

MAKING MODERN LIVING POSSIBLE



# Annual Report 2010

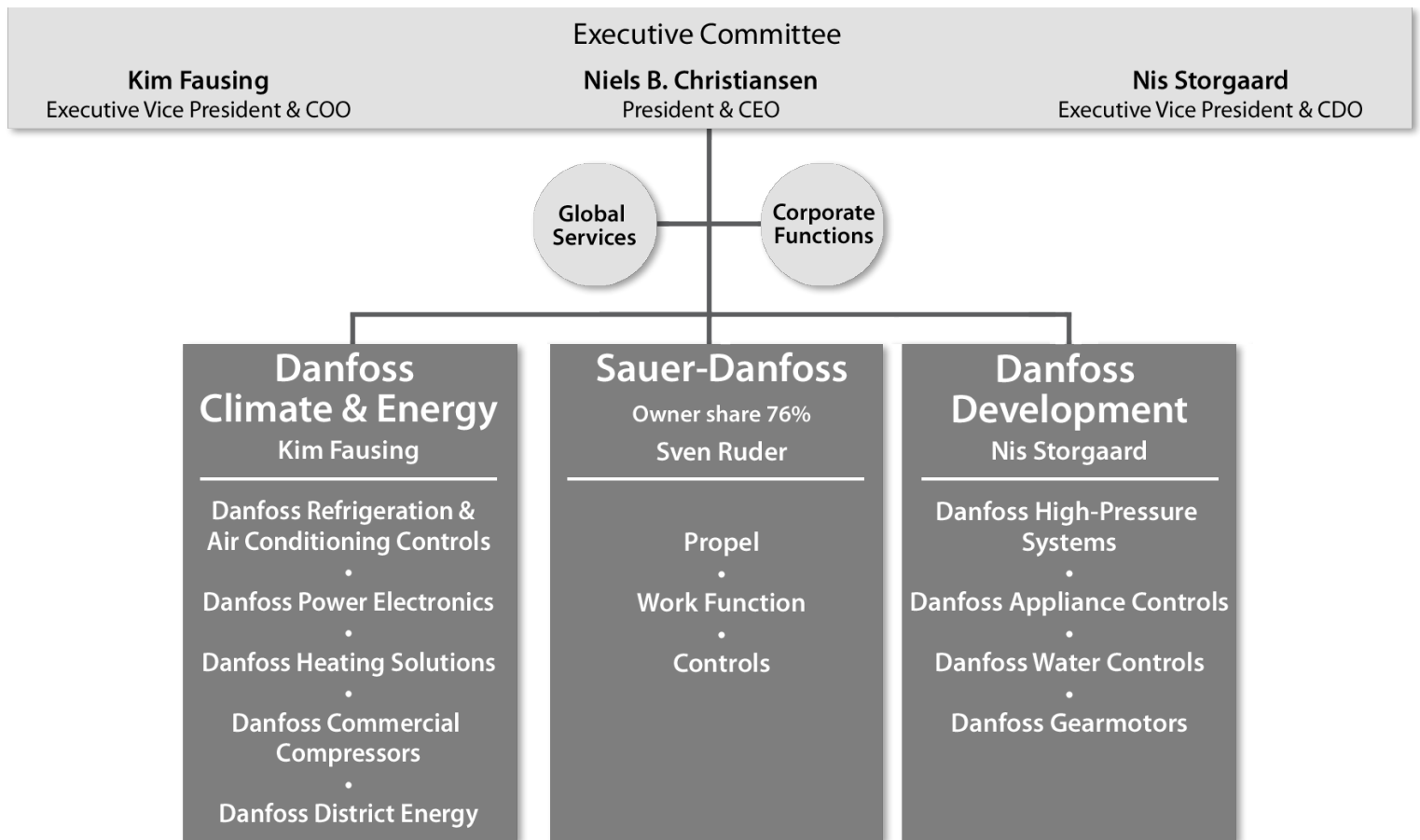
## The Danfoss Group



[www.danfoss.com](http://www.danfoss.com)

# The Organization

on December 31, 2010



## Frontpage:

Four different natural materials reflect Danfoss' extensive work with Climate & Energy: *water, vegetation, natural stone* and *wood*. Water is the central element and it refers directly to Danfoss' former production. The fascination with water and the existing opportunities to control the natural elements are staged. Guests arriving at the middle axis of the building are met by an eye-catching 1.6m high soundless water whirl. The whirl is surrounded by water mirror walls. Their subdued trickle creates a comfortably cushioned atmosphere and cleanses the air, thereby contributing to the comfort and efficient indoor climate of the building.

In the lounge area, guests will find a 20m long, green wall. The wall is planted with a lively green and smooth surface of fine leaves. Behind this, sophisticated and refined technology controls the watering of the vegetation, creating a fresh indoor climate. The wall is, at the same time, very noise-absorbing and adds significantly to improved acoustics. The green wall's regulation of the air humidity also lowers the need for cooling in the building. Thinly cut natural stone plates only a few millimeters thick form conference room partitions in the east-west wing. The natural stone is transparent and intensifies the open and light atmosphere of the conference rooms.

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# CSR highlights

	2006	2007	2008	2009	2010
<b>ENVIRONMENT</b>					
Energy consumption (GJ)	1,777	1,940	1,965	1,808	1,530
Total CO <sub>2</sub> emission (ton)		177,594	176,521	157,233	137,108
Hereof emission from electricity		137,357	136,712	119,716	105,378
Hereof emission from heat		41,860	43,394	41,061	31,730
CO <sub>2</sub> emission target (ton)		177,594	175,127	172,661	116,138
CO <sub>2</sub> emission in % of target		100	101	91	118
Water consumption (m <sup>3</sup> )	722,762	829,793	839,004	742,083	690,607
Group's total raw material volume	278,751	299,955	284,185	253,437	165,894
CRAN materials (ton)	1,256	1,263	1,219	904	903
Organic solvents (ton)	321	288	347	261	266
Discharged industrial waste water (m <sup>3</sup> )	169,498	256,465	261,179	198,047	211,504
Waste (ton)	76,066	79,912	76,717	55,788	23,792
<b>HUMAN RESOURCES</b>					
Total employee turnover (%)	17.1	17.9	19.5	20.2	16.9
Total EDDs completed (%)	56.0	65.9	62.8	59.3	71.9
Number of accidents (hourly paid employees)	292	312	330	254	184
Frequency of accidents (hourly paid employees)	16.2	15.5	16.8	15.5	12.8
Total number of days of absence (hourly paid employees)	4,406	5,438	6,864	5,048	4,697
Number of accidents (salary paid employees)			21	22	14
Frequency of accidents (salary paid employees)			0.9	1.2	0.8
<b>SOCIAL RESPONSIBILITY</b>					
Suppliers in high-risk countries		390	376	665	533
Hereof suppliers having signed Code of Conduct			28%	29%	81%
Suppliers in medium-risk countries		540	564	350	442
Hereof suppliers having signed Code of Conduct			8%	28%	46%
Suppliers in low-risk countries		2,070	2,819	2,484	3,284
Hereof suppliers having signed Code of Conduct			17%	47%	46%
Dismissals due to unethical behaviour	43	36	64	29	40
Number of juveniles between 15 and 18	144	126	192	78	95



# Financial highlights (DKK)

	2006	2007	2008	2009*)	2010*)
<b>PROFIT AND LOSS ACCOUNT</b>					
Net sales	19,428	22,196	27,535	24,165	31,550
Operating profit added depreciations, amortizations and impairments (EBITDA)	2,425	2,576	2,099	1,354	5,053
EBIT excl. other income, etc.	1,411	1,634	687	-40	3,400
Operating profit (EBIT)	1,601	1,616	410	-1,431	3,264
Income from associates and joint ventures after tax	91	210	44	-37	14
Financial items, net	-290	-448	-579	349	-334
Profit before tax of continuing operations	1,038	1,063	-157	-1,119	2,944
Result from discontinued operations				-635	-829
Net profit	1,038	1,063	-157	-1,402	1,378
<b>BALANCE SHEET</b>					
Total non-current assets	10,132	11,054	21,237	19,289	18,703
Total assets	18,534	19,857	32,928	28,642	29,868
Equity	9,035	9,744	11,867	10,055	11,700
Net interest-bearing debt	2,866	3,737	9,776	9,144	6,675
Net assets	10,736	12,227	21,326	18,995	18,167
Capital expenditure	3,401	1,931	12,614	1,009	973
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	1,321	1,016	1,428	2,858	3,387
Cash flow from investing activities	-3,020	-1,593	-4,543	-1,894	-741
hereof acquisition of intangible and tangible fixed assets	-915	-1,399	-2,167	-895	-634
hereof acquisition of subsidiaries and activities	-1,936	-310	-2,383	-893	-132
Free cash flow before M&A	396	-423	-639	1,906	2,792
Free cash flow	-1,699	-577	-3,115	964	2,646
Cash flow from financing activities	1,877	431	3,050	-733	-2,037
<b>NUMBER OF EMPLOYEES</b>					
Number of employees (headcount)	20,612	22,323	31,717	25,740	23,392
<b>KEY FIGURES</b>					
Real net sales growth (%)	14	12	2	-12	25
EBIT margin excl. other income, etc. (%)	7.3	7.4	2.5	-0.2	10.8
EBIT margin (%)	8.2	7.3	1.5	-5.9	10.3
EBITDA margin (%)	12.5	11.6	7.7	5.6	16.0
RONA (%)	16.8	14.1	2.4	-7.1	17.6
Return on equity (%)	11.9	11.4	-0.9	-13.0	12.3
Equity ratio (%)	48.6	49.0	36.0	35.1	39.2
Leverage ratio (%)	31.8	38.4	82.4	92.5	62.2
Net interest bearing debt to EBITDA ratio	1.2	1.5	4.7	6.8	1.3
Dividend ratio (%)	20.0	25.0	20.0	0.0	10.0

\*) The Profit and Loss Account and the Statement of Cash Flow for 2009 and 2010 have been affected by the Group's reclassification of discontinued activities to separate lines in the accounts. For further information about the effect, see note 27. Discontinued operations.

In situations where the key ratios have been defined according to "Recommendations & Key Figures 2010", as prepared by the Danish Association of Financial Analysts, the ratios are computed according to these definitions.

# The Danfoss Group 2010 in brief

## 2010 highlights

The Danfoss Group's financial result in 2010 was the best ever in the group's history. The results were achieved on the basis of the global interest in climate and energy solutions combined with Danfoss' major presence on growth markets worldwide. Consequently, the year 2010 also confirmed that our new strategy – entitled Core & Clear and introduced at the beginning of the year – not only proved to be the right antidote to the severe crisis that hit the world economy in 2008 and 2009, but was also an effective revival of Danfoss' competitiveness and strength.

Sales on the group's markets developed better than expected throughout 2010, with the second

half-year, in particular, showing very positive development. Market shares were gained on several markets and the already implemented initiatives in the group's strategy, together with a tight cost control and improved capacity utilization, resulted in a substantial increase in group earnings. This meant that Danfoss, in 2010, made an upward adjustment of its expectations in all of the quarterly reports.

In 2010, Danfoss focused on generating a considerable positive cash flow, and will maintain this in 2011 too. The primary purpose is to reduce corporate debt. In 2010, this was achieved through considerably improved earnings, among other things, and cautious investments. These measures had a positive effect

on the group's free cash flow, which reached a profit of 2,646m DKK.

- **Net sales<sup>\*)</sup>** increased by 31% to 31,550m DKK from 24,165m DKK in 2009. Calculated at last year's exchange rate and adjusted for acquisitions and divestments, growth was 25%, compared with –12% in 2009.
- **The result before other operating income and expenses** was 3,400m DKK compared with –40m DKK the previous year.
- **Operating profit (EBIT)** was 3,264m DKK compared with –1,431m DKK the previous year.
- **The result from continuing activities before tax** was 2,944m DKK compared to –1,119m DKK the year before. **The result for the year from continuing activities**

**(after tax)** was 2,207m DKK compared to –767m DKK in 2009.

- **The result for the year from discontinued activities** was a loss of 829m DKK compared to a loss of 635m DKK in 2009.
- **The result for the year** was 1,378m DKK compared to –1,402m DKK the previous year. The result is considered very satisfactory.
- **The free cash flow** was 2,646m DKK compared to 964m DKK the year before, while the free cash flow, before M&A, was 2,792m DKK compared to 1,906m DKK in 2009.

*\*) The profit and cash flow statement for 2009 and 2010 are affected by the group's reclassification of discontinued activities as separate items in the accounts. For more information, refer to page 28.*





- **The net interest-bearing debt** was 6,675m DKK compared to 9,144m DKK the year before. The current net interest-bearing debt level equals 1.3 x the EBITDA of the year.
- **The dividend** is proposed fixed at 10%.

#### Corporate Citizenship

- The CO<sub>2</sub> emissions increased by 16% to 137,108 tonnes compared to 118,315 tonnes in 2009. This figure includes the adjustment for acquisitions and divestments. The substantial increase is due to Danfoss' strong growth, which the previous energy efficiency measures did not sufficiently neutralize. Consequently, Danfoss

will revise its climate strategy in 2011 in order to intensify its efforts.

- Employee turnover fell to 16.9% from 20.2% in 2009.
- The accident rate (accidents per 1 million working hours) fell to 12.8 compared to 15.5 the previous year.

#### Expectations for 2011

Based on the positive development in 2010, Danfoss expects a continued increase in net sales and earnings in 2011. The increase will primarily be driven by the growth markets in the BRIC countries (Brazil, Russia, India and China), which are also expected to show double-digit growth rates in 2011. Growth is not expected to be at same high level as in 2010, when the comparative figures were based on the tremendously negative trends of 2009. The markets in North America and Europe are expected to progress moderately but nevertheless grow, and the important German market is also expected to develop positively.

- Net sales are expected to increase to a level between 33 and 34bn DKK.

The ongoing restructuring activities and the continued measures of the group's new strategy are expected to continue to have a positive effect on Danfoss' profitability.

- EBIT is expected to increase to a level between 3.3 and 3.5bn DKK.

The expectations do not include the impact of divestments, discontinued activities or acquisition of companies/activities





*Kim Fausing*

Kim Fausing

*N. Christiansen*

Niels B. Christiansen

*Nis Storgaard*

Nis Storgaard

# Danfoss comes out of the crisis strengthened

The world's increasing interest in climate and energy-efficient solutions, the group's new focused strategy and the consistent handling of the challenges of the global downturn have turned around the development of the company, which has emerged from the crisis in a considerably stronger position.

The year 2010 was a turning point for Danfoss. Following the large loss in 2009 and, unfortunately, the many cuts in staff, we launched our new strategy at the beginning of 2010. It contributed to overcoming the crisis, and it has put us on the right course towards an even stronger Danfoss than before. With the new strategy, we are well equipped for utilizing the opportunities that exist within the climate and energy field.

The new strategy will also help us avoid ending up in the same situation as during the crisis, when we were forced to implement extensive initiatives to secure earnings.

We have an ambitious strategy for the period until 2015. One of its key elements is an increased focus on the core activities where we have a leading position in the global market. Furthermore, we have intensified the development of new and innovative climate and energy-related solutions, an area in which Danfoss already has both the experience and strong market positions.

Focus on the core activities also implies that we are convinced that some business areas would be better off if they were run by different owners. Some of these activities are gathered in Danfoss Development. In 2010, we made a decisive move when we sold Danfoss Household Compressors, with approximately 3,000 employees, to the German company AURELIUS. The divestments of our non-core activities

are, on the whole, expected to be completed over the course of 2011 and 2012, after which we will be able to concentrate on the development of the core activities.

Sourcing is another key element of the execution of our strategy. We can establish that there are suppliers and partners who would improve our overall competitiveness and efficiency in some areas where Danfoss does not have the necessary competencies. We are therefore in the process of making a targeted effort to reduce the number of external suppliers and, at the same time, make a closer tie between them and Danfoss in binding partnerships. We also leave the functions and processes to partners whose competencies and special skills exceed ours.

The markets in the BRIC countries (Brazil, Russia, India and China) drove the growth in 2010, and these markets are becoming an increasingly important factor for the group. We are pleased to see that many of the investments that we have made over the past few years are making a major contribution to the group's overall net sales and earnings. The BRIC countries will also contribute substantially to improved growth in 2011.

Sauer-Danfoss proved in 2010 that it was the right decision to increase the ownership share in the company. The previous year was an extremely difficult year for Sauer-Danfoss, but with the help of the implemented

cost adjustments and intensified efforts, the company's Management and employees were able to turn the development around in 2010, to the effect that Sauer-Danfoss ended the year with a very satisfactory result.

We owe all of the employees in the Danfoss Group a big 'thank you' for their great work and the flexibility they exhibited in 2010. Without their efforts and support for the new strategy, we would not have been so convincingly ahead of our own plans. As a result, we are now able to conclude – at an earlier stage than expected – that, following the crisis, Danfoss is well-prepared for the future, stronger and more flexible.

Danfoss focuses on supplying products and solutions for the climate and energy sector, which create more value for our customers and which also help save energy and reduce CO<sub>2</sub> emissions. This is exemplified by Danfoss Solar Inverters, which had an excellent 2010, including major growth in both net sales and earnings. Utilization of solar heat meant considerable reductions in CO<sub>2</sub> emissions, with approximately 21 million tons of CO<sub>2</sub> saved worldwide via the solar systems installed around the world. But there is still an untapped potential. If you set the realistic target that 12% of the power consumption in the EU and 10% of that in the US would be solar energy by 2020, this would reduce the CO<sub>2</sub> emissions by around 600 million tons.

We intend to take our own medicine over the next years to an even greater extent, so we are working to prepare a sustainability strategy for the group, which, among other things, will include an increased use of fossil-free energy, improved energy efficiency at our factories and the introduction of sustainability principles in several parts of our value chain.

You could say that the global crisis hit Danfoss twice as hard, considering it accelerated just as we had substantially increased our debt in order to acquire a large part of Sauer-Danfoss. So, throughout 2010 we worked constantly to create a considerable cash flow for us to reduce the debt. We have come a long way, and we managed to reduce the debt in 2010 by about 2bn DKK, which is more than we had been anticipating.

We ended 2010 with the best-ever result in Danfoss' history. Of course, considering the moderate expectations that we had at the beginning of the year, it makes us happy and proud to have achieved that in the wake of the global crisis of 2008 and 2009. It required a major effort on behalf of all parts and functions of the Danfoss Group. It also forms the basis of our strong belief in the future, and we have a positive view of the prospects of 2011 and the years to come.



# The new strategy

In January 2010, Danfoss launched its new strategy, called Core & Clear, which charts the course of the group's development over the period until 2015. The strategy defines climate and energy as the group's focus area.

Danfoss launched its new strategy, called Core & Clear, in January 2010 and it has plotted the direction for the group up until 2015.

The strategy identifies climate and energy as the focus area for Danfoss' activities. It also makes it clear that Danfoss targets the upper limits of how successful it can become in terms of both earnings and reputation.

Core & Clear establishes in clear terms that Danfoss will concentrate on the core businesses which, at the same time, are defined as the activities where Danfoss is already, or very close to becoming, a number one or two on the global market, and where the activities are also oriented toward energy efficiency and solutions to solve the climate challenge.

With the slogan, "One Company – One Way", the strategy visualizes that Danfoss will utilize its synergy opportunities across the business units in the best possible way. Consequently, it has been determined that there is only one way of conducting yourself when you are a part of Danfoss. This applies, not least, to the processes and tools aimed at ongoing improvements, gathered at Danfoss Business System, which are even more in focus now with Core & Clear.

Furthermore, the strategy encompasses a strong customer orientation throughout the organization and in all parts of the value chain.

Core & Clear points to reliability, excellence and innovation as being the most important promises to the group's customers.

A direct consequence of the strategy has been Danfoss' initiation of targeted work to find a new platform for the business units which are not natural parts of the core business. The alternatives include a new owner for these units, which has already happened with Danfoss Household Compressors, or restructuring and alliances. The focus on investing in the core businesses also means that Danfoss' co-ownership or venture activities have been restructured. The objective is, of course, for all investments to be made in the core businesses and new initiatives which originate from these core strengths.

Core & Clear sets a clear target for Danfoss to reduce the debt. The target is for debt to be 5-6bn DKK by 2015, so the ability to generate a positive and significant cash flow is a key sub-objective of the strategy.

The most distinctive shift of direction as set out by Core & Clear in relation to Danfoss' history is the approach to our own value chain. So far, Danfoss has handled and owned almost every part of its production process, including service or production. The new strategy breaks with this mindset, placing flexibility at the forefront instead. Therefore, it has been made an objective to define the areas where Danfoss' own competencies and capacity are creating value for the customers, while other processes and activities are to be outsourced to partners who have those as their core competence.

Strengthening Danfoss' brand and reputation is highly prioritized by the strategy. However, the primary driver is not intensified marketing, but

much more a strengthening of fundamental issues like quality, on-time delivery and service. A specific example is that one of the goals in Core & Clear is for all business units to comply with the quality standard TS16949 no later than the end of 2015. The TS16949 is one of the world's most demanding quality assurance systems and originates from the automotive industry.

Logically, innovation in the form of faster marketing of new and improved solutions for the climate and energy area is another key element of the strategy, which is characterized by a true global scope. Danfoss took early steps to engage itself in the areas which are today defined as the world's growth markets, including, not least, the so-called BRIC countries. Core & Clear speeds up this trend.

The new strategy is, in principle, straightforward and easy to understand. Danfoss quite simply wants to do what we already know we are really good at doing – and we want to do it better and more efficiently and productively in a uniform way, creating optimum value for our customers. Clearly, simply and focused – or, as we have chosen to call it, "Core & Clear".







# Danfoss Corporate Citizenship

The Danfoss Group has joined the UN's Global Compact and strives continuously to take a proactive stance in terms of the standards and legislation which ensure sustainable development.

This means that Danfoss wishes to play an active role in the sustainable global development where social responsibility and environmental and climate considerations go hand-in-hand with sound business development. We make it a priority then that we not only respond to the circumstances which have an immediate effect on the company, but also consider the trends that give a hint of the challenges of the future.

It is Danfoss' overall target that the company is regarded in all matters as a responsible company that keeps its own house in order.

We refer to all of this as 'Corporate Citizenship', knowing that other terms such as Sustainability, Social Responsibility and Corporate Social Responsibility are often used to describe these activities. We base our Corporate Citizenship on the fact that since we are present in a range of local communities, we exert a local influence and must therefore contribute towards being a good corporate citizen.

## Priorities and materiality

Danfoss' Corporate Citizenship reporting is verified by an external verifier. One of the main requirements here is for Danfoss to work with the significant issues and leave out the minor things and reflect this in the company's reporting. Danfoss has, therefore, made an assessment of what is material to us and to our stakeholders. The review is based on the guidelines of GRI – Global Reporting Initiative and the international standard ISO 26000. The assessment shows that the most important are "Working environment", "Labour practices", "Anti-corruption", "Supply chain", "Society & Community", "Products & Services", "Recruitment & Retention", "Fair marketing & Anti-trust" and "Climate change" (see chart). For this reason, these are the elements which will be primarily dealt with in this Annual Report. Regarding other

issues, please refer to the GRI table at the back of the report or to Danfoss' homepage: [www.danfoss.com](http://www.danfoss.com).

## Engagement and dialogue

Through active dialogues with employees, leaders and external stakeholders, Danfoss strives to act appropriately and adapt the company's processes and tools within Corporate Citizenship to the changing situation that surrounds us.

Entering into dialogues with interested parties and NGOs is part of this work and helps ensure that Danfoss is familiar with the basic conditions of business operations in the countries where we are operating. Knowing about new laws or new initiatives introduced by organizations, or being challenged concerning our stances and policies, are valuable and necessary elements of the preparedness which Danfoss constantly maintains in order to be able to meet global challenges.

