436	3,291	3,328	3,267	13,322	3,776	3,676	3,637	3,561	14,650
Eastern Europe	743	904	1,184	1,010	3,841	679	834	1,004	888	3,405
Asia Pacific	1,431	1,629	1,701	1,782	6,542	1,705	2,039	2,024	1,947	7,715
North America	2,054	2,100	1,854	1,911	7,921	2,511	2,559	2,087	2,121	9,278
Latin America	437	456	495	468	1,856	472	469	470	475	1,886
Africa - Middle East	202	237	222	232	893	242	277	261	317	1,097
Total	8,303	8,617	8,784	8,670	34,375	9,385	9,854	9,483	9,309	38,031
Number of employees										
Western Europe	9,133	9,069	9,045	9,911	9,911	9,724	9,637	9,558	9,536	9,536
Eastern Europe	3,893	3,972	3,972	4,010	4,010	3,996	3,915	3,893	3,908	3,908
Asia Pacific	4,868	4,982	4,988	5,372	5,372	5,336	5,302	5,223	5,172	5,172
North America	3,058	3,217	3,251	3,428	3,428	3,432	3,453	3,410	3,406	3,406
Latin America	1,227	1,282	1,252	1,278	1,278	1,286	1,340	1,266	1,203	1,203
Africa - Middle East	107	111	114	118	118	127	128	138	195	195
Total	22,286	22,633	22,622	24,117	24,117	23,901	23,775	23,488	23,420	23,420

In situations where the ratios have been defined according to "Recommendations & Key Figures 2015", as prepared by the Danish Association of Financial Analysts, the ratios are computed according to these definitions.

Outlook **2016**

Our key focus continues to be on ensuring long-term profitability of the business by having a scalable and flexible business model, while investing in the core businesses to maintain the market position and grow by expanding market share. Based on an agile business foundation enabling quick response, we can proactively adapt to changing market conditions and new business opportunities.

Overall, the outlook in regard to the development of the global economic environment remains weak; visibility is low and volatility continues to be high. For the global industrial sector, in particular, the growth projections are in general subdued. However, we do also see increasing momentum in some markets and regions like India, Turkey and Mexico, and we are in a good position to take advantage of these growth opportunities.

Key factors which can impact the Group's sales performance in 2016:

- Low prices on commodity goods – such as crops, metals and oil – affecting the global agriculture, marine, oil & gas and mining sectors negatively and, potentially, impacting the activity levels in the markets where our business segments, Danfoss Power Solutions and Danfoss Drives, are operating.
- Continued volatility and fluctuations in foreign exchange rates may have a negative effect on sales.
- The Group's continued strategic initiatives to accelerate profitable growth and investments in markets with high growth potential are well underway and expected to generate a positive impact on the market share development. Impact from the initiatives is dependent on the development of the global market conditions during 2016.
- The strong cash flow performance is expected to continue in 2016, and to the extent that we are successful in acquiring well-performing companies, this can add to the sales growth.

2016 expectations

Based on the above, we expect to maintain or expand our market share while maintaining our EBIT margin at level with 2015.

Forward-looking statements

The Annual Report contains forward-looking statements. Such statements are subject to risks and uncertainties as various factors, many of which are beyond Danfoss' control, may cause actual development and results to differ materially from expectations contained in the Annual Report.

"Water and wastewater facilities typically use 25-40% of the total power use in a city. In the Danish city of Aarhus, a wastewater facility equipped with Danfoss solutions produces 90% more energy than it consumes while at the same time cleaning the city's wastewater. In fact, the wastewater plant is functioning as a combined heat and power plant: It's a power producing wastewater plant."

Sustainability

Sustainability

Danfoss treasures sustainable results and plays an active role in sustainable global development. 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. Danfoss prepares an annual sustainability report that 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. The full Sustainability Report is available at www.danfoss.com/sustainability/sustainability-reporting.

Climate Strategy 2030

Danfoss launched in November 2015 an ambitious Climate Strategy 2030, which builds on what the company has already achieved since the first climate strategy was launched in 2008. Danfoss' energy intensity measured as energy consumption per mDKK net sales has been reduced by 29% since 2007. The new strategy requires Danfoss to reduce the energy intensity by 50% before 2030 and only use half as much energy to keep the wheels of business running. The consumed energy shall by 2030 emit less than half as much CO_2 per MWh.

To achieve the goals, Danfoss will initiate a range of new measures from 2016: We will assess stimulation mechanisms for green transformation including advantages and implications of an internal carbon price to drive further investments in energy savings; all production line processes will be thoroughly scrutinized and measures taken to lower energy use; the focus on building renovation and refurbishment will be strengthened; regular energy audits will be performed in the largest factories and high attention will be given to emissions from the transport of goods to drive the already achieved reductions further.

Danfoss' global energy-saving project includes the 21 largest factories and will reduce the energy used to supply the buildings with heating, cooling and lighting by 35%. The projects will, when the implementation is finished in 2017, reduce more than 16% off the total energy consumption in the factories and reduce the energy costs significantly. More than 160 local projects have been initiated and the project will be realized with a simple payback time of less than 3 years.

Energy efficiency

In 2015, Danfoss emitted 234,000 tons of CO_2 from the company's consumption of electricity and heat. This is 5,000 tons more than in 2014, which primarily is caused by increased electricity consumption in those countries where the CO_2 intensity of the electricity is high (China, India and Poland). Implemented energy savings in other countries did not fully compensate for the increases. The overall CO_2 intensity in all energy used in 2015 increased slightly from 393 kg CO_2/MWh in 2014 to 398 CO_2/MWh.

Danfoss' total energy consumption remained unchanged from 2014 while the energy intensity decreased by 9.4% to 15.4 MWh/mDKK in 2015 against 17.0 MWh/mDKK in 2014. This was caused by increased sales without increased consumption of energy.

Safety First!

Protecting the environment and improving the health, working environment and safety of our employees has always been deeply rooted in Danfoss. Our Core & Clear strategy is built on the employees as Danfoss' most important asset, and we drive passion and performance through leadership, diversity and winning teams.

"Safety First!" is the Group's systematic approach to a safe workplace. Focus is on having clear, aligned procedures and standards to ensure a safe working environment and avoiding accidents across all Danfoss sites.

In 2015, Danfoss implemented a global safety program "Safety on the shop floor". The project enhances the focus on safety in all factories around the world. From 2015, safety shoes and safety glasses are mandatory for anyone entering the shop floor in any Danfoss factory worldwide. Hearing protection is also mandatory for employees working at machines with a high noise-level and safe walkways have been identified and marked for pedestrians in all factories.

The activities implemented through "Safety on the shop floor" are clear signals of Danfoss' continued dedication to aligned and very high health and safety standards across the Group. With

Danfoss products are **reducing energy consumption**

Everywhere: from houses and office buildings to supermarkets and factories worldwide, Danfoss products are reducing energy consumption on a daily basis. In total, Danfoss products save millions of kilowatt hours, huge amounts of money, and tons of CO_2.

For example, recycling heat, through District Energy networks, opens the way to massively reducing carbon emissions, particularly in urban centers, where heat demand is most intense. These reductions are achieved without limiting economic and industrial output or endangering living standards. District Energy is widely used in some of Europe's most advanced economies, where productivity and high living standards go hand in hand with real carbon savings: District Energy lets Copenhagen save 665,000 tons of CO_2 annually, while Helsinki saves 1.5m tons per year. According to the International Energy Agency, over 35 billion tons of carbon emissions could be avoided by 2050 through the use of modern district heating and cooling. This equals 58 % of global carbon emissions reductions required to keep the global rise in temperature to 2-3 degrees Celsius.

Another obvious area of improving energy efficiency in cities is the water sector. The water and wastewater facilities in cities account for the largest consumption of electricity in cities. This is often overlooked. Water and wastewater facilities typically use 25-40% of the total power use in a city. In the Danish city of Aarhus, a wastewater facility equipped with Danfoss solutions produces 90% more energy than it consumes while at the same time cleaning the city's wastewater. In fact, the wastewater plant is functioning as a combined heat and power plant: It's a power producing wastewater plant. The excess heat is led into the district heating system in the city, and thereby reducing the city's carbon footprint.

Danfoss' frequency converters controls electric motors so they only run at the speed necessary to obtain the desired effect, this saves up to 50% energy. Electric Motor-driven Systems are extremely energy consuming when it comes to end-use appliances and consume at least 7000 TWh/year globally, which is roughly equivalent to 45% of all end-use electricity consumption world-wide. With 70-80% of new motor installations not controlled by drives and a 10-15 years lifetime of motors, the installed base of motors not controlled by drives – provides a large energy savings potential.

the program Danfoss continued the postive trend within safety. Danfoss' total LTIF – Lost Time Injury Frequency was reduced to 3.4 in 2015 from 4.4 the year before - a significant reduction of 22%. The LTIF is the number of accidents that result in absence from work of one or more calendar days in addition to the day of the accident per one million hours worked.

The Lost Day Rate in 2015 was 59 (the number of days with absence from work due to Lost Time Injuries per one million working hours). This is a reduction from 66 in 2014.

The reductions were achieved through a dedicated focus on safety in the factories, the implementation of aligned safety rules across the business segments but first and foremost by the dedicated management, safety staff, and employees at all Danfoss' factories around the world.

Ethical conduct
In order to maintain and develop Danfoss' position and good reputation on the global market, it is key that we create results in an ethical manner. The Danfoss name must always be associated with respect for human rights, proper working conditions, and social and environmental considerations.

In 2015, Danfoss continued the company's efforts to ensure high ethical standards and business conduct. A main element is the Ethics Handbook that supports the employees in living up to the Danfoss values and policies by describing our ethical guidelines. The Ethics Handbook is fully implemented in all legal entities, lastly by introducing it to the 1,600 new colleagues joining Danfoss following the acquisition of Vacon in December 2014.

Danfoss has stepped-up the efforts to maintain high ethical standards by updating the global e-learning program on ethics, Ethics@work based on actual ethics cases or questions raised in the company. More than 3,300 people managers and employees have been trained in Ethics@work during 2015.

Danfoss has for many years monitored and mitigated its human right impact to prevent and mitigate any potential or actual negative impact on human rights in its value chains. Danfoss continued in 2015 the implementation of the "UN Guiding Principles on Human Rights" that requires companies to conduct human rights due diligence. As a part of Danfoss' Sustainability Program, a process was initiated in 2015 to scope the future human rights due diligence process as an integrated part of the Group's operations.

Our people
In order to deliver on our promises to customers every day our employees are empowered to make an impact, to exceed expectations, and to achieve sustainable results. Our employees have the right to a safe and healthy working environment where discrimination is prohibited and personal well-being is promoted.

One of Danfoss' strategic targets is to make the company a great place to work. Danfoss aspires to be world class in Human Resource management, enabling accelerated profitable growth by means of a high-performing and engaged Danfoss organization. The organization strives to foster a collaborative, agile and flexible organization where employees make a difference and leaders inspire people to deliver the best results. Real impact, strong teamwork, global career opportunities and continuous focus on development make Danfoss a great place to work.

During 2015, Danfoss launched a new engagement survey, called Voice, for the entire Group. Voice covers areas such as employee engagement, performance enablement, strategy, behaviors, and leadership.

The results of the first One Company engagement survey for the Danfoss Group show a high engagement score of 76 on a scale from 1 to 100. 93% of the employees filled out the survey and gave their feedback about what works well and what needs to be improved.

Other results show that 27% of the employees are "fiery advocates" - meaning they are highly loyal and committed to Danfoss. The study also shows that more than half of the employees, 52%, believe that the managers show strong leadership, with a balanced focus on performance and people skills. Due to updates of the survey questions the results cannot be directly compared with those of previous engagement surveys. However, we consider the results to be within the best quartile of benchmark.

Diversity
Danfoss believes the diversity of its employee base builds a competitive advantage towards customers through creativity,

innovation and local customer understanding. As a global company, we are focused on maintaining an inclusive work environment encouraging and harnessing our employee's opinions, knowledge, collaboration and diverse perspectives.

Danfoss is specifically looking at hiring and developing more female leaders, engaging the different generations and ensuring strong local leaders facing our customers.

The Group's overall goal was to increase the percentage of female managers to 20% by 2015 from 18% in 2014, in order to ensure that the Group's managers increasingly reflect the diversity of the Danfoss workforce, of which 30% were women in 2015. The percentage of female managers remained in 2015 at 18%.

Although Danfoss hasn't reached its goal of 20%, we continue to focus on developing the female leaders currently in our talent pipeline as well as attracting female leaders to join at all levels. We have made great progress in China and Eastern Europe with over 25% female leadership. We will continue our aspiration to reach 20% overall by 2017.

Danfoss aims for the composition of its top governing body to reflect the diversity of the rest of the Group. The Board of Directors has one female member, elected by the employees; However no members elected by the General Assembly are female. At its annual meeting in 2017, Danfoss will attempt to raise the number of women serving on the Board to at least one of the six members elected by the General Assembly. In order to achieve that goal, the Board will, before recommending candidates for the Board, work to identify at least one candidate representing diversity. Should two candidates be equally qualified, the Board of Directors will recommend the candidate representing diversity for election by the shareholders.

"We take a systematic and holistic approach to managing risk. Maintaining efficient risk management is a cornerstone in Danfoss as well as a prerequisite for running a business and responding rapidly and flexibly when conditions change."

Risk management and compliance

Risk management and compliance

This section provides an overview of the Danfoss Risk Management and compliance activities, its governance and defined Group risks.

In order to grow and stay profitable in increasingly complex business environments, Danfoss must manage risks and opportunities effectively. We take a systematic and holistic approach to managing risk. Maintaining efficient risk management is a cornerstone in Danfoss as well as a prerequisite for running a business and responding rapidly and flexibly when conditions change.

Governance
As per Board Procedure, the Danfoss Board of Directors performs risk oversight and the Audit Committee assesses the effectiveness of the Danfoss Risk Management.

"To mitigate cyber risk, Danfoss is in the process of renewing IT Security governance with security policies covering all necessary areas. In addition, Danfoss raises security processes and procedures to a higher maturity level combined with the implementation of critical controls."

Overall, the Executive Committee is responsible for risk management at Danfoss. It ensures that risk management policies and processes are effective at all relevant levels.

Responsibility for the actual performance of risk management activities lies with the company's respective managers and corporate functions.

The structure for handling risk management at Danfoss includes:

- Internal Audit, which performs independent internal reviews and submits the outcome directly to the Board's Audit Committee.
- The Risk & Compliance Committee, set up by the Executive Committee, approves methodologies and generic process design regarding risk management and assesses the effectiveness and adequacy of the current risk management standards.
- Group Risk Management, whose duties include responsibility for the content of the Group's risk management program.
- Group Ethics & Compliance, whose duties include responsibility for preparing and implementing the Group's compliance programs and for the Group's whistle-blower function.
- Corporate Treasury, the central unit that manages the Group's financial risks, and provides insurance services.
- The day-to-day management is in charge of activities aimed at safeguarding assets and earnings, handling business risks, monitoring and interpreting legislation and standards, and managing IT security, patents and trademark rights, product quality, fire prevention, environmental and occupational health and safety standards, etc.

"Danfoss has implemented ethical guidelines and compliance programs. Compliance is verified through follow-up procedures that include internal inspections and other measures"

Risk reporting and control
Risks are reported on an ongoing basis between the various managerial levels, for example at quarterly business review meetings. In addition, the Group Risk Management function annually prepares a report on the most significant risks which is submitted to the Risk & Compliance Committee. Subsequently it is submitted to the Board of Directors, the Audit Committee and the Executive Committee. The Risk & Compliance Committee provides overall supervision of the risk management process and monitors selected group risks as well as potential new risks.

Risk profile
While there is no single risk threatening the Group's survival, it is exposed, in its aggregate risk profile, to a number of external and internal risks.

Every identified risk is assessed and reviewed by a standardized guideline on a regular basis.

Important risks relate to the following conditions:
- Global market conditions and mega-trends, including a sustained stronger focus on energy-efficient and socially sustainable solutions
- Fair and equal access to markets
- Competition, especially from China and India
- Geopolitical conflicts
- Global economic growth
- Key markets, such as the US, Germany, China, Russia, Brazil and India
- The Danfoss Growth Themes: Infrastructure, food, energy and climate
- Customer relations and reputation, including Danfoss' ability to build business on trust and integrity
- Competitive strength and innovation, including the ability to support customers in providing efficient solutions, attractive cost levels and high product quality
- Financial sustainability, including the Group's ability to fund new growth

Compliance
Danfoss wishes to maintain and continually improve its reputation as a company that conducts itself properly and responsibly. This means that Danfoss will do its utmost to live up to its legal and ethical responsibilities. As a global enterprise, Danfoss supports the growing international focus on regulation and enforcement in areas such as anti-corruption, competition law, export control and good business ethics. Good regulation across the globe will help ensure a level playing field, which is seen as an advantage for Danfoss. For this reason, we are strongly focused on compliance, and the Group has established internal programs and control mechanisms to minimize the risk of unethical behaviour.

Training and compliance follow-up
Compliance efforts are based on extensive preventive programs, comprised by clear rules and guidelines and targeted employee communication and training. Follow-up procedures to verify the effectiveness of these compliance efforts form an integral part of internal controls and audits, as do spot checks conducted by our internal audit function.

We have compliance programs in a number of areas (e.g. anti-corruption and ethical behavior). A specific focus in 2015 was the introduction of a revised Export Control compliance manual and the application for authority approval of newly developed Corporate Binding Rules concerning data privacy. Furthermore, all people managers completed a revised online training , Ethics@work, enabling them to guide themselves, their employees and their colleagues in making the right decisions and living up to our values and policies.

Compliance hotlines
In addition to the compliance programs, Danfoss also has a query function AskUs, where employees can seek answers to any questions and doubts they may have regarding ethics and compliance. The purpose of AskUs is to minimize uncertainty among the Group's employees and prevent unintended non-compliance. In 2015, AskUs received 85 enquiries from employees seeking guidance on how to properly follow ethical guidelines or compliance requirements in a specific situation. We also have a whistle-blower function, the Ethics Hotline, where employees can report suspected breaches of internal guidelines and legislation anonymously. A total of 93 cases were reported to the Ethics Hotline in 2015. In all substantiated cases, correcting actions has been taken, including necessary disciplinary action. None of the ethics cases have had material impact on Danfoss.

"In addition to the compliance programs, Danfoss also has a query function AskUs, where the Group's employees can seek answers to any questions and doubts they may have regarding ethics and compliance."

Risk overview

Like its industry peers, Danfoss is exposed to a number of general and basic risks. These are risks relating to customers and markets, factories and suppliers in the supply chain, law and regulatory regimes, and internal processes and systems. Danfoss' exposure to such risks is similar to the general risk exposure of its peers.

The Executive Committee has defined three specific risk areas of the risk management process that, due to their special nature, are of particular importance to Danfoss. The three areas are described in the table below. This overview does not include financial risk, which is described in Note 16 to the financial statements on financial risk and instruments.

Ethical conduct

The ethical behavior of companies and their employees is an area of growing focus from several stakeholders, with increased level of regulation and sanctions being introduced worldwide in areas such as anti-corruption, export control and competition law.

Unethical or outright illegal conduct by Danfoss employees or agents acting on our behalf, could cause considerable damage to Danfoss' reputation and result in substantial financial sanctions.

Risk mitigation measures

Danfoss has implemented ethical guidelines and compliance programs. Compliance is verified through follow-up procedures that include training, internal inspections and other measures. In addition, Danfoss has an AskUs function, from which employees can seek advice and guidance on ethical conduct. Danfoss also operates an Ethics Hotline which employees can use to anonymously report suspected violations of the law or internal guidelines.

Data privacy regulation

Data privacy concerns exist wherever personally identifiable information is collected and stored – in digital form or otherwise. They could arise from an inappropriate handling of sensitive data concerning employees, customers, suppliers etc.

A stricter data protection regulation, taking into account the enormous technological changes of the last 20 years, has been agreed upon in the European Union. It is expected to be adopted in 2016. The new rules will become applicable two years thereafter. Among other things the regulation will increase the responsibility of companies regarding data privacy and breaches against the regulation may result in fines up to 4% of a company's annual revenue.

Risk mitigation measures

Danfoss has performed a data classification and completed a data flow analysis. Binding Corporate Rules have been defined and submitted to relevant authorities for approval. While waiting for the formal approval, Danfoss will adjust relevant processes and systems to comply with the Binding Corporate Rules.

Cyber risk

Using digital technologies, devices and media bring opportunities but also risks to Danfoss. These risks could be hacker attacks, data theft, and other forms of cyber-crime and generally affect confidentiality, integrity and availability. In particular, the increasing cloud computing and the associated increased business use of private terminals or security risks by external access to corporate IT via smartphones and tablets represent a risk to the Danfoss Group.

Risk mitigation measures

To mitigate cyber risk, Danfoss is in the process of renewing IT Security governance with security policies covering all necessary areas. In addition, Danfoss raises security processes and procedures to a higher maturity level combined with the implementation of critical controls.

"Legislation provides the general framework for the Group's governance, but corporate governance is also about how the business is managed within this framework. The Group structure supports Danfoss' management values and determines a clear distribution of management responsibilities. This structure and these well-defined principles drive the interaction between the Group's management, owners and other stakeholders."

Corporate **Governance**

Corporate Governance

Corporate governance is a crucial aspect of the way Danfoss runs its business. Key concepts like responsibility, integrity and openness about the Group's activities form the basis for the high standards of corporate governance to which the Group holds itself.

Legislation provides the general framework for the Group's governance, but corporate governance is also about how the business is managed within this framework. The Group structure supports Danfoss' management values and determines a clear distribution of management responsibilities. This structure and these well-defined principles drive the interaction between the Group's management, 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 at Danfoss.

Management structure
Danfoss has a two-tier management system consisting of its Board of Directors and the Executive Committee. The Board of Directors lays the general course for the company by approving strategies and targets. The Executive Committee develops the strategy and handles the day-to-day management of the company and execution of the strategy.

The Board of Directors
The Danfoss Board consists of six members elected at the Annual General Meeting and three employee-elected members. Of the six members elected at the General Assembly, four (Kasper Rørsted, William Ervin Hoover, Jürgen Reinert and Björn Rosengren) are independent. Henrik Poulsen resigned from the Board in December 2015. The Board of Directors will assemble in plenary sitting at the General Assembly of Danfoss A/S on April 29, 2016.

The Board of Directors meets at least five times a year. In addition, the Board holds extraordinary meetings as and when required. The Board regularly assesses the aggregate competencies of its members to ensure that they are consistent with the Group's requirements at all times.

Audit Committee
The duties and responsibilities of an Audit Committee, as well as its powers, can either be organized in an independent committee or be executed by the entire Board. At Danfoss, the entire Board performs the function of the Audit Committee. Bill Hoover is chairman of the Audit Committee, and conducts regular meetings with the corporate finance functions and Internal Audit outside Board meetings. The Committee's activities and tasks are set out in its rules of procedure, and it held five meetings in 2015.

Internal audit function
The Group's internal audit function presents its conclusions directly to the Board's audit committee or its chairman. The internal audit function is intended to provide independent and objective auditing to ensure:

- The Group follows good administrative practice.
- The Group has comprehensive internal controls and business processes in place in all essential areas of activity.
- The Group's IT systems have adequately segregated functions.

The internal audit function visited a number of Group companies in 2015. No matters of material importance to the Group's overall risk management and control environment were detected.

Danfoss filed in November 2014 a Euro Medium Term Program on the Irish Stock Exchange and is therefore as of that date considered a class D company with listed bonds. Danfoss has to comply with the rules set out in section 107b, section 1 no. 6, of the Danish Financial Statements

Act applying to companies with listed bonds, including the exceptions regarding issuers of bonds above EUR 100,000. For the complete account of Danfoss' corporate governance, please see the corporate website at www.danfoss.com/corporategovernance2015.

Shareholders

Danfoss' share capital amounts to DKK 1,024m and is divided into two share classes: A-shares accounting for DKK 425m and B-shares accounting for DKK 599m. A-shares entitle holders to ten votes for every DKK 100 nominal value of shares held. A-shareholders also have a pre-emption right to A-shares in the event of share capital increases. Apart from this, no shares carry special rights. The Bitten and Mads Clausen Foundation and the Clausen family hold all issued A-shares and a number of B-shares corresponding to 99.83% of the votes. At the end of 2015, Danfoss had approximately 2,900 registered shareholders. Approximately three in four shareholders were resident in Denmark.

Share price development

The Danfoss share price is set once a year, based on a valuation prepared by Danske Markets (a division of Danske Bank A/S) immediately before the Annual General Meeting held in April. The price was first set in 2001 when Danfoss issued its first employee shares. The 2001 price was DKK 749 per share. The share price is calculated on the basis of the financial performance of Danfoss, the Group's expectations for the upcoming year, its ability to meet expectations, the financial development of a number of comparable companies and their expectations for the future, as well as general developments in the stock market. In 2015, the price was set at DKK 4,267 per share. The new price will be announced at the 2016 Danfoss Annual General Meeting in April.

Dividends and General Meeting

The Annual General Meeting will be held in Nordborg on April 29, 2016. The Board of Directors will recommend to the General Meeting that a dividend of 20.4% of the Group's net profit be paid in 2015, corresponding to DKK 51.8 per 100 DKK share.

Shareholders with more than 5% of share capital

The Bitten og Mads Clausen Foundation, Nordborg, Denmark
49.77% shares
85.68% votes

Clausen Controls A/S, Sønderborg, Denmark
25.56% shares
5.40% votes

Henrik Mads Clausen, Lake Forrest, USA
10.74% shares
2.26% votes

Karin Clausen, Holte, Denmark
7.05% shares
1.49% votes

Danfoss Board of directors

	Competencies	Other positions
Jørgen Mads Clausen **Chairman of the Board of Directors** Born: 1948 **Position with Danfoss A/S** Chairman of the company's Board of Directors since 2009. Member since 1985.	**Education:** Master of Business Administration, University of Wisconsin, Madison, USA Bachelor of Science in Engineering, DTU (Technical University of Denmark) Professional experience managing a Danish-based international company and from other board memberships.	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 Member of the Board of Blue Equity Management A/S **Decoration:** Kammerherre title bestowed by H. M. The Queen of Denmark Knight 1st Class of the Order of the Dannebrog, Denmark Verdienstkreuz erster Klasse of the Federal Republic of Germany
Mads-Peter Clausen **Member of the Board of Directors** Born: 1976 Position: Senior M&A Associate Danfoss A/S **Position with Danfoss A/S** Member of the company's Board of Directors since 2014.	**Education:** Master of Business Administration, University of Georgia Bachelor of Science in Engineering, University of Southern Denmark	Member of the Board of miniBOOSTER Hydraulics A/S
William Ervin Hoover Jr. **Member of the Board of Directors** Born: 1949 Position: Director **Position with Danfoss A/S** Member of the company's Board of Directors since 2007.	**Education:** Master of Business Administration, Harvard University Professional experience with supply chain, performance transformation, organization changes and mergers and acquisitions.	Chairman of the Board of ReD Associates Holding A/S. Deputy Chairman of the Board of GN Store Nord A/S (Great Nordic). Member of the Board of Sanistål A/S Member of the Board of Lego Foundation Member of the Board of Specialist People Foundation
Kasper Bo Rørsted **Member of the Board of Directors** Born: 1962 Position: CEO of Henkel A/G & Co. KGaA **Position with Danfoss A/S** Member of the company's Board of Directors since 2009.	**Education:** International Business School, Copenhagen Harvard Business School, Executive Programs Professional experience in managing major international companies in Switzerland, the UK and Germany.	Member of the Supervisory Board of Bertelsmann SE & Co. KGaA Member of the Board of Anheuser-Busch InBev SA
Björn Klas Otto Rosengren **Member of the Board of Directors** Born: 1959 Position: CEO and President of Sandvik AB **Position with Danfoss A/S** Member of the company's Board of Directors since 2010.	**Education:** Master of Science in technology, Chalmers University of Technology, Gothenburg Head of a global company focusing on profitable growth, international and cultural experience from stays and jobs in China, North America, Switzerland, Netherlands, Finland and Sweden.	Member of the Board of Directors of Outotec
Jürgen Reinert **Member of the Board of Directors** Born: 1968 Position: CTO (Chief Technology Officer), SMA Technology AG **Position with Danfoss A/S** Member of the company's Board of Directors since 2015.	**Education:** Doctorate in Engineering Doctorate in Motor Control, Aachen University of Technology Master of Science in Engineering, University of Pretoria, South Africa Bachelor of Science in Engineering, University of Pretoria, South Africa	Member of the Board of Kraftelektronik AB
Jens Peter Rosendahl Nielsen **Member of the Board of Directors** Born: 1957 Position: Senior Shop Steward at Danfoss Kolding **Position with Danfoss A/S** Employee elected member of the company's Board of Directors since 2006.	**Education:** Machinist Cooperation courses and experience from other board memberships.	Member of the Board of Metal Kolding and LO-Kolding
Lars Grau **Member of the Board of Directors** Born: 1963 Position: Senior Shop Steward at Danfoss Nordborg **Position with Danfoss A/S** Employee elected member of the company's Board of Directors since 2014.	**Education:** Electrician Cooperation courses and experience from other board memberships.	Member of the Board of Danfoss Employee Foundation Member of the Board of Danish El Federal in South Jutland
Sandra Nørgaard Bertelsen **Member of the Board of Directors** Born: 1982 Position: Senior Legal Advisor, Danfoss A/S **Position with Danfoss A/S** Employee elected member of the company's Board of Directors since 2014.	**Education:** Master of Laws, Aarhus University Bachelor of Laws, Aarhus University Cooperation courses and experience from other board memberships	

Executive Committee

Niels Bjørn Christiansen
President and CEO of Danfoss A/S

Born: 1966
Member since 2004

Companies with considerable board activities
- Chairman of the Board of Axcel A/S
- Member of the Board of AP Moller-Maersk A/S
- Member of the Board of William Demant Holding A/S
- Vice Chairman of the Board of the Confederation of Danish Industry
- Member of the Board of DTU, Technical University of Denmark

Kim Fausing
Executive Vice President and COO of Danfoss A/S

Born: 1964
Member since 2008, (2,400 warrants)

Companies with considerable board activities
- Deputy Chairman of the Board of Velux A/S
- Deputy Chairman of the Board of SMA Solar Technology AG
- Member of the Board of Hilti AG

Jesper Vaagelund Christensen
Executive Vice President and CFO of Danfoss A/S

Born: 1969
Member since 2013

Danfoss Leadership Team

Niels B. Christiansen	President and CEO, Danfoss A/S (born 1966)
Kim Fausing	Executive Vice President and COO, Danfoss A/S (born 1964)
Jesper V. Christensen	Executive Vice President and CFO, Danfoss A/S (born 1969)
Anne Wilkinson	Senior Vice President, Corporate HR (born 1965)
Mette Refshauge	Senior Vice President, Corporate Communication (born 1973)
Jürgen Fischer	Segment President, Danfoss Cooling (born 1963)
Lars Tveen	Segment President, Danfoss Heating (born 1963)
Eric Alström	Segment President, Danfoss Power Solutions (born 1966)
Vesa Laisi	Segment President, Danfoss Drives (born 1957)
Peter Martin	Senior Vice President, Group IT (born 1964). Entered the Danfoss Leadership Team in 2015.

Management statement

The Board of Directors and Executive Committee have today discussed and approved the Danfoss A/S Annual Report for the financial year January 1-December 31, 2015.

The Annual Report has been presented in accordance with the International Financial Reporting Standards and additional Danish disclosure 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 Group's and the Parent Company's assets, liabilities and financial position at December 31, 2015, and of the results of the Group's and the Parent Company's operations and cash flows of the financial year January 1-December 31, 2015.

We also consider the Management's review to give a true and fair view in the development of the Group's and Parent Company's operations and financial matters, of the results for the year and the overall financial position of the Parent Company related to the companies included in the Group accounts and describes the significant risks and uncertainties of the group's and the Parent Company.

We recommend that the Annual General Meeting approves the Annual Report.

Nordborg, March 15, 2016

Executive Committee

Niels B. Christiansen

Jesper V. Christensen

Kim Fausing

Board of Directors

Jørgen M. Clausen
Chairman

Jürgen Reinert

Sandra N. Bertelsen

Mads-Peter Clausen

Lars Grau

William Erwin Hoover

Jens Peter Nielsen

Björn Rosengren

Kasper Rørsted

Independent auditor's report

To the Shareholders of Danfoss A/S

Report on Consolidated Financial Statements and Parent Company Financial Statements

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Danfoss A/S for the financial year 1 January to 31 December 2015, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes, including summary of significant accounting policies, for the Group as well as for the Parent Company. The Consolidated Financial Statements and the Parent Company Financial Statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Management's Responsibility for the Consolidated Financial Statements and the Parent Company 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 Danish disclosure requirements for listed companies, and for such internal control as Management determines is necessary to enable the preparation of Consolidated Financial Statements and Parent Company Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Consolidated Financial Statements and the Parent Company Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements and the Parent Company Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements and the Parent Company Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements and the Parent Company Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Consolidated Financial Statements and Parent Company Financial Statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Consolidated Financial Statements and the Parent Company Financial Statements.

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

The audit has not resulted in any qualification.

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 31 December 2015 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Statement on the Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Consolidated Financial Statements and the Parent Company Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Consolidated Financial Statements and the Parent Company Financial Statements.