Danfoss has therefore been one of the initiators to establish Danish Business Network for Human Rights, a network of companies that operates internationally and faces many challenges related to human rights. The network is facilitated by the international human rights expert John Morrison from the Institute of Human Rights and Business.

A number of internal processes and tools make sure that Danfoss' policies regarding social responsibility, ethics and environmental issues are communicated and implemented. Danfoss' Intranet and other internal media, such as the Danish employee magazine 'Danfoss Avisen' and the corporate magazine 'Global Danfoss', are important factors in the dissemination of, for example, the ethical rules. In addition, the Danfoss Ethics Hotline, the data collection based on surveys and the Code of Conduct information system provide useful information about adherence to the rules.

## Continuing support of the Global Compact

Danfoss joined the UN Global Compact in 2002. It forms the basis of the company's work in environmental and social responsibility.



Danfoss' obligation toward the Global Compact has been further strengthened with the support of the initiative "Caring for Climate", committing ourselves to set specific reduction targets for Danfoss' global CO<sub>2</sub> emissions. See below for more details.

Danfoss submits a report to the UN (Communication on Progress) on an annual basis, which contains a description of the work with the ten Global Compact principles. The report is available at [www.danfoss.com](http://www.danfoss.com).

### Scope of Corporate Citizenship reporting

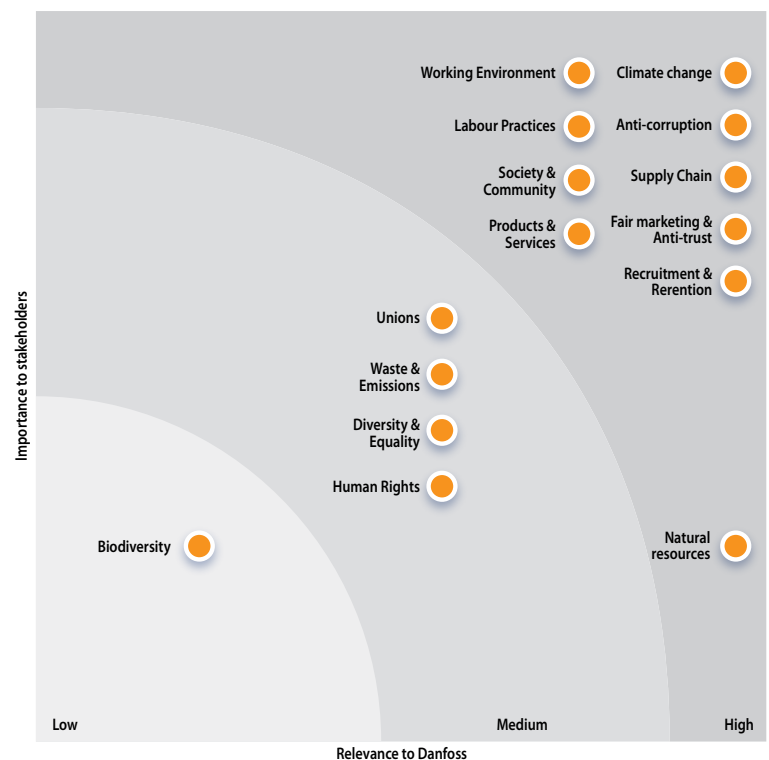
The report covers all of the Danfoss Group's companies, in which Danfoss has the majority of shares. Climate and environmental data is only collected, however, from factories with more than 20 employees; also, sales offices do not contribute with environmental data.

Even though Danfoss has the majority of shares in Sauer-Danfoss, our environmental and social responsibility policies have not yet been implemented there. This is due to Sauer-Danfoss being listed on the New York Stock Exchange, which prescribes special rules pertaining to company activities. This means that information and data about Sauer-Danfoss is not included in the Corporate Citizenship 2010 report.

Sauer-Danfoss' efforts on Corporate Citizenship is laid down in a series of globally applicable policies and guidelines.

Sauer-Danfoss has developed guidelines for legal and ethical behavior, called "Worldwide Code of Conduct of Legal and Ethical Business Conduct". The guideline establishes requirements for managers and employees within areas like anti-trust, conflicts of interest, anti-corruption, customer & supplier relations and labor issues such as discrimination and equal treatment.

Sauer-Danfoss has formulated a Code of Conduct for suppliers to ensure that all vendors know and live up to its claims on a number of areas. Child labor, forced labor, working hours and wage are among the topics in Sauer-Danfoss' Code of Conduct.



Sauer-Danfoss collects information about the company's environmental impact and performance, which is used to assess the factories' compliance with requirements of legislation and international standards like ISO 14001. Sauer-Danfoss has not joined the UN Global Compact and does not publish a comprehensive Corporate Citizenship Report.



# Social responsibility

## Ethics and anti-corruption

Danfoss revised in 2010 the Danfoss Ethics Handbook, which incorporates ethical guidelines for employees throughout the group. This includes a number of tightenings relating to, among other things, the handling of the gray areas within corruption and bribery. In order to make sure that the guidelines in the Ethics Handbook are translated into action, all leaders with employees reporting to them must sign a commitment to fulfill the guidelines and communicate the contents to their employees. The Ethics Handbook was distributed to all of the 17,373 employees (excl. Sauer-Danfoss) in mid-December 2010, so it was not possible to ensure full implementation before the end of 2010. However, 91% of the leaders have stated that they intend to adhere to the guidelines. The remaining signatures will be collected during the first quarter of 2011.

Already in November 2010, the managements at Danfoss' factories in China received training in the new rules in the Ethics Handbook. At the same time, training in anti-corruption was also implemented.

## Unethical behavior

It is not possible to assess business ethics using the policies and declarations of a given company. It is necessary to both ensure correct implementation and, subsequently, measure whether the implementation was effective. For this purpose, Danfoss applies the "People Manager Survey", a questionnaire about business ethics sent to 2,040 leaders with employees reporting to them. A total of 1,888 leaders, which is 91.8%, responded to the survey. The responses show that 36 employees were dismissed or made the decision to leave Danfoss due to unethical behavior in 2010. Add hereto four dismissals

that were not reported via the People Manager Survey, but were reported by the Ethics Hotline at Danfoss. In 2010, there have been a total of 40 cases of dismissals/voluntary resignations due to unethical behavior in Danfoss. This is an increase compared with 2009, when the number was 29.

The causes of the 40 dismissals or voluntary resignations due to unethical behavior are: theft and unethical use of company funds (nine), manipulation of time reporting (one), attempt of bribery (one), deceit in regard to travel reimbursements and other vouchers (four), conflicts of interest, where the employee's relations to other companies have caused the conflict of interest with Danfoss (12), violation of Danfoss' policies (eight), gross and disloyal conduct (four) and one case which does not easily fit into a category. In cases which involve the suspicion of bribery, it is often difficult to lift the burden of proof of the alleged bribery or the attempt thereof, but in spite of such difficulty, the Danfoss Group deems it extremely important to investigate such matters because of the fact that they are violations of the Danfoss Group's indisputable related guidelines. Furthermore, the cases are criminal cases (in most jurisdictions). When the suspected party is confronted with the suspicion of bribery, the person in question often chooses to hand in his or her notice. The recorded attempt of bribery took place in Asia.

## Work hours in China

Danfoss has acceded to the UN Global Compact, thereby agreeing to respect the core conventions of the International Labour Organization (ILO) regarding work hours, among other things. The ILO is a body under the UN and, according to the convention, employees are only allowed to a work week of a maximum of 48 hours plus 12 hours overtime work over a period of no more than three weeks.

Overtime work is the most frequent violation of labor rights in China, which



makes it one of the issues that is reviewed when Danfoss performs external Code of Conduct audits at its suppliers. Danfoss subjected three of its Chinese companies to a Danfoss Code of Conduct audit. Random samples of employees' work hours showed that the maximum number of permitted work hours was exceeded at all three factories: the weekly work hours amounting to 60, 70 and 86, respectively. All of the random samples were taken during the peak season.

To make sure that Danfoss is aware of the extent and the causes of the problem, the Chinese plant managers, the Danfoss top management and Danfoss' Corporate Citizenship & Compliance team met to discuss the issue at the end of 2010. It became clear that due to the complexity of the problem, it was necessary to investigate further a range of other issues. Danfoss has after the financial crisis had a growth in China exceeding 50%. In spite of the recruitment of close to 1,000 employees between mid-2009 and the end of 2010, this was not enough to cover the need for staff during the peak season.

A challenge is that the possibility of working overtime is a parameter for applicants when they search for jobs, especially migrant workers wanting to work overtime so they can earn as much money as possible and return to their native place as quickly as possible. A procedure has been initiated to make sure that the work hours at Danfoss in China comply with the ILO conventions and Chinese law.

## Suppliers

From a company perspective, human rights also include a good and safe working environment. Having a global reach, Danfoss is not only responsible for its own actions, but also for the parts of our supply chain where we have contractual agreements and, as a consequence, exert direct influence.

Danfoss has 4,259 suppliers of goods for production purposes.

The suppliers are located worldwide and many are operating in areas where respect for human rights and labor rights cannot be assumed. For this reason, Danfoss has worked systematically over the past seven years to raise the standard of the supply chain.

In 2010, Danfoss has strengthened its responsible supplier control organization by setting up two new Code of Conduct offices. At headquarters in Nordborg, Denmark, a Code of Conduct Competence Center has been established for the preparation of strategies and consulting and training of the part of the organization which has the supplier contact. The primary task of the Competence Center in 2010 was to set up Danfoss' own Code of Conduct audit office in China. It now has three auditors who have become certified according to the international social responsibility standard, SA8000. Meanwhile, Danfoss has entered into a close cooperation with an external audit company specializing in environmental and social audits. Together with Danfoss' internal auditing office, the initial task of the external auditors will be to perform audits at suppliers in China.

The new cooperation led to the entire tool kit and related processes being reviewed and trimmed during the course of 2010, which, in turn, resulted in more training and a sharper focus on supplier audits in the organization. All suppliers are required to sign Danfoss' Code of Conduct, which includes rules of social and environmental responsibility, and all existing suppliers must sign the Code of Conduct upon renewal of their contract or on update of the current version. In 2010, the Danfoss Code of Conduct was signed by 864 suppliers globally.

Some countries have a lower environmental and social standard compared with elsewhere. As a result, the suppliers are recorded in a risk-effect matrix, where one axis concerns a geographic risk level, and the second axis is the proportion of purchases from the supplier. The rating of the supplier in the risk-effect matrix determines how often the audit should be carried out.

The Danfoss Group's Code of Conduct information system reveals that 429 suppliers from high-risk countries, 201 from mid-risk and 1,508 from low-risk countries have signed the Danfoss Code of Conduct. Audits were performed at 38% of the suppliers in high-risk countries, 18% of suppliers in mid-risk countries and 5% of suppliers in low-risk countries.

Typical problems during audits at suppliers are poor safety precautions (including the lack of emergency exits and fire extinguishing equipment), the lack of personal protection equipment and incorrect treatment and storage of hazardous materials (such as chemicals and waste water discharge). The audits always result in the preparation of an action plan which commits the supplier to rectify the matters. Subsequently, Danfoss follows up to make sure that the improvements have been implemented. If the supplier has not made the improvements before the agreed deadline, the company in question will cease to be a Danfoss supplier.

In China audits often disclose problems with the wage level and too many overtime hours. The level of wage can easily be rectified, but it is a time-consuming process for the supplier to reduce the number of overtime hours to the level which is in accordance with current legislation. In order for this to succeed, more employees must be hired or the production or processes must be made more efficient. The supplier should be granted time to perform this.

Generally, it can take time to rectify matters which prove not to be in order, but the most important thing is that the supplier is willing to solve problems. If this is not the case, Danfoss does not wish to continue cooperating with the supplier. Danfoss decided recently to stop its cooperation with a major supplier which delayed the compliance with our Code of Conduct and did not display a willingness to proceed in the same direction as Danfoss.

# Local communities

## Danfoss Employee Foundation

Danfoss Employee Foundation is a social foundation that works to provide consulting and financial support to employees in Danfoss A/S, the Bitten and Mads Clausen Foundation, associated companies in Denmark or their Danish subsidiaries. This means that Sauer-Danfoss ApS and Danfoss Universe A/S, among others, are included.

In 2010, the Employee Foundation gave financial support amounting to approx. 3m DKK and it dealt with around 300 cases which equals the levels of the previous year. Many of the issues were related to poor financial situations caused by layoffs, divorce or stricter borrowing terms at the banks.

The lawyers of the Employee Foundation, who ensure that subsidized legal assistance is available for employees, dealt with around 300 requests.

## The Fabrikant Mads Clausen Foundation

The Fabrikant Mads Clausen Foundation celebrated its 50th anniversary in 2010 to mark its establishment in 1960. The purpose of the foundation is to grant support to charitable projects and has, over the years, granted an amount equal to 356m DKK. The support was for the most part granted in the local community surrounding headquarters in Nordborg, but as Danfoss expands and globalizes, support has been extended to also include Danfoss' other sites in and outside Denmark. The foundation provides financial support for training and research, sports, art and culture and different charitable associations, among other things. The Havnbjerg windmill, near Nordborg, is operated and maintained via an annual grant. The windmill is open to the public and was originally acquired and restored by Danfoss founder Mads Clausen.

In 2010, the Fabrikant Mads Clausen Foundation allocated 20.2m DKK to 412 recipients. The 10m DKK were granted to celebrate the foundation's 50th anniversary and the support – of which the smallest portions were

250,000 DKK – went to local projects within training, health activities, culture and sports. Several children's and youth institutions received support; two were located outside Denmark.

In Slovenia, a center for treating children suffering from respiratory diseases and psychological problems was granted financial support for equine therapy, and a school in Mexico for poor children received support for the roofing of an outdoor sports field.

Among other major grants allocated during 2010 was the support for the victims of natural disasters around the world. 200,000 DKK were given to Haiti and New Zealand, respectively, which were both hit by severe earthquakes, and to Pakistan, which was affected by major flooding in many parts of the country.

The Fabrikant Mads Clausen Foundation has made significant contributions to charity in and outside Denmark over the past 50 years. But, there is a major difference between the first, small donations recorded in neat writing in the very first cash journals and the donations amounting to several millions of today. Over the past five years, double-digit million amounts have been granted for charitable purposes every year. And donations for health, education and research purposes are often the biggest ones.

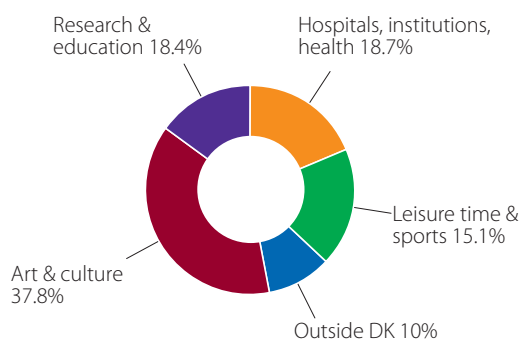
The foundation's funds amount to around 50m DKK. The annual profit is 3-4m, adding annual contributions from the Bitten and Mads Clausen Foundation, which owns almost half of the shares in Danfoss A/S. This means that total annual donations are between 10 and 15m DKK.

Donations are granted five times every year to approx. 1,000 applicants, of which 350 receive support.

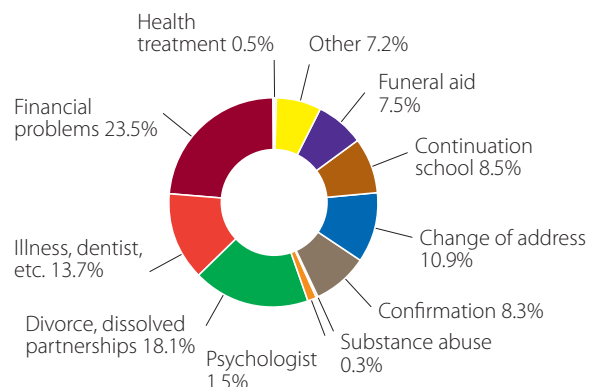
## The Bitten and Mads Clausen Foundation

Even though the Bitten and Mads Clausen Foundation does not receive applications in the normal sense, the foundation – whose most important function is to be the owner of the Danfoss Group – donates large annual amounts to the southern part of Jutland, in particular. Over the past ten years, the Bitten and Mads Clausen Foundation has granted approx. 800m DKK for projects of varying sizes.

### Fabrikant Mads Clausen Foundation



### Danfoss Employee Foundation







## People

### **Focus on growth and implementation of new strategy**

In 2010, the human resource activities were in many ways influenced by the renewed progress that Danfoss made following the dramatic crisis in 2009. The substantial increase in the number of activities, the reorganization of the future core businesses and the remaining implementation of a new strategy placed many new requirements upon the leaders and employees in the organization.

### **Recruitment and talent development**

Following a period of rather dramatic and regrettable redundancies, Danfoss began once again to recruit new employees in 2010, a process which ran concurrently with the rising demand for the group's products and solutions. Growth particularly increased on the growth markets in Brazil, Russia, India and China, which also meant that the number of new employees grew in precisely these markets.

The total employee figure for Danfoss (excl. Sauer-Danfoss) fell to 17,373 compared with

19,623 in the previous year. 2,913 employees had a new employer when Danfoss sold its household compressor business to German AURELIUS in the fall. At the same time, Danfoss outsourced a range of service functions, which meant that 209 employees are no longer on Danfoss' payroll, irrespective of the fact that they continue to provide a service for Danfoss.

During 2010, Danfoss employed 3,291 new employees as a result of increased business activities. Most of the new employees joined Danfoss during the second half-year of 2010, and the most employees were hired outside Europe.

The number of employees who chose to leave Danfoss during 2010 increased from 3.8% in 2009 to 5.2% in 2010, concurrent with the general improvement of the labor market. In light of the fact that Danfoss is experiencing reasonable growth rates, we see it as a challenge to retain our existing skilful employees and attract new ones.

In October 2010, Danfoss carried out its annual Employee Perception Survey. With a response rate of 89%, it became clear that the employees wished to take part in the continued development of Danfoss. The lowest scores were for leadership quality and employee development. As a natural

consequence, these are the areas on which extra focus will be placed over the coming years.

In order to meet the need for new leadership talent in our global businesses, it was decided in 2010 to double the intake of young employees for the Danfoss Postgraduate Program, a two-year absorption program for selected talented candidates. The program is based on a rotational process during which the selected participants get the chance to work in several different countries and functions throughout the group over a period of two years.

### **Clearly defined roles and responsibility**

The implementation of Danfoss' new strategy initiated a new HR approach, in terms of prioritizing relevant action to implement the strategy and also in terms of planning HR activities. It was, therefore, decided that the majority of the HR activities shall take place as close to the employees as possible and shall be determined by the specific needs of the individual businesses.

As a result, HR was reorganized to include a central HR board – consisting of HR managers from each business division – which makes decisions on shared action areas.

One of the short-term focus areas of the overall business plan, which applies until 2015, is the "request to optimize the fundamental HR processes", thereby creating a more solid foundation for controlling and maintaining the HR processes performed in the global organization. As a result, the clarification of roles and responsibilities within the new HR organization was a focus area for 2010. At the same time, it was decided to consolidate the salary review process on a global basis and to introduce electronic handling of salary review and performance agreements. Furthermore, a targeted review of the leaders and managerial teams in the organization has been initiated, which forms the basis for the identification of future potential leaders among them.

### **Clarity surrounding expectations of Performance**

"People Review" is the name of the evaluation process which was started in 2010 with a view to sharing the knowledge about leaders and their potential across Danfoss. One of the objectives was to identify the leaders of the future and to make sure that Danfoss has the right people in the right places. The review process is based on the outcome of a discussion which includes all members of the managerial teams and where all directly reporting leaders undergo a confidential and cross-functional assessment. This creates a multi-facetted picture of their ability to perform and the potential of each leader.

All top-level leaders were reviewed in 2010, starting with the extended Executive Committee and then continuing with the rest of the organization.

In order to be able to continue to attract and retain skilled employees and, at the same time, to drive a performance culture in Danfoss, we continued work to introduce a global Performance Reward program in 2010 for all white-collar employees. Going forward, the program will result in all white-collar employees being paid according to their fulfilment of selected targets at business, team and individual level. The program, which is gradually implemented over a three-year period (2009/10/11), also aims to adapt the salary structure to the local and regional markets in which Danfoss has business operations. This also means that the variable share of the salary can be determined by both job level and geographical location.

### **Danfoss working for equality**

The Confederation of Danish Industries and the Danish Minister for Gender Equality have put together an ambassador corps made up of prominent executives who over the next year should work to bring more women into leadership and on boards in Danish companies. Danfoss CEO Niels B. Christiansen has been appointed as Ambassador of equality along with nine other top executives from business, police and military.

## Working environment and safety

In order to run a sound and efficient company, Danfoss considers it necessary to have a healthy and safe working environment.

Danfoss has incorporated working environment and safety as elements in all of its business activities, ranging from the customers, the design and product manufacturing processes to the maintenance of buildings and plants. Making sure that all employees are thriving and are not exposed to work-related danger is deeply rooted in Danfoss' culture.

Every company in the group prioritizes working environment and safety, as set out by Danfoss' environmental and working environment policy, which defines the issues and target area that the business units must address. The policy establishes that our business activities must be planned and executed in consideration of the employee, the working environment and the external world.

Around a third of Danfoss' factories worldwide have been certified according to the working environment standard OHSAS 18001, while the remaining have incorporated working environment and safety into their environmental activities in accordance with the ISO 14001 standard.

### **Work accidents**

The number of work accidents has dropped since 1999, when the accident rate exceeded 28. In 2010, the rate was 12.8 compared to 15.5 in 2009. The accident rate is defined as number of accidents per 1 million working hours. There were 184 accidents in 2010, resulting in at least one day's absence. The injured employees were absent for a total of 4,697 days, which corresponds to an average of 25 days per accident. In 2009, the average was 20 days, so the accidents that took place in 2010 were slightly more serious than those of the year before.

The factory in Glamsbjerg, Denmark, Danfoss Semco A/S in Denmark and Danfoss LPM in Poland all had an accident rate above 45. The absence rate caused by accidents at Danfoss Commercial Compressors in France was around ten times higher than the overall Danfoss average (2.6 hours per 1,000 working hours). Specific action will be taken to reduce the accident rate and absence at this factory.

59% of the work accidents in 2010 were less serious, with less than ten days of absence, which is slightly below the 2009 level. The remaining accidents were more serious with absence rates exceeding ten days, of which 49 accidents resulted in the employee being absent for more than 20 days. Hands and fingers remain the most exposed to injuries, accounting for 91 accidents. This number equals almost half of the accidents. 11% of the accidents resulted in injuries to the head, whereas the legs/feet and the remaining body parts represented 21% and 19% of the accidents, respectively. These figures are, on the whole, unchanged compared with previous years.

### **Violations of working environment regulations**

In 2010, no violations of working environment regulations resulting in local authorities imposing directions were registered.

# Products

Danfoss is in the process of preparing the next step within quality, inspired by the quality standard ISO/TS16949, which is applied by the automotive industry. Focusing on customers and processes, the quality standard will help ensure that Danfoss meets the customers' expectations regarding quality and will make sure that customers are met with the same level of quality, no matter what Danfoss business unit they are doing business with. Many of Danfoss' key customers purchase products from several of Danfoss' divisions at once and, increasingly, they are demanding the reliability that TS16949 provides. As part of Danfoss' new strategy, Core & Clear, we have formulated a clear promise to the customers that we will be a reliable supplier. The TS16949 will help us fulfill the promise by the end of 2015, when all of Danfoss' core businesses worldwide will have applied a systematic use of the standard.