Nordborg, 15 March 2016
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Mogens Nørgaard Mogensen	Claus Lindholm Jacobsen
State Authorised Public Accountant	State Authorised Public Accountant

Group Accounts and notes

INCOME STATEMENT

January 1 to December 31

DKKm	Note	2014	2015
Net sales	1	34,375	38,031
Cost of sales	2	-22,209	-24,700
GROSS PROFIT		**12,166**	**13,331**
Research and development costs	2	-1,324	-1,607
Selling and distribution costs	2	-4,943	-5,764
Administrative expenses	2	-1,543	-1,725
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**4,356**	**4,235**
Other operating income and expenses	2	-244	-205
Share of profit from associates and joint ventures after tax	3	-187	67
OPERATING PROFIT (EBIT)	1	**3,925**	**4,097**
Financial income	4	37	70
Financial expenses	5	-486	-426
PROFIT BEFORE TAX	1	**3,476**	**3,741**
Tax on profit	6	-1,186	-1,144
NET PROFIT		**2,290**	**2,597**
Attributable to:			
Shareholders in Danfoss A/S		2,104	2,381
Minority interests		186	216
		2,290	**2,597**

STATEMENT OF COMPREHENSIVE INCOME

January 1 to December 31

DKKm	Note	2014	2015
NET PROFIT		**2,290**	**2,597**
OTHER COMPREHENSIVE INCOME			
Actuarial gain/loss (-) on pension and healthcare plans	15	-283	14
Tax on actuarial gain/loss on pension and healthcare plans	14	96	-5
Items that cannot be reclassified to profit or loss		**-187**	**9**
Foreign exchange adjustments on translation of foreign currency into DKK etc.		783	610
Fair value adjustment of hedging instruments:			
Hedging of net investments in subsidiaries		-21	16
Hedging of future cash flows		-134	341
Hedging transferred to net sales in the income statement		-25	-271
Tax on hedging instruments		42	-19
Items that can be reclassified to profit or loss		**645**	**677**
OTHER COMPREHENSIVE INCOME AFTER TAX		**458**	**686**
TOTAL COMPREHENSIVE INCOME		**2,748**	**3,283**
Attributable to:			
Shareholders of Danfoss A/S		2,503	3,011
Minority interests		245	272
		2,748	**3,283**

STATEMENT OF FINANCIAL POSITION

As of December 31

DKKm **ASSETS**	Note	2014	2015
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	7	**15,732**	**16,046**
PROPERTY, PLANT AND EQUIPMENT	8	**6,558**	**6,682**
Investments	3	2,249	2,452
Pension benefit plan assets	15	84	107
Non-current receivables		39	26
Deferred tax assets	14	1,160	855
OTHER NON-CURRENT ASSETS		**3,532**	**3,440**
TOTAL NON-CURRENT ASSETS		**25,822**	**26,168**
CURRENT ASSETS			
INVENTORIES	9	**4,085**	**4,170**
Trade receivables	10	5,167	5,325
Receivable corporation tax	17	441	527
Derivative financial instruments (positive fair value)	16	14	12
Other receivables		638	698
RECEIVABLES		**6,260**	**6,562**
CASH AND CASH EQUIVALENTS	16	**716**	**319**
TOTAL CURRENT ASSETS		**11,061**	**11,051**
TOTAL ASSETS		**36,883**	**37,219**

STATEMENT OF FINANCIAL POSITION

As of December 31

DKKm LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2014	2015
SHAREHOLDERS' EQUITY			
Equity, shareholders in Danfoss A/S	11	12,284	14,700
Minority interests		958	724
TOTAL SHAREHOLDERS' EQUITY		**13,242**	**15,424**
LIABILITIES			
Provisions	12	396	366
Deferred tax liabilities	14	1,964	1,942
Pension and healthcare benefit plan obligations	15	1,279	1,216
Borrowings	16	11,063	9,280
Derivative financial instruments (negative fair value)	16	37	28
Other non-current debt		250	324
NON-CURRENT LIABILITIES		**14,989**	**13,156**
Provisions	12	619	617
Liabilities under share incentive programs	13	81	42
Borrowings	16	1,109	796
Trade payables		3,572	3,864
Debt to associates and joint ventures		12	22
Corporation tax	17	295	302
Derivative financial instruments (negative fair value)	16	106	224
Other debt		2,858	2,772
CURRENT LIABILITIES		**8,652**	**8,639**
TOTAL LIABILITIES		**23,641**	**21,795**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**36,883**	**37,219**

STATEMENT OF CASH FLOWS

January 1 to December 31

DKKm	Note	2014	2015
Profit before tax		3,476	3,741
Adjustments for non-cash transactions	18	1,982	1,953
Change in working capital	19	196	299
CASH FLOW GENERATED FROM OPERATIONS		**5,654**	**5,993**
Interest received		15	18
Interest paid		-218	-286
Dividends received		7	5
CASH FLOW FROM OPERATIONS BEFORE TAX		**5,458**	**5,730**
Paid tax	17	-1,107	-1,063
CASH FLOW FROM OPERATING ACTIVITIES		**4,351**	**4,667**
Acquisition of intangible assets		-99	-204
Acquisition of property, plant and equipment		-1,134	-1,096
Proceeds from sale of property, plant and equipment		237	124
Acquisition of subsidiaries etc.	20	-7,376	-234
Proceeds from disposal of subsidiaries etc.	20	-1	11
Acquisition (-)/sale of other investments etc.	21	-2,203	-220
CASH FLOW FROM INVESTING ACTIVITIES		**-10,576**	**-1,619**
FREE CASH FLOW		**-6,225**	**3,048**
Cash repayment of (-)/cash proceeds from interest-bearing debt		7,150	-2,325
Repurchase of treasury shares		-14	-312
Addition/disposal of minority interests		5	-38
Dividends paid to shareholders in the Parent Company		-789	-493
Dividends paid to minority shareholders		-158	-248
CASH FLOW FROM FINANCING ACTIVITIES		**6,194**	**-3,416**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**-31**	**-368**
Cash and cash equivalents as of January 1		737	716
Foreign exchange adjustment of cash and cash equivalents		10	-29
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31		**716**	**319**

STATEMENT OF FREE CASH FLOW ADJ. FOR ACQUISITION AND DISPOSAL OF SUBSIDIARIES ETC. (M&A)

	Note	2014	2015
Free cash flow		-6,225	3,048
Acquisition of subsidiaries etc.	20	7,376	234
Proceeds from disposal of subsidiaries etc.	20	1	-11
Acquisition (-)/sale of other investments	21	2,237	126
FREE CASH FLOW BEFORE M&A		**3,389**	**3,397**

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

STATEMENT OF CHANGES IN EQUITY

DKKm	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, 2014	1,022	409	19	-617	-431	9,385	8,356	800	10,587	856	11,443
COMPREHENSIVE INCOME IN 2014											
Net profit						1,604	1,604	500	2,104	186	2,290
Other comprehensive income											
Foreign exchange adjustments on translation of foreign currencies				724			724		724	59	783
Fair value adjustment of hedging instruments			-159	-21			-180		-180		-180
Actuarial gain/loss (-) on pension and healthcare plans						-283	-283		-283		-283
Tax on other comprehensive income			37	5		96	138		138		138
Total other comprehensive income			-122	708		-187	399		399	59	458
Total comprehensive income for the period			-122	708		1,417	2,003	500	2,503	245	2,748
TRANSACTIONS WITH OWNERS											
Dividends to shareholders						11	11	-800	-789	-158	-947
Purchase of minority interest						-2	-2		-2	-1	-3
Capital increase/purchase of treasury shares	1	54			-70		-70		-15	16	1
Total transactions with owners	1	54			-70	9	-61	-800	-806	-143	-949
BALANCE AS OF DECEMBER 31, 2014	1,023	463	-103	91	-501	10,811	10,298	500	12,284	958	13,242
Adjustment to prior years						247	247		247	-247	
	1,023	463	-103	91	-501	11,058	10,545	500	12,531	711	13,242
COMPREHENSIVE INCOME IN 2015											
Net profit						1,851	1,851	530	2,381	216	2,597
Other comprehensive income											
Foreign exchange adjustments on translation of foreign currencies				554			554		554	56	610
Fair value adjustment of hedging instruments			70	16			86		86		86
Actuarial gain/loss (-) on pension and healthcare plans						14	14		14		14
Tax on other comprehensive income			-16	-3		-5	-24		-24		-24
Total other comprehensive income			54	567		9	630		630	56	686
Total comprehensive income for the period			54	567		1,860	2,481	530	3,011	272	3,283
TRANSACTIONS WITH OWNERS											
Dividends to shareholders						7	7	-500	-493	-248	-741
Disposals through sale of subsidiaries										-11	-11
Purchase of minority interest						-38	-38		-38		-38
Capital increase/purchase of treasury shares	1	52			-364		-364		-311		-311
Total transactions with owners	1	52			-364	-31	-395	-500	-842	-259	-1,101
BALANCE AS OF DECEMBER 31, 2015	1,024	515	-49	657	-865	12,888	12,631	530	14,700	724	15,424

Notes

Note 1 SEGMENT REPORTING

DKKm

MAIN BUSINESS SEGMENTS	2014						2015					
	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	11,406	9,959	6,478	6,203	329	34,375	11,566	10,796	9,775	5,821	73	38,031
Depreciation/amortization/Impairment	756	266	236	142	338	1,738	742	261	452	128	343	1,926
Share of profit from associates and joint ventures after tax		8	-195			-187		-6	73			67
Operating profit (EBIT)	1,703	1,349	441	1,105	-673	3,925	1,579	1,533	963	740	-718	4,097
Financial Items					-449	-449					-356	-356
Profit before tax	1,703	1,349	441	1,105	-1,121	3,476	1,579	1,533	963	740	-1,074	3,741
BALANCE SHEET												
Total assets *)	8,838	5,480	13,100	3,630	5,835	36,883	8,334	5,952	13,070	3,667	6,195	37,219
Net investments excluding M&A	355	123	132	122	264	996	334	140	161	90	450	1,176
Investment in associates and joint ventures			2,361			2,361		115	11			126
Total liabilities *)	2,651	1,012	1,128	454	18,396	23,641	2,591	1,042	1,230	490	16,440	21,794
OTHER INFORMATION												
Number of employees	6,111	5,898	4,878	4,114	3,116	24,117	5,792	5,890	4,811	3,948	2,979	23,420

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

A new organizational structure with four business segments took effect from the beginning of 2015. The change is also incorporated in the comparison figures for 2014. The four segments, "Danfoss Power Solutions", "Danfoss Cooling", "Danfoss Drives" and "Danfoss Heating" and their Product and Services are further described in separate sections in the Financial review.

GEOGRAPHICAL SEGMENTS

2014	Denmark	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	**Total**
Net sales	1,276	12,046	3,841	6,542	7,921	1,856	893	34,375
Total non-current assets *)	2,538	13,962	855	1,866	5,320	120	1	24,662

2015	Denmark	Western Europe	Eastern Europe	Asia Pacific	North America	Latin America	Africa - Middle East	**Total**
Net sales	1,293	13,358	3,405	7,714	9,278	1,886	1,097	38,031
Total non-current assets *)	2,954	13,629	765	1,953	5,751	110	151	25,313

*) Deferred tax assets are not included.

The geographical distribution of "Net sales" is based on the external customers' country of residence.
The distribution of "Total non-current assets" is based on the actual geographical location of the assets.

Note 1 SEGMENT REPORTING (continued)

DKKm

SPECIFICATION OF OTHER AREAS - NET SALES

	2014	2015
Others	329	73
Net sales	329	73

SPECIFICATION OF OTHER AREAS - PROFIT BEFORE TAX

	2014	2015
Financial income	37	70
Financial expenses	-486	-426
Central functions, not allocated*)	-563	-591
Other	-111	-127
Profit before tax	-1,121	-1,074

SPECIFICATION OF OTHER AREAS - ASSETS

	2014	2015
Cash, current & non-current tax receivables	2,317	1,701
Other receivables	382	376
Central functions not allocated tangible and intangible fixed assets*)	2,903	3,729
Central functions not allocated *)	138	297
Other	95	92
Total assets	5,835	6,195

SPECIFICATION OF OTHER AREAS - LIABILITIES

	2014	2015
Interest bearing debt, current & non-current tax liabilities	14,432	12,320
Other debt	2,032	2,174
Defined benefit plans	518	455
Central functions not allocated *)	1,246	1,274
Other	168	217
Total Liabilities	18,396	16,440

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

Note 2 EXPENSES AND OTHER OPERATING INCOME

DKKm

A. PERSONNEL EXPENSES

	2014	2015
Salaries and wages	7,821	8,701
Severance payments	180	115
Social security	646	699
Pension cost - Defined contribution plans	496	597
Pension cost - Defined benefit plans excluding gains from reductions and redemptions *)	30	35
Gains from reductions and redemptions	-3	
	9,170	10,147
Average number of employees	22,494	23,594
Total number of employees as of end of the year	24,117	23,420

*) Expenses for defined benefit plans are described in Note 15. Pension and healthcare obligations.

	2014	2015
Board of Directors:		
Directors' fees	6	6
	6	6
Executive Committee:		
Salaries	23	30
Pension costs	8	10
Bonuses	52	59
	83	99
Danfoss Leadership Team excluding Executive Committee:		
Salaries	17	21
Pension costs	2	5
Bonuses	21	21
	40	47
Total compensation	129	152

Bonuses of total DKK 80m (2014: 73m) can be divided into long-term and short-term bonuses with DKK 36m and DKK 44m respectively (2014: 31m and 42m respectively).

Note 2 EXPENSES AND OTHER OPERATING INCOME (continued)

DKKm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2014	2015
Classification by nature:		
Amortization of intangible assets	511	694
Impairment on intangible assets		11
	511	705
Depreciation of property, plant and equipment	1,155	1,211
Impairment on property, plant and equipment	77	14
Reversal of impairment losses on property, plant and equipment	-5	-4
	1,227	1,221
Depreciation/amortization and impairment losses	1,738	1,926
Classification of intangible assets by functions:		
Cost of sales	323	452
Selling and distribution costs	145	203
Administrative expenses	43	39
Other operating expenses		11
	511	705

C. OTHER OPERATING INCOME AND EXPENSES

	2014	2015
Gain on disposal of activities		17
Gain on disposal of intangible assets	30	1
Gain on disposal of property, plant and equipment	106	60
Reversal of impairment losses on property, plant and equipment	5	4
Other	50	40
Other operating income	191	122
Loss on disposal of activities	-3	
Loss on disp. of intangible fixed assets	-7	-3
Loss on disp. of property, plant and equipment	-27	-37
Impairment on intangible assets		-11
Impairment on of property, plant and equipment	-77	-14
Restructuring costs	-185	-119
Other	-136	-143
Other operating expenses	-435	-327
Other operating income and expenses	-244	-205

Impairment for the year is based on expected value in use or fair value.
Restructuring cost in both years mainly relates to terminations in France, Denmark, Germany, China and USA.
Impairment loss in 2014 relates to buildings.

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2014	2015
Audit fee	18	20
Tax and VAT advice	9	11
Other fees	5	3
Total fee to Group Auditor	32	34

Note 3 INVESTMENTS

DKKm

	2014			2015		
	Investments in associates and joint ventures	Other investments	**TOTAL**	Investments in associates and joint ventures	Other investments	**TOTAL**
Cost as of January 1	91	135	226	2,430	140	2,570
Foreign exchange adjustments in foreign companies	-3		-3	9	-5	4
Additions	2,364		2,364	126		126
Addition through aquisition of subsidiaries		5	5			
Disposals	-22		-22	-5		-5
Cost as of December 31	2,430	140	2,570	2,560	135	2,695
Adjustments as of January 1	-40	-103	-143	-214	-107	-321
Foreign exchange adjustments in foreign companies	4		4	6	3	9
Net profit/value adjustment	-187	-4	-191	67	2	69
Dividends	-7		-7	-5		-5
Disposal	16		16	5		5
Adjustments as of December 31	-214	-107	-321	-141	-102	-243
Carrying amount as of December 31	2,216	33	2,249	2,419	33	2,452

Where possible, "Other investments" are recognized at fair value. Alternatively, they are recognized at cost less accumulated impairment losses.

Where indicators for impairment were present at the end of 2015, 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 flow from associates and joint ventures is compared with their carrying amount. The principles are unchanged compared to the impairment tests performed in 2014.

Additions for the year to "Investments in associates and joint ventures" mainly relate to participation in BD Kompressor Holding GmbH & Co.KG in Germany and Linestream Technology Inc. in the USA.

Additions for the year 2014 of "Investments in associates and joint ventures" mainly relate to the acquisition of SMA Solar Technology AG.
Disposal for the year 2014 of "Investments in associates and joint ventures" relates to the sale of Promeos GmBH and Flexucell ApS.

Further information on associates and joint ventures is provided in Note 4. Financial income, Note 5. Financial expenses, Note 16. Financial risks and instruments and Note 23. Related parties.