We aim to design efficient and robust processes in order to ensure that we deliver high-quality products and services. For this to succeed, we must have detailed knowledge about the requirements of our customers and act immediately and swiftly, if unexpected problems with quality arise. Constant adaptation, the use of best practice and the display of thorough and in-depth appreciation for our customers' demands will help Danfoss reduce the costs which are incurred when a product does not live up to the expected quality.

## Beyond the production

TS16949 not only extends to the production. The development of capable and robust processes combined with immediate and swift action places requirements upon all parts of the value chain and will, therefore, also result in new demands on Danfoss' sub-suppliers and Danfoss' customer service and complaint handling functions.

In cooperation with the divisions, the Danfoss Business System (DBS) is set to head the roll-out of TS16949 throughout Danfoss. The related processes and tools will be incorporated into the existing DBS programs and will be available for use in the divisions (in prioritized order); a process which is already under way at the beginning of 2011.





# Climate

Danfoss is facing the substantial challenge of climate change, as does the rest of the world. Every company consumes energy to run its business, including the energy needed for the transportation of employees and products. Consequently, every product and service has an environmental impact. Climate change has been proclaimed one of the biggest societal challenges of our time. The energy used by enterprises adds to the emissions of greenhouse gases that cause climate change, and every responsible company is therefore required to prepare ambitious targets to reduce emissions. Danfoss aims to contribute as much as possible to the global reduction of CO<sub>2</sub> emissions from energy-consuming processes and plants. Meanwhile, Danfoss' products must result in energy-savings for the customer. We also wish to use our expertise and products to reduce Danfoss' own emission of greenhouse gases from production and transportation.

## More than 75 years' experience in efficient use of nature's resources

Danfoss' three key competencies are the heating of buildings, refrigeration technology and control of the energy consumption control in electric motors. With this as its firm platform, the company is continuously searching for new ways where it can contribute to making the technology of modern life work even more efficiently. District heating, heat pumps, floor heating systems, solar energy, the cooling of food in supermarkets, air conditioning and the control and monitoring of processes are only a few examples of contemporary business areas which originate from our key competencies and where there are potential energy savings to be obtained when using the right solutions.

According to Danfoss' simple philosophy, money saved today through reduced energy consumption is money that facilitates investment in green technology in the long run. And the solutions for energy savings already exist. With existing and well-proven technology, it is possible to immediately cut the energy consumption in a range of industries and societal sectors. With the money obtained through savings on hand, we, the society, have the best possible opportunities to move in a greener direction – for the sake of the Earth, our children and the continuing prosperity.

The technology that can meet the climate challenge already exists, so there is no reason we should wait. Danfoss is helping other companies save energy and also takes its own medicine.

Since the foundation of Danfoss in 1933, the company has worked with the efficient utilization of nature's resources. Our products save energy, and we have put a lot of care into producing them. But great potential still remains both outside Denmark, where Danfoss' solutions can save billions of tons CO<sub>2</sub> if fully disseminated, and internally in Danfoss, where we aim to improve utilization of the potential.

## Examples of solutions within climate and energy

Danfoss has a wide range of energy-saving solutions for use in, for example, buildings and industrial processes globally. Increased use of such well-proven solutions will lead to the reduction of billions of tons of CO<sub>2</sub> and help fight climate change:

1 million tons of CO<sub>2</sub> are saved every year thanks to Danfoss Turbocor compressors which have been installed in commercial buildings worldwide. Yet, well below 1% of buildings today have been fitted with this specific compressor. 950 million tons of CO<sub>2</sub> would be saved every year, if all commercial buildings in the USA alone had indoor climate control systems with oil-free variable speed compressors.

In Europe, 113 million tons of CO<sub>2</sub> are saved every year using district heating systems, which supply 9-10% of the heating. 517 tons of CO<sub>2</sub> would be saved every year, if Europe doubled its use of district heating to reach 18-20% and combined it with an increased use of renewable energy sources.

33 million tons of CO<sub>2</sub> are saved today through the use of more than 3.5 million Danfoss frequency converters installed worldwide. 70-80% of new industrial electric motors waste energy, if they are not controlled using frequency converters, and this number is even higher with motors already in situ.

## The climate strategy

Danfoss aims to minimize the company's CO<sub>2</sub> emissions as much as possible, taking into account our future competitiveness, the product quality and corporate finances.

Danfoss wishes to take part in the reduction of global warming. This is to take place via the reduction of the company's own emissions and through the increased sale of products, solutions and services from Danfoss Climate & Energy.

Danfoss' climate strategy is referred to as 3x25 and requires that Danfoss reduces absolute CO<sub>2</sub> emissions by 25% and increases the share of CO<sub>2</sub> neutral energy by 25% by 2025.

The target figures are absolute and are measured with no regard to the fact that Danfoss' activities are expected to increase substantially over the coming years. The baseline for the reduction is the 2007 CO<sub>2</sub> emissions.

## Involvement in global climate activities

In 2010, Danfoss was once again actively involved in various climate-related events preceding and during the UN's COP16 conference in Cancún, Mexico, in December 2010. The aim was to accelerate the sale of solutions for the reduction of climate effects.

Danfoss sponsored the Global Green Growth conference held in Copenhagen and the World Climate Summit, the largest business conference under COP16. In addition, Danfoss took also part in Green Solutions, where privately-held leading companies presented their climate solutions and exchanged ideas.

By taking part in panel discussions and engaging in dialogues with leaders from enterprises, governments and the financial sector, Danfoss contributed to highlighting the large untapped potential of existing energy-efficient solutions and what needs to be done to make better use of this potential.

## Climate challenges

Since 2009, Danfoss has reported on its climate activities and emissions of greenhouse gases to the Carbon Disclosure Project's Supply Chain Program, where companies having joined the Supply Chain program get a coherent

picture of the supply chain's emissions and, at the same time, the emissions are made public for the benefit of other companies.

In 2010, Danfoss reported its climate strategy, greenhouse gas emissions and the challenges that the company expects to face in the course of the coming years. Information about Danfoss' reporting is available at [www.danfoss.com](http://www.danfoss.com). Danfoss has identified a number of significant climate-related challenges in connection with its reports to the Carbon Disclosure Project:

### Carbon footprint labeling of products

Danfoss is met with an increasing demand from customers and authorities to Carbon footprint label the products or provide in-depth analyses of the climate effect of products. It can often be difficult to answer very detailed requests adequately because information about the impact of materials and processes on climate is not available throughout the supply chain. Danfoss considers it important that we are able to respond to queries made by external stakeholders who need information about the environmental or climate impact of a given product. Therefore, Danfoss is working to establish a global platform for the assessment of products' environmental- and climate-related issues, which contains a range of the queries made by customers and authorities.

This work was initiated in the fall in 2010 and is set to make sure that we will become a leader within sustainability.

### Reliable supplies

The lack of raw materials and materials, which are unavailable due to weather conditions or other climate-related changes, can potentially be a challenge for Danfoss, and its ability to produce on a global scale can be affected by dramatic increases in transportation, raw material and energy costs. Consequently, Danfoss is monitoring the global trends closely in order to react to these challenges in time. For example, we are monitoring the EU's Raw Materials initiative to prepare the company for changes in raw material supply conditions.

### Danfoss' CO<sub>2</sub> emissions

An important prerequisite for calculating the group's total emissions of greenhouse gases are the factories' recordings of energy sources used in 2010, such as wind, bio-mass or water power.

This means that Danfoss is able to calculate each factory's emission of CO<sub>2</sub>. The calculation is based on the data from the World Resources Institute as applied in the UN climate panel's (IPCC) reports.

In 2010, Danfoss sold or shut down some factories in Germany, Slovenia, Slovakia, China and the USA. Consequently, the base year's emissions are adjusted for purchase and sale of activities according to guidelines in the Greenhouse Gas Protocol. Therefore, the emissions of the base year are adjusted from 178,000 tons to 121,000 tons of CO<sub>2</sub>.

The climate strategy targets an absolute reduction figure of approx. 1.4% annually, which means that Danfoss' CO<sub>2</sub> emission in 2010 was expected to be 4% lower than the emissions in the base year 2007.

In 2010, Danfoss emitted around 137,000 tons of CO<sub>2</sub> as a result of the group's consumption of electricity and heat. The figure covers both the direct emissions (electricity and heat production at its own plants) and the indirect emissions (electricity and heat from external sources).

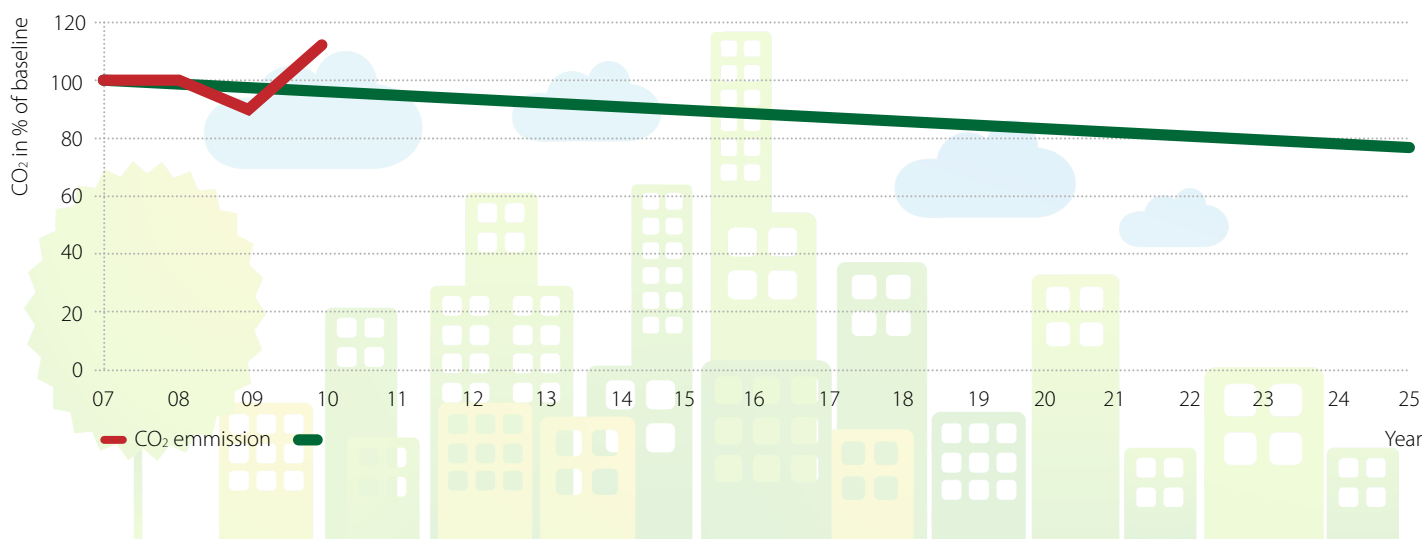
The electricity consumption represents 76% of the group's total CO<sub>2</sub> emissions, corresponding to 105,000 tons in 2010, whereas approx. 32,000 tons of CO<sub>2</sub> were emitted from energy sources used for heating.

The 2010 emissions exceeded expectations by 21,000 tons of CO<sub>2</sub>, corresponding to 18%, which was caused by a number of elements: the activity level at especially the Chinese factories increased dramatically throughout 2010 which made energy consumption increase significantly. A considerable proportion of the energy consumed by the factories in China is produced by coal-fired power plants, where there is a high emission per produced kWh. This, in turn, caused the CO<sub>2</sub> emissions to increase by more than 30% in 2010. The activity level at several other factories in countries such as Mexico and the USA increased by more than the ongoing energy-saving projects were able to accommodate. So, unfortunately, the conclusion is that the targeted CO<sub>2</sub> reduction figure was not by any means reached in 2010.

A committed effort will be made to reduce emissions in the years to come.

Detailed information about Danfoss' emission of CO<sub>2</sub> and other greenhouse gases can be found in the tables on page 134 and at [www.danfoss.com](http://www.danfoss.com).

### Fulfilment of climate target





# Environment

Danfoss is a global company, and takes social and environmental responsibility in the countries in which the group is operating.

This means that we will prevent pollution and remove any unwanted environmental impacts, that our activities must result in ongoing and measurable improvements for the environment and climate, and that we show regard for the individual human being, the working environment and the external world.

These measures are rooted in a business perspective, so we concentrate our efforts on the activities which translate into the best possible results for the company, the customers, the employees and society in general.

The group's policies concerning working environment, environment and social responsibility ensure high managerial focus on the compliance of national and international guidelines and declarations.

## Our impact on the environment

The most significant indicators of Danfoss' resource consumption, waste, chemical substances etc. are reviewed below, and comments are made for the most significant indicators. Please refer to the GRI table and the table of significant environmental parameters at the back of the Annual Report for further information about Danfoss' environmental performance.

## Raw materials and auxiliary materials

The majority of the raw materials that Danfoss consumes are metals, plastics, electronics and packaging.

The group's total consumption of raw materials has fallen by 35% compared with that of 2009. This was primarily caused by the divestment of Danfoss Household Compressors, which, in 2009, represented half of Danfoss' consumption of raw materials. Excluding the companies that have been sold, Danfoss' consumption increased by 31%, which reflects the general growth in Danfoss following the global financial crisis. The raw material volumes are described in the table on page 134.

A number of auxiliary materials – cutting oils and refrigerants as well as detergents for washing and cleaning items – that are not part of the finished products are required to produce the products.

In 2010, 311 tons of cutting oil was used to cool and lubricate metal items during processing. This is an increase of 19% compared to 2009.

## Energy

Making up 54% of Danfoss' total energy consumption, electricity is the largest energy source. The consumption of electricity increased by approx. 10% compared to 2009.

Renewable sources, such as solar, water, wind and bio-mass, accounted for 18% of the total power consumption. Electricity from nuclear power plants accounted for 13% of the group's consumption, whereas the remaining share originated from fossil sources, such as coal, oil, and gas. Coal continued to account for the largest source of the production of electricity, with 45% of the total energy consumption.

99% of energy consumption for heating stemmed from fossil sources, of which natural gas represents by far the largest share.

## Chemical substances

Danfoss makes use of a number of chemical substances in products and production processes. Some are classified as potentially harmful, but they are all handled in such a way as to protect employees and the environment.

The consumption of CRAN substances (carcinogenic or allergenic, harmful to reproduction or neurotoxic) increased by 35% compared to 2009, but the amount is a great deal reduced in comparison with that of 2008. The major part of the increase occurred at the factory in Mexico, but since the factory's consumption of raw materials in 2010 increased by 52% compared to 2009, this is a relative drop in the amount of CRAN substances.

The consumption of organic solvents only increased by 7%, in spite of the general raw material consumption having increased by 31%.

## Products and the environment

Potentially harmful substances are substances and materials which can pose a risk to employees or the environment. The substances are used in the manufacturing of products and if they are not

immediately expendable or replaceable, they must be used as efficiently as possible and measures must be taken to protect employees and the environment.

Danfoss' Negative List forms the cornerstone of efforts to reduce the use of potentially harmful substances. The Negative List is a vital guideline in the development of products to make sure that unwanted substances are not applied in the production or filled in Danfoss' products.

Danfoss' Negative List is extended on an ongoing basis and to keep internal and external stakeholders updated on the latest changes and requirements, Danfoss introduced a subscription service in 2010 on Danfoss' homepage, which all suppliers are required to subscribe to.

In 2010, the Negative List was published in a version which makes it easier for suppliers and Danfoss' purchasing and development departments to perform quick searches to look up and cross-check chemicals used either internally or by suppliers.

Suppliers are provided with a short version.

Danfoss set up an internal network which aims to make sure that Danfoss' products and production comply with the EU's far-reaching chemical reform, REACH. Thereby, Danfoss contributes to the strengthening of the customer's business, because the so-called 'candidate list' substances will not be present in Danfoss products. It also ensures that timely responses are made to customer approaches and that Danfoss does not import chemicals from countries outside the EU or manufacture products which, inadvertently, emit chemicals. Danfoss' Corporate Citizenship & Compliance function offers guidance and training, thereby securing the network's activities and competencies.

## Violations of environment regulations

In 2010, 20 violations of environment regulations were registered as a result of own observations or local authorities imposing directions.



### **It pays to be sustainable**

It pays to be green. In April 2010, Danfoss Power Electronics in Milwaukee, USA, received the “Go Green” supplier prize from its customer Ingersoll-Rand for the company’s efforts to reduce and reuse materials used at the customer’s factory in Lexington, USA. The reuse project evolved from a challenge to minimize the volume of cardboard and wooden waste left from the packaging of Danfoss products distributed to Lexington. Meanwhile, there are financial gains to be won.

Danfoss has reused boxes and pallets used to transport panels from Milwaukee. A total of 18,200 kilos of cardboard (11,000 boxes) and 23,700 kilos of wooden pallets were reused.



# Financial Report for the Danfoss Group



The positive development witnessed during the final months of 2009 continued to grow going into 2010, and the financial year ended up being the best in Danfoss' history. Sales increased by 31% to a total of 31.6bn DKK, as compared with a total of 24.2bn DKK in 2009. When adjusted for acquisitions, divestments and exchange rate calculations, the growth increase was 25%, as compared with a 12% decrease the year before. Danfoss Climate & Energy experienced a 20% growth. Danfoss Development underwent a 11% growth, while Sauer-Danfoss grew by 42%.

In the fourth quarter the group posted total net sales of 8.2bn DKK, as against 6.1bn DKK the year before. When adjusted for acquisitions, divestments and exchange rate calculations, the group's actual growth was 25%. The result before other operating income and expenses was 979m DKK, as compared with 124m DKK the year before. EBIT for the year were 940m DKK, as compared with -899m DKK the previous year.

The growing global focus on climate and energy concerns was one of the most important reasons for the group's growth in 2010. At the same time, net sales in the BRIC countries increased by 50% compared with the previous year. The BRIC countries continue to account for a growing portion of the group's total sales. In 2010, the BRIC countries represented 20% of the total net sales, as compared with 17% in 2009. Sales in the European primary market grew by 22%, and the German market in particular showed handsome growth rates. The markets in Latin America and North America also posted an excellent growth rate of around 40%. The US market continues to be the group's largest, followed by Germany and China.

All divisions in Danfoss Climate & Energy have contributed to the growth in net sales, though the group's sales in construction-sensitive sectors are now hardly at a par with sales than sales figures before the financial downturn. The final months of 2010 did, however, bring about an increase in such sales, which bodes well for 2011.

The initiatives implemented in 2010 under the group's Core & Clear strategy have, combined with tight cost controls and improved capacity utilization, resulted in a sharp increase in the group's earnings.

In 2010, Sauer-Danfoss managed to reverse the extremely negative development of 2009. The company emerged from 2010 having made great strides in both net sales and earnings. This progress was driven by high demand from clients and the Asian markets in particular brought about significant growth. Furthermore, the cost adjustments made in 2009 and the launch of the new company strategy in 2010 resulted in a significant increase in earnings.

Despite the fact that the final months of 2009 witnessed an improvement in sales, there was still uncertainty at the beginning of 2010 to whether these slight gains would lead to a definitive improvement in sales opportunities. The first quarter witnessed an increase in demand for the group's

products and solutions in the climate and energy sector from several areas and regions. At the same time, the restructuring activities launched in 2009 began to make a positive impact on earnings. Improvements in both net sales and earnings were better than expected, and the group thus raised its expectations for the entire year. The anticipated net sales were adjusted to between 27 and 28bn DKK, as opposed to the previous 26 to 27bn DKK, while anticipated EBIT was raised to between 1.1 and 1.4bn DKK, as opposed to 0.75 to 1.25bn DKK.

This positive development continued throughout the second quarter. Sales in the group's markets exceeded all expectations in the second quarter, and once again the BRIC countries represented the driving force behind the growth. The crucial European market, however, also showed double-digit growth figures. The group's sales to construction-sensitive sectors continued to be affected by low activity and consumer restraint. Meanwhile, the restructuring activities, strict cost controls and the first initiatives of the new strategy continued to positively influence profitability. Due to ongoing market uncertainty, Danfoss maintained its anticipated net sales figures following the second quarter. The initiatives launched to improve profitability had increased earnings in the first half of the year more than anticipated, and as a result, the group's anticipated EBIT was raised to between 1.4 and 1.8bn DKK.

As part of the group's new strategy of focusing on core business areas, Danfoss entered into an agreement in July with the German company AURELIUS concerning the sale of Danfoss Household Compressors, which has annual net sales of approx. 3bn DKK and has nearly 3,000 employees. The agreement was approved by the competition authorities in October, after which the sale was completed. For further information concerning the sale's effects on accounting matters, see note 27. *Discontinued activities* in the financial statement.

These positive developments in both net sales and earnings from the first half-year continued into the third quarter, and the group raised its expectations a third time for the whole of 2010. Expected net sales were raised to between 30 and 31bn DKK, while expected EBIT was raised to between 2.4 and 2.6bn DKK.

Growth from the first three quarters of the year continued into the fourth quarter, and earnings in particular increased more than anticipated.

One of the focus areas of the new strategy is the reduction of the group's debt, which at the beginning of 2010 was 9,144m DKK. The target is to reduce this figure by an average of one billion DKK per year until 2015. Throughout all of 2010, Danfoss has thus focused on generating positive free cash flow. Despite the significant growth, the group managed to generate a positive

free cash flow of 2,646m DKK, as compared with 964m DKK in 2009. Thereby, Danfoss was able to reduce the net interest-bearing debt by more than 2bn DKK.

**The result before other operating income and expenses** resulted in a surplus of 3,400m DKK, as compared with a deficit of 40m DKK in 2009.

The year's earnings were positively influenced by an improved capacity utilization resulting from the initiated restructuring activities, the initiatives of the new strategy, and Sauer-Danfoss' sharp earnings gains.

**The operating result (EBIT)** showed a profit of 3,264m DKK, compared with a deficit of 1,431m DKK in 2009. The 2009 result was, among other factors, affected by impairment of Sauer-Danfoss of 910m DKK, as well as by costs of 353m DKK related to restructuring activities.

**The share of results from associates/joint ventures was** 14m DKK, compared to -37m DKK the previous year. The primary cause of the increase was the positive development at Turbocor, which ended 2009 with a deficit.

**Financial items** resulted in a deficit of 334m DKK, as compared with a surplus of 349m in 2009. The 2009 result was extraordinarily positive due to an income of 654m DKK following the purchase of an additional 20.8% of shares in Sauer-Danfoss. The 2009 result also includes 204m DKK resulting from a value adjustment of incoming share options.

**The result from continuing activities before tax** was 2,944m DKK, compared to -1,119m DKK the year before. **The result from continuing activities for the year (after tax)** was 2,207m DKK, as compared with -767m DKK in 2009. **The result from discontinued activities for the year** showed a deficit of 829m DKK, compared to a deficit of 635m DKK in 2009.

**The result for the year** was 1,378m DKK, compared with -1,402m DKK the previous year. The 2010 result was significantly better than forecasts at the beginning of the year and it is considered to be very satisfactory.

## Balance Sheet and Cash Flows

**Equity** was 11,700m DKK at the end of 2010, compared with 10,055m DKK the previous year. The increase in equity can be primarily attributed to factoring in the year's positive result.

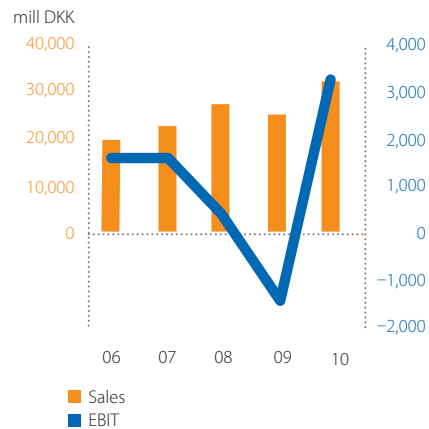
**Total assets** amount to 29,868m DKK, as compared with 28,642m DKK at the end of 2009.

## 2010 projected figures and result (in bn DKK)

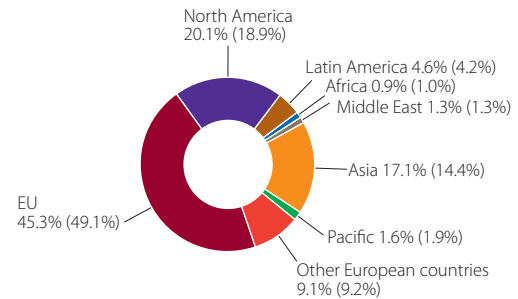
	March 29	May 17	August 30	November 8	2010 Result
Net sales	26 - 27	27 - 28	27 - 28	30 - 31	31.6
EBIT	0.75 - 1.25	1.1 - 1.4	1.4 - 1.8	2.4 - 2.6	3.3



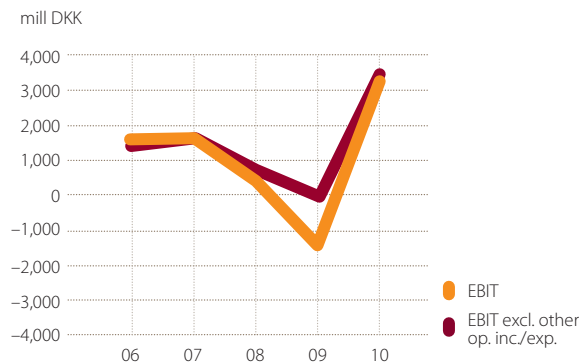
## Group Net Sales &amp; EBIT



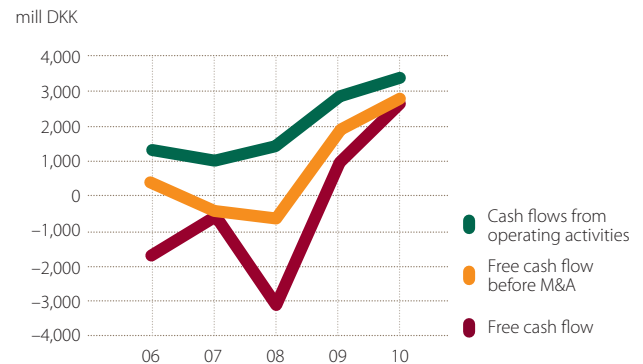
## Sales distributed by regions 2010 (2009)



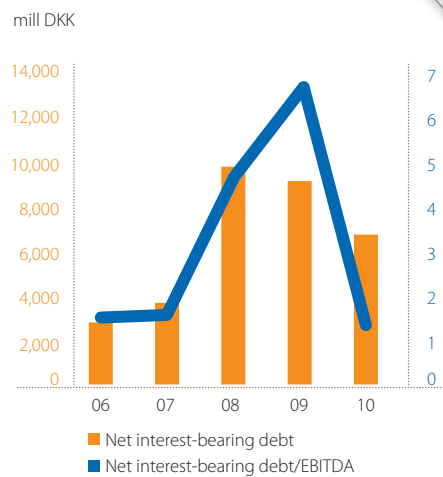
## EBIT



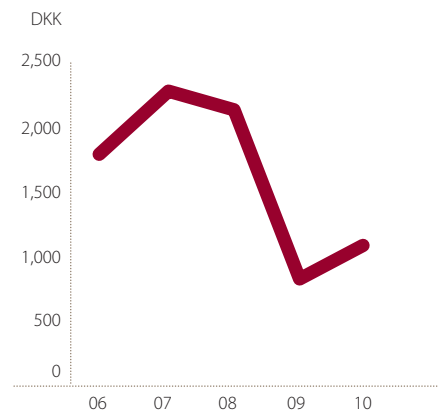
## Cash flow



## Net interest-bearing debt



## Share price



**Net interest-bearing debt** amounted to 6,675m DKK, as compared with 9,144m DKK the year before. The drop in net debt is primarily caused by considerably improved earnings and fewer investments. The present level for net interest-bearing debt equals 1.3 × EBITDA of the year, which is an extremely satisfactory development. Of the interest-bearing debt, 5,704m DKK (70%) is due after more than one year. Danfoss' policy is that the group should maintain significant long-term financial resources. As of December 31, 2010, the group's untapped and irrevocable, long-term credit commitments totaled 6.0bn DKK, as compared with 4.8bn DKK the year before. In addition to this are cash and cash equivalents, as well as business credits.

Throughout 2010, Danfoss placed particular emphasis on generating a positive free cash flow. Among other things, improvements in the group's cash flow and caution with regard to investment helped to achieve this. These measures exerted a positive effect on the group's cash flow. **Free cash flow**, which consists of cash flow from operating activities of 3,387m DKK, and cash flow from investing activities of -741m DKK, amounted to 2,646m DKK, as compared to 964m DKK in 2009. **Free cash flow before the acquisition and divestment** of activities amounted to 2,792m DKK, compared to 1,906m DKK in 2009.

#### Accounting policies

The Annual Report has been prepared in accordance with the International Financial Reporting Standards (IFRS), as well as with additional Danish disclosure requirements for annual reports for accounting class D. The accounting policies were amended in 2010 as a result of new accounting standards and interpretive guidelines. The amendments only had insignificant impact on recognition and measurement.

#### Innovation

Danfoss' innovation activities are focused on developing environmentally-friendly climate and energy technologies for the benefit of the group's customers. The various business areas are all involved in the development of ideas and each year approximately 450 major new concepts are generated, of which roughly 25% lead to the filing of a patent application. The implementation of the new strategy has made that 2010 has been a transition year in which the organization has adapted to the new strategy. This has meant that projects with a stronger focus on the core business are given higher priority, despite the fact that the number of investments has dropped slightly. In 2010, Danfoss spent 3.2% (2009: 4.8%) of the total net sales on research and development, which includes new ventures, corresponding to 1,054m DKK. The reduced level in 2010 should be compared to the fact that net sales have increased by 25%. However, the investment level at Climate & Energy is, on the whole, on a par with the year before. In 2010, 614m DKK was spent, compared with 649m DKK in 2009. In 2010, 52 new patent applications were filed, in comparison to 102 the year before and the group obtained approval for 200 patents as opposed to 203 in 2009. At the end of 2010, the group's total number of patents was 1,453, as compared with 1,704 the year before.

#### Knowledge

Danfoss aims to maintain and expand its leading market position in its core business areas, and it is therefore important that the employees possess the necessary skills for the group to reach this goal. Danfoss will only be able to maintain this position by retaining employees and developing their skills. The building and development of employee skills is performed through work-related training, courses and other forms of instruction. Danfoss sees learning as a lifelong process. Every year, the group sets aside considerable resources for the further training of its workforce. Education also improves the individual's ability to adapt and enhances his or her own value as an employee. One of Danfoss' most important responsibilities is to ensure that strategies and objectives are translated into definite, relevant tasks for its employees. This is an ongoing effort, but at least once a year an evaluation is performed in connection with personal development interviews between managers and employees. Among other things, the interview includes a written agreement on concrete activities for the development of the employee's skills.

#### Corporate Social Responsibility (CSR) statement

According to the Danish Financial Statements Act, Section 99a, financial statements must include a "report on corporate social responsibility". For several years, Danfoss has voluntarily reported on this subject. The group's CSR policy has been in place since 2003, and Danfoss has reported on social responsibility in accordance with the UN Global Compact principles. Danfoss has included its statement in its UN Global Compact Progress Report, see [www.danfoss.com/AboutUs/Corporate+Citizenship/](http://www.danfoss.com/AboutUs/Corporate+Citizenship/). Further information on Danfoss' work in the area of CSR can be found in the Annual Report and is available on the company's website [www.danfoss.com](http://www.danfoss.com).

#### Employee numbers

At the end of 2010, the Danfoss Group had 23,392 employees, which is 2,348 fewer than in 2009. The decrease in the total number of employees is primarily the result of the sale of Danfoss Household Compressors. When adjusting for the divestment of Danfoss Household Compressors, the real increase is 69 employees. The employees are geographically distributed as follows: 8,765 in Europe, excluding Denmark (2009: 11,437); 3,716 in North America, including Mexico (3,494); Latin America 461 (378); 4,310 in Asia Pacific, including China (3,853); and 59 in other regions (63). The number of employees in Denmark at the end of 2010 was 6,081, as compared with 6,515 the year before.

#### Changes to the Board of Directors

At the Annual General Meeting held on April 23, 2010, Björn Rosengren was elected as a new member of the Board. Gunnar Jensen was elected as a new employee representative member of the Board. Subsequently, the Board elected its own Chairman of the Board, Jørgen M. Clausen, and Hans Michael Jebsen as the Vice-Chairman.



### Acquisition of companies, business expansions and establishments in 2010

In February, Danfoss acquired the Chinese enterprise Tau Energy, with 106 employees and net sales of approximately 8m DKK.

In September, Danfoss announced that, as a result of high demand, Danfoss Solar Inverters would transfer its production and logistics capacities from the town of Gråsten to Danfoss' headquarters in Nordborg, Denmark. The production activities in Nordborg will commence in the first quarter of 2011, and the transfer is expected to be complete by the end of 2011. A total of 140 employees have been affected by the move. Danfoss Solar Inverters, which is part of Danfoss Power Electronics, expects to reach a total of 200 workplaces in Nordborg in 2012.

In November, it was decided that a new office building would be constructed for Danfoss Power Electronics in Gråsten, Denmark. The building will have room for 300 employees and will be ready by mid-2012.

In order to meet the growing demand for power modules, Danfoss also announced in November that Danfoss Silicon Power will move from Schleswig, Germany to larger facilities in Flensburg, Germany. The move will commence in the second quarter of 2011 and is expected to be complete in 2012.

### Sale and closure of enterprises and activities in 2010

In May, Danfoss decided to transfer the production of its heat exchangers and district heating stations from the factory in Leppävirta, Finland to facilities in Slovenia and Poland.

In July, Danfoss announced that the production of standard products for the electric floor heating market would be moved from Vejle, Denmark to Poland. The relocation is expected to be completed in the first part of 2011.

Also in July, Danfoss sold its 51% share in AquaZ, Denmark. The company has net sales of 0m DKK and nine employees.

In August, Danfoss announced that the production of Danfoss Chatleff's distributors for cooling units will be transferred to Danfoss' existing production plan in Monterrey, Mexico. The production location in Buda, USA, will close at some point in the first half of 2011.

In October, Danfoss A/S sold Danfoss Household Compressors to the German company AURELIUS. Danfoss Household Compressors has around 3,000 employees and annual net sales of approximately 3bn DKK.

In November, Danfoss announced that 22 jobs would be cut at the factory in Viby, Denmark, because the manual production of radiator valves has been fully transferred to China. The factory in Viby will continue to employ some 110 workers.

In November, Danfoss sold its 51% share in Danfoss Fumao, China. The company has 41 employees and net sales of 7m DKK.

### Purchase of additional shares in Sauer-Danfoss

At the beginning of 2010, Danfoss submitted an offer for the remaining shares

in Sauer-Danfoss, which is listed on the New York Stock Exchange. The group was unable to convince a sufficient number of shareholders to accept the offer and on April 30, the offer was rescinded.

### Anti-trust case

On February 17 2009, representatives from the European Commission's Directorate General for Competition made unannounced visits to Danfoss in Nordborg, Flensburg and Turin. At the same time, two of Danfoss' subsidiaries in the USA received federal grand jury subpoenas from the US Department of Justice, due to suspected illegal price-fixing agreements and the illegal exchange of information between competitors concerning household compressors. Brazilian competition authorities have stated that they have commenced a formal procedure based on similar claims of illegal practices.

Competition authorities in Mexico, New Zealand and Chile have also approached Danfoss and requested information on household compressors. It cannot be ruled out that competition authorities in other countries will also launch similar investigations.

A number of class-action suits have been brought against manufacturers of household compressors in particular in the USA, and Danfoss' US subsidiaries face similar legal action. All of the lawsuits have been consolidated into one class-action suit in a court in Michigan. The claimants maintain that they have suffered a loss as a result of the alleged illegal pricing agreements concerning household compressors in particular, for which they are seeking damages. A similar lawsuit has been filed in Canada. Danfoss is working with the authorities to clarify any claims of illegal practice.

Based on Danfoss' own internal investigations, it can no longer be denied that employees have, without top management's knowledge, and in direct violation of Danfoss' internal rules, participated in practices that may constitute a violation of the EU's anti-trust legislation. Danfoss has thus taken a number of steps and consequences in response to these activities.

Nor can it be denied for the time being that the irregular activities of the employees in question may result in Danfoss facing a reaction from the European Commission. At present, Danfoss has no knowledge of the conclusions of the European Commission or of other competition authorities.

### Discontinued activities

In order to maintain focus on the core business area, Danfoss has decided that certain activities shall be subject to a strategic evaluation with a view to sale, joint venture or other forms of alliance. Among other areas, this applies to Danfoss Household Compressors, which has been sold to the German company AURELIUS.

As in accordance with IFRS 5, the result and cash flows of the divested activities in all periods are shown as separate items in the Profit and Loss Account and the statement of cash flows.

Discontinued activities in 2010 resulted in net sales of 1.2bn DKK, as compared with 1.5bn DKK the year before and a result of -829m DKK, compared with -635m DKK in 2009.

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# Corporate Governance and risk



## The Board of the Danfoss Group

**Jørgen M. Clausen**

Chairman (born 1948)

Member since 1985  
Options: 29,250**Companies with major board activities:****Chairman of:**Danfoss Universe A/S  
Sauer-Danfoss Inc.  
Danish Energy Industries Federation  
The Danish National Advanced Technology Foundation  
Foundation of Entrepreneurship  
Young Enterprise**Board member of:**The Bitten and Mads Clausen Foundation  
Danfoss Universe A/S**Qualifications:**Bachelor of Science Engineering, MBA  
Professional experience within managing a Danish based international company and from other board memberships**Hans Michael Jebsen**

Vice-Chairman (born 1956)

Member since 2005  
Options: 1,082**Companies with major board activities:****Chairman of:**

Jebsen &amp; Co. Ltd.

**Board member of:**Hysan Development Co Ltd  
Wharf (Holdings) Ltd**Qualifications:**

Professional experience within managing companies in Hong Kong, China and Northern Asia in the fields of industrial supplies, chemicals, beverages, automotive and a wide range of consumer products as well as relations with government authorities in China

**Peter M. Clausen**

Board member (born 1949)

Member since 1993  
Options: 2,038**Companies with major board activities:****Chairman of:**The Bitten and Mads Clausen Foundation  
The Fabrikant Mads Clausen Foundation  
Danfoss Educational Scholarship  
Project Zero Foundation  
Sønderborg Havneselskab A/S (harbor association)**Board member of:**

The Mads Clausen Institute

**Qualifications:**

Professional experience from other board memberships

**William Ervin Hoover**

Director (born 1949)

Member since 2007  
Options: 150**Companies with major board activities:****Chairman of:**

ReD Associates

**Vice-Chairman of:**

GN (Great Nordic)

**Board member of:**Sauer-Danfoss Inc.  
NorthStar Battery  
Satair  
Lego Foundation**Qualifications:**MBA fra Harvard  
Professional experience from Supply chain, performance transformation, organization changes and mergers & acquisitions**Kasper Rørsted**

CEO of Henkel AG &amp; Co. (born 1962)

Member since 2009  
Options: 0**Companies with major board activities:****Chairman of:**

Cable &amp; Wireless plc.

**Board member of:**Cable & Wireless plc.  
Henkel Nordic**Qualifications:**

Professional experience within managing an international company and international and cultural experience from stays and jobs in USA, Switzerland, England and Germany.

**Björn Rosengren**

Senior Executive Vice President Atlas Copco (Shanghai) Trading Co. Ltd. (born 1959)

Member since 2010  
Options: 0**Board member of:**

HTC AB

**Qualifications:**

Head of a global company focusing on profitable growth, international and cultural experience from stays and jobs in China, North America, Switzerland, the Netherlands and Sweden.

**Svend Aage Hansen**Employee-elected board member (born 1959)  
HR Consultant – Legal & Labour relations Danfoss A/SMember since 2008  
Options: 0**Qualifications:**

Cooperation courses and board activities

**Gunnar Jensen**Employee-elected board member (born 1948)  
Senior Shop Steward at Danfoss NordborgMember since 2010  
Options: 0**Companies with major board activities:****Vice-Chairman of:**

Group Club Danfoss Denmark

**Board member of:**The Bitten and Mads Clausen Foundation  
Metal Sønderborg  
Group Club Danfoss Denmark**Qualifications:**

Cooperation courses and board activities

**Jens Peter Nielsen**Employee-elected board member (born 1957)  
Senior Shop Steward at Danfoss Kolding, DenmarkMember since 2006  
Options: 450**Companies with major board activities:****Chairman of:**

Danfoss Employee Foundation

**Board member of:**The Bitten and Mads Clausen Foundation  
Metal Kolding  
LO-Kolding (The Danish Confederation of Trade Unions)**Qualifications:**

Cooperation courses and board activities

**Bitten Clausen**

Honorary Member



## Executive Committee



### Niels B. Christiansen

President and CEO of Danfoss A/S (born 1966)  
Member since 2004  
Options: 32,250

Companies with major board activities:

Chairman of:

- Axcel

Vice-Chairman of:

- Bang & Olufsen a/s
- Sauer-Danfoss Inc.

Board member of:

- William Demant Holding A/S



### Kim Fausing

Executive Vice President and COO of Danfoss A/S (born 1964)  
Member since 2008  
Options: 14,275

Board member of:

- Sauer-Danfoss Inc.
- Danfoss Turbocor Compressors Inc.
- Hilti AG
- Velux A/S



### Nis Storgaard

Executive Vice President and CDO of Danfoss A/S (born 1950)  
Member since 2009  
Options: 11,225

## Group Committee



### Kim Christensen

Division President  
(born 1965)

Board member of:

- Confederation of Danish Industry, Construction Materials



### Per Have

Chief Financial Officer  
CEO - The Bitten and Mads Clausen Foundation  
- President (born 1957)

Companies with major board activities:

Chairman of:

- Danfoss Captive Reinsurance A/S

Board member of:

- Sauer-Danfoss Inc.
- SKAKO-Industries A/S
- Universe Foundation



### Ole M. Daugbjerg

Chief Reputation Officer  
(born 1962)

Board member of:

- Sport One Danmark
- Lars Kjær & Co. A/S
- Ingersoll Rand (advisory board)



### Mogens Terp Paulsen

Division President  
(born 1948)



### Kjeld Staerk

Division President  
(born 1959)

Board member of:

- Larsen Strings A/S
- AGRAMKOW Fluid Systems A/S
- Center for Industrial Production, Aalborg University



### Leif Fløjgaard

Division President  
(born 1952)



### Troels H. Petersen

Division President  
(born 1965)



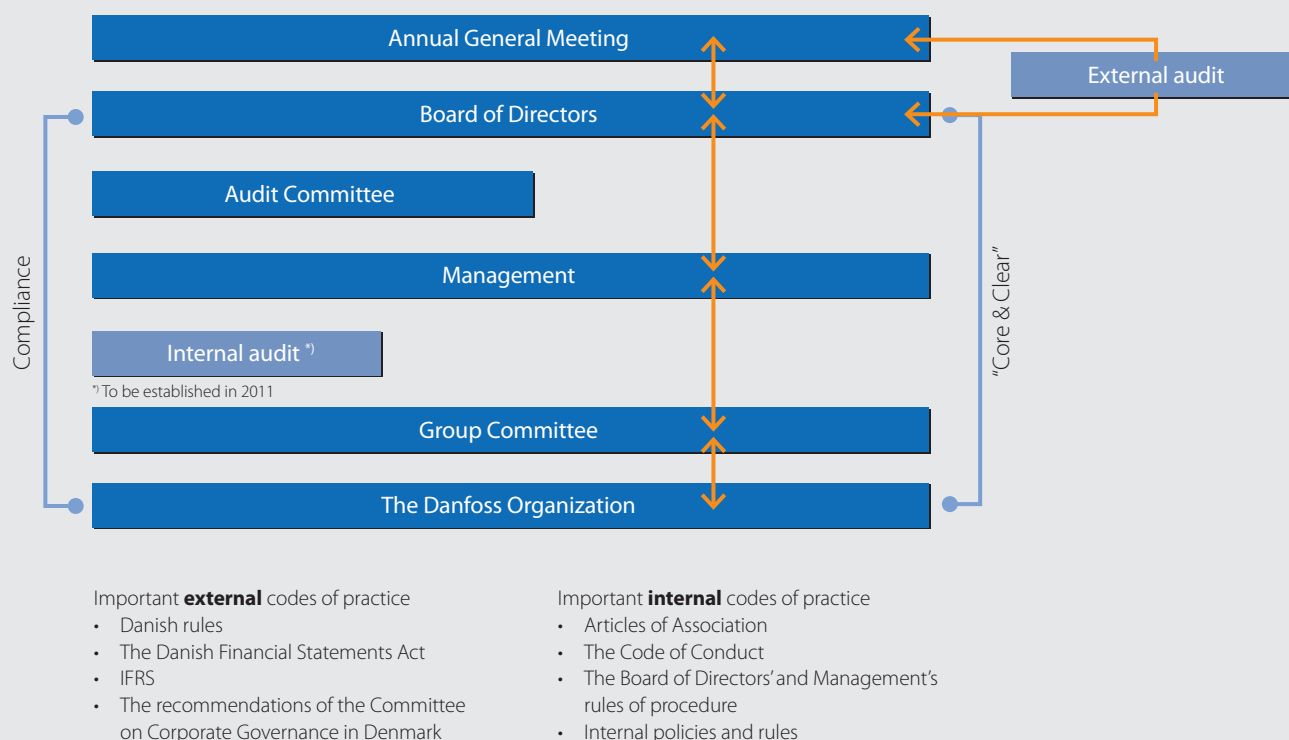
### Lars Tveen

Division President  
(born 1963)

Board member of:

- J. Hvidtved Larsen A/S
- Jydsk Aluminium Industri A/S
- Danish Energy Industries Federation (DI Energibranchen)

## Corporate governance structure



## Corporate Governance and risk management

Corporate governance is based on key concepts such as responsibility and integrity, and transparency with respect to the group's activities plays an essential role. Corporate Governance also concerns the way in which the company is managed, as well as the guiding principles and structures which determine the interplay between the company's management bodies, owners and other stakeholders.

Danfoss has a two-tier management system consisting of the Board of Directors and the Management. The company's Articles of Association, values, legislative requirements and a number of management and control procedures are also elements that form part of Danfoss' Corporate Governance. Danfoss' Corporate Governance policy does not, however, apply to Sauer-Danfoss, which has its own rules for this area. Sauer-Danfoss acts in accordance with the Corporate Governance rules set out in the American Sarbanes-Oxley Act (Sox 404). For further information, please refer to: [www.sauer-danfoss.com](http://www.sauer-danfoss.com)

The Committee on Corporate Governance in

Denmark revised the recommendations in 2010, which have since become part of the set of rules for companies listed on the NASDAQ OMX, Copenhagen. The recommendations are available on the Committee's homepage: <http://www.corporategovernance.dk/>

Danfoss' Corporate Governance policy is, with few exceptions, in full compliance with these recommendations. Even though Danfoss is a family and trust ownership company and thus does not have the same disclosure obligations as a listed company, the group has to a great extent opted to follow the guidelines which apply to publicly traded companies. Danfoss has approached the recommendations based on the 'follow or explain' principle and regularly assesses whether the group is able to live up to them.

Danfoss' approach to these recommendations for corporate governance can be found on the group's homepage under the section: Corporate Governance [www.danfoss.com/GC-recommandations](http://www.danfoss.com/GC-recommandations)

Danfoss' Board of Directors and Management continually strive to improve the management of the company. The Board meets in accordance with the established rules of procedure, and the Management convenes at least five times a year. In addition, the Board holds extraordinary meetings whenever necessary.