Note 3 INVESTMENTS (continued)

DKKm

MATERIAL ASSOCIATES AND JOINT VENTURES

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

	2015
	SMA Solar Technology AG
Place of Business	Germany
Share of ownership	20%
SUMMARIZED PROFIT AND LOSS STATEMENT (OFFICIAL GUIDANCE)	
Revenue	7,459
EBIT	239
SUMMARIZED BALANCE SHEET (Q3 2015 NUMBERS)	
Non-current assets	3,651
Current assets	5,005
Non-current liabilities	2,222
Current liabilities	2,395
Equity	4,038
Group share of equity as of December 31	862

On the basis of the stock exchange quotation, the fair value of SMA Solar Technology AG as of December 31, 2015 was DKK 13.4bn (2014: 4.0bn).

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.

	2014			2015		
Danfoss' proportionate share of:	Associates	Joint Ventures	**TOTAL**	Associates	Joint Ventures	**TOTAL**
Profit or loss from continuing operations	-1	9	8		-6	-6
Other comprehensive income		-1	-1		1	1
Total comprehensive income	-1	8	7		-5	-5
Carrying amount as of December 31		47	47	10	154	164
RECONCILIATION OF CARRYING AMOUNT						
Group share of equity of material associates and joint ventures	805		805	862		862
Goodwill concerning material associates and joint ventures	1,364		1,364	1,393		1,393
Carrying amount of immaterial associates and joint ventures		47	47	10	154	164
Total carrying amount as of December 31 of associates and joint ventures	2,169	47	2,216	2,265	154	2,419

For further information on associates and joint ventures please see the list of "Danfoss Group Companies".

Note 4 FINANCIAL INCOME

DKKm

	2014	2015
Interest from banks etc.	14	65
Calculated expected return on defined benefit plan assets	23	3
Gain on other investments		2
	37	70
Interest on financial assets measured at amortized cost amounts to	14	65

Note 5 FINANCIAL EXPENSES

DKKm

	2014	2015
Interest to banks etc.	-190	-297
Interest element on discounted liabilities	-4	-2
Calculated interest on defined benefit plans	-55	-34
Foreign exchange losses, net	-206	-87
Fair value adjustment of share options and warrants	-29	-6
Loss on other investments	-4	
Borrowing costs recognized in the cost of assets	2	
	-486	-426
Interest on financial liabilities at amortized cost amounts to	-194	-299

An effective interest rate equal to Group's weighted average general borrowing costs was used for the calculation of borrowing costs pertaining to the cost of assets. No specific loans have been raised for the construction or development of assets.

Note 6 TAX ON PROFIT

DKKm

	2014	2015
Current tax expense	-1,072	-954
Change in deferred tax	-117	-176
Adjustments concerning previous years	3	-14
	-1,186	-1,144

Tax on profit is defined as:		
Tax on profit before tax	24.5%	23.5%
Adjustment of tax in foreign subsidiaries calculated at 23.5% (2014: 24.5%)	4.6%	3.5%
Tax exempt income/non-deductible expenses	-0.2%	-2.3%
Effect of change in corporate tax rate		-0.2%
Income from associates and joint ventures after tax	1.3%	-0.6%
Adjustment of net tax assets	0.2%	1.5%
Other taxes	4.3%	4.3%
Adjustments concerning previous years	-0.6%	0.9%
Effective tax rate	34.1%	30.6%

	2014	2015
Tax on profit (income statement)	-1,186	-1,144
Tax on fair value adjustment of hedging instruments (other comprehensive income)	42	-19
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	96	-5
Total taxes	-1,048	-1,168

Note 7 INTANGIBLE ASSETS

DKKm

2014

	Good-will	Software	Brand	Techno-logy	Customer relations	Patents, trade-marks etc.	Develop-ment costs	**TOTAL Other**	**TOTAL**
Cost as of January 1	5,269	733	880	3,053	1,728	388	591	7,373	12,642
Foreign exchange adjustments in foreign companies	275	4	60	203	120	53	18	458	733
Additions through acquisition of subsidiaries	5,514	88	120	1,126	699			2,033	7,547
Transfers		397						397	397
Additions		83				8	7	98	98
Disposals		-34		-72	-3	-4	-34	-147	-147
Cost as of December 31	11,058	1,271	1,060	4,310	2,544	445	582	10,212	21,270
Amortization and impairment losses as of January 1	1,087	579	-	1,321	856	347	398	3,501	4,588
Foreign exchange adjustments in foreign companies	14	4	-	116	67	53	11	251	265
Transfers		303						303	303
Amortization		90		200	147	15	59	511	511
Disposals		-26		-67	-2	-	-34	-129	-129
Amortization and impairment losses as of December 31	1,101	950	-	1,570	1,068	415	434	4,437	5,538
Carrying amount as of December 31	9,957	321	1,060	2,740	1,476	30	148	5,775	15,732

2015

	Good-will	Software	Brand	Techno-logy	Customer relations	Patents, trade-marks etc.	Develop-ment costs	**TOTAL Other**	**TOTAL**
Cost as of January 1	11,058	1,271	1,060	4,310	2,544	445	582	10,212	21,270
Foreign exchange adjustments in foreign companies	370	43	65	213	130	9	21	481	851
Additions through acquisition of subsidiaries	273			11	-4	4		11	284
Transfers		14				-7		7	7
Additions		192				13		205	205
Disposals		-31		-1	-3	-112	-21	-168	-168
Disposals through sale of subsidiaries	-2								-2
Cost as of December 31	11,699	1,489	1,125	4,533	2,667	352	582	10,748	22,447
Amortization and impairment losses as of January 1	1,101	950		1,570	1,068	415	434	4,437	5,538
Foreign exchange adjustments in foreign companies	67	46		115	76	8	16	261	328
Transfers		1				-1			
Amortization		100	17	297	204	10	66	694	694
Impairments		11						11	11
Disposals		-32	-	-1	-3	-113	-21	-170	-170
Amortization and impairment losses as of December 31	1,168	1,076	17	1,981	1,345	319	495	5,233	6,401
Carrying amount as of December 31	10,531	413	1,108	2,552	1,322	33	87	5,515	16,046

Additions/disposals through acquisitions/sale of subsidiaries are further described in Note 20 Acquisition and sale of subsidiaries and activities

IMPAIRMENT TESTS

At the end of 2015, 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 business segment for optimum synergy. One of the consequences 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. At the impairment test, the net present value of the estimated net cash flow from the CGU's is compared to the carrying amounts of the assets. The expected cash flow is based on the budgets for the years 2016-2025 prepared and approved by the management in the respective CGU's and Group management. The budgets were elaborated for a 10-year period in accordance with the fact that decisions on acquisitions are made on the basis of the 10-year budgets. 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.

In 2014, the impairment tests were performed on the divisional level instead of on business segments level. Besides that, the principle remains unchanged.

Note 7 INTANGIBLE ASSETS (continued)

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

	2014				
	Danfoss Power Solutions	Danfoss Drives	Danfoss Cooling	Danfoss Heating	Other
Goodwill at the end of 2014	947	5,602	1,758	1,631	19
Brand with indefinite useful life at the end of 2014	941				
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	2%
Discount rate before tax in % as of December 31	12%	11%	13%	11%	11%

	2015				
	Danfoss Power Solutions	Danfoss Drives	Danfoss Cooling	Danfoss Heating	Other
Goodwill at the end of 2015	1,021	5,757	2,001	1,734	18
Brand with indefinite useful life at the end of 2015	1,006				
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	2%
Discount rate before tax in % as of December 31	14%	13%	13%	11%	13%

The weighted average growth rate until 2025 is based on past performance/management expectation of market development etc. and is estimated to be between 2-7% for the business segments, which is at or above the general market development. The growth in Net sales is driven from 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 margin is expected to remain unchanged during the terminal period, as well as the working capital as a percentage of sales. Investments are assumed to be at the same level as the depreciations. These assumptions are unchanged compared to the impairment tests performed in 2014. The net cash flow during the terminal period from 2026 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 a recoverable amount lower than the carrying amount. The same conclusion was made for 2014.

Danfoss Power Solutions
The Goodwill allocated to Danfoss Power Solutions derives from the Danfoss Group's acquisition of the additional 38.2% of the share capital in Sauer-Danfoss Inc. (USA) in 2008. The brand recognized in that connection has an indefinite useful life. At the end of 2015, the carrying amount of Brand, Technology and Customer relations acquired in connection with business combinations amounts to DKK 3.0bn or approximately 59% of the total corresponding carrying amount. The carrying amount of Technology and Customer relations is amortized until 2023 and 2020 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 2014, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 1.7bn or approximately 35% of the corresponding total 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 2015, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 216m or approximately 4% of the corresponding total carrying amount. The carrying amount of Technology and Customer relations is amortized until 2032 and 2019 respectively.

Danfoss Heating
The Goodwill allocated to Danfoss Heating Segment derives primarily from the acquisition of the DEVI Group (Denmark) in 2003 and Thermia Warme AB (Sweden) in 2005. At the end of 2015, the carrying amount of Technology and Customer relations acquired in connection with business combinations amounts to DKK 83m or approximately 2% of the corresponding total carrying amount. The carrying amount of Technology and Customer relations is amortized until 2020 and 2025 respectively.

Other intangible assets
At the end of 2015, Danfoss had Software in progress amounting to DKK 175m and DKK 0m capitalized development expenditure in progress. Capitalized software in progress is mainly accumulated internally.

In 2015, the Group performed impairment tests on the carrying amount of software and development in progress. The project development process related to the actual expenses and achieved milestones has been evaluated according to the approved project and business plans. This led to an impairment of current development assets of DKK 11m (2014: 0m).

Note 8 PROPERTY, PLANT AND EQUIPMENT

DKKm

2014	Land and buildings	Plant and machinery	Equipment	Assets under construction	TOTAL
Cost as of January 1	5,100	7,844	1,804	811	15,559
Foreign exchange adjustments in foreign companies	26	126	26	22	200
Additions through acquisition of subsidiaries	24	173			197
Transfers	291	252	-250	-690	-397
Additions	237	298	69	537	1,141
Disposals	-253	-143	-97		-493
Cost as of December 31	5,425	8,550	1,552	680	16,207
Depreciation and impairment losses as of January 1	2,270	5,549	1,234		9,053
Foreign exchange adjustments in foreign companies	5	9	3		17
Transfers	50	-109	-244		-303
Depreciation	188	829	138		1,155
Impairment	60	12			72
Disposals	-131	-123	-91		-345
Depreciation and impairment losses as of December 31	2,442	6,167	1,040		9,649
Carrying amount as of December 31	2,983	2,383	512	680	6,558
Hereof assets held under finance leases		5	37		42

2015	Land and buildings	Plant and machinery	Equipment	Assets under construction	TOTAL
Cost as of January 1	5,425	8,550	1,552	680	16,207
Foreign exchange adjustments in foreign companies	114	110	-60	49	213
Additions through acquisition of subsidiaries		2			2
Transfers	186	378	40	-611	-7
Additions	247	315	72	575	1,209
Disposals	-158	-20	-44	-1	-223
Disposals through sale of subsidiaries			-3		-3
Cost as of December 31	5,814	9,335	1,557	692	17,398
Depreciation and impairment losses as of January 1	2,442	6,167	1,040		9,649
Foreign exchange adjustments in foreign companies	8	31	-64		-25
Transfers	5	12	-17		
Depreciation	214	849	148		1,211
Impairment	10				10
Disposals	-86	-3	-40		-129
Disposals through sale of subsidiaries			-1		-1
Depreciation and impairment losses as of December 31	2,593	7,056	1,067		10,716
Carrying amount as of December 31	3,221	2,279	490	692	6,682
Hereof assets held under finance leases	110	3	28		141

Additions/disposals through acquisitions/sale of subsidiaries are further described in Note 20 Acquisition and sale of subsidiaries and activities

The Group's finance leases mainly concerns land & buildings and IT equipment. The Group has an option to acquire the leased buildings & equipment at favorable prices at the expiry of the leases. The leased assets are pledged as collateral for the lease liabilities.

Note 9 INVENTORIES

DKKm

	2014	2015
Raw materials and consumables	1,609	1,639
Work in progress	475	437
Finished goods and goods for resale	2,001	2,094
Inventories	4,085	4,170
Write-downs of inventories	404	421
Carrying amount of inventories stated at net realizable value	215	319
Expensed adjustment of inventories to net realizable value included in cost of sales	50	81
Cost of goods sold included in cost of sales	16,694	18,737

Note 10 TRADE RECEIVABLES

DKKm

	2014	2015
Trade receivables before provision for bad debts	5,246	5,465
Provision for bad debts	-156	-181
Trade receivables	5,090	5,284
Receivables from associates and joint ventures	77	41
Total trade receivables	5,167	5,325
Hereof trade receivables due after 1 year	9	7
Provision for bad debts as of January 1	-170	-156
Foreign exchange adjustments in foreign companies	4	-15
Additions through acquisition of subsidiaries	-28	
Change in provisions	-15	-22
Realized loss	53	12
Provision for bad debts as of December 31	-156	-181

Note 11 SHARE CAPITAL

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

	SHARES	VOTES
Bitten & Mads Clausen Foundation, Nordborg, Denmark	49.77%	85.68%
Clausen Controls A/S, Sønderborg, Denmark	25.56%	5.40%
Henrik Mads Clausen, Lake Forrest, USA	10.74%	2.26%
Karin Clausen, Holte, Denmark	7.05%	1.49%

DISTRIBUTION OF SHARES

2014

		A shares			B shares		Total shares
No.	Nominal value	DKKm	No.	Nominal value	DKKm	No.	DKKm
4,250,000	100 DKK	425.0	5,979,143	100 DKK	597.9	10,229,143	1,022.9

2015

		A shares			B shares		Total shares
No.	Nominal value	DKKm	No.	Nominal value	DKKm	No.	DKKm
4,250,000	100 DKK	425.0	5,991,443	100 DKK	599.1	10,241,473	1,024.1

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 general meeting to be adopted. The share capital is fully paid in.

DIVIDEND PER SHARE (DKK)

	2014	2015
Proposed dividend per 100 DKK share	48.9	51.8
Dividend paid per 100 DKK share	78.3	48.9

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)

	2014	2015
Holding as of January 1	134,178	151,219
Acquired in the year	17,641	15,578
Acquired from Bitten & Mads Clausen Foundation		70,307
Sold in the year	-600	-600
Holding as of December 31	151,219	236,504

The primary purpose of holding treasury shares is to secure the share option programme in Danfoss A/S. The total cost in 2015 for own shares amounts to DKK 366m (2014: 72m). The total selling price relating to treasury shares amounted to DKK 2m in 2015 (2014: 2m). The Group's holding of treasury shares represents 2.3% (2014: 1.5%) of the Group's share capital. The value of treasury shares held amounts to DKK 1,009m (2014: 622m).

CAPITAL STRUCTURE

The Capital structure of Danfoss is intended to ensure sufficient financial flexibility and stability for the company to reach its strategic goals. It is the policy of the Group to always qualify for a "BBB credit rating", and the Group aims for the net-interest bearing debt to EBITDA ratio and cash flow generation 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 2015 the net-interest bearing debt to EBITDA ratio was 1.6 (2014: 2.0) on a reported basis.

Danfoss aims to use the free cash flow before M&A to repay interest bearing debt and for acquisitions that will develop the existing business further, or for dividend distribution to shareholders according to policy.

Note 12 PROVISIONS

DKKm

	2015				
	Warranty	Restruc-turing	Contingent consideration	Other	**TOTAL**
Provisions as of January 1	504	47		464	1,015
Foreign exchange adjustments in foreign companies	21			17	38
Additions through acquisition of subsidiaries				1	1
Transfered to other debt	-46				-46
Provisions used	-198	-42		-120	-360
Reversal of unused provisions	-75	-2		-20	-97
Additional provisions recognized	232	5	86	107	430
Interest element on provisions				2	2
Provisions as of December 31	438	8	86	451	983

	2015				
Estimated maturity of above provisions:	Warranty	Restruc-turing	Contingent consideration	Other	**TOTAL**
Within 1 year	329	8	27	253	617
Between 1 and 5 years	108		59	77	244
After more than 5 years	1			121	122
Provisions as of December 31	438	8	86	451	983

Provisions for warranty comprise expected costs arising during the warranty period of the Group's products. As of December 31 receivables of DKK 37m to provisions for warranty were recognized (2014: 61m).

The Group's provision for restructuring mainly relates to expected costs for termination benefits. Contingent consideration consists of earn out acquisitions. The Group's other provisions mainly consist of certain employee expenses, including jubilee costs.

Provisions have been discounted to net present value if the values are significant.

Note 13 SHARE INCENTIVE PROGRAMS

In the Danfoss Group, share incentive programs exist only in Danfoss A/S. The programs are described below.

The calculation of fair values for the balance sheet as of the balance sheet dates and for stating the values as per the grant dates is based on the Black-Scholes model. The assumptions for the calculation of outstanding options and warrants are:

	2014	2015
Share price	4,116	4,267
Expected volatility	22.0%	22.0%
Expected dividends	1.0%	1.0%
Risk-free interest rate	0.1-0.8%	0.0-0.2%
Exercise prices and terms of maturity for the programs	See below	

Since Danfoss is not a listed company, the above share price calculation, which has been made by an independent third party, has been based on a comparison with a number of comparable domestic and international listed companies. The share price for 2015 of 4,267 was most recently adjusted at the Annual General Meeting in 2015 and will next be fixed at the Annual General Meeting in 2016.