Danfoss' Board of Directors consists of six members selected at the Annual General Meeting and three members elected by the employees.

As a result of the make-up of Danfoss' ownership group, individual Board Members may inevitably have particular interests. The Board is, however, aware of this. Having the necessary competencies in place is another important area of focus. The current Board has a diverse make-up and a global perspective to ensure that the competencies needed for Danfoss' future development are in place.

## The Board's composition <sup>1)</sup>

	Nationality	Independent	Audit Committee
Jørgen Mads Clausen (Chairman)	DK	No	●
Hans Michael Jebsen (Vice-Chairman)	DK	No	●
Peter Mads Clausen	DK	No	●
William Ervin Hoover	USA	Yes	●
Kasper Rørsted	DK	Yes	●
Björn Rosengren	SE	Yes	●
Svend Aage Hansen <sup>2)</sup>	DK	-	●
Jens Peter Nielsen <sup>2)</sup>	DK	-	●
Gunnar Jensen <sup>2)</sup>	DK	-	●

<sup>1)</sup> Valid from the Annual General Meeting of April 2010 to the Annual General Meeting of April 2011.

<sup>2)</sup> Employee-elected

● Chairman of the Audit Committee

Of the six members elected at the Annual General Meeting, three (Kasper Rørsted, William Hoover and Björn Rosengren) are considered to be independent.

On January 1, 2010, Danfoss decided to create an audit committee. The audit committee's areas of work, responsibilities and competencies can, in accordance with the rules, be organized either as an independent committee, or implemented by the full Board. At Danfoss, the entire Board functions as an auditing committee. The audit committee's activities and responsibilities are specified in the committee's rules of procedure. The audit committee met five times in 2010.

In the second half of 2010, the Board of Directors decided to implement internal auditing. These internal audits are expected to begin in 2011.

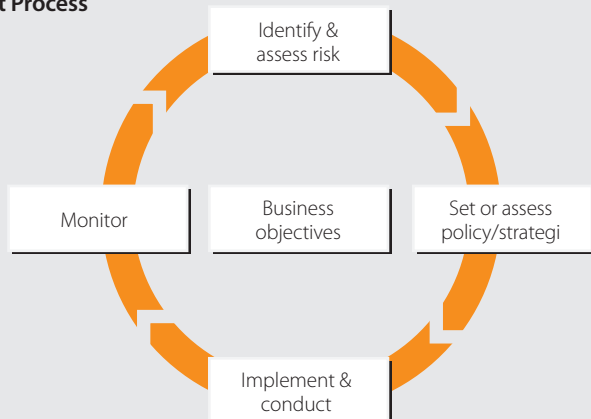
Among other things, internal auditing is intended to ensure that:

- the group follows good administrative and accounting practices
- there are written business processes in all essential areas of activity
- there are comprehensive internal control procedures
- there are adequate IT control and security measures, in accordance with the control policy.

## Statutory account under the Danish Financial Statements Act, Section 107b

In accordance with the Danish Financial Statements Act, Section 107b subsection 6, listed companies must describe the main elements of the company's internal risk management and control systems when presenting the company accounts. Even though Danfoss is not a listed company, the group has decided to follow the recommendation as part of the group's corporate governance policy. Danfoss has decided to post this statement on its homepage [www.Danfoss.com/financial-statements-act](http://www.Danfoss.com/financial-statements-act) under Statement of company management.



**Risk Management Process****RISK MANAGEMENT**

Risk management is an integral part of Danfoss' daily operations. For Danfoss, effective risk management is not a limitation. It is a tool that allows the company to operate a robust business that is also able to react quickly and flexibly when conditions change.

**One Company – One Way**

Danfoss' global presence and the size of the organization mean that the group is only able to ensure effective risk management by having a common approach to 'risk'. The advantage of this approach is that risks can be easily compared and addressed throughout the entire group, and management segments can communicate more easily about important risks, as they speak the same language and have the same mindset.

The group's use of Enterprise Risk Management (ERM) means that risks are systematically identified and assessed in accordance with a holistic business approach. Danfoss defines the term 'risk' as the possible event or condition which, when it occurs, may affect the group's ability to execute a strategy or reach set business targets.

The identification and assessment of risks involve three separate categories:

- new or changed risks, which typically originate from Danfoss' external surroundings.
- strategic risks, the identification of which is particularly incorporated into strategic planning and its implementation.
- operational risks, which are mainly related to operations or performance.

The responsible management defines the strategy, or policy, for how to handle each risk or risk area. The practical distribution of responsibility is ensured in accordance with the overall Governance structure. The dissemination of best practice strategies/policies relating to risk management is ensured via the cross-organizational boards and by corporate functions, such as Corporate Legal, Corporate Treasury and Corporate Risk Management.

The management of risks, cf. strategy/policy, is applied throughout Danfoss, for example: in connection with the overall business management, project management, outsourcing, insurance, currencies, interests, raw materials, reputation, patents, IT systems, contracts and environment.

The final element of the process is the monitoring and management of specific risks as well as the total number of risks. This means that Danfoss seeks to make the management of specific risks measurable or, as a minimum, to make it possible to objectively verify the impact. The responsible management, cf. the Governance structure, has the task of evaluating whether the identified risks are in fact handled in accordance with adopted strategies or policies, and whether this is done in a sufficient way.

**Responsibility**

The group's risk management activities are based on the Board of Directors' rules of procedures, which attach the responsibility for risk management to the Management. The Management is also responsible for ensuring that the necessary

risk management policies and procedures are in place and that these are prepared in accordance with the group's risk profile. It is also the Management's responsibility to ensure that effective risk management systems are established for the relevant areas and that focus on improving these systems is maintained at all times. Responsibility for carrying out actual risk management lies with the respective managers and staff, in accordance with the group's policies.

A structure has been established which among other aspects includes:

- the formation of an audit committee on January 1, 2010.
- Corporate Risk Management, which is responsible for further developing the group's approach to Enterprise Risk Management, including the group's risk reporting.
- monitoring and interpretation of and compliance with legislation and standards.
- the group's global insurance program, which is managed by Danfoss Captive Reinsurance A/S.
- Insurance for assets, operations and earnings, that are part of general business management and entail for example work with the group's image, IT security, patents and trademark rights, as well as product quality, fire protection, the environment and working environment.
- Internal controls including, among other things, management systems, business systems and auditing.
- Danfoss' profitability and cash flows, which are exposed to financial risks as a result of, among other causes, the group's international business profile. These risks include exchange rates, interest rates, raw materials, liquidity and financial second party risks, and are centrally managed by corporate treasury.
- The implementation of internal auditing.



**Strategic/operational risks**

<b>Risk</b>	<b>Principles and guidelines</b>	<b>Responsible</b>
Insufficient ability to develop products and solutions which meet regional growth markets' specific demands of price and quality	Danfoss' aspiration, strategy and action plans, management systems, Corporate Governance, internal controls, Code of Conduct, accounting rules and policies.	Executive Committee and business management, relevant corporate and service functions.
Regional economic recession		
Increasing global protectionism		
Insufficient product quality		
Breaching Danfoss' design, patent or brand name rights		
Insufficient/erroneous contractual basis with customers and suppliers		
Breaching competition act		
Damage to Danfoss' reputation		

**Financial risks**

Cash	Policy of Treasury Risk Management.	Executive Committee and Corporate Treasury.
Interests		
Price of raw materials		
Exchange rates		
Counterpart risk		
Pension obligations	Pension solution policies. In connection with company acquisitions, evaluation of pension obligations are covered by the due diligence process.	Executive Committee and Corporate Risk Management.

**Hazard risks**

Commercial and product liability	Policies of the protection of assets, internal controls, contingency plans and reestablishment plans.	Executive Committee and business management, Danfoss Captive Reinsurance A/S, Corporate Risk Management.
Damages to property, fixtures, IT systems and equipment		
Breakdown of critical IT systems	Policies of the protection of assets, internal controls, information security and IT	Executive Committee, business management, Corporate Information Security and corporate IT.



## Description/Comment

China and India, in particular, have fostered a number of local companies which are developing and producing products which precisely match local mid-size market demands for price, quality and performance. This is based on a local and very competitive cost platform, where the traditional high-end producers are not directly in a position to compete. Moreover, well-established producers operating on the mid-size market tend to also develop solutions for the high-end market. It is important for Danfoss to set up and offer solutions to the mid-size market, because this is where growth is particularly strong. However, this requires entirely new, innovative and cost-effective response patterns.

The risk still exists that the extreme national debts in Europe and the USA will, over time, be perceived by the financial markets as being unsustainable. The reoccurrence of financial setbacks caused by a renewed financial crisis will have a negative impact. In order to compensate for the possible consequences of recession/low growth in the EU and the USA, continual investments are being made in growth markets, such as India and Brazil. The increased use of sub-suppliers is precisely included in Danfoss' strategy. This initiative means lower, fixed costs and funds tied up, which, in turn, will have a beneficial effect during any new financial crisis.

The massive budget deficits of different countries have resulted in the implementation of savings and initiatives to add to the national growth, including, for example, measures to safeguard as many domestic jobs as possible. If this is done by means of protectionism, it would have a negative impact on the group's sales opportunities.

Product quality determines how satisfied the customers are with Danfoss. Faulty products could result in both practical and financial problems for Danfoss' customers and Danfoss itself. Previously, Danfoss has dealt with quality problems in relation to some product groups. This necessitated the recall and replacement of a few products. In terms of product liability and product recalls, insurance has been arranged (refer below) which would also cover the recall of a large number of products. To ensure the right quality of products, quality programs have been introduced under ISO9001 and TS16949.

Over the past years, there has been an increase in the number of pirated brand names or products. Counterfeit products are characterized by poorer quality often, the pirates take no interest in environmental and working environment issues. The customers' inadvertent confusion between pirated products and the original products can have significant implications on Danfoss' reputation. Furthermore, illegal producers might turn into competitive legal competitors. Danfoss is continuously working to make it more difficult to counterfeit products and brand names, and Danfoss has activities to track and prosecute illegal producers.

Even though Danfoss builds its business on mutual trust, discrepancies between the expectations of the parties may arise. In order for customers and suppliers to know what to expect from us, we aspire to formulate the contracts to clarify expectations and responsibilities convincingly.

It is illegal and against the corporate ethical guidelines to participate in price fixing cartels or to misuse a dominant market position. Executives are updated on the complex law through information meetings and training. Furthermore, all employees have been informed about internal precautions via Danfoss' Ethics Handbook.

Danfoss is aware of the necessity to act sustainably in order to balance the social, environmental and financial issues. Therefore, the group has launched global programs relating to social responsibility, environmental management and employee ethics, among other things.

It is Danfoss' policy to make sure that the group has the necessary cash resources available at any time, to be able to meet its obligations and to finance the planned strategic measures. Minimizing the cash risk is achieved through the combination of efficient cash control and planning, setting up of irredeemable loan facilities and making sure that the total cash equivalents are cash and available. According to Danfoss' financing policy, Danfoss must be qualified for an "investment grade credit rating" and have considerable cash reserves in the form of not drawn, irredeemable credit facilities and cash. At the end of 2010, Danfoss' unused and irredeemable facilities amounted to 6.0bn DKK compared to 4.8bn DKK the year before. To this should be added cash and ordinary business credits. Danfoss estimates that the cash resources are sufficient to cover current plans and the general market situation.

The group's interest risk is primarily ascribable to interest-bearing liabilities and the total cash equivalents. The group makes use of fixed-interest loans, floating rate loans and derivative interest products. As a result of a 1% increase in the market rate of interest, the interest risk was 26.6m DKK at the end of 2010.

Trends within global raw material prices can influence group earnings. As a supplement to fixed price agreements with suppliers, Danfoss also hedges its purchase of some metals and electricity using financial instruments. Danfoss has set up a general policy to make sure that significant risks related to raw materials are reduced through the combination of hedging and active price adjustment. The raw material consumption is hedged for a minimum of six months and a maximum of 18 months, if they are considered essential.

### The exchange rate risk consists of three elements:

1. Transaction risk  
Considerable consolidated risks and 12 months' expected cash flows as foreign currencies (excl. cash flows from certain countries with inconvertible currencies) are hedged on an ongoing basis.
2. Translation risk (conversion risk)  
Generally, Danfoss does not hedge translation risks, since they do not have any direct effect on the underlying cash flows. However, Danfoss seeks to reduce translation risks by financing debt as much as possible in local currencies.
3. Financial/structural risk (strategic risk)  
Financial, structural currency risk cannot be efficiently hedged using financial instruments and are therefore not part of Corporate Treasury's operational financial risk management strategy. However, they are controlled as far as possible at strategic level, since Danfoss aims for products to be produced in as close cooperation with the customer as possible.

It is Danfoss' policy to minimize the risk of one or more of Danfoss' financial partners not being able to fulfill obligations. Such a situation is countered to the largest extent possible by only using sound regional or global financial partners whose credit rating is at least "A", according to Standard & Poors' credit rating terminology.

Danfoss has pension obligations in the form of Defined Benefit schemes at subsidiaries in a few countries. Danfoss takes steps to minimize the related risks, e.g. the existing schemes have been closed to new members and additional memberships are not created.

Danfoss has set up a global insurance program which is compulsory for all subsidiaries. The program includes, among other things, all-risks insurance (machines, fixtures, stocks and operating losses), commercial and product liability insurance as well as an Executive Committee and Directors' liability insurance. As part of the expansion and consolidation of the group's risk management, Danfoss runs its own reinsurance company. Its main purpose is to reinsure selected risks of the group. Basically, the company reinsures the risks relating to the three main insurances: commercial and product liability insurance, the all-risks insurance and the transport insurance. Despite having its own insurance company, the group is only self-insuring to a limited degree.

The operation of information and communication systems is vital for customer service, including the receipt and execution of orders.

### Risk reporting and control

Periodic risk reporting is continuously performed at Danfoss between the various management groups, for instance as part of quarterly business reviews.

An annual consolidated report is also prepared with a view to being able to document to the Board of Directors and the audit committee as to which risks are of the greatest importance, and to also ensure that the necessary policies and processes are in place and work as intended. Both periodic and annual reporting is intended to provide management groups with specific and valid information on risks of vital importance and their current control.

Even though Danfoss holds a controlling interest in Sauer-Danfoss, Danfoss' risk management policies have not yet been implemented at Sauer-Danfoss. Sauer-Danfoss acts in accordance with the Corporate Governance rules set out in the American Sarbanes-Oxley Act (Sox 404). For further information, please refer to:

[www.sauer-danfoss.com](http://www.sauer-danfoss.com)

### Risk profile

It is Danfoss' view that there are no immediate isolated risks capable of threatening the survival of the group.

In order to best evaluate Danfoss' performance in relation to these risks, a number of specific measurement criteria have been established and risk seeking and assessment is regularly performed. Some important conditions include:

- Global market conditions
  - Means of access and competitors, particularly in growth markets such as China and India
- Global economic growth
  - Important markets are, in particular, Germany, China, Russia, Brazil, the US and India.
  - Among the most significant segments are new construction, renovation, raw material recovery and refinement, production of consumer goods and retail trade

- Client relations and image
  - Danfoss has a tradition of long-term working relationships with clients and other important business partners
- Competitiveness and innovation:
  - determined by e.g. cost levels, product quality, ability to supply as well as client and market knowledge
- Free cash flow,
  - which is intended to reduce debt and finance growth initiatives.

### SHAREHOLDERS

Danfoss' share capital amounts to 1,027m DKK and is divided into two share classes: A-shares, which total 425m DKK, and B-shares, which total 602m DKK. A-shares give the right to ten votes for every 100 DKK of shares (nominal value), while B-shares give the right to one vote for every 100 DKK of shares (nominal value). A-shareholders also have a pre-emption right to A-shares in the event of share capital increases. No other shares or share types carry special rights. The Bitten and Mads Clausen Foundation, along with the Clausen family, own all issued A-shares and a number of B-shares corresponding to 98.4% of the share votes. At the end of 2010, Danfoss had some 5,000 registered employee shareholders, of which about one fourth are no longer employed at Danfoss. Around three quarters of the shareholders reside in Denmark, while the remaining shareholders reside abroad.

Shareholders with more than 5% of share capital:

	Shares	Votes
The Bitten and Mads Clausen Foundation, Nordborg, Denmark	46.03%	84.87%
Clausen Controls A/S, Sønderborg, Denmark	25.49%	5.39%
Henrik Mads Clausen, Lake Forest, USA	10.71%	2.26%
Karin Clausen, Holte, Denmark	7.04%	1.49%

### Danfoss' share price development

The price of Danfoss' shares is set once a year based on a valuation developed by Danske Markets (a division of Danske Bank A/S), immediately before the Annual General Meeting held in April.

When the first employee shares were issued in 2001, it was the first time that a market share price was set for Danfoss shares. The 2001 price was 749 DKK. The basis of calculation for the share price includes, among other things, Danfoss' economic development, the group's projections for the coming year, its ability to meet expectations, economic development in a number of comparable companies and their expectations for the future, as well as the general trends on the share market. The 2010 share price was set at 1,077 DKK per share. The new share price will be announced at the Annual General Meeting in April 2011.

### Dividends and the Annual General Meeting

As part of the new strategy, it was decided to pay limited dividends for the 2010 and 2011 financial years. The Board of Directors thereby recommends the payment of a 10% dividend for the 2010 financial year.

The Annual General Meeting will take place in Nordborg, Denmark on April 29, 2011.

### Events after the end of the accounting year

Watts Water Technologies, Inc. (NYSE symbol "WTS") announced on February 9, 2011 that the company intended to acquire Danfoss Socla and the associated water valve activities. The potential take-over deal is subject to the signing of a final purchasing agreement and the approval of the competition authorities.

In February, Danfoss signed an agreement for the sale of all gearmotor activities at Danfoss Bauer GmbH to the American enterprise Altra Holdings Inc. (NASDAQ: AIMC). The deal is expected to be closed in the second quarter of 2011, subject to the approval of the competition authorities.

# Expectations for 2011

Based on the positive development in 2010, Danfoss expects a continued increase in net sales and earnings in 2011. The increase will primarily be driven by the growth markets in the BRIC countries (Brazil, Russia, India and China), which are also expected to show double-digit growth rates in 2011. Growth is not expected to be at the same level as was seen in 2010, when the comparative figures were based on the tremendously negative trends of 2009. The markets in North America and Europe are expected to progress moderately but nevertheless grow, and the important German market is also expected to develop positively.

- **Net sales are expected to increase to a level between 33 and 34bn DKK.**

The ongoing restructuring activities and the continued measures of the group's new strategy are expected to continue to have a positive effect on Danfoss' profitability.

- **EBIT is expected to increase to a level between 3.3 and 3.5bn DKK.**

The expectations do not include the impact of divestments, discontinued activities or acquisition of companies/activities





# Danfoss Climate & Energy

## Segment description

Danfoss Climate & Energy consists of five divisions: Danfoss Refrigeration & Air Conditioning Controls, Danfoss Power Electronics, Danfoss Heating Solutions, Danfoss Commercial Compressors and Danfoss District Energy. They all have leading positions within the field of climate and energy. The segment is focused on providing energy-efficient and climate-friendly solutions to a number of specific industries. The divisions have a leading role on the world market for the research, development, production, sales and service of mechanical and electronic products for the cooling and air-conditioning industry, the comfort and heating area, motor control and a number of industries for which energy consumption is important.

## Market trends

Growing global interest in the segment's products and services for the climate and energy areas significantly boosted net sales in 2010. Sales on the European market resulted in a robust, double-digit growth rate and developments on the important German market in particular were positive. Meanwhile, developments in North America and Latin America have been extremely positive and resulted in healthy growth rates. Development in the growth markets of the BRIC countries also resulted in significant growth rates.

## Results

Net sales rose to 18,923m DKK from 15,112m DKK in 2009, which represents a 25% increase. When calculated at last year's exchange rate and adjusted for acquisitions and divestments, net sales growth was 20%, compared with a 11% drop in 2009. Throughout 2010, sales developed better than anticipated and shares in several markets have been won. Operating profit (EBIT) was 2,509m DKK, compared to 1,051m DKK in 2009. The clearly improved result has been brought about by the Core & Clear initiatives, including the implemented restructuring activities, improved capacity utilization and tight cost control. The EBIT margin was 13.3%, compared with 7% the year before.

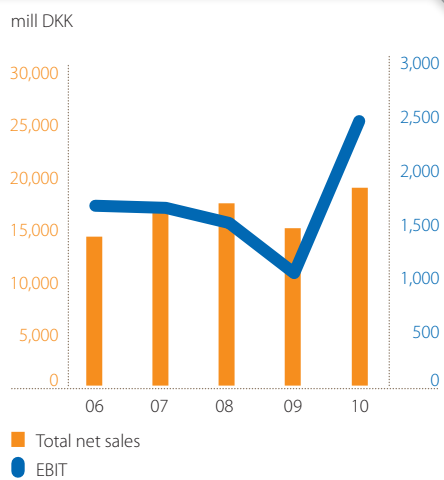
## Financial highlights for Danfoss Climate & Energy

mill DKK

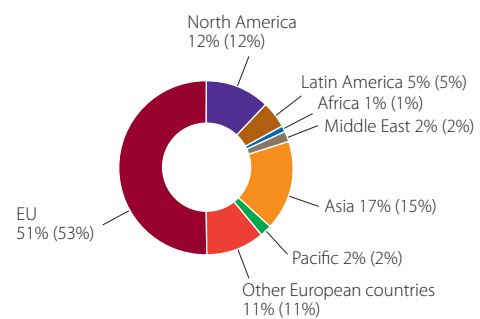
	2009	2010
<b>PROFIT AND LOSS ACCOUNT</b>		
Net sales	15,112	18,923
Operating profit (EBIT)	1,051	2,509
Income from assoc./JV after tax	-21	16
Profit before finance	1,030	2,525
<b>BALANCE SHEET</b>		
Intangible fixed assets	3,791	3,845
Tangible fixed assets	3,052	2,976
Investment in associates and joint ventures	160	163
Total assets	11,644	13,032
<b>OTHER INFORMATION</b>		
Capital expenditure	569	552
Depreciation/amortization	793	714
<b>NUMBER OF EMPLOYEES</b>		
Number of employees	13,502	13,476
<b>KEY FIGURES</b>		
EBIT margin	7.0%	13.3%

As a result of organizational changes brought about by the new strategy, the 2009 and 2010 figures cannot be fully compared.

### Net sales and EBIT



### Net sales distributed by regions 2010 (2009)



# Sauer-Danfoss

## Segment description

Sauer-Danfoss is a worldwide leader in the design, manufacture, and sale of engineered hydraulic and electronic systems and components for use primarily in applications of mobile equipment. The company operates in the following segments: Agriculture, Construction, Material Handling, Road Building, Turf Care and Specialty. Danfoss owns 76% of the shares in Sauer-Danfoss, which is listed on the New York Stock Exchange under the code "SHS".

The figures in the section are the official Sauer-Danfoss figures calculated in accordance with US GAAP, and not as reflected in Danfoss' consolidated accounts. Danfoss' accounts are calculated in accordance with IFRS.

## Market trends

The positive development from the end of 2009 continued into 2010, and all regions have contributed to sales growth. The company's greatest gains were made in the Asia Pacific markets, though the other regions have also demonstrated intense growth. The Propel business area underwent a 55% growth in sales, while Work Function growth was 39% and 33% in Controls.

## Results

Sauer-Danfoss ended 2010 in a strong position. Net sales climbed to 1,641m USD from 1,159m USD in 2009, which represents a 42% increase. When calculated at last year's exchange rate and adjusted for acquisitions and divestments, net sales growth was 42%, compared with a 43% drop in 2009. Operating profit (EBIT) was 246m USD, compared to -211m USD in 2009.