SHARE INCENTIVE PROGRAMS ESTABLISHED IN 2004 AND SUBSEQUENT PROGRAMS

In 2004 and 2007, Danfoss A/S established share incentive programs for the Board and a warrant program for executive committee members and senior managers. The condition for participation in the program was for the executive committee members and the senior managers to purchase compulsory shares. The main condition for achieving the right to be granted options/warrants was for RONA to exceed a certain minimum level for the respective financial years. The granted options and warrants give the right to purchase/subscribe for class B shares (at 100 DKK each) at fixed exercise prices 3 years after the allotment date at the earliest.

In 2009, Danfoss A/S set up a new warrant program for executive committee members and senior managers. Participation in the 2009 program was not conditional on the purchase of shares. Also, no minimum RONA level was defined for the program.

The programs are treated as cash-settled share-based payment transactions since Danfoss A/S has an obligation to buy back shares under the share option programs. As a consequence, a provision is made in the balance sheet for this obligation.

Information on relevant programs:

	Granted (year)	Granted (number)	Fair value at grant date (DKK each)	Earliest exercise	Latest exercise
Options/warrants - exercise price at 1,222	2005	86,459	564	May 2008	May 2015
Options/warrants - exercise price at 1,522	2006	84,895	762	May 2009	May 2016
Options/warrants - exercise price at 1,932	2007	97,121	983	May 2010	May 2017
Warrants - exercise price at 1,100	2009	139,050	365	May 2012	May 2015

Note 13 SHARE INCENTIVE PROGRAMS (continued)

Holdings and grants/disposals of options and warrants in relation to the 2004 and subsequent programs are specified below:

	The Board (number)	Executive Committee (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (DKKm)
Granted options/warrants 1 January:						
Options/warrants - exercise price at 1,222				3,713	2,857	11
Options/warrants - exercise price at 1,522				4,713	2,531	12
Options/warrants - exercise price at 1,932		2,400		19,848	2,120	47
Warrants - exercise price at 1,100				3,650	2,979	11
		2,400		31,924		81
Changes in the share price/fair value:						
Options/warrants - exercise price at 1,222					186	
Options/warrants - exercise price at 1,522					173	1
Options/warrants - exercise price at 1,932					139	4
Warrants - exercise price at 1,100					186	
						5
Disposal due to subscription of shares:						
Options/warrants - exercise price at 1,222				-3,713	3,045	-11
Options/warrants - exercise price at 1,522				-1,633	2,745	-5
Options/warrants - exercise price at 1,932				-7,334	2,335	-17
Warrants - exercise price at 1,100				-3,650	3,167	-11
				-16,330		-44
Options/warrants - exercise price at 1,522				3,080	2,704	8
Options/warrants - exercise price at 1,932		2,400		12,514	2,259	34
		2,400		15,594		42

The total provision as of December 31, 2015 for 2004 and subsequent share incentive programs has been calculated at DKK 42m (2014: 81m) and is recognized under current liabilities.

The changes in the share price/fair value of the programs are in the income statement recognized under financial items as an expense of DKK 6m (2014: 29m), with DKK 5m (2014: 23m) in the parent company and DKK 0m (2014: 6m) in the subsidiaries.

Note 14 DEFERRED TAX

DKKm

CHANGES IN DEFERRED TAXES

	2014	**2015**
Deferred taxes as of January 1 (net) *)	-382	-804
Foreign exchange adjustment in foreign companies	9	-29
Additions through acquisition of subsidiaries	-386	-64
Adjustments concerning previous years	-28	-8
Deferred tax recognized in the income statement	-117	-176
Deferred tax recognized in other comprehensive income	100	-6
Deferred taxes as of December 31 (net) *)	-804	-1,087

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2014 Deferred tax asset	**2015** Deferred tax asset
Intangible assets	70	58
Property, plant and equipment and financial assets	160	148
Current assets	341	393
Liabilities	734	700
Tax loss carry-forwards	438	402
Non-capitalized tax assets regarding tax losses	-197	-310
	1,546	1,391
Set-off within the same legal entities and jurisdiction	-386	-536
Deferred tax assets	1,160	855

	2014 Deferred tax liability	**2015** Deferred tax liability
Intangible assets	1,724	1,663
Property, plant and equipment and financial assets	204	223
Current assets	83	88
Liabilities	275	431
Deferred tax regarding Danish joint taxation	64	73
	2,350	2,478
Set-off within the same legal entities and jurisdiction	-386	-536
Deferred tax liabilities	1,964	1,942

The tax asset related to tax loss carry-forwards of DKK 92m net (2014: 241m) is largely related to companies that have suffered tax losses in the last three financial years. This tax asset is expected to be utilized within 3 years primarily through higher future taxable income in the respective companies.

The tax value of unrecognized tax assets related to tax loss carry-forwards amounts to DKK 310m (2014: 197m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized. 15% of the amount (2014: 14%) has a remaining period of 3 years or less, whereas the share with a remaining period of 10 years or more totals 75% (2014: 84%).

Of the deferred tax liability of DKK 1,942m (2014: 1,964m), DKK 73m (2014: 64m) 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 DKK 431m (2014: 573m). 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 15 PENSION AND HEALTHCARE OBLIGATIONS

The major part of the Group's pension plans are fully funded defined contribution plans which are managed by pension and insurance companies. 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 in 2015 of the net liability is Germany 53%, the USA 41% and others 6% (2014: 49%, 36% and 15% respectively).
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.
All material defined benefit plans have been computed by independent actuaries.

THE GROUP'S DEFINED BENEFIT PLAN OBLIGATIONS

	2014	2015
Present value of defined benefit plan obligations	3,732	3,813
Fair value of plan assets	-2,537	-2,704
	1,195	1,109
Pension benefit plan assets	84	107
Pension and healthcare plan obligations	1,279	1,216

DEVELOPMENT IN THE PRESENT VALUE OF DEFINED BENEFIT PLAN OBLIGATIONS

	2014	2015
Provision as of January 1	2,973	3,732
Foreign exchange adjustments in foreign companies	236	263
Additions through business combinations	65	
Pension costs for the year	30	35
Calculated interest on plan liabilities	127	127
Actuarial gains(-)/losses from changes in demographic assumptions	46	-6
Actuarial gains(-)/losses from changes in financial assumptions	435	-104
Gains from reductions and redemptions	-3	
Plan participants' contribution liabilities	7	6
Disbursed benefits from the Group	-28	-41
Disbursed benefits from plan assets	-117	-142
Net transfer to provisions	-39	-57
Provision as of December 31	3,732	3,813

DEVELOPMENT IN THE FAIR VALUE OF PLAN ASSETS

	2014	2015
Plan assets as of January 1	2,085	2,537
Foreign exchange adjustments in foreign companies	179	208
Additions through acquisition of subsidiaries	28	
Calculated interest on plan assets	95	96
Plan participants' contribution asset	7	6
Return for the year on plan assets excluding calculated interest	198	-96
Payments by the Group	89	120
Disbursed benefits	-117	-142
Net transfer to provisions	-27	-25
Plan assets as of December 31	2,537	2,704

Few countries may require that the liability is funded but this is not the case for the majority of the 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 DKK 565m (2014: 629m)

Note 15 PENSION AND HEALTHCARE OBLIGATIONS (continued)

EXPENSES RELATING TO PENSION AND HEALTHCARE OBLIGATIONS

	2014	2015
Pension costs for the year	30	35
Calculated interest on liabilities	127	127
Calculated expected return on assets	-95	-96
Gains from reductions and redemptions	-3	
Expensed in the income statement	59	66
Pension cost stated under cost of sales	14	17
Pension cost stated under selling and distribution costs	6	5
Pension cost stated under administrative expenses	10	13
Other operating income and expenses	-3	
Interest concerning pension and healthcare obligations posted under financial items	32	31
	59	66

ESTIMATED MATURITY OF PROVISIONS

	2014	2015
Within 1 year	154	163
Between 1 and 5 years	660	708
After more than 5 years	2,918	2,941
	3,732	3,812

PENSION PLAN ASSETS ARE SPECIFIED AS FOLLOWS:

	2014	2014	2015	2015
Shares and similar securities	1,381	54%	996	37%
Listed corporate bonds	501	20%	950	35%
Bonds	478	19%	605	22%
Other	177	7%	153	6%
	2,537	100%	2,704	100%

Plans in which the pension funds are invested in financial instruments are exposed to risk. 37% (2014: 54%) 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

	2014	2014	2015	2015
	Range	Weighted average	Range	Weighted average
Discount rate	0.8-3.9%	3.4%	2.0-4.3%	3.6%
Estimated future salary increase	1.5-4.1%	3.6%	1.8-4.2%	3.5%
Estimated return on defined benefit plan assets	2.3-5.4%	3.5%	2.0-4.3%	3.6%

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 based on the composition of the assets and considering the general expectations with regard to economic developments.
The Group expects to pay in DKK 142m to defined benefit plans in 2016 (2015: DKK 133m).

SENSITIVITY ANALYSIS

	2014	2015
Reported defined benefit plan obligations	3,732	3,812
Increase in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	-267	-273
Decrease in discount rate of 0.5 percentage point affects the defined benefit plan obligations by	+292	+283
Increase in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	+53	+21
Decrease in future salary increase of 0.5 percentage point affects the defined benefit plan obligations by	-53	-19
Increase in average life expectancy of 1 year affects the defined benefit plan obligations by	+107	+111
Decrease in average life expectancy of 1 year affects the defined benefit plan obligations by	-106	-111

Note 16 FINANCIAL RISKS AND INSTRUMENTS

FINANCIAL RISKS

The Group's profitability and cash flow are exposed to financial market risks, among other factors as a consequence of Danfoss' international business profile. These risks include currency, commodity, credit, interest rate and liquidity risks. The Group's risk management activities focus on mitigation, with particular emphasis on protecting the Group's cash flow and profitability in local currency on a 15-month horizon.

It is the policy of the Group not to take speculative positions in the financial markets. The Group's treasury activities are therefore aimed at mitigating and reducing the financial risks that are a direct result of the Group's operations, investments and financing activities.

For a description of accounting policies and procedures such as applied recognition criteria and basis of measurement, please see the disclosure under Note 25. Basis for preparation and accounting policies.

CURRENCY EXPOSURE

Currency exposure consists of three elements:

1. *Transaction risk:* Consolidated exposures and expected future cash flows in foreign currencies on a 15 months' horizon are covered on an ongoing basis except in cases where a natural hedge exists or in cases where hedging is not practically possible.

2. *Translation risk:* The Group is primarily exposed to EUR, USD and USD-related currencies. In general Danfoss does not cover translation risks, as these do not directly affect the underlying cash flows. Danfoss does, however, to some extent reduce translation risks through financing in local currencies.

3. *Economic/structural risk (strategic risk):* Economic/structural currency exposure cannot be covered effectively using financial instruments and is therefore not part of Danfoss' financial risk management strategy. It is controlled as far as possible at a strategic level, as Danfoss aims for products to be sourced as close as possible to our local markets.

	2014				**2015**			
NOMINAL POSITION	EUR DKK	USD DKK	GBP DKK	**Total**	EUR DKK	USD DKK	GBP DKK	**Total**
Receivables and payables	-469	-92	-19	-580	-586	-55	-15	-656
Cash and loans	-4,756	-386	-181	-5,323	-4,910	2,241	-193	-2,862
Derivative financial instruments for hedging of fair value	3,982	294	195	4,471	597	-2,317	219	-1,501
Derivative financial instruments for hedging of future cash flows	-2,382	-465	-366	-3,213	-3,433	-864	-330	-4,627
SENSITIVITY								
Probable increase in exchange rate	1%	10%	10%		1%	10%	10%	
Hypothetical impact on profit and loss for the year	-2	-18		-20	-2	-13	1	-14
Hypothetical impact on Equity	-36	-65	-37	-138	-83	-99	-32	-214

A decrease in the exchange rates as stated would have had the opposite effect on the profit and equity.

COMMODITY RISK

Movements in global 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 the combination of fixed price agreements with suppliers, active price adjustment and in some cases financial hedging. If raw material consumption is considered material it is hedged for a minimum of 6 months and a maximum of 18 months.
Danfoss has not undertaken financial hedging of raw materials in 2015 nor 2014.

Note 16 FINANCIAL RISKS AND INSTRUMENTS (continued)

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 risk towards banks and other financial partners is 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 carrying amount of DKK 319m (2014: 716m) represents the maximum exposure risk related to cash and cash equivalents.

Trade receivables are distributed on a 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. A systematic credit rating is carried out of customers and any provision for bad debt is made on the basis of this credit rating. The rating also serves as the basis for the terms of payment offered to the customers. Historically, the Group has only had limited losses on bad debts.

Ageing of trade receivables as of December 31:

	2014	2015
Overdue less than 30 days	228	193
Overdue from 30 to 90 days	94	81
Overdue more than 90 days	49	
Neither impaired nor overdue at the reporting date	4,796	5,051
Net carrying amount	5,167	5,325

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

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 should at all times maximum equal 0.1% of Group annual revenue in case of a one percentage point shift in interest rates across the curve, when measured on the cash flow of the Group.

All things being equal, a reasonably likely 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 hypothetical impact on the profit for the year and equity at the end of the year:

	2014		2015	
	Income Statement	Equity	Income Statement	Equity
Cash and debt with floating interest rates	-33	-33	-20	-20
Hedge instruments (interest swaps)		84	1	50
	-33	51	-19	30

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. All hedging of floating-rate loans is deemed 100% effective.

Note 16 FINANCIAL RISKS AND INSTRUMENTS (continued)

LIQUIDITY RISK

It is Danfoss' financial policy to have a long term credit rating of "BBB " according to the Standard & Poor's metric as a minimum, liquidity reserves of minimum DKK 3bn, in terms of non-terminable credit facilities and accessible cash and a staggered maturity profile of non-terminable credit facilities with an average maturity profile of minimum 3 years.

At the end of 2015, Danfoss' credit rating from Standard and Poor's was "BBB/A2 with a stable outlook" and the liquidity reserve equaled DKK 8.2bn (2014: 7.0bn). In addition to this, Danfoss had cash in some subsidiaries 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 situation in general. The average maturity profile on non-terminable credit facilities was well above 3 years at the end of 2015. The Danfoss Group's loan agreements contain no financial covenants.

The major part of the Group's cash and cash equivalents of DKK 319m (2014: 716m) is placed on short-term deposits with an interest rate below 1% p.a.

THE GROUP'S DEBT CATEGORIES AND MATURITIES

	2014					**2015**				
			Maturity					Maturity		
	Carrying amount	Contractual cashflow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cashflow	0-1 year	1-5 years*)	Over 5 years
Bank debt and corporate bond	10,882	11,527	1,141	4,219	6,167	8,717	9,300	863	3,597	4,840
Mortgage debt	1,187	1,612	29	118	1,465	1,189	1,568	30	113	1,425
Employee bonds	63	63	47		16	34	34	18		16
Finance lease liabilities	40	42	22	19	1	136	162	21	49	92
Trade payables	3,572	3,572	3,572			3,864	3,864	3,864		
Debt to associates and joint ventures	12	12	12			22	22	22		
Derivative financial liabilities	143	146	116	30		251	286	235	51	
	15,899	16,974	4,939	4,386	7,649	14,214	15,236	5,053	3,810	6,373

*) 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 22. Contingent liabilities assets and security.

	2014	**2015**
Non-current liabilities	11,100	9,308
Current liabilities	4,799	4,906
	15,899	14,214

Note 16 FINANCIAL RISKS AND INSTRUMENTS (continued)

DKKm

FINANCIAL INSTRUMENTS BY CATEGORY

	2014 Carrying amount	2014 Fair value	2015 Carrying amount	2015 Fair value
Other investments	33	33	33	33
Financial assets available-for-sale	33	33	33	33
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	14	14	12	12
Financial assets used as hedging instruments	14	14	12	12
Trade receivables	5,167	5,167	5,325	5,325
Other receivables	638	638	698	698
Cash and cash equivalents	716	716	319	319
Loans and receivables	6,521	6,521	6,342	6,342
Interest-bearing debt	12,172	12,265	10,076	10,126
Trade payables and other debt	6,692	6,692	6,982	6,982
Financial liabilities measured at amortized cost	18,864	18,957	17,058	17,108
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	2	2	180	180
Derivative financial instruments for the hedging of future cash flows	141	141	70	70
Financial liabilites used as hedging instruments	143	143	250	250
Derivative financial instruments for financial hedging			1	1
Financial liabilities measured at fair value via the income statement			1	1

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 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 the price of 100. 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 2014.