## The Sauer-Danfoss Pulse

In 2010, Sauer-Danfoss launched its new business strategy, "The Sauer-Danfoss Pulse", which defines the company's development through 2013 under the vision: "Your Strongest Partner in Mobile Hydraulics". The Sauer-Danfoss Pulse is aligned with the groups strategy "Core and Clear" and contains clear financial goals which will strengthen the company and ensure future growth. As part of the strategy, a number of significant adjustments have been made to the organization in order to strengthen the different business areas and ensure a more focused and goal-oriented market approach. Five business areas – all of which are owned by Sauer-Danfoss – are carved

out as independent businesses to achieve the full benefits of their individual potential.

In addition, The Sauer-Danfoss Pulse outlines the future approach for how the company will do business, with extensive focus on four main areas: Value Chain, Innovation, Go-to-Market and People.

This new way of doing business, along with clearly defined desires for behaviors, constitutes the elements that will support the company in fulfilling its financial goals.

For further information visit:  
[www.sauer-danfoss.com](http://www.sauer-danfoss.com)

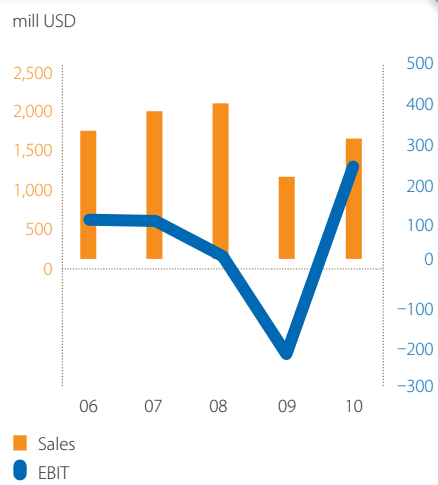
## Financial highlights for Sauer-Danfoss Inc.

mill USD (US GAAP)

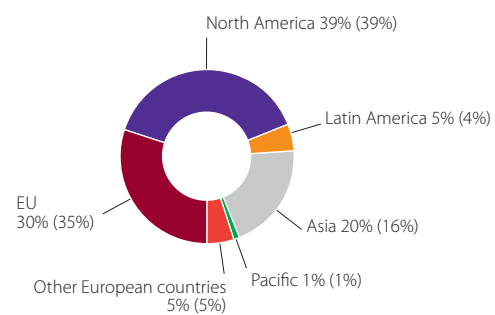
	2009	2010
<b>PROFIT AND LOSS ACCOUNT</b>		
Net sales	1,159	1,641
Operating profit (EBIT)	-211	246
<b>BALANCE SHEET</b>		
Intangible fixed assets	55	53
Tangible fixed assets	514	408
Total assets	1,068	1,123
<b>OTHER INFORMATION</b>		
Capital expenditure	43	26
Depreciation/amortization	117	97
<b>NUMBER OF EMPLOYEES</b>		
Number of employees	6,117	6,030
<b>KEY FIGURES</b>		
EBIT margin	-18.2%	15.0%



### Net sales and EBIT



### Net sales distributed by regions 2010 (2009)



# Danfoss Development

## Segment description

Danfoss Development engages in, for example, the activities that will be subject to strategic evaluation in future years. Such evaluation will consider divestment, joint ventures and other types of alliances where Danfoss will not single-handedly provide the resources required to progress these areas to a leading position on the global scale. Danfoss Appliance Controls, Danfoss Water Controls and Danfoss Gearmotors are included in the segment, among others.

## Market trends

Throughout 2010, new ownership was sought for some of the businesses that form part of the segment. As a result, an agreement was reached in July with the German industrial holding company, AURELIUS AG, for the purchase of Danfoss Household Compressors. The acquisition was approved by the authorities in October.

## Results

Net sales were 3,284m DKK, as compared with 2,689m DKK in 2009, which represents a 22% increase compared to the previous year. When calculated at last year's exchange rate and adjusted for acquisitions and divestments, growth in net sales was 11%, as compared with a drop of 19% in 2009. Operating profit resulted in a loss of 51m DKK, compared with a loss of 244m DKK in 2009.

## Events after the end of the accounting year

In February, Danfoss signed a letter of intent for the sale of Danfoss Socla to the American company Watts Water Technologies, Inc.

In February, Danfoss entered into an agreement for the sale of all gearmotor assets in Danfoss Bauer GmbH to the American company Altra Holdings Inc.

## Financial highlights for Danfoss Development

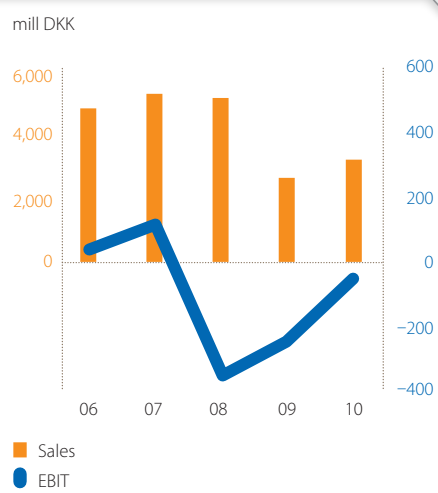
mill DKK

	2009	2010
<b>PROFIT AND LOSS ACCOUNT</b>		
Net sales	2,689	3,284
Operating profit (EBIT)	-244	-51
Income from assoc./JV after tax	-16	-2
Profit before finance	-260	-53
<b>BALANCE SHEET</b>		
Intangible fixed assets	320	325
Tangible fixed assets	1,272	1,303
Investment in associates and joint ventures	4	4
Total assets	3,260	2,867
<b>OTHER INFORMATION</b>		
Capital expenditure	182	208
Depreciation/amortization	80	177
<b>NUMBER OF EMPLOYEES</b>		
Number of employees	5,172	3,449
<b>KEY FIGURES</b>		
EBIT margin	-9.1%	-1.6%

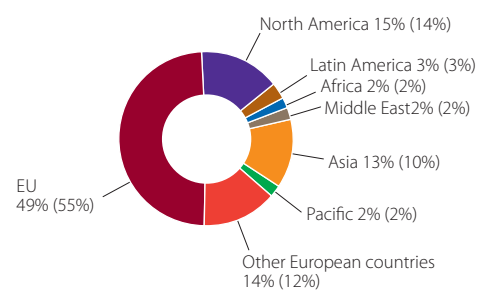
As a result of organizational changes brought about by the new strategy, the 2009 and 2010 figures cannot be fully compared.



### Net sales and EBIT



### Net sales distributed by regions 2010 (2009)





# Business support



## Danfoss Business System

The Danfoss Business System (DBS) is responsible for the ongoing improvement of Danfoss' productivity and efficiency, as well as for ensuring that best practice is implemented in our core processes. DBS continually improves our quality, cost control, delivery and innovation based on a clear indication of the company's direction, focused competence development, and an efficient follow-up process.

DBS is implemented by means of improvement programs dedicated to supply chain, sales and product development. These processes are anchored in our business activities and are supported by experts and the DBS Academy.

**Danfoss Productivity Program** is inspired by the Lean Principles, which add new competencies to the production areas so that they can implement sustained, gradual changes and achieve ongoing improvement through the elimination of waste, enhanced productivity and capacity, improved quality and delivery and reduced costs.

**Full Potential Purchasing** is designed to ensure that our purchasing organization possesses the

best possible tools and competencies to minimize the overall supplier costs. This is achieved through negotiation, bringing suppliers together, optimizing the supply chain and improving the product design.

**Danfoss Sales Program** supports the sales organization in achieving higher growth by improving our sellers' competencies so that they can provide even better service to our clients. This allows us to sell more to our existing group of clients, gain new clients and improve our overall sales figures.

**Product Development Program** builds tools and competencies, so that Danfoss can launch new products more quickly and efficiently. This ensures that the best ideas become projects and that the projects hit the markets at the right time and in such a way that we continue to improve our earnings.

**DBS Academy** is responsible for providing training which ensures that the DBS competencies are implemented throughout the entire Danfoss organization. The special training programs are adapted to the different management and

function roles throughout all levels at Danfoss. The DBS Academy also offers training programs with special content through virtual instruction.

## Danfoss Global Services

Danfoss Global Services provides a wide array of services to Danfoss' business units and works to streamline cross-divisional processes and to consolidate the group's internal service functions in order to create value for the business units through economies of scale, synergies and a reduction of the group's costs.

One of Global Services' focus areas is to create a more flexible cost structure capable of supporting Danfoss' business units that are undergoing growth, as well as to protect them during periods of economic downturn. In order to achieve the greatest degree of flexibility, Global Services works to outsource processes that fall outside the group's core competencies in order to create a more flexible cost structure.



The core areas of Danfoss Global Services are divided into five departments: Logistics, Real Estate, Human Resources, Financial Services and General Administration.

**Logistics** is a global supplier of cargo and end-product warehouse services for the businesses and also provides direct delivery to the clients.

**Real Estate** focuses on three main areas. One is to create and ensure an overview of Danfoss' total portfolio of owned, leased and rented buildings worldwide. The second focus area is to be involved in construction projects worldwide both to ensure quality and to make certain that the construction meets Danfoss' standards. The final focus area consists of local building operations and ensuring that the buildings are maintained and properly represent Danfoss.

**Human Resources** sees to the daily local administration of salaries, hiring, expatriation and the implementation of policies in the group's divisions worldwide. The organization is also responsible for the regional and global coordination of HR assignments.

**Financial Services** is responsible for the global implementation, optimization and outsourcing of the processes related to paying suppliers, collecting payment from clients, and providing data for reporting. Financial Services provides local services in all countries and works to centralize transactional processes at a shared service center operated by Capgemini. Danfoss Europe's outsourcing of transactional processes is almost fully complete.

**General Administration** works with the daily operation of the various administrative tasks of Danfoss' factories and sales companies. At the end of 2010, the provision of local services to the sales companies constituted the main focus area. One important part of the work of General Administration is ensuring that Danfoss complies with local and international regulations, and that the company meets Danfoss' internal guidelines.

## Danfoss IT

Danfoss IT is responsible for providing the optimal infrastructure for information and data, so that Danfoss' core businesses can serve its clients in the most efficient possible manner. Danfoss IT is also responsible for ensuring that we are able to process our own data simply and securely in order to provide Danfoss' Management with the best possible basis for making informed decisions. Danfoss IT is also responsible for providing Danfoss employees with access to the most up-to-date and secure work tools.





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# Management Report for Danfoss A/S (Parent Company)

The net sales rose to 7,340m DKK from 5,976m DKK in 2009, which represents a 23% increase. Operating profit (EBIT) was 355m DKK, as compared to –157m DKK in 2009.

Financial income and expenses amounted to a net loss of 1,078m DKK, as compared to a gain of 829m DKK the previous year. 2009's financial income and expenses were affected by the purchase of Sauer-Danfoss shares. Furthermore, in 2010 we received lower returns than before. Financial costs were affected by the significant write-down of loans to subsidiaries in connection with the sale of the compressor company. Conversely, write-down of the subsidiaries in relation to 2009 was significantly reduced. In 2009, an exchange rate gain was entered as a financial item which in 2010 became an exchange rate loss.

The result after tax was –809m DKK, compared to 678m DKK in 2009. Equity fell to 5,697m DKK from 6,561m DKK. Danfoss A/S had 3,179 employees at the close of 2010, which are 407 fewer than the year before.

Net sales in 2011 are expected to increase in relation to 2010. Danfoss A/S is expected to post a profit in 2011.

Reference is made to the Management Report for the Danfoss Group in which the other significant areas affecting the Parent Company are described. No significant incidents have been observed after the balance sheet date that are not recognized or discussed in the Annual Report.

# Financial highlights, quarterly

Mill. DKK  
(unless otherwise stated)

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	YTD Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	YTD Q4 2010
<b>Profit and loss accounts:</b>										
Net sales	6.136	5.800	6.125	6.105	24.165	6.740	8.229	8.410	8.172	31.550
Operating profit added depreciations, amortisations and impairments (EBITDA)	127	28	656	543	1.354	849	1.321	1.472	1.410	5.053
Operating profit excl. other income and expenses	-272	-219	326	124	-40	412	842	1.168	979	3.400
Operating profit (EBIT)	-339	-406	214	-899	-1.431	401	799	1.124	940	3.264
Financial income/expenses	-98	-59	-60	567	349	-69	-72	-130	-64	-334
Profit before tax, continued operations	-444	-484	148	-339	-1.119	339	743	1.001	862	2.944
Result from discontinued operations	-131	-425	-33	-48	-635	-9	0	-675	-145	-829
Net profit	-399	-634	111	-482	-1.402	255	525	92	506	1.378

## Balance sheet:

Total non-current assets	21.638	21.028	20.425	19.289	19.289	19.562	19.882	18.087	18.703	18.703
Assets	33.224	31.736	30.853	28.642	28.642	30.539	32.173	30.196	29.868	29.868
Total shareholders' equity	11.495	10.529	10.536	10.055	10.055	10.530	11.357	11.046	11.700	11.700
Net interest-bearing debt	10.330	10.034	9.030	9.144	9.144	9.561	9.563	8.153	6.675	6.675
Net assets	21.598	20.327	19.333	18.995	18.995	19.871	20.687	18.955	18.167	18.167
Capital expenditure	307	212	193	296	1.009	266	197	160	349	973

## Cash flow statement:

Cash flow from operating activities	87	593	1.649	2.858	2.858	152	772	1.990	3.387	3.387
Cash flow from investing activities	-284	-555	-735	-1.894	-1.894	-204	-305	-429	-741	-741
hereof net investments of intangible/tangible assets	-258	-442	-594	-895	-895	-101	-187	-296	-634	-634
hereof net investments in companies	0	0	0	-893	-893	-92	-135	-126	-132	-132
Free Cash flow	-196	39	915	964	964	-52	467	1.561	2.646	2.646
Free cash flow before M&A	-176	89	981	1.906	1.906	54	610	1.697	2.792	2.792
Cash flow from financing activities	516	213	-448	-733	-733	332	20	-1.098	-2.037	-2.037

## Key figures:

Real net sales growth (%)	-16	-23	-11	3	-12	11	37	30	25	25
EBIT margin excl. other operating income etc. (%)	-4,5	-3,8	5,4	2,0	-0,2	6,1	10,2	13,9	12,0	10,8
EBIT margin (%)	-5,6	-7,0	3,5	-14,4	-5,9	6,0	9,7	13,4	11,5	10,3
EBITDA margin (%)	2,1	0,5	10,8	8,7	5,6	12,6	16,1	17,5	17,3	16,0
RONA (%)	-1,6	-1,9	1,1	-4,7	-7,1	2,1	3,9	5,7	5,1	17,6
Return on equity (%)	-4,2	-11,3	-8,3	-13,0	-13,0	1,7	7,2	7,6	2,6	12,3
Equity ratio (%)	34,6	33,2	34,1	35,1	35,1	34,5	35,3	36,6	39,2	39,2
Leverage ratio (%)	90,8	96,9	87,5	92,5	92,5	92,3	85,6	75,4	62,2	62,2
Net interest bearing debt to EBITDA ratio	6,1	9,6	11,5	6,8	6,8	4,6	2,8	1,9	1,3	1,3

## Geographical segments:

### Total net sales

EU	3.072	2.809	2.982	3.004	11.865	3.201	3.645	3.729	3.711	14.281
Rest of Europe	467	487	629	644	2.227	542	703	851	775	2.872
Asia	700	876	963	937	3.476	965	1.354	1.532	1.532	5.384
North America	1.436	1.167	1.030	923	4.557	1.459	1.835	1.561	1.486	6.342
Africa	56	66	62	64	248	65	82	83	62	292
Pacific	97	93	119	146	455	116	126	136	140	520
Latin America	243	226	248	305	1.022	306	366	422	366	1.459
Middle East	65	76	92	82	315	86	118	96	100	400
Total	6.136	5.800	6.125	6.105	24.165	6.740	8.229	8.410	8.172	31.550

### Number of employees

Europe excl. Denmark	12.336	11.788	11.482	11.437	11.437	10.939	11.012	10.912	8.765	8.765
North America incl. Mexico	4.392	3.787	3.578	3.494	3.494	3.505	3.713	3.746	3.716	3.716
Latin America	458	376	371	378	378	389	396	440	461	461
Asia-Pacific	3.659	3.694	3.858	3.853	3.853	4.246	4.581	4.798	4.310	4.310
Other regions	69	65	61	63	63	64	61	60	59	59
Denmark	8.090	7.442	6.748	6.515	6.515	6.300	6.389	6.105	6.081	6.081
Total	29.004	27.152	26.098	25.740	25.740	25.443	26.152	26.061	23.392	23.392
Total excl. Household Compressors	26.828	24.847	23.684	23.323	23.323	22.942	23.111	23.123	23.392	23.392





# Management Statement

The Board and Executive Committee have today considered and approved the Danfoss A/S Annual Report for the financial year January 1-December 31, 2010.

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 view, the company accounts and the annual accounts give a fair view of the group's and the Parent Company's assets, liabilities and financial position as of December 31, 2010, and of the results of the group's and the Parent Company's activities and cash flows of the financial year January 1-December 31, 2010.

We also consider the Management Report to give a true and fair view of the development of the group's and Parent Company's activities and financial conditions, the results for the year and the overall financial position of the Parent Company related to the companies included in the company accounts and a description of the most significant risks and uncertainty factors faced by the group and the Parent Company.

The supplementary report on Corporate Citizenship at Danfoss A/S gives a true and fair view within the scope of common, recognized guidelines.

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

*Nordborg, March 28, 2011*

## Executive Committee

*Niels B. Christiansen*

*Kim Fausing*

*Nis Storgaard*

## Board of Directors

*Jørgen M. Clausen*  
Chairman

*Hans Michael Jebsen*  
Vice-Chairman

*Peter J.M. Clausen*

*Svend Aage Hansen*

*William Ervin Hoover*

*Gunnar Jensen*

*Jens Peter Nielsen*

*Björn Rosengren*

*Kasper Rørsted*

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# Audit report

## **Independent auditors' report**

### **To the shareholders of Danfoss A/S**

We have audited the consolidated financial statements and the parent company financial statements of Danfoss A/S for the financial year 1 January – 31 December 2010, pp. 56-123. The consolidated financial statements and the parent company financial statements comprise income statement, total recognised income and expenses, balance sheet, statement of changes in equity, cash flow statement and notes 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 disclosure requirements in the Danish Financial Statements Act.

In addition to our audit, we have read the Management's review which is prepared in accordance with the Danish Financial Statements Act and provided a statement hereon.

### **Management's responsibility**

Management is responsible for the preparation and presentation 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 additional disclosure requirements in the Danish Financial Statements Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of consolidated financial statements and parent company financial statements that give a true and fair view and that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Management is also responsible for the preparation of a Management's review that includes a fair review in accordance with disclosure requirements in the Danish Financial Statements Act.

### **Auditors' responsibility and basis of opinion**

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 Danish Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to 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 auditors' judgement, 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 auditors consider internal control relevant to the Company's preparation and presentation 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 opinion.

Our 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 2010 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 January – 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the EU and disclosure requirements in the Danish Financial Statements Act.

### **Statement on the Management's review**

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

*Nordborg, 28 March 2011*

### **KPMG**

Statsautoriseret Revisionspartnerselskab

*Finn L. Meyer,*  
State Authorised Public Accountant

*Thorbjørn Bruhn,*  
State Authorised Public Accountant





# Accounts and notes



1.300

## PROFIT AND LOSS ACCOUNT

1 January to 31 December

mill DKK

	Note	Parent Company		Group	
		2009	2010	2009	2010
Net sales .....	4	5,976	7,340	24,165	31,550
Cost of sales .....	5	-4,956	-5,703	-18,904	-22,672
<b>Gross profit</b>		<b>1,020</b>	<b>1,637</b>	<b>5,261</b>	<b>8,878</b>
Distribution expenses .....	5	-640	-723	-4,297	-4,371
Administration expenses .....	5	-526	-482	-1,004	-1,107
<b>Operating profit excl. other income and expenses</b>		<b>-146</b>	<b>432</b>	<b>-40</b>	<b>3,400</b>
Other operating income .....	5	22	13	89	122
Other operating expenses .....	5	-33	-90	-1,480	-258
<b>Operating profit (EBIT)</b>	4	<b>-157</b>	<b>355</b>	<b>-1,431</b>	<b>3,264</b>
Income from associates and joint ventures after tax .....	6			-37	14
Financial income .....	7	2,010	825	883	107
Financial expenses .....	8	-1,181	-1,903	-534	-441
<b>Profit before tax of continuing operations</b>		<b>672</b>	<b>-723</b>	<b>-1,119</b>	<b>2,944</b>
Corporate tax expenses of continuing operations.....	9	6	-86	352	-737
<b>Profit from continuing operations</b>		<b>678</b>	<b>-809</b>	<b>-767</b>	<b>2,207</b>
Profit from discontinued operations.....	27			-635	-829
<b>Net profit</b>		<b>678</b>	<b>-809</b>	<b>-1,402</b>	<b>1,378</b>
Net profit is distributed as follows:					
Transferred to the proposed dividends reserve .....			102		
Transferred to other reserves .....		678	-911		
		<b>678</b>	<b>-809</b>		
Group result distributed on:					
Shareholders of Danfoss A/S .....				-1,184	1,109
Minority interests .....				-218	269
				<b>-1,402</b>	<b>1,378</b>
Earning per share of continuing operations (share of nominal 100 DKK) .....	10			-53.8	189.9
Earnings per share of continuing operations, diluted (share of nominal 100 DKK) .....	10			-52.1	182.4
Earnings per share (share of nominal 100 DKK) .....	10			-115.9	108.7
Earnings per share, diluted (share of nominal 100 DKK) .....	10			-112.4	104.4

## TOTAL RECOGNIZED INCOME AND EXPENSES

1 January to 31 December

mill DKK

	Note	Parent Company		Group	
		2009	2010	2009	2010
<b>Net profit</b>		<b>678</b>	<b>-809</b>	<b>-1,402</b>	<b>1,378</b>
<b>Net income/expenses(-)</b>					
Foreign exchange adjustments when converting foreign currency into DKK etc.....				-78	680
Fair value adjustment of hedging reserve:					
Foreign exchange adjustments regarding net investments in subsidiaries .....				112	-141
Fair value for the hedging of future cash flows .....		33	-60	26	-169
Fair value adjustments transferred to net sales in the profit and loss account .....		-80		-49	91
Fair value adj. transferred to cost of sales in the profit and loss account .....				32	-5
Actuarial gain/loss (-) on defined benefit plans .....	21			-101	-78
Tax on items recorded directly in equity .....		12	15	16	20
<b>Net income/expenses(-) after tax</b>		<b>-35</b>	<b>-45</b>	<b>-42</b>	<b>398</b>
<b>Total recognized income and expenses</b>		<b>643</b>	<b>-854</b>	<b>-1,444</b>	<b>1,776</b>
Distributed on:					
Shareholders of Danfoss A/S .....				-1,252	1,461
Minority interests .....				-192	315
				<b>-1,444</b>	<b>1,776</b>



## BALANCE SHEET

As per 31 December

mill DKK

### ASSETS

#### Non-current assets

Goodwill .....		471	462	3,741	3,919
Other intangible fixed assets .....		272	226	5,353	5,220

#### Intangible fixed assets

11

Land and buildings .....		38	35	2,882	2,853
Machinery .....		524	445	4,404	3,535
Equipment .....		143	115	293	246
Buildings and machinery under construction .....		121	135	688	505

#### Tangible fixed assets

12

Investments in subsidiaries .....	6	8,586	8,360		
Receivables from subsidiaries .....	6		1,135		
Investments in associates and joint ventures .....	6	352	325	171	176
Other investments .....	6	2	2	33	32
Defined benefit plans, net asset .....	21			2	
Non-current assets .....		18	6	105	541
Deferred tax assets .....	20			1,617	1,676