FAIR VALUE HIERARCHY AS OF DECEMBER 31 FOR THE GROUP

	2014 Quoted prices Level 1	2014 Observ-able input Level 2	2014 Non-observ-able input Level 3	2014 In total	2015 Quoted prices Level 1	2015 Observ-able input Level 2	2015 Non-observ-able input Level 3	2015 In total
FINANCIAL ASSETS:								
Other investments			33	33			33	33
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		14		14		12		12
Derivative financial instruments for the hedging of future cash flows								
Total financial assets		14	33	47		12	33	45
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		2		2		180		180
Derivative financial instruments for the hedging of future cash flows		141		141		70		70
Derivative financial instruments for financial hedging						1	86	1
Contingent consideration							86	86
Interest-bearing debt		12,265		12,265		10,126		10,126
Total financial liabilities		12,408		12,408		10,377	86	10,463

Note 16 FINANCIAL RISKS AND INSTRUMENTS (continued)

DKKm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2014	2015
	Other invest-ments Level 3	Other invest-ments Level 3
Carrying amount as of January 1	32	33
Foreign exchange adjustments in foreign companies		-2
Addition through aquisition of subsidiaries	5	
Gain/loss (-) in the income statement	-4	2
Carrying amount as of December 31	33	33
Gain/loss (-) in the income statement for assets owned as of December 31	-4	2

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

DERIVATIVES AS OF DECEMBER 31 FOR THE GROUP

	2014						2015					
	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	-29	5	3	13	-11		-3,137	-198	-175	-22	-1	
EUR	1,455	-2	-3	1			-3,249	1	16	-14	-1	
Other currencies	-479	-94	10	-104			-307	1	-9	8	2	
Forward exchange contracts		-91	10	-90	-11			-195	-167	-28		
Interest swaps	2,733	-37			-37		2,244	-43	-1	-14	-28	
Other derivatives		-1	-2		1							
Derivatives end of year		-129	8	-90	-47			-238	-168	-42	-28	

At the end of 2015, unrealized gain/loss(-) on derivatives hedging foreign currency risk recognized in equity amounted to DKK -28m (2014: -100m).
At the end of 2015, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to DKK -42m (2014: -37m).

Forward exchange contracts are primarily used for hedging future sales in foreign currencies. Interest rate products are used to convert floating-rate liabilities to fixed rates.

DKK 1m was taken to expense in 2015 (2014: 0m) as a consequence of testing for effectiveness.

Note 17 CORPORATION TAX

DKKm

	2014	2015
Corporation tax payable/receivable (-) as of January 1	-23	-146
Foreign exchange adjustment in foreign companies	-25	6
Additions through aquisition of subsidiaries	6	
Paid during the year	-1,107	-1,063
Adjustments concerning previous years	-31	6
Current tax expenses in income statement	1,072	954
Current tax expenses in other comprehensive income	-38	18
Corporation tax payable/receivable (-) as of December 31	-146	-225
The above corporation tax is recorded as follows:		
Assets	441	527
Liabilities	295	302
	-146	-225

Note 18 ADJUSTMENT FOR NON-CASH TRANSACTIONS

DKKm

	2014	2015
Depreciation/amortization and impairment	1,738	1,926
Gain(-)/loss on disposal of tangible assets and business activities	-99	-37
Share of profit from associates and joint ventures after tax	187	-67
Financial income	-37	-70
Financial expenses	486	426
Other, including provisions	-293	-225
Adjustment for non-cash transactions	1,982	1,953

Note 19 CHANGE IN WORKING CAPITAL

DKKm

	2014	2015
Change in inventories	105	5
Change in receivables	-13	73
Change in trade payables and other debt	104	221
	196	299

Note 20 ACQUISITION AND SALE OF SUBSIDIARIES AND ACTIVITIES

DKKm

2014

Company/activity		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Conside-ration paid
Vacon	Acquisition	Finland	December	100%	3,002	1,610	7,506

2015

Company/activity		Country	Consolidated from/until	Holding acquired/sold	Net sales per year *)	No. of employees	Conside-ration paid
DAF Enerji	Acquisition	Turkey	December	60%	56	55	**
Advitronic Engineering B.V.	Acquisition	Netherlands	October	100%	9	8	**
Vacon Drives sales activity New Zealand (asset deal)	Acquisition	New Zealand	February	100%	6	3	**
ProEkspert	Sale	Estonia	January	75%	43	123	**

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

Danfoss did not acquire other companies / activities in 2014 than Vacon. The outstanding shares (1.5%) of Vacon was acquired in 2015, mainly by a squeeze out procedure concerning the outstanding shares in Vacon. The outstanding shares of 1.5% were included in the total acquisition price with a corresponding liability of 120 mDKK in Other Debt under Current Liabilities in 2014. The payment made in 2015 matches the liability made in 2014.
The Purchase Price Allocation related to Vacon was finalized in 2015. Goodwill was increased with 130 mDKK, while other net assets were reduced with a similar amount. The revaluation does not have any cash flow impact.

Besides paying for the remaining shares in VACON, the Danfoss Group sold 1 company and acquired 3 companies/activities in 2015 :

The Danfoss Group sold their ownership of 75.2% in ProEkspert AS in Estland in January 2015 and acquired a sales activity in New Zealand in February 2015.

On October 19, 2015, the Danfoss Group acquired 100% of the shares in Advitronic Engineering B.V in the Netherlands. For the Danfoss Group the acquisition is a step up in solutions related to Internet of Things and Connectivity in the food retail industry. Part of the acquisition price has been paid, while the a remaining part will be paid in the period 2016-2019 dependent upon the R&D progress in the company. The expected payment for the remaining acquisition price has been included with a corresponding liability in Other Debt.

On December 22, 2015, the Danfoss Group paid and acquired 60% of the shares in DAF Enerji in Istanbul, Turkey. The company is a market leader in the flat station segment in Turkey. The rationale for the acquisition is to get a stronger presence and foothold including manufacturing facilities in Turkey. The remaining 40% of the shares in the company will be acquired in the period 2016-2018, where the price is decided on the basis of the financial performance of the company. The expected payment for the remaining shares has been included in the total acquisition price with a corresponding liability in Other Debt.

The goodwill of 143mDKK 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. None of the goodwill recognized is expected to be deductible for income tax purposes.

The initial accounting for the acquisition of DAF Enerji and Advitronic Energineering BV is preliminary because of the short time span between the acquisition date and the time of the financial statements being authorized for issue. In accordance with IFRS 3, the accounting will be finalized within 12 months. Acquisition-related costs, e.g. due diligence costs, of DKK 3m have been charged to other operating expenses in the consolidated income statement for the year ending December 31, 2015.

There has not been any significant acquisitions and disposals of companies/activities after the reporting period.

The following table summarizes the consideration paid/received for acquired/sold companies and the fair value of assets and liabilities at the closing date. Revaluation done in 2015 related to the Purchase Price Allocation for Vacon is not included under 2015.

	2014 Acquisitions	2015 Acquisitions	2014 Disposals	2015 Disposals
Intangible assets, except goodwill	-2,033	-64		
Property, plant and equipment	-197	-2		2
Other non-current assets, including deferred tax assets	-113			
Inventories	-290	-11		
Receivables	-636	-22		10
Cash and cash equivalents	-242	-9		20
Interest-bearing debts	121	4		
Provisions, including deferred tax liabilities	609	20		
Trade and other payables	547	19		-8
Net assets acquired	-2,234	-65		24
Goodwill(-)/profit on disposal	-5,514	-143	-3	19
Net assets including goodwill(-)/profit on disposal	-7,748	-208	-3	43
Cash and cash equivalents	242	9		-20
Consideration, net of cash	-7,506	-199	-3	23
Change in short term payable/receivable	120	-35	2	-6
Minority interest	10			-6
Net cash paid(-)/received	-7,376	-234	-1	11

Note 21 ACQUISITION(-)/SALE OF OTHER INVESTMENTS

DKKm

	2014	2015
Sale of shares and other securities	19	
Purchase of shares and other securities	-2,256	-126
Increase/decrease of lending	34	-94
	-2,203	-220

Purchase of shares and other securities is related to purchase of shares in LineStream Technologies Inc. and BD Kompressor Holding GmbH & Co. KG. In 2014, the Group purchased shares in SMA Solar Technology AG. Further information is provided in Note 3. Investments.

Note 22 CONTINGENT LIABILITIES, ASSETS AND SECURITY

DKKm

SECURITY

	2014	2015
Carrying amount of land and buildings pledged as security for bank loans and mortgages	735	755
Leasing assets pledged as security for leasing commitments	38	44
Secured loans from financial institutions	1,239	1,352

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

At the beginning of 2009 the European Commission's Directorate General for Competition along with a number of other competition authorities initiated investigations of, among others, Danfoss Household Compressors on suspicion of breach of competition regulations. These Investigations have all been concluded.
Civil lawsuits against Danfoss are still pending in Europe and North America, the outcomes of which are not yet known.

In addition, 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:	2014	2015
Buildings:		
Less than 1 year	268	226
Between 1 and 5 years	674	522
More than 5 years	303	223
Equipment etc.:		
Less than 1 year	148	140
Between 1 and 5 years	150	137
More than 5 years	5	1

The Group expensed DKK 494m in operating lease payments in 2015 (2014: 413m) and they relate mainly to buildings and equipment. There were no significant contingent lease payments in 2015 or 2014.

OPERATING LEASES (LEASE INCOME)

Operating lease payments fall due as follows:	2014	2015
Less than 1 year	8	6
Between 1 and 5 years	6	14
More than 5 years		1

The Group recognized operating lease income of DKK 27m in 2015 (2014: 32m). The above rentals relate mainly to buildings.

CONTRACTUAL OBLIGATIONS

	2014	2015
Service contract commitment other than leases	382	405
Inventories	463	758
Property, plant and equipment	137	144
Hereof commitments relating to succeeding year	821	1,092

Note 23 RELATED PARTIES

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

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

The Bitten and Mads Clausen Foundation, which holds 49.77% of the shares in Danfoss A/S and controls 85.68% of the voting power, has the controlling influence.

In the financial year a limited number of transactions have taken place between Bitten & Mads Clausen 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 DKK 25m (2014: 25m).
In the financial year, Bitten & Mads Clausen Foundation sold shares in Danfoss A/S at at value of DKK 300m back to the company (2014: 0m).
Around 97% of Danfoss A/S' dividend payments is related to Bitten & Mads Clausen Foundation and shareholders of the Clausen Family.

BOARD OF DIRECTORS, EXECUTIVE COMMITTEE AND OTHER MEMBERS OF DANFOSS LEADERSHIP TEAM

In the financial year, no transactions took place with the Board of Directors, the Executive Committee or other members of the Danfoss Leadership 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 2017. The rent payment amounted to DKK 2m in 2015 (2014: 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 DKK 5m (2014: 5m) to the Danfoss Group. All transactions were performed on an arm's length basis.

For further information about the salaries of the board and the Executive Committee see the Note 2. Expenses and other operating income, section A. Personnel expenses and Note 13. Share incentive programs.

DKKm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2014	**2015**
Sales of goods and services	177	273
Purchases of goods and services	128	117

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 16. Financial risks and instruments.

Note 24 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to December 31, 2015 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 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, 2015, 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 Danish disclosure requirements for listed companies. Unless otherwise indicated, the Annual Report is presented in DKK rounded to the nearest million.

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 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 2015. None of those standards and interpretations has affected recognition and measurement in 2015, nor are they expected to have a material effect on Danfoss A/S in future.

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 Annual Report for 2015.

An assessment of the impact of the standards and interpretations in question has been initiated. The new standards and interpretations are expected to be implemented from their mandatory effective dates.

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 hold more than 50% of the voting rights or otherwise control 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 t h e 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. Unrealized 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/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 "Danfoss 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. 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 flows, in accordance with the structure in the internal financial reporting. Such cash flows do 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 DKK, 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 DKK 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 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
Net sales of goods for resale and finished goods are recognized in the income statement, provided that delivery and transfer of risk to the purchaser has taken place before the year end, and that the income can be reliably measured and payment is expected to be received. Net sales are measured at the fair value of the consideration agreed, excluding VAT, duties and discounts in relation to the sale. Related service income is recognized in the income statement as the services are performed. Accordingly, the recognized sale corresponds to the sales value of the work performed during the year. 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.

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 and employee termination expenses.

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, 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.

Completed development projects, including software, are generally amortized on a straight-line basis over 4 to 5 years. Development projects in progress are not amortized, but are 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 or Other operating 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	15-30 years
Plant and machinery	4-10 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 or other operating 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.

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 in case of evidence of impairment on the basis of customers' anticipated ability to pay and expectations of any changes to this ability, taking into account historical payment patterns, terms of payment, customer segment, creditworthiness and prevailing market conditions in the individual markets. 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. 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 realized. The recognized changes in the fair value are recognized in the hedging reserve under equity.

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.

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 treasury shares

The reserve for treasury 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.

Share-based remuneration
The Board, Executive Committee and several senior employees are covered by option and warrant schemes based on the Parent Company's shares.

The value of services received in exchange for granted options/warrants is measured at the fair value of the options/warrants.

For share options and warrants where the option or warrant holder has the right to receive cash settlement of the option or warrant, fair value of the instruments is initially measured at the grant date and recognized in the income statement as personnel costs over the vesting period.

Subsequently, the fair value of the instruments is measured at the balance sheet date and changes in fair values are recognized in the income statement under financial items.

On initial recognition of the share options and warrants, the Company estimates the number of options and warrants expected to vest, cf. the service condition described in note 13 Share incentive programs. That estimate is subsequently revised for changes in the number of options expected to vest. Accordingly, recognition is based on the number of options ultimately vested.

The fair value of granted instruments is measured based on the Black-Scholes model (warrant and option pricing model) taking into account the terms and conditions upon which the instruments were granted.

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.

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
Financial liabilities are initially recognized at fair value less transaction costs. Subsequently, they are measured at cost/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 less 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.

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. 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

Note 25 BASIS FOR PREPARATION AND ACCOUNTING POLICIES (continued)

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.

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 realized.

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.

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

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

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.

Where defined, other financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2015".

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/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

Note 25 BASIS FOR PREPARATION AND ACCOUNTING POLICIES (continued)

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

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 provisions and 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. 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 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 notes 7, Intangible assets and 8, Property, plant and equipment.

Measurement of recognized tax assets

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 14, Deferred tax assets and liabilities for unrecognized deferred tax assets.

Provisions

As part of its normal business policy, Danfoss provides its products with ordinary and extended warranties. Warranty provisions are recognized based on actual historical warranty costs and expected changes in future warranty costs related to the Group's products. Future warranty costs may differ from past experience. The Group assesses other provisions, contingent assets and contingent liabilities and the likely outcome of pending or future lawsuits on an ongoing basis. The outcome depends on future events that are inherently uncertain.

In assessing the likely outcome of lawsuits and tax disputes etc., Management bases its assessment on internal and external legal assistance and common practice. Further information is disclosed in note 12, Provisions and note 22, Contingent liabilities, assets and security.

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 15, Pension plans and healthcare obligations.

Group companies

Per December 31, 2015
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., Guntramsdorf
- Vacon AT Antriebssysteme GmbH, Leobersdorf

Belgium
- Danfoss N.V./S.A., Groot-Bijgaarden
- Danfoss Power Solutions BVBA, Groot-Bijgaarden
- Hydro-Gear Europe BVBA, Tongeren
- Vacon Benelux NV/SA, Heverlee

Bulgaria
- Danfoss EOOD, Sofia

Croatia
- Danfoss d.o.o., Zagreb

Czech Republic
- Danfoss s.r.o., Praha
- Vacon s.r.o., Praha

Denmark
- BetterHome ApS, Frederiksberg (25%)
- Danfoss A/S, Nordborg
- Danfoss Compressors Holding A/S, Nordborg
- Danfoss Distribution Services A/S, Rødekro
- Danfoss International A/S, Nordborg
- Danfoss IXA A/S, Vejle (60%)
- Danfoss PolyPower A/S, Nordborg - in liquidation
- Danfoss Power Electronics A/S, Gråsten
- Danfoss Power Solutions ApS, Nordborg
- Danfoss Power Solutions Holding ApS Nordborg
- Danfoss Power Solutions Holding II ApS Nordborg
- Danfoss Redan A/S, Hinnerup
- Danfoss Semco A/S, Odense (60%)
- Gemina Termix Production A/S, Sunds
- Issab Holding ApS, Nordborg
- Vacon Drives A/S, Sønderborg

Estonia
- Danfoss AS, Tallinn

Finland
- Oy Danfoss Ab, Espoo
- Danfoss Power Solutions Oy Ab, Espoo
- Vacon Oy, Vaasa

France
- Avenir Energie, Valence
- Danfoss S.a.r.l., Elancourt
- Danfoss Commercial Compressors S.A., Trévoux
- Danfoss Power Solutions SAS, Elancourt
- Vacon France SAS, Saint-Pierre-du-Perray

Germany
- BD Kompressor Holding GmbH & Co. KG, Lollar (50%) (joint venture)
- Danfoss Esslingen GmbH, Esslingen
- Danfoss Flensburg GmbH, Flensburg
- Danfoss GmbH, Offenbach/Main
- Danfoss Silicon Power GmbH, Flensburg
- Danfoss Werk Offenbach GmbH, Offenbach/Main
- Danfoss Power Solutions GmbH & Co. OHG, Neumünster
- Danfoss Power Solutions Informatic GmbH, Neumünster
- Danfoss Power Solutions Holding GmbH, Neumünster
- SMA Solar Technology AG, Niestetal (20%)
- Vacon GmbH, Essen

Great Britain
- Danfoss Limited, Denham, Buckinghamshire
- Danfoss Power Solutions Ltd., Swindon
- Danfoss UK Limited, Denham, Buckinghamshire
- Senstronics Holding Ltd., London (50%) (joint venture)
- Vacon Drives (UK) Ltd, Hinckley, Leicestershire

Hungary
- Danfoss Ktf., Budapest

Iceland
- Danfoss hf., Reykjavik

Ireland
- Danfoss Ireland Ltd., Dublin

Italy
- Danfoss Power Solutions S.r.l., Castenaso, Bologna
- Danfoss S.r.l., Turin
- Vacon S.r.l., Postal Bozen
- Vacon SpA, Reggio Emilia

Kazakhstan
- Danfoss LLP, Almaty

Latvia
- Danfoss SIA, Riga

Lithuania
- Danfoss UAB, Vilnius

The Netherlands
- Advitronic Engineering B.V., Giessen
- Danfoss B.V., Rotterdam
- Danfoss Power Solutions B.V., Rotterdam
- Vacon Benelux B.V., Gorinchem

Norway
- Danfoss AS, Skui, Oslo
- Danfoss Power Solutions AS, Skui, Oslo
- Vacon AS, Holmestrand (80%)

Poland
- Danfoss Poland Sp. z.o.o., Grodzisk Mazowiecki
- Danfoss Power Solutions Sp .z.o.o., Wroclaw
- Danfoss Saginomiya Sp. z.o.o., Grodzizsk Mazowiecki (50%) (joint venture)
- Elektronika S.A., Gdynia (50%) (joint venture)
- Vacon Sp. z o.o., Grodzisk Mazowiecki

Romania
- Danfoss District Heating S.r.l., Popesti-Leordeni
- Danfoss s.r.l., Popesti-Leordeni

Russia
- Danfoss Dzerzhinsk LLC, Nizhny Novgorod
- Danfoss Power Solutions LLC, Moscow
- Danfoss LLC, Istra, Moscow
- T Plus Danfoss LLC, Perm
- ZAO Danfoss, Moscow – in liquidation
- ZAO Ridan, Nizhny Novgorod
- ZAO Vacon Drives, Moscow - in liquidation

Serbia
- Danfoss d.o.o., Novi Beograd

Slovakia
- Danfoss Power Solutions a.s. Povazska Bystrica
- Danfoss spol. S.r.o., Zlaté Moravce

Slovenia
- Danfoss Trata d.o.o., Ljubljana-Sentvid

Spain
- Danfoss Power Solutions S.A., Alcobendas, Madrid
- Danfoss S.A., Alcobendas, Madrid
- Vacon Drives Ibérica S.A., Terrassa, Barcelona

Sweden
- Danfoss AB, Linköping
- Danfoss Power Solutions AB, Älmhult
- Danfoss Värmepumpar AB, Arvika
- EP Technology AB, Malmö
- Vacon AB, Solna

Switzerland
- Danfoss AG, Frenkendorf

Ukraine
- Danfoss T.o.v., Kiev

AFRICA – MIDDLE EAST

South Africa
- Danfoss (Pty) Ltd., Rivonia, Johannesburg
- Elsmark Investment Holdings (Pty) Limited, Johannesburg - in liquidation

Turkey
- DAF Enerji Sanayi Ve Ticaret Anonim Sirketi, Istanbul (60%)
- Danfoss Otomasyon ve Kontrol Urunleri Tic Ltd., Istanbul
- Vacon Motor Kontrol Sis. Ltd. Sti., Istanbul

United Arab Emirates
- Danfoss FZCO, Dubai

NORTH AMERICA

Canada
- Danfoss Inc., Mississauga, Ontario
- Turbocor Inc., St. Laurent
- Vacon Canada Inc., Stoney Creek, Ontario

USA
- Danfoss LLC, Baltimore
- Danfoss Turbocor Compressors Inc., Tallahassee, Florida
- Hydro-Gear Inc., Sullivan, Illinois (60%)
- Hydro-Gear Limited Partnership, Sullivan, Illinois (60%)
- Danfoss Power Solutions (US) Company, Ames, Iowa
- Danfoss Power Solutions Inc., Ames, Iowa
- Vacon Inc., Chambersburg, Pennsylvania

LATIN AMERICA

Argentina
- Danfoss S.A., Buenos Aires

Brazil
- Danfoss do Brasil Indústria e Comércio Ltda., Osasco, São Paulo
- Danfoss Power Solutions Ind. e. Com. Electrohidraulica Ltda., Osasco, São Paulo
- Vacon America Latina Ltda., São Paulo (97%)

Chile
- Danfoss Industrias Ltda., Santiago

Colombia
- Danfoss S.A., Bogota

Mexico
- Danfoss Industries S.A. de C.V., Apodaca, Monterrey
- Danfoss S.A. de C.V., Monterrey
- Vaasa Control de Mexico, Mexico City

Venezuela
- Danfoss S.A., Estado Carabobo, Valencia

Group companies (continued)

ASIA-PACIFIC

Australia
- Danfoss (Australia) Pty. Ltd., Mulgrave Vic
- Danfoss Power Solutions Pty. Ltd., Huntingwood; NSW
- Vacon Pacific Pty Ltd, Melbourne

P. R. of China
- Daikin-Sauer-Danfoss Hydraulics (Suzhou) Co. Ltd., Suzhou
- Danfoss Automatic Controls Management (Shanghai) Co. Ltd., Shanghai
- Danfoss (Anshan) Controls Co. Ltd., Anshan
- Danfoss Energy Products (Guiyang) Co., Ltd., Guiyang – in liquidation
- Danfoss Industries Limited, Hong Kong
- Danfoss (Tianjin) Limited, Tianjin
- Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd., Haiyan
- Danfoss Plate Heat Exchanger (Hangzhou) Co., Ltd. Zheijang
- Danfoss Power Solutions (Shanghai) Co. Ltd., Shanghai
- Danfoss Power Solutions (Zhejiang) Co., Ltd., Zhejiang
- Danfoss Power Solutions Trading (Shanghai) Co., Ltd., Shanghai
- Danfoss Semco (Tianjin) Fire Protection Equipment Co., Ltd., Tianjin (60%)
- Danfoss Shanghai Hydrostatic Transmission Co. Ltd., Shanghai (60%)
- Tau Energy Holdings (HK) Limited, Hong Kong
- Vacon China Drives Co. Ltd., Suzhou
- Zheijang Holip Electronic Technology Co. Ltd., Haiyan

India
- Danfoss Industries Pvt. Ltd., Chennai
- Danfoss Power Solutions India Pvt. Ltd., Pune
- Vacon Drives & Control Pvt. Ltd, Chennai

Indonesia
- PT Danfoss Indonesia, Jakarta

Japan
- Daikin-Sauer-Danfoss Ltd., Osaka (45%)
- Danfoss Power Solutions Ltd., Osaka

Malaysia
- Danfoss Industries Sdn Bhd, Shah Alam, Kuala Lumpur

New Zealand
- Danfoss (New Zealand) Ltd., Auckland

Philippines
- Danfoss Inc., Makati City, Manila

Singapore
- Danfoss Industries Pte. Ltd., Singapore
- Danfoss Power Solutions China Holding Pte. Ltd., Singapore - in liquidation
- Danfoss Power Solutions Pte. Ltd. Singapore
- Vacon Pte. Ltd., Singapore

South Korea
- Danfoss Ltd., Seoul
- Danfoss Power Solutions Ltd., Seoul
- Vacon Korea Ltd., Seoul

Taiwan
- Danfoss Co. Ltd., New Taipei City

Thailand
- Danfoss (Thailand) Co. Ltd., Bangkok

Parent Company Accounts and notes

Management report for Danfoss A/S (Part of Management 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 2,574 employees at the end of 2015.

The profit before other operating income and expenses was DKK 500m against DKK 739m in 2014. The company's operating profit was DKK 393m against DKK 664m the previous year.

Financial income and expenses amounted to a net income of DKK 7,961m against a net income of DKK 3,722m the previous year. This was mainly attributable to an increase in distributed dividends from subsidiaries.

The profit after tax in 2015 was DKK 8,340m against DKK 4,327m the previous year.

Equity stood at DKK 18,692m at the end of 2015 against DKK 11,164m at the end of 2014. 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 2016 to be on a level with the 2015 figures, and the company expects to report a profit in 2016.

INCOME STATEMENT

January 1 to December 31

DKKm	Note	2014	2015
Net sales		8,110	7,799
Cost of sales	1	-5,878	-5,873
GROSS PROFIT		**2,232**	**1,926**
Research and development costs	1	-225	-293
Selling and distribution costs	1	-696	-583
Administrative expenses	1	-572	-550
OPERATING PROFIT EXCLUDING OTHER OPERATING INCOME AND EXPENSES		**739**	**500**
Other operating income and expenses	1	-75	-107
OPERATING PROFIT (EBIT)		**664**	**393**
Financial income	2	4,242	8,470
Financial expenses	3	-520	-509
PROFIT BEFORE TAX		**4,386**	**8,354**
Tax on profit	4	-59	-14
NET PROFIT		**4,327**	**8,340**
Attributable to:			
Proposed dividends reserve		500	530
Other reserves		3,827	7,810
		4,327	**8,340**

STATEMENT OF COMPREHENSIVE INCOME

January 1 to December 31

DKKm

	2014	2015
NET PROFIT	**4,327**	**8,340**
OTHER COMPREHENSIVE INCOME		
Actuarial gain/loss (-) on pension and healthcare plans	-4	-5
Tax on actuarial gain/loss on pension and healthcare plans	1	1
Items that cannot be reclassified to profit or loss	**-3**	**-4**
Fair value adjustment of hedging instruments:		
Hedging of future cash flows	-54	-19
Hedging transferred to financial expenses in the income statement	34	14
Tax on hedging instruments	5	1
Items that can be reclassified to profit or loss	**-15**	**-4**
OTHER COMPREHENSIVE INCOME AFTER TAX	**-18**	**-8**
TOTAL COMPREHENSIVE INCOME	**4,309**	**8,332**

STATEMENT OF FINANCIAL POSITION

As of December 31

DKKm ASSETS	Note	2014	2015
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	5	**696**	**813**
PROPERTY, PLANT AND EQUIPMENT	6	**1,300**	**1,320**
Investments	7	14,969	23,686
OTHER NON-CURRENT ASSETS		**14,969**	**23,686**
TOTAL NON-CURRENT ASSETS		**16,965**	**25,819**
CURRENT ASSETS			
INVENTORIES		**642**	**612**
Trade receivables external		210	232
Trade receivables from subsidiaries		603	425
Short-term loans to subsidiaries		12,698	8,741
Receivables from associates and joint ventures			1
Receivable corporation tax	10	30	149
Other receivables		102	134
RECEIVABLES		**13,643**	**9,682**
TOTAL CURRENT ASSETS		**14,285**	**10,294**
TOTAL ASSETS		**31,250**	**36,113**

STATEMENT OF FINANCIAL POSITION

As of December 31

DKKm **LIABILITIES AND SHAREHOLDERS' EQUITY**	Note	2014	2015
SHAREHOLDERS' EQUITY		**11,164**	**18,692**
LIABILITIES			
Provisions		49	65
Deferred tax liabilities	8	193	237
Pension and healthcare benefit plan obligations		25	24
Borrowings	9	10,880	8,911
Derivative financial instruments (negative fair value)	9	37	28
Other non-current debt		114	110
NON-CURRENT LIABILITIES		**11,298**	**9,375**
Provisions		79	149
Liabilities under share incentive programs		81	81
Borrowings	9	979	501
Trade payables		620	708
Trade payables to subsidiaries		105	97
Borrowings from subsidiaries		6,175	5,705
Debt to associates and joint ventures			18
Derivative financial instruments (negative fair value)	9	102	217
Other debt		647	570
CURRENT LIABILITIES		**8,788**	**8,046**
TOTAL LIABILITIES		**20,086**	**17,421**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**31,250**	**36,113**

STATEMENT OF CASH FLOWS

January 1 to December 31

DKKm	Note	2014	2015
Profit before tax		4,386	8,354
Adjustments for non-cash transactions	11	-3,470	-7,734
Change in working capital		123	246
CASH FLOW GENERATED FROM OPERATIONS		**1,039**	**866**
Interest received		149	267
Interest paid		-192	-212
Dividends received		4,095	8,154
CASH FLOW FROM OPERATIONS BEFORE TAX		**5,091**	**9,075**
Paid tax	10	-352	-87
CASH FLOW FROM OPERATING ACTIVITIES		**4,739**	**8,988**
Acquisition of intangible assets		-123	-191
Acquisition of property, plant and equipment		-125	-202
Proceeds from sale of property, plant and equipment		5	38
Acquisition of subsidiaries etc.		-71	-3,273
Proceeds from disposal of subsidiaries etc.		-1	1
Loans to subsidiaries		-9,334	-1,492
Acquisition (-)/sale of other investments etc.		-2,250	4
CASH FLOW FROM INVESTING ACTIVITIES		**-11,899**	**-5,115**
FREE CASH FLOW		**-7,160**	**3,873**
Cash repayment of (-)/cash proceeds from interest-bearing debt		7,316	-2,598
Cash repayment of (-)/cash proceeds from borrowings from subsidiaries		646	-470
Repurchase of treasury shares		-14	-312
Dividends paid to shareholders in the Parent Company		-789	-493
CASH FLOW FROM FINANCING ACTIVITIES		**7,159**	**-3,873**
NET CHANGE IN CASH AND CASH EQUIVALENTS		**-1**	
Cash and cash equivalents as of January 1		1	
CASH AND CASH EQUIVALENTS AS OF DECEMBER 31			

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

STATEMENT OF CHANGES IN EQUITY

DKKm

	SHARE CAPITAL	SHARE PREMIUM	Hedging reserves	Reserve own shares	Other reserves	RESERVES	PROPOSED DIVIDENDS	TOTAL EQUITY
BALANCE AS OF 1 JANUARY 2014	**1,022**	**409**	-12	-431	5,871	**5,428**	**800**	**7,659**
COMPREHENSIVE INCOME IN 2014								
Net profit					3,827	**3,827**	**500**	**4,327**
Other comprehensive income								
Fair value adjustment of hedging instruments			-20			**-20**		**-20**
Actuarial gain/loss (-) on pension and healthcare plans					-4	**-4**		**-4**
Tax on other comprehensive income			5		1	**6**		**6**
Total other comprehensive income			-15		-3	**-18**		**-18**
Total comprehensive income for the period			-15		3,824	**3,809**	**500**	**4,309**
TRANSACTIONS WITH OWNERS								
Dividends to shareholders					11	**11**	**-800**	**-789**
Capital increase/purchase of treasury shares	**1**	**54**		-70		**-70**		**-15**
Total transactions with owners	**1**	**54**		-70	11	**-59**	**-800**	**-804**
BALANCE AS OF 31 DECEMBER 2014	**1,023**	**463**	-27	-501	9,706	**9,178**	**500**	**11,164**
COMPREHENSIVE INCOME IN 2015								
Net profit					7,810	**7,810**	**530**	**8,340**
Other comprehensive income								
Fair value adjustment of hedging instruments			-5			**-5**		**-5**
Actuarial gain/loss (-) on pension and healthcare plans					-5	**-5**		**-5**
Tax on other comprehensive income			1		1	**2**		**2**
Total other comprehensive income			-4		-4	**-8**		**-8**
Total comprehensive income for the period			-4		7,806	**7,802**	**530**	**8,332**
TRANSACTIONS WITH OWNERS								
Dividends to shareholders					7	**7**	**-500**	**-493**
Capital increase/purchase of treasury shares	**1**	**52**		-364		**-364**		**-311**
Total transactions with owners	**1**	**52**		-364	7	**-357**	**-500**	**-804**
BALANCE AS OF 31 DECEMBER 2015	**1,024**	**515**	-31	-865	17,519	**16,623**	**530**	**18,692**

Notes

Note 1 EXPENSES AND OTHER OPERATING INCOME

DKKm

A. PERSONNEL EXPENSES

	2014	2015
Salaries and wages	1,654	1,543
Severance payments	17	18
Social security	14	12
Defined contribution plans	130	132
	1,815	1,705
Average number of employees	2,694	2,604
Total number of employees as of end of the year	2,675	2,574

	2014	2015
Board of Directors:		
Directors' fees	6	6
	6	6
Executive Committee:		
Salaries	23	30
Pension costs re. defined contribution plans	8	10
Bonuses	52	59
	83	99
Danfoss Leadership Team excluding Executive Committee:		
Salaries	11	14
Pension costs re. defined contribution plans	1	1
Bonuses	8	10
	20	25
Total compensation	109	130

Bonuses of total DKK 69m (2014: 60m) can be divided into long-term and short-term bonuses with DKK 31m and DKK 38m respectively (2014: 25m and 35m respectively).