#### Financial assets

#### Total non-current assets

#### Current assets

Raw materials and consumables .....		148	171	1,541	2,056
Work in progress .....		98	94	571	588
Finished goods and goods for resale .....		370	439	1,736	2,042

#### Inventories

13

Trade receivables .....	14	210	266	3,823	4,442
Receivables from subsidiaries .....	14	6,924	4,557		
Receivables from associates and joint ventures .....		4	2	16	11
Receivable corporation tax .....	23			171	86
Other receivables .....		149	150	844	1,027

#### Accounts receivable

#### Marketable securities

15

#### Cash and cash equivalents

22

#### Total current assets

#### Total assets

Parent Company		Group	
2009	2010	2009	2010
<b>743</b>	<b>688</b>	<b>9,094</b>	<b>9,139</b>
<b>826</b>	<b>730</b>	<b>8,267</b>	<b>7,139</b>
<b>8,958</b>	<b>9,828</b>	<b>1,928</b>	<b>2,425</b>
<b>10,527</b>	<b>11,246</b>	<b>19,289</b>	<b>18,703</b>
<b>616</b>	<b>704</b>	<b>3,848</b>	<b>4,686</b>
<b>7,287</b>	<b>4,975</b>	<b>4,854</b>	<b>5,566</b>
		<b>35</b>	<b>60</b>
<b>9</b>	<b>106</b>	<b>616</b>	<b>853</b>
<b>7,912</b>	<b>5,785</b>	<b>9,353</b>	<b>11,165</b>
<b>18,439</b>	<b>17,031</b>	<b>28,642</b>	<b>29,868</b>

## BALANCE SHEET

As per 31 December

mill DKK

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Parent Company		Group	
		2009	2010	2009	2010
<b>Shareholders' equity</b>					
Share capital .....	16	1,027	1,027	1,027	1,027
Premium share account .....			136		136
Reserves .....	17	5,534	4,432	7,261	8,473
Proposed dividends .....			102		102
Danfoss A/S' share of equity .....		6,561	5,697	8,288	9,738
Minority interest .....				1,767	1,962
<b>Total shareholders' equity</b>		<b>6,561</b>	<b>5,697</b>	<b>10,055</b>	<b>11,700</b>
<b>Liabilities</b>					
Provisions for warranty and other provisions .....	18	33	40	306	346
Provisions for stock options and warrants .....	19	12	31	14	31
Deferred tax liabilities .....	20	87	76	1,646	1,858
Defined benefit plans .....	21	31	28	1,134	1,133
Debt, unsecured .....	22	7,636	4,360	7,737	4,429
Debt, secured .....	22	235	236	1,275	1,275
<b>Non-current liabilities</b>		<b>8,034</b>	<b>4,771</b>	<b>12,112</b>	<b>9,072</b>
Debt, unsecured .....	22	240	1,950	871	2,392
Debt, secured .....	22			34	31
Trade creditors .....		327	451	2,157	3,084
Debt to subsidiaries .....	22	2,370	3,221		
Debt to associates and joint ventures .....		1	1	26	32
Corporation taxes .....	23	92	1	219	252
Provisions for warranty and other provisions .....	18	35	28	630	429
Provisions for stock options and warrants .....	19	83	102	82	104
Other debt .....		696	809	2,456	2,772
<b>Current liabilities</b>		<b>3,844</b>	<b>6,563</b>	<b>6,475</b>	<b>9,096</b>
<b>Total liabilities</b>		<b>11,878</b>	<b>11,334</b>	<b>18,587</b>	<b>18,168</b>
<b>Total liabilities and shareholders' equity</b>		<b>18,439</b>	<b>17,031</b>	<b>28,642</b>	<b>29,868</b>

## STATEMENT OF CASH FLOW

As per 31 December

mill DKK

	Note	Parent Company		Group	
		2009	2010	2009	2010
Profit before tax from continuing operations.....		672	-723	-1,119	2,944
Adjustments for non-cash transactions .....	24	-388	1,389	2,608	2,179
Changes in working capital .....	25	320	-543	2,140	-808
<b>Cash flow generated from operations</b>		<b>604</b>	<b>123</b>	<b>3,629</b>	<b>4,315</b>
Financial income .....		364	443	25	40
Financial expenses .....		-336	-350	-565	-413
Dividends received .....		164	381		3
<b>Cash flow from operations before tax</b>		<b>796</b>	<b>597</b>	<b>3,089</b>	<b>3,945</b>
Paid tax .....		21	-172	-231	-558
<b>Cash flow from operating activities</b>		<b>817</b>	<b>425</b>	<b>2,858</b>	<b>3,387</b>
Acquisition of intangible fixed assets .....		-47	-52	-136	-98
Acquisition of tangible fixed assets .....		-47	-95	-850	-741
Proceeds from sale of tangible fixed assets .....		49	12	91	205
Acquisition of subsidiaries etc. ....	26	-1,320	-120	-893	-145
Proceeds from disposal of subsidiaries etc. ....	26	76	81		13
Acquisition (-) and sale of other investments etc. ....	28	-1,107	614	-106	25
<b>Cash flow from investing activities</b>		<b>-2,396</b>	<b>440</b>	<b>-1,894</b>	<b>-741</b>
<b>Free cash flow</b>		<b>-1,579</b>	<b>865</b>	<b>964</b>	<b>2,646</b>
Financing by non-shareholders:					
Repayment of (-)/proceeds from interest-bearing debt .....		1,835	-758	-342	-1,908
Financing by shareholders:					
Repurchase (-)/sale of own shares .....		-57	-10	-57	-10
Addition/disposal of minority interest .....				-8	15
Dividends paid to shareholder in the Parent Company.....		-205		-205	
Dividends paid to minority shareholders.....				-121	-134
<b>Cash flow from financing activities</b>		<b>1,573</b>	<b>-768</b>	<b>-733</b>	<b>-2,037</b>
<b>Cashflow from discontinued operations</b>	27			<b>-187</b>	<b>-401</b>
<b>Net change in cash and cash equivalents</b>		<b>-6</b>	<b>97</b>	<b>44</b>	<b>208</b>
Cash and cash equivalents per 1 January .....		15	9	596	616
Foreign exchange adjustment of cash and cash equivalents .....				-24	29
<b>Cash and cash equivalents per 31 December</b>		<b>9</b>	<b>106</b>	<b>616</b>	<b>853</b>
<b>Specification: Statement of free cash flow adjusted for acquisition and disposal of subsidiaries etc.</b>					
Free cash flow .....		-1,579	865	964	2,646
Acquisition of subsidiaries etc. ....	26	1,320	120	893	145
Proceeds from disposal of subsidiaries etc. ....	26	-76	-81		-13
Purchase and sale of shares and other securities .....	28	7	-15	49	14
<b>Free cash flow before M&amp;A</b>		<b>-328</b>	<b>889</b>	<b>1,906</b>	<b>2,792</b>

The cash flow statement cannot be derived on the basis of the annual financial statements alone.

## SPECIFICATION OF EQUITY

mill DKK

	Group										
	Share capital	Share premium	Hedging reserve	Translation reserve	Reserve own shares	Other reserves	Reserves	Proposed dividends	Danfoss A/S' share of equity	Minority interest	Total equity
Balance at 1 January 2009	1,027		-93	-788	-47	9,503	8,575	205	9,807	2,060	11,867
Net profit						-1,184	-1,184		-1,184	-218	-1,402
Foreign exchange adjustments when converting foreign currencies into DKK etc.				-96			-96		-96	18	-78
Fair value adjustment of hedging reserve:											
Fair value adjustment of the year regarding hedging of net investments in subsidiaries				112			112		112		112
Fair value adjustment of the year regarding hedging of future cash flows			26				26		26		26
Fair value adjustment transferred to Net sales in the Profit and Loss Account			-49				-49		-49		-49
Fair value adjustment transferred to costs of sales in the Profit and Loss Account			32				32		32		32
Actuarial gain/loss (-) on defined benefit plans						-109	-109		-109	8	-101
Tax on total income			12	-28		32	16		16		16
Dividends to shareholders								-205	-205	-100	-305
Transfers					1	-1					
Purchase of minority interest						-5	-5		-5	-1	-6
Shares issued/capital reduction					-57		-57		-57		-57
Balance at 31 December 2009	1,027		-72	-800	-103	8,236	7,261		8,288	1,767	10,055
Net profit						1,007	1,007	102	1,109	269	1,378
Foreign exchange adjustments when converting foreign currencies into DKK etc.			7	596			603		603	77	680
Fair value adjustment of hedging reserve:											
Fair value adjustment of the year regarding hedging of net investments in subsidiaries				-141			-141		-141		-141
Fair value adjustment of the year regarding hedging of future cash flows			-169				-169		-169	-2	-171
Fair value adjustment transferred to Net sales in the Profit and Loss Account			91				91		91		91
Fair value adjustment transferred to costs of sales in the Profit and Loss Account			-5				-5		-5		-5
Actuarial gain/loss (-) on defined benefit plans						-56	-56		-56	-22	-78
Tax on total income			18	35		-26	27		27	-7	20
Dividends to shareholders										-134	-134
Transfers		136				-136	-136				
Shares issued/capital reduction					-10		-10		-10	15	5
Share based payment						1	1		1		1
Disposals through sale of subsidiaries										-1	-1
Balance at 31 December 2010	1,027	136	-130	-310	-113	9,026	8,473	102	9,738	1,962	11,700



## SPECIFICATION OF EQUITY (continued)

mill DKK

	Parent Company							
	Share capital	Share premium	Hedging reserve	Reserve own shares	Other reserves	Reserves	Proposed dividends	Total equity
Balance at 1 January 2009	1,027		-23	-47	4,978	4,908	205	6,140
Net profit					678	678		678
Meger with subsidiary					40	40		40
Fair value adjustment of hedging reserve:								
Fair value adjustment of the year			33			33		33
Fair value adjustment transferred to Net sales in the Profit and Loss Account			-80			-80		-80
Tax on total income			12			12		12
Dividends to shareholders							-205	-205
Additions in the year				-57		-57		-57
Transfers				1	-1			
Balance at 31 December 2009	1,027		-58	-103	5,695	5,534		6,561
Net profit					-911	-911	102	-809
Fair value adjustment of hedging reserve:								
Fair value adjustment of the year			-60			-60		-60
Tax on total income			15			15		15
Additions in the year				-10		-10		-10
Transfers		136			-136	-136		
Balance at 31 December 2010	1,027	136	-103	-113	4,648	4,432	102	5,697

The share capital and equity development are described in note 16. Share capital, 17. The development of capital and reserves and in Management Report under "Relationship with shareholders".

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## 1. Basis of preparation

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1-December 31 2010 comprises both the group accounts of Danfoss A/S and its subsidiaries (the Group) and separate accounts of the parent company, according to the requirement of the Danish Financial Statements Act.

The group accounts and the Annual Report of Danfoss A/S for 2010 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports pertaining to class D companies, see the IFRS statutory order issued pursuant to the Danish Financial Statements Act. In addition, the Annual Report has been prepared in compliance with IFRS issued by the International Accounting Standards Board (IASB).

The Danfoss Board and Executive Committee reviewed and approved the Danfoss A/S Annual Report 2010 on March 28 2011, and it will be presented for approval at the Ordinary General Meeting to be held at April 29 2011.

Unless otherwise specified, the annual report has been presented in DKK, rounded to the nearest million.

The annual report has been prepared on the historical cost basis except for the following assets and liabilities which are measured at fair value: derivatives, derivatives, financial instruments as part of a trading portfolio, financial instruments classified as available for sale, liabilities related to share options and warrants and pension obligations. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount before the changed classification and fair value less costs to sell.

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

The accounting policies used are consistent with those of last year, except for the changes described below which have not had a considerable effect in amounts.

Changes in accounting policies

Effective from January 1 2010, Danfoss A/S has implemented as follows:

- IFRS 3 (updated 2008): Business Combinations
- Amendments to IFRS 2: Group Cash-settled Share-based Payment Transactions
- Amendments to IFRS 27: Consolidated and Separate Financial Statements
- Amendments to IAS 39: Eligible Hedged Items
- Parts of Improvements to IFRS (2009).

Furthermore, the IFRIC 17 »Distributions of Non-cash Assets to Owners« and IFRIC 18 »Transfer of Assets from Customers« have been implemented in 2010.

The new standards and interpretations only had a limited effect on recognition and measurement performed in 2010. The new standards and interpretations have no considerable impact on the Group's result and diluted earnings per share.

## 2. Critical accounting policies and significant accounting estimates and judgements

Determining the carrying amount of certain assets and liabilities requires estimates over how future events will affect the value of these assets and liabilities at the Balance Sheet date. As a result of the financial trend of the global economy and the financial markets, the uncertainty of some future key prerequisites – such as liquidity risk, credit risk, interest level and capital control – has grown compared with previously. Therefore, Danfoss provides additional information about items whose accounting value is significantly at risk of being adjusted considerably over the next few years. Estimates, which are significant for the preparation of the financial statements, are e.g. made of the fair value of assets and liabilities acquired in business combinations, goodwill, assessment of depreciation, amortization and impairment of non-current assets, measurement of deferred tax assets and measurement of inventories, trade receivables, warranty obligations and other provisions, liabilities related to share options and warrants and defined benefit pension plans. The estimates used are based on assumptions which by Management are assessed to be reliable, but which by nature are associated with uncertainty. Accordingly, the Company is subject to risks and uncertainties which may result in the fact that actual results may differ from these estimates. For the Group, the measurement of intangible fixed assets could be materially affected by significant changes in estimates and assumptions on which the measurement is based.

### **Fair value of assets and liabilities acquired in business combinations**

On acquisition of enterprises, the acquired identifiable assets and liabilities, including contingent liabilities, are determined at fair value at the acquisition date.

For a majority of the assets and liabilities acquired, no active market exists which can be used to determine the fair value. This applies in particular to acquired intangible fixed assets. Other methods are then used based on Management's estimates and judgments, e.g., typically, the income approach, which is based on the net present value of future cash flows e.g. royalty payments or other expected net cash flows associated with an asset, or the cost method, which is based on e.g. the replacement cost.

The fair value of the identifiable assets, liabilities and contingent liabilities is specified in note 26. Acquisition and sale of subsidiaries activities.

### **Impairment of goodwill**

In performing the annual impairment test of goodwill, an assessment is made of how 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 Company's operations, estimates have to be made of expected cash flows many years into the future, which, naturally, will be subject to some degree of uncertainty. This uncertainty is reflected in the selected discount rate. The impairment test and the particularly sensitive parts of the test, including the allocation of goodwill on cash generating units, are described in detail in note 11. *Intangible fixed assets*.

### **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 under consideration of 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 the useful life and residual values, the 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 note 3 of the accounting policies, and the value of non-current assets is disclosed in notes 11. *Intangible fixed assets* and 12. *Tangible fixed assets*.

### **Measurement of recognized tax assets**

Deferred taxes, including the value for tax purposes of loss carryforwards, are recognized with their expected value. The adjustment for loss carryforwards is based on the expected, future taxable income of the respective units and the due date of the losses. Please refer to note 20. *Deferred tax etc. for tax assets* which are not recognized.

### **Measurement of inventories**

Inventories are recognized at cost or the net realisable value, provided the net realizable value is lower than the cost price. The net realizable value of inventories is calculated based on the size of the inventory and decreases in the recoverable amount of purchased raw materials, technical obsolescence (e.g. faulty products), physical obsolescence (e.g. damaged products) or financial obsolescence (e.g. reduced demand).

Write-downs of inventories are based on an individual assessment of a product or product group and expected product sales. The value of inventories and write-downs of inventories are disclosed in note 13. *Inventories*.

### **Write-down for bad debt**

Receivables are measured at amortized cost less write-down for expected bad debt losses. Write-downs for expected bad debt losses are based on an individual assessment of each receivable.

If a customer's financial condition deteriorates, and thus the ability to meet the financial obligation to Danfoss A/S, further write-downs may be required in future periods.

Based on actual losses incurred, uncertainties associated with write down for bad debt losses are considered limited. Write-downs for expected bad debt losses are disclosed in note 14. *Trade receivables and receivables from subsidiaries*.

### **Warranty and other provisions**

As part of its normal business policy, Danfoss A/S supplies its products with ordinary and extended warranties. Warranty provisions are recognized based



## 2. Critical accounting policies and significant accounting estimates and judgements (cont.=

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 Company 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 by nature uncertain.

In assessing the likely outcome of lawsuits and tax disputes etc. Management bases its assessment on external legal assistance and decided cases. Further information is disclosed in note 18. Warranty and other provisions.

### **Liabilities related to share options and warrants**

For share options and warrants where employees upon exercise receive shares, the cost is measured at the fair value at the grant date. The fair value at the grant date is calculated using the Black & Scholes model. For share options and warrants where employees can select cash settlement of the option or right, a liability is recognised in the Balance Sheet. The liability is recognised at fair value at the Balance Sheet date and calculated using the Black & Scholes model.

A significant parameter in the measurement of the fair value of the liability is the price of the Danfoss share, which is assessed annually by the Danske Bank at the annual general meeting after the end of a fiscal year. On the date where the annual general meeting approves the annual report for the previous year the share price for the coming year is published. As the Danfoss share is unlisted, some uncertainty will be associated with the measurement of the fair value. If the future price of the Danfoss share increases, this would also increase the liability related to share options and warrants. Further information on the assumptions made is provided in *note 19. Share schemes*.

### **Defined benefit plans**

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 consideration 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 variables such as interest rates, inflation, mortality and disability probabilities, which are associated with some degree of uncertainty. External actuaries are used for the measurement of all significant defined benefit plans. The assumptions used are disclosed in *note 21. Defined benefit plans*.

### 3. Applied accounting policies

#### The group accounts

The group accounts include the Parent Company Danfoss A/S and subsidiaries in which Danfoss A/S directly or indirectly holds more than 50% of the voting rights or in another way has control. Companies in which the Group has between 20% and 50% of the voting rights and exercises a significant, but not controlling, influence are considered associates or jointly controlled entities (joint ventures) when the joint venture conditions of IAS 31 are complied with. When assessing whether Danfoss A/S has controlling or exercises significant influence or has shared control, potential voting rights are taken into account, which can be utilized on the Balance Sheet day.

The group accounts are prepared by aggregating the annual financial statement of the Parent Company and those of the individual subsidiaries which have all been prepared in accordance with Danfoss A/S' accounting policies.

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, shareholding, internal balances and dividends and realized and unrealized profits and losses on transactions between the consolidated companies are eliminated. Unrealized losses are eliminated in the same way as unrealized profits, provided that value deterioration has not taken place.

In the group accounts, the items of subsidiaries are recognised 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 recognised in the group accounts from the acquisition date, and divested companies are recognised in the consolidated Profit and Loss Account until the time of divestment. Comparative figures are not adjusted for newly acquired companies. Unless divested companies are classified as terminable activities (refer to related section), comparative figures are not adjusted accordingly

When the Danfoss Group takes over the controlling interest in acquired companies, the acquisition 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 fixed assets are recognised if they can be separated or arise from a contractual right, and the fair value can be reliably measured. 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 cost of a business comprises the fair value of the consideration agreed upon, in the form of related assets, accepted liabilities and issued equity instruments. If part of the cost is conditional on future events or the fulfilment of agreed conditions, the part of the cost is recognized at fair value at the acquisition date. Costs that are directly related to business combinations are recognized directly in the Profit and Loss Account at the time of payment.

If uncertainty exists at the acquisition date concerning the identification or assessment of acquired assets and liabilities or contingent liabilities, the first recognition is made at preliminarily set fair values. If it is later shown 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, within a period of 12 months following takeover. The impact of the adjustments is recognized in the equity at the start of the year and comparative figures are adjusted. Subsequently, goodwill is not adjusted. Changes in estimates of the cost are, as a rule, recognized directly in the Profit and Loss Account.

Any positive balances (goodwill) between the cost and the fair value of the identifiable assets and liabilities, including contingent liabilities, are recognized as goodwill under intangible fixed assets. Goodwill is not amortised, but is subject to annual impairment tests. The initial impairment test is carried out before the end of the acquisition year. At the 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, which is followed up upon by the internal financial reporting, which in some cases do not follow the management structure.

Goodwill and fair value adjustments, which have been performed in connection with the takeover of a foreign unit using another functional currency than the Danfoss Group's presentation currency, are treated as assets and liabilities belonging to the foreign unit and converted to the functional currency used by the foreign unit at the price on the transaction day.

Gains or losses on disposal or winding-up of subsidiaries, associates or joint ventures are recognized as the difference between the sales amount or the winding-up costs and the carrying amount of net assets, incl. goodwill at the date of disposal, and disposal or winding-up costs.

#### Combinations of businesses subject to the same monitoring

The Parent Company merged with DEVI A/S in 2010. Upon the merger of companies, which are subject to the same monitoring, the aggregation method is used. The merged companies are then recognized in the merger year in the Parent Company's financial statement so as to reflect that they had been merged during the accounting year. Comparative figures are adjusted accordingly, so as to reflect that the companies had been merged in the comparative year.

### 3. Applied accounting policies (cont.)

Assets and liabilities in the merged company are recognized at accounting value on a book basis, in accordance with the accounting policy of the Parent Company. Any balances between the figure, which is paid in the form of shares or cash, and the book value are recognized in the equity. Eliminations of inter-company transactions are made, irrespective of whether they were performed before or after the merger.

#### Minority interests

Upon the initial recognition, minority interests are either assessed 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 pertaining to the minority interests' ownership share in the acquired company, whereas in the latter case, goodwill is not recognized pertaining to minority interests. The assessment of minority interests is performed for each transaction and stated in the notes relating to the review 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 other currencies 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 Profit and Loss Account 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 group accounts of companies with another functional currency than DKK, the Profit and Loss Accounts 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 the 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, than if the exchange rate at the transaction date had been used. 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 Profit and Loss Accounts from the exchange rates at the transaction date to the exchange rates at the Balance Sheet date are recognized directly in the statement of recognised income and expenses under a separate reserve for exchange rate adjustments. The exchange rate adjustment is allocated evenly between the equity of the Parent Company and the minority shareholders.

Currency translation 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 exchange rate adjustments. Likewise, currency rate gains or losses are recognized in the group accounts (directly in the equity under a separate reserve for exchange rate 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 100%-owned foreign units, the exchange rate adjustments, which have been accumulated in the equity via a different comprehensive income and which can be ascribed to the unit, are reclassified from "Reserve for exchange rate adjustment" to the Profit and Loss Account, combined with any gains or losses incurred at the disposal.

On disposal of partially-owned foreign subsidiaries, the part of the currency rate reserve related to minority interests is not recognized in the Profit and Loss Account.

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

#### Profit and Loss Account

##### Net sales

Net sales of goods for resale and finished goods are recognised in the Profit and Loss Account, provided delivery and transfer of risk to the purchaser has taken place before the year end, and the income can be reliably measured and payment is expected to be received. Net sales are recorded 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 Profit and Loss Account as the services are performed. Accordingly, the recognized sale corresponds to the selling price of the work performed during the year. The sale of services is recognized in the Profit and Loss Account when the aggregate income and expenses of the service contract can be reliably determined, and it is probable that the group will receive the financial benefits, including payments.

##### Cost of sales

Cost of sales includes 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. Cost of sales also includes research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

##### Distribution costs

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

### 3. Applied accounting policies (cont.)

#### **Administrative expenses**

Administrative expenses include expenses in relation to administrative staff, management, offices, office costs 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 costs.

#### **Profits/losses from investments in associates and joint ventures (jointly controlled enterprises)**

The proportionate share of the results of associates and jointly controlled enterprises after tax is recognized in the consolidated Profit and Loss Account and 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 additions and compensation in accordance with the Tax Prepayment Scheme etc. Also included is the interest element of finance leases and gains and losses on derivatives which are not designated as hedging arrangements.