Note 1 EXPENSES AND OTHER OPERATING INCOME (continued)

DKKm

B. DEPRECIATION/AMORTIZATION AND IMPAIRMENT LOSSES

	2014	2015
Classification by nature:		
Amortization of intangible assets	70	67
Impairment on intangible assets		9
	70	76
Depreciation of property, plant and equipment	189	184
Reversal of impairment losses on property, plant and equipment	-2	
	187	184
Depreciation/amortization and impairment losses	257	260
Classification of intangible assets by functions:		
Cost of sales	45	42
Selling and distribution costs	15	14
Administrative expenses	10	11
Other operating expenses		9
	70	76

C. OTHER OPERATING INCOME AND EXPENSES

	2014	2015
Gain on disposal of property, plant and equipment	1	31
Reversal of impairment losses on property, plant and equipment	2	
Other	2	1
Other operating income	5	32
Loss on disposal of property, plant and equipment	-2	-1
Impairment		-9
Restructuring costs	-17	-19
Other	-61	-110
Other operating expenses	-80	-139
Other operating income and expenses	-75	-107

D. FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

	2014	2015
Audit fee	5	5
Tax and VAT advice	6	6
Other fees	2	1
Total fee to Group Auditor	13	12

Note 2 FINANCIAL INCOME

DKKm

	2014	2015
Dividend from subsidiaries and associates/joint ventures	4,092	8,153
Interest from subsidiaries	149	266
Interest from banks etc.	1	48
Gain on other investments		2
Gain on disposal of shares subsidiaries and associates/joint ventures		1
	4,242	8,470
Interest on financial assets measured at amortized cost amounts to	150	314

Note 3 FINANCIAL EXPENSES

DKKm

	2014	2015
Foreign exchange losses, net	-227	-234
Interest to banks etc.	-135	-184
Interest to subsidiaries	-29	-39
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-91	-33
Impairment/loss on loans	-10	-11
Fair value adjustment of share options and warrants	-23	-6
Interest element on discounted liabilities	-4	-2
Loss on other investments	-1	
	-520	-509
Interest on financial liabilities at amortized cost amounts to	-168	-225

Note 4 TAX ON PROFIT

DKKm

	2014	2015
Current tax expense	-206	-100
Change in deferred tax	154	16
Adjustments concerning previous years	-7	70
	-59	-14
Tax on profit is defined as:		
Tax on profit before tax	24.5%	23.5%
Tax exempt income/non-deductible expenses	1.6%	0.1%
Dividends exempt of tax	-23.8%	-22.9%
Other taxes	0.9%	0.3%
Adjustments concerning previous years	0.2%	-0.8%
Other adjustments	-2.1%	
Effective tax rate	1.3%	0.2%

	2014	2015
Tax on profit (income statement)	-59	-14
Tax on fair value adjustment of hedging instruments (other comprehensive income)	5	1
Tax on actuarial gain/loss on pension and healthcare plans (other comprehensive income)	1	1
Total taxes	-53	-12

Note 5 INTANGIBLE ASSETS

DKKm

2014	Goodwill	Software	Patents, trademarks, etc. *)	Develop-ment costs	Total Other	TOTAL
Cost as of January 1	462	471	232	147	850	1,312
Additions		36	87		123	123
Disposals		-11	-7		-18	-18
Cost as of December 31	462	496	312	147	955	1,417
Amortization and impairment losses as of January 1		382	173	113	668	668
Amortization		35	19	16	70	70
Disposals		-10	-7		-17	-17
Amortization and impairment losses as of December 31		407	185	129	721	721
Carrying amount as of December 31	462	89	127	18	234	696

2015	Goodwill	Software	Patents, trademarks, etc. *)	Develop-ment costs	Total Other	TOTAL
Cost as of January 1	462	496	312	147	955	1,417
Transfers		10	-8		2	2
Additions		191			191	191
Disposals		-1			-1	-1
Cost as of December 31	462	696	304	147	1,147	1,609
Amortization and impairment losses as of January 1		407	185	129	721	721
Transfers		1	-1			
Amortization		34	16	17	67	67
Impairments for the year		9			9	9
Disposals		-1			-1	-1
Amortization and impairment losses as of December 31		450	200	146	796	796
Carrying amount as of December 31	462	246	104	1	351	813

*) The amounts under Patents, trademarks etc. are mainly related to patents.

IMPAIRMENT TESTS

Goodwill in Danfoss A/S of DKK 462m (2014: 462m) is mainly a consequence of Danfoss A/S merging together with other Danish subsidiaries, in particular the merger with DEVI A/S in 2010. At the end of 2015, impairment tests have been performed on the carrying amount of goodwill (assets with indefinite useful lives). The impairment tests were performed 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 on 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 2014.

Note 6 PROPERTY, PLANT AND EQUIPMENT

DKKm

2014	Land and builidngs	Plant and machinery	Equipment	Assets under construction	**TOTAL**
Cost as of January 1	1,704	2,150	592	147	4,593
Transfers	59	41	12	-112	
Additions	10	24	18	76	128
Disposals		-34	-3		-37
Cost as of December 31	1,773	2,181	619	111	4,684
Depreciation and impairment losses as of January 1	1,088	1,897	246		3,231
Depreciation	42	90	57		189
Reversal of impairments for the year		-2			-2
Disposals		-31	-3		-34
Depreciation and impairment losses as of December 31	1,130	1,954	300		3,384
Carrying amount as of December 31	643	227	319	111	1,300
Hereof assets held under finance leases			37		37

2015	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of January 1	1,773	2,181	619	111	4,684
Transfers	25	37	3	-67	-2
Additions	35	29	19	130	213
Disposals	-1	-121	-53		-175
Cost as of December 31	1,832	2,126	588	174	4,720
Depreciation and impairment losses as of January 1	1,130	1,954	300		3,384
Depreciation	46	81	57		184
Disposals		-115	-53		-168
Depreciation and impairment losses as of December 31	1,176	1,920	304		3,400
Carrying amount as of December 31	656	206	284	174	1,320
Hereof assets held under finance leases			28		28

The financial leases mainly concern IT equipment. The leased assets are pledged as collateral for the lease liabilities.

Note 7 INVESTMENTS

DKKm

	2014					2015				
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**TOTAL**	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**TOTAL**
Costs as of January 1	13,579	971	108	134	14,792	13,650	83	2,346	134	16,213
Additions	71	83	2,258		2,412	3,299	5,470			8,769
Disposals		-971	-20		-991	-45	-21			-66
Costs as of December 31	13,650	83	2,346	134	16,213	16,904	5,532	2,346	134	24,916
Adjustments as of January 1	-1,000		-68	-103	-1,171	-1,092		-48	-104	-1,244
Value adjustment				-1	-1				2	2
Reversed impairment	17		4		21	60		4		64
Impairment for the year	-109				-109	-52				-52
Disposal			16		16					
Adjustments as of December 31	-1,092		-48	-104	-1,244	-1,084		-44	-102	-1,230
Carrying amount as of December 31	12,558	83	2,298	30	14,969	15,820	5,532	2,302	32	23,686

Where possible, "Other investments" are recognized at fair value. Alternatively, they are recognized at cost less accumulated impairment losses.

At the end of 2015, impairment tests were performed on the carrying amount of "Investments in subsidiaries, associates and joint ventures", if indicators for impairment were present. 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 2014.

Impairment losses for the year on "Investments in subsidiaries" of DKK 52m mainly relates to Danfoss District Heating S.R.L (Romania). The impairment losses are mainly due to that the entities in question have been loss making. Impairment losses are reported as financial expenses.

Additions for the year to "Investments in subsidiaries" is mainly capital injection in Danfoss International A/S (Denmark).
Disposal for the year of "Investments in subsidiaries" relates to the closing of Danfoss Heat Pumps UK Ltd.

Impairment losses for 2014 on "Investments in subsidiaries" of DKK 109m mainly relates to Danfoss PolyPower A/S (Denmark) and Danfoss District Heating S.R.L (Romania). The impairment losses are mainly due to that the entities in question have been loss making. Impairment losses are reported as financial expenses.

Additions for 2014 to "Investments in subsidiaries" is mainly capital injection in Danfoss Power Solutions Holding II ApS (Denmark).
Additions for 2014 to "Investments in associates/joint ventures" relates to the acquisition of SMA Solar Technology AG.
Disposal for 2014 of "Investments in associates/joint ventures" mainly relates to the sale of Promeos GmBH.

Further information on subsidiaries, associates and joint ventures is provided in the Notes 2. Financial income, 3. Financial expenses, 9. Financial risks and instruments and 13. Related parties.

Note 8 DEFERRED TAX

DKKm

CHANGES IN DEFERRED TAXES

	2014	2015
Deferred taxes as of January 1 (net) *)	-340	-193
Adjustments concerning previous years	-7	-60
Deferred tax recognized in the income statement	154	16
Deferred taxes as of December 31 (net) *)	-193	-237

*) Liability (-)

SPECIFICATION OF DEFERRED TAXES

	2014 Deferred tax asset	2015 Deferred tax asset
Current assets		21
Liabilities	114	109
	114	130
Set-off within the same legal entities and jurisdiction	-114	-130
Deferred tax assets	0	0

	2014 Deferred tax liability	2015 Deferred tax liability
Intangible assets	51	46
Property, plant and equipment and financial assets	101	89
Current assets	17	11
Liabilities	74	148
Deferred tax regarding Danish joint taxation	64	73
	307	367
Set-off within the same legal entities and jurisdiction	-114	-130
Deferred tax liabilities	193	237

Of the deferred tax liability of DKK 237m (2014: 193m), DKK 73m (2014: 64m) 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 DKK 73m (2014: 67m). The liabilities are not recognized because the 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

DKKm

FINANCIAL INSTRUMENTS

Relevant financial instrument specifications have been made below regarding Danfoss A/S. A description of financial risks can be found in the Group section, see Note 16. Financial risks and instruments, to which reference is made.

CONTRACTUAL PAYMENTS ON FINANCIAL LIABILITIES

	2014					2015				
			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	10,759	11,403	1,034	4,202	6,167	8,349	8,929	592	3,497	4,840
Mortgage debt	1,041	1,414	26	104	1,284	1,042	1,374	25	99	1,250
Employee bonds	28	28	28							
Borrowings from subsidiaries	6,175	6,175	6,175			5,705	5,705	5,705		
Finance lease liabilities	31	33	20	13		21	23	10	13	
Trade payables	620	620	620			708	708	708		
Trade payables to subsidiaries	105	105	105			97	97	97		
Debt to associates and joint ventures						18	18	18		
Derivative financial liabilities	139	139	102	37		245	278	227	51	
	18,898	19,917	8,110	4,356	7,451	16,185	17,132	7,382	3,660	6,090

*) 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 12. Contingent liabilities, assets and security.

THE ABOVE DEBT IS RECORDED AS FOLLOWS:

	2014	2015
Non-current liabilities	10,917	8,939
Current liabilities	7,981	7,246
	18,898	16,185

Note 9 FINANCIAL RISKS AND INSTRUMENTS (continued)

DKKm

FINANCIAL INSTRUMENTS BY CATEGORY

	2014		2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	30	30	32	32
Financial assets available-for-sale	30	30	32	32
Trade receivables	210	210	232	232
Trade receivables from subsidiaries	603	603	425	425
Short-term loans to subsidiaries	12,698	12,698	8,741	8,741
Other receivables	102	102	134	134
Loans and receivables	13,613	13,613	9,532	9,532
Interest-bearing debt	11,859	11,953	9,412	9,462
Trade payables to subsidiaries	105	105	97	97
Borrowing from subsidiaries	6,175	6,175	5,705	5,705
Trade payables and other debt	1,381	1,381	1,406	1,406
Financial liabilities measured at amortized cost	19,520	19,614	16,620	16,670
Derivative financial instruments for the hedging of future cash flows	37	37	42	42
Financial liabilities used as hedging instruments	37	37	42	42
Derivative financial instruments for financial hedging	102	102	203	203
Financial liabilities measured at fair value in the income statement	102	102	203	203

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 of 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 price of 100. 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 2014.

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

	2014				2015			
	Quoted prices Level 1	Observ-able input Level 2	Non-observ-able input Level 3	In total	Quoted prices Level 1	Observ-able input Level 2	Non-observ-able input Level 3	In total
FINANCIAL ASSETS:								
Other investments			30	30			32	32
Total financial assets			30	30			32	32
FINANCIAL LIABILITIES:								
Derivative financial instruments for the hedging of future cash flows		37		37		42		42
Derivative financial instruments for financial hedging		102		102		203		203
Interest bearing debts		11,953		11,953		9,462		9,462
Total financial liabilities		12,092		12,092		9,707		9,707

DKKm

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE BASED ON LEVEL 3

	2014	2015
	Other investments Level 3	Other investments Level 3
Carrying amount as of 1 January	31	30
Gain/loss (-) in the income statement	-1	2
Carrying amount as of 31 December	30	32
Gain/loss (-) in the income statement for assets owned as of 31 December	-1	2

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

DERIVATIVES AS OF 31 DECEMBER FOR DANFOSS A/S

	2014						2015					
	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							-3,082	-192	-192			
EUR	1,455	-2	-2				-3,064	-13	-13			
Other currencies	-532	-100	-100				-307	1	1			
Forward exchange contracts		-102	-102					-204	-204			
Interest swaps	2,733	-37			-37		2,244	-43	-1	-14	-28	
Derivatives end of year		-139	-102		-37			-247	-205	-14	-28	

At the end of 2015, unrealized gain/loss(-) on derivatives hedging floating interest payments recognized in equity amounted to DKK -42m (2014: -37m).

Note 10 CORPORATION TAX

DKKm

	2014	2015
Corporation tax payable/receivable (-) as of January 1	122	-30
Paid during the year	-352	-87
Adjustments concerning previous years		-130
Current tax expenses in income statement	206	100
Current tax expenses in other comprehensive income	-6	-2
Corporation tax payable/receivable (-) as of December 31	-30	-149
The above corporation tax is recorded as follows:		
Assets	30	149
	-30	-149

Note 11 ADJUSTMENT FOR NON-CASH TRANSACTIONS

DKKm

	2014	2015
Depreciation/amortization and impairment	257	260
Gain(-)/loss on disposal of tangible assets and business activities	1	-30
Financial income	-4,242	-8,470
Financial expenses	520	509
Other, including provisions	-6	-3
Adjustment for non-cash transactions	-3,470	-7,734

Note 12 CONTINGENT LIABILITIES, ASSETS AND SECURITY

DKKm

SECURITY

	2014	2015
Carrying amount of land and buildings pledged as security for bank loans and mortgages	623	637
Leasing assets pledged as security for leasing commitments	37	28
Secured loans from financial institutions	1,073	1,064

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

At the beginning of 2009, the European Commission's Directorate General for Competition along with a number of other competition authorities initiated investigations of, among others, Danfoss Household Compressors on suspicion of breach of competition regulations. These Investigations have all been concluded.
Civil lawsuits against Danfoss are still pending in Europe and North America, the outcomes of which are not yet known.

In addition, 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:	2014	2015
Buildings:		
Less than 1 year	15	12
Between 1 and 5 years	35	29
More than 5 years	44	49
Equipment etc.:		
Less than 1 year	32	27
Between 1 and 5 years	20	20

OPERATING LEASES (LEASE INCOME)

Operating lease receivables fall due as follows:	2014	2015
Less than 1 year	18	12
Between 1 and 5 years	1	

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

CONTRACTUAL OBLIGATIONS

	2014	2015
Service contract commitment other than leases	178	211
Inventories	235	258
Property, plant and equipment	16	31
Hereof commitments relating to succeeding year	376	406

Note 13 RELATED PARTIES

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

DKKm

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

	2014	2015
Sales of goods and services	3	3
Purchases of goods and services	51	79

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

	2014	2015
Sales of goods and services	7,349	7,007
Purchases of goods and services	2,625	2,750
Purchases of intangible assets and property, plant and equipment	81	28
Disposal of intangible assets and property, plant and equipment	11	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 14 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to December 31, 2015 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 15 GENERAL ACCOUNTING POLICIES FOR DANFOSS A/S

Danfoss A/S is a company domiciled in Denmark. The Annual Report for the period January 1 to December 31, 2015, 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 DKK rounded to the nearest million.

The Board of Directors and the Executive Committee reviewed and approved the Annual Report 2015 on March 15, 2016, and it will be presented for approval at the Annual General Meeting to be held on April 29, 2016.

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.

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 evidence of impairment, an impairment test is made. If the recoverable amount is lower than cost, investments are written 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.

Note 16 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 evidence 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.