Borrowing costs incurred by general borrowing activities or loans which relates directly to the purchase, construction or development of qualified assets, are allocated to the cost price of such assets.

Dividends to owners of capital who have received put options are recognized as financial expense. Dividends from subsidiaries, associates and joint ventures are recognized in the Parent Company's Profit and Loss Account at the declaration date.

#### **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, licenses and other intangible fixed assets**

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources and a potential future market or development opportunities in the company are evidenced, and where the

company intends to produce, market or use the project, are recognized as intangible fixed assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net sales price can cover cost of sales, selling and administrative expenses and development costs. Other development costs are recognized in the Profit and Loss Account when incurred.

Expenses for the purchase and development of development projects are recognized 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. Development projects, including software, are generally amortised on a straight-line basis over 4 to 5 years.

Patents and licenses are recognized 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 contract period or the useful life, if this is shorter. Patent and contract periods are normally 5-10 years.

##### **Other intangible assets**

Other intangible fixed assets, including intangible fixed assets acquired in a business combination, which typically includes 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 fixed assets, including trademarks, with indefinite useful lives and development projects in progress are not amortized, but are tested annually for impairment.

Gains and losses on the disposal of intangible fixed assets are determined as the difference between the sales price less sales expenses and the carrying amount at the time of the sale. Gains or losses are recognized in the Profit and Loss Account under Other operating income or Other operating expenses.

##### **Tangible fixed assets**

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

Cost includes the purchase price, expenses for materials, components, sub suppliers, direct salary expenses, borrowing costs incurred from specific and general borrowing which directly pertains to the construction of the individual asset and for own manufactured assets as well as indirect cost of sales. Where individual components of an item of tangible fixed assets have different useful lives, they are accounted for as separate items, which are depreciated separately.



### 3. Applied accounting policies (cont.)

Subsequent costs, e.g. in connection with replacement of components of tangible fixed assets, 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 Profit and Loss Account as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets.

Expected useful lives:

Buildings .....	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 and 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.

Gains and losses on disposal of tangible fixed assets are determined as the difference between the sales price less selling costs and the carrying amount at the selling date. Gains or losses are recognized in the Profit and Loss Account 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 an approximation thereof is used as discount rate. Assets held under finance leases are recognized in the Profit and Loss Account under Other operating income or Other operating expenses.

Operating leases are systematically expensed over the lease term.

#### Impairment of non-current assets

Goodwill and intangible fixed assets with indefinite useful lives are tested annually for impairment, initially before the end of the acquisition year. Similarly, projects in progress are subject to an annual impairment test. Deferred tax assets are subject to annual impairment tests and are recognised 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 indications of impairment. When there is an indication 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 selling costs and its capital value. The capital value is determined as the present value of expected future cash flows from activities 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 of assets is reversed only 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 amortisation had the asset not been impaired. However, impairment of goodwill is never reversed.

#### Financial assets

Investments in associates and jointly controlled enterprises are recognized in the group accounts according to the equity method and measured at the proportionate share of the enterprises including additional value from purchases, including goodwill and deductions or the addition of proportionate share of unrealized, intra-group profits and losses. Investments in associates are tested for impairment, when an indication of it occurring exists.

In the parent company's annual accounts, investments in subsidiaries and associates are measured at cost. In case of an indication of a decrease in value, an impairment test is made. If allotments exceed the period's total income in subsidiaries, associates or joint ventures in the period when the dividend is declared, impairment tests are also performed. Where the recoverable amount is lower than cost, investments are written down to this lower value.

Securities classified as available-for-sale are recognized under non-current assets at fair value plus trade costs at the trade date and are subsequently measured at fair value, corresponding to market price or an estimated fair value. If the fair value cannot be determined reliably, the assets are measured at cost. Unrealized value adjustments are recognized directly in the statement of recognized income and expenses, except for impairment losses and reversals. On realization, the accumulated value adjustment recognized in the statement of recognized income and expenses is transferred to financial items in the Profit and Loss Account.

#### 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 goods under manufacturing and manufactured finished goods includes expenses for raw materials and consumables, conversion costs and other costs, which directly or indirectly can be related to the goods. Indirect cost of sales includes maintenance and depreciation of production facilities and plants as well as administration and management of factories.

#### Accounts receivable

Accounts receivable are measured at amortized cost. Receivables are written down for bad debt losses 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

### 3. Applied accounting policies (cont.)

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 net realizable value of any collateral provided. The discount rate is the effective yield used at the time of the first recognition of the amount receivable.

#### Securities

Bonds, which are monitored on an ongoing basis, are measured and reported at fair value as prescribed by the group's investment policy. Bonds are recognized at fair value on the trade day as short-term assets and are subsequently measured at fair value. Changes to the fair value and received bond interest rates are continuously recognized in the Profit and Loss Account as financial items.

#### Equity

##### Share capital

The share capital includes 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 account

The share premium account issue includes amounts not included in the nominal share capital, which are paid by the shareholders in connection with capital extensions, and gains from the sale of own shares. The reserve is part of the company's free reserves.

##### Reserve for proposed dividends

Dividends are recognized as a liability at the time of the decision at the Annual General Meeting. Proposed dividends for the financial year are included in equity under proposed dividends.

##### Hedging reserve

When hedging future sales and purchase transactions (cash flow), changes in the fair value of instruments meeting the hedge accounting criteria (documentation etc.) are recognized in the statement of recognized income and expenses under the hedging reserve, until the hedged transaction is realized. The recognized changes in the fair value are included in the statement of recognized income and expenses under the 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 Profit and Loss Accounts 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 recognized income and expenses under the item currency rate adjustments. Exchange rate adjustments of noncurrent balances with foreign subsidiaries and associates, which are considered additions or deductions of the subsidiaries' equity as well as exchange rate adjustments of hedging transactions which

have the purpose of hedging the group's net investments in subsidiaries, are also recognised directly in the statement of recognised income and expenses. The translation reserve in the equity includes the parent company shareholders' share of the currency rate adjustments.

##### Reserve for own shares

The reserve for own shares include the acquisition price for the company's portfolio of own shares. The dividend of own shares is recognized directly in the transferred result in equity. Profit and loss from the sale of own shares are recognized as a 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 the spending of the group's financial resources which can be determined reliably 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 society's general interest level and the specific risks related to the obligation. The accounting year's shift in present values is recognized under financial costs.

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

Restructuring and employee termination costs are recognized under provisions when the group has decided on a detailed and formal plan, and the group has started the implementation or the group has announced the plan to the persons affected. Restructuring provisions do not include costs for the ongoing operations during the restructuring phase. Liabilities for earn-out agreements and put options for the purchase of additional shares in acquired companies, which includes both the 'put' and 'call' elements, are recorded as a provision. The measurement of the provisions allows for the discounting of the payments necessary to settle the liability, if this has a significant impact on the measurement of the liability. Any adjustments caused by changes made to the fair value are, as a rule, recorded directly in the Profit and Loss Account, cf. the section Business combinations.

##### Share-based remuneration

The Board, Executive Committee and several senior employees are included in the 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.

### 3. Applied accounting policies (cont.)

For equity-settled schemes the fair value is measured at the grant date and recognized in the Profit and Loss Account as personnel costs over the period during which the employees become unconditionally entitled to the options and warrants. The corresponding entry is an increase in equity.

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 as personnel costs over the period during which the employees become unconditionally entitled to the instruments.

Subsequently, the fair value of the instruments is measured at the Balance Sheet date and changes in value are recognised in the Profit and Loss Account 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 19. Share schemes. 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 (warrants and option model) taking into account the terms and conditions upon which the instruments were granted. The calculation allows for conditions and terms relating to the granted instruments.

#### Employee shares

On the allotment of employee shares, any bonus element is recognized as an expense under personnel costs. The corresponding entry is recognised 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

The group has entered into pension schemes and similar arrangements with the majority of the group's employees.

Contributions to defined contribution plans where the group currently pays fixed pension payments to independent pension funds are recognized in the Profit and Loss Account in the period to which they relate and any contributions outstanding are recognized in the Balance Sheet as other payables.

For defined benefit plans the group is under obligation to pay a fixed amount 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 obligations.

Pension costs for the year are recognised in the Profit and Loss Account based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in pension plan assets and liabilities and realised amounts determined at year end constitutes actuarial gains or losses and is recognised directly in the statement of total recognised income and expenses. 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 historical costs. Historical costs are recognized immediately, provided employees have already earned the changed benefits. If employees have not earned the benefits, the historical costs are recognized in the Profit and Loss Account over the period in which the changed benefits are earned by the employees.

If a pension 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.

#### Health benefit plans

The plans contribute with payment for medical expenses for certain employee groups in the USA after their retirement. These plans are recognised and measured according to the same principles as stated above under defined benefit plans. A present value of these obligations is determined, with the main variables being the expected increase in doctor/medical costs, the interest rate (discount rate) and the expected average life expectancy.

#### 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 Profit and Loss Account immediately. Other long-term employee benefits include jubilee benefits.

#### Financial liabilities

Liabilities are initially recognized at fair value less transaction costs. Subsequent measurement is made at cost/amortized cost, implying the recognition of a constant effective interest rate to maturity. Amortized cost is calculated as initial cost minus any principal repayments and plus or minus the cumulative amortization of any difference between cost and nominal amount. Any capitalized residual obligation on finance leases is recognized in the Balance Sheet as a liability. The interest element of the lease payment is expensed in the Profit and Loss Account under financial items.

### 3. Applied accounting policies (cont.)

#### **Government grants**

Government grants, which are received as compensation for expenses eligible for grants, are recognized systematically in the Profit and Loss Account as the expenses which the grants are intended to compensate are incurred. Grants relating to investments (non-current assets) are deducted from the cost of the noncurrent assets.

#### **Corporation tax and deferred tax**

Danfoss A/S' companies are liable to pay tax in the countries where they are domiciled. The current tax includes both Danish and foreign income tax. Danfoss A/S is jointly taxed with its Danish subsidiaries and fellow subsidiaries. Current tax and deferred tax is allocated between the jointly taxed companies. The jointly taxed companies are taxed under the on-account tax scheme.

#### **Profit and Loss Account**

The current and deferred taxes for the year are recognized in the Profit and Loss Account, except from tax related to transactions, which are recognized in the statement of recognized income and expenses.

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

#### **Balance Sheet**

Current tax payable and receivable is recognized in the Balance Sheet as tax computed on the taxable income for the year, adjusted for tax paid on account. Deferred tax liabilities and deferred tax assets are recognized in the Balance Sheet on all temporary differences between the carrying amount and the tax base of assets and liabilities. Exceptions are the tax which is incurred by selling shares in subsidiaries and which the group can identify as being a tax liability and tax relating to goodwill which is not deductible for tax purposes. Deferred tax assets are recognized at the expected value of their utilization; either as a set-off against tax on future income or as a setoff against deferred tax liabilities in the same legal tax entity and jurisdiction. Adjustment is made to 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 crystallise as current tax. In Denmark, the tax rate was 25% in 2010 (2009: 25%).

#### **Derivatives**

Derivatives, such as foreign exchange contracts or options and raw material contracts, are recognised and measured at fair value. Positive and negative fair values of derivatives are included in other receivables and payables, respectively, and 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, the instruments are subject to hedge accounting. By hedging future sales and purchase transactions (cash flow), changes in the fair value of instruments meeting

the hedge accounting criteria are recognized in the statement of recognised income and expenses under the hedging reserve until the hedged transaction is realized. At this point, gains or losses relating to such hedging transactions are transferred in the statement of recognized income and expenses and are recognized in the same item as that of the hedged transaction. If the criteria for hedge accounting are not fulfilled, changes in market value are recognized directly in the Profit and Loss Account under financial items.

#### **Discontinued activities**

Discontinued activities comprise a significant part of the business if activities and cash flows, in terms of operations and accounting, can be clearly excluded from the remaining parts of the business. This is also true where the unit is either divested or separated for the purpose of sale and the sale is expected to be completed within 12 months in accordance with a formal plan. Discontinued activities also include companies which have been classified as "held for sale" in connection with the acquisition.

The result after tax from discontinued activities and value adjustments after tax of relating assets and liabilities as well as profit/loss incurred from sales must be recorded separately in the Profit and Loss Account, including adjustment of comparative figures. The Notes include an explanation of net sales, costs, value adjustments and tax pertaining to the discontinued activity. Assets and related liabilities pertaining to discontinued activities are recognized separately in the Balance Sheet with no adjustment of the comparative figures, cf. the section Assets held for sale, and the main items are specified in the Notes.

#### **Assets held for sale**

Assets held for sale comprise non-current assets and disposal groups held for sale. Disposal groups are defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction. Liabilities associated with assets held for sale are those liabilities directly associated with the assets that will be transferred in the transaction. Assets are classified as held for sale if the carrying amount will be recovered principally through a sale within 12 months in accordance with a formal plan rather than through continuing use.

Assets or disposal groups held for sale are measured at the lower of carrying amount or fair value less costs to sell. Assets are not depreciated from the date when they are reclassified as held for sale. Impairment losses on initial recognition as held for sale and gains and losses on subsequent remeasurement at the lower of carrying amount and fair value less costs to sell are recognized in the Profit and Loss Account in the items to which they relate. Gains and losses are disclosed in the Notes. Significant assets and liabilities are recognized separately in the Balance Sheet and main items are specified in the Notes. Comparative figures in the Balance Sheet are not adjusted.

#### **Cash flow statement**

The cash flow statement shows the cash flows from operating, investing and financing activities for the year and cash equivalents at the beginning and end



### 3. Applied accounting policies (cont.)

of the year. Cash generated from the acquisition and sales of companies is showed separately under cash flows from investing activities. Cash flows relating to acquired companies are recognized in the cash flow statement at the acquisition date, and cash flows relating to divested companies are included until the disposal date.

#### Cash flows from operations

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

#### Cash flows from investing activities

Cash flows from investing activities include payment in connection with the acquisition and sale of companies and activities, intangible and tangible fixed assets as well as securities related to investing activities. Cash flows from 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 longterm and short-term bank debt, acquisition of minority interests, acquisition and disposal of own shares and payment of dividends to shareholders.

#### Cash and cash equivalents

Cash and cash equivalents include 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, except for Sauer-Danfoss which is subjected to the US GAAP accounting policies. Please refer to 10K at [www.Sauer-Danfoss.com](http://www.Sauer-Danfoss.com) for further information.

The income, expenses, assets and liabilities of the segment include those which can be allocated on a reasonable basis.

Items which are not allocated primarily include income and expenses incurred by corporate functions, deferred tax (assets and liabilities), outstanding and payable tax, cash and interest-bearing liabilities.

Long-term assets in the segment are those which are used directly for segment operations, including intangible and tangible assets as well as investments in associated companies. Short-term assets are those which are used directly for segment operations, including inventories, trade accounts receivables and other receivables.

Segment obligations are those which are derivatives of segment operations, including supplier debt on goods and services, other debt and warranty obligations as well as other provisions.

Trade between segments generally takes place at arm's length prices on a cost covering basis.

#### Financial ratios

Earnings per share (EPS) and diluted earnings per share (DEPS) are calculated in accordance with IAS 33. Where the financial ratios are 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 2010".

## 4. Segment reporting

mill DKK

### Main business segments

#### PROFIT AND LOSS ACCOUNT

	2009					2010				
	Danfoss Climate & Energy	Sauer-Danfoss Inc. (US GAAP)	Danfoss Development	Other areas	Group	Danfoss Climate & Energy	Sauer-Danfoss Inc. (US GAAP)	Danfoss Development	Other areas	Group
Net sales	15,112	6,206	2,689	158	<b>24,165</b>	18,923	9,231	3,284	112	<b>31,550</b>
hereof internal net sales		17		-17		25	36	54	-115	
Net sales, external	15,112	6,189	2,689	175	<b>24,165</b>	18,898	9,195	3,230	227	<b>31,550</b>
Depreciation/amortization	793	608	80	386	<b>1,867</b>	714	546	177	347	<b>1,784</b>
Impairments/reversal of impairment losses previous years (-)	26	272	38	582	<b>918</b>	1		1	2	<b>4</b>
Operating profit (EBIT)	1,051	-1,113	-244	-1,125	<b>-1,431</b>	2,509	1,384	-51	-578	<b>3,264</b>
Income from associates and joint ventures after tax	-21		-16		<b>-37</b>	16		-2		<b>14</b>
Profit before finance	1,030	-1,113	-260	-1,125	<b>-1,468</b>	2,525	1,384	-53	-578	<b>3,278</b>

#### BALANCE SHEET

Total assets *)	11,644	5,545	3,260	8,193	<b>28,642</b>	13,032	6,302	2,867	7,667	<b>29,868</b>
Capital expenditure	569	223	182	35	<b>1,009</b>	552	147	208	66	<b>973</b>
Impairments	26	272	38	582	<b>918</b>	1		1	2	<b>4</b>
Investment in associates and joint ventures	160		4	7	<b>171</b>	163		4	9	<b>176</b>
Total liabilities	2,921	4,742	1,447	9,477	<b>18,587</b>	3,781	4,230	1,054	9,103	<b>18,168</b>

#### OTHER INFORMATION

Number of employees	13,502	6,117	5,172	949	<b>25,740</b>	13,476	6,030	3,449	437	<b>23,392</b>
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The three segments, "Danfoss Climate & Energy", Sauer-Danfoss Inc. and "Danfoss Development" are further described in separate reports. As described in "Accounting policies" for segment information, the items cash and cash equivalents, interest-bearing debt and deferred taxes are not allocated to the segments.

\*) Cash and cash equivalents, interest-bearing debt, deferred taxes and regulations from US GAAP to IFRS have been recorded in the column "Other areas".

## 4. Segment reporting (continued)

mill DKK

### Products and services

	Group	
	2009	2010
HVAC	16,165	19,081
Hydraulics	6,567	9,271
Other	1,433	3,198
	24,165	31,550

### Geographical segments (secondary segments)

	Group									
	2009									
	Denmark	Other EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales	1,051	10,814	2,227	3,476	4,557	248	455	1,022	315	24,165
Total assets *)	8,711	6,940	1,553	2,320	6,485	88	260	622	46	27,025
Capital expenditure	32	498	64	173	237			5		1,009
	Group									
	2010									
	Denmark	Other EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales	1,044	13,237	2,872	5,384	6,342	292	520	1,459	400	31,550
Total assets *)	10,278	5,724	852	3,048	7,254	90	221	654	71	28,192
Capital expenditure	79	560	11	214	100			9		973

\*) 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 assets" and "Capital expenditure" after internal eliminations is based on the actual geographical location of the assets.

## 4. Segment reporting (continued)

mill DKK

### Specification of other areas - External net sales

	Group	
	2009	2010
Total net sales - non-reporting segments	206	228
Sauer-Danfoss Inc. IFRS adjustments	-31	-1
Total net sales	175	227

### Specification of other areas - Profit before finance

	Group	
	2009	2010
Profit before finance - non-reporting segments	44	
Central functions, not allocated	-252	-278
Sauer-Danfoss Inc. - IFRS adjustments , depreciations, amortizations & impairments on PPA *)	-923	-302
Eliminations & other	6	2
Profit before finance	-1,125	-578

\*) The Sauer-Danfoss segment IFRS adjustments relate to the conversion of the result from US GAAP to IFRS, incl. PPA amortizations and impairment.

### Specification of other areas - Assets

	Group	
	2009	2010
Assets - non-reporting segments	25	36
Central functions not allocated *)	2,504	2,437
Sauer-Danfoss Inc. - IFRS and PPA adjustments	5,670	5,206
Eliminations of internal accounts	-6	-12
Total assets	8,193	7,667

\*) Central functions, not allocated, are primarily Global Services' administration of buildings, deferred tax and cash equivalents.

### Specification of other areas - Liabilities

	Group	
	2009	2010
Liabilities - non-reporting segments	3	5
Central functions not allocated*)	3,056	1,262
Net interest bearing debt	9,302	7,946
Sauer-Danfoss Inc. - IFRS and PPA adjustments		1,321
Eliminations & other**)	-2,884	-1,431
Total Liabilities	9,477	9,103

\*) Centrale functions, not allocated, are primarily deferred tax and central functions obligations.

\*\*\*) Primarily interest bearing debt in the Sauer-Danfoss Segment. Interest bearing debt is not included in the other segments.



## 5. Expenses and other operating income

mill DKK

### A. Personnel expenses

	Parent Company		Group	
	2009	2010	2009	2010
Salaries and wages	1,588	1,559	6,820	7,266
Termination benefits	25	9	573	92
Equity compensation benefits *)	27	25	41	42
Social security	15	12	651	628
Defined contribution plans	132	122	385	384
Defined benefit plans			67	79
	1,787	1,727	8,537	8,491
Average number of employees	3,843	3,293	28,165	25,181
Total number of employees as per end of the year	3,586	3,179	25,740	23,392

\*) Benefits cf. further information in note 19. Equity compensation benefits.

Expenses for defined benefit plans are described in note 21. Defined benefit plans.

	Parent Company		Group	
	2009	2010	2009	2010
Personnel expenses divided in functions:				
Cost of sales	1,289	1,222	4,251	4,633
Distribution expenses	181	195	2,287	2,535
Administration expenses	292	301	950	862
Other operating income and expenses	25	9	353	92
Result from discontinued operations			696	369
	1,787	1,727	8,537	8,491

	Parent Company		Group	
	2009	2010	2009	2010
Board of Directors:				
Directors' fees *)	6	6	7	7
Equity compensation benefits **)	4	2	5	2
	10	8	12	9
Executive Committee:				
Salaries	15	18	16	19
Pension expenses for defined contribution plans	1	1	1	1
Bonus	7	18	7	18
Equity compensation benefits **)	6	8	6	8
	29	45	30	46
Executives: ***)				
Salaries		13		26
Pension expenses for defined contribution plans		1		3
Bonus		2		5
Equity compensation benefits **)		4		6
		20		40
Termination benefits:				
Executive Committee	4		4	
Executives ***)				6
Total compensation	43	73	46	101

\*) After retiring as CEO, Jørgen M. Clausen has maintained a remuneration of 3 mill DKK in accordance with the retirement conditions stated in his original employment contract as a CEO.

\*\*) Costs recorded according to the Black-Scholes model at the time of option allotment.

\*\*\*) Executives are members of the Group Committee (set up with effect from January 1 2010). Therefore, comparative figures relating to 2009 are not included.

## 5. Expenses and other operating income (continued)

mill DKK

### B. Depreciation/amortization and impairment losses

Divided into categories:

Amortization of intangible fixed assets
Depreciation of tangible fixed assets
Impairment on intangible fixed assets
Impairment on tangible fixed assets

Divided into functions:

Cost of sales
Distribution expenses
Administration expenses
Other operating expenses
Result from discontinued operations

Parent Company		Group	
2009	2010	2009	2010
102	90	514	506
196	177	1,527	1,388
		984	21
3		23	587
301	267	3,048	2,502
224	197	1,566	1,498
34	33	238	226
40	37	63	61
3		918	4
		263	713
301	267	3,048	2,502

### C. Research and development expenses

Research and development costs
Capitalized development costs
Amortization development costs

Parent Company		Group	
2009	2010	2009	2010
241	201	1,228	1,054
-72	-10	-106	-62
27	16	95	65
196	207	1,217	1,057

Research and development expenses are included in "Cost of sales".

### D. Other operating income

Gain on disposal of activities
Gain on disposal of tangible fixed assets
Other

Parent Company		Group	
2009	2010	2009	2010
10	1		7
1	1	11	33
11	11	78	82
22	13	89	122

In 2010, the most significant amount of the item "Other" was returned canteen VAT from previous years.

The most significant amounts included in "Other" in 2009 are public-sector grants received and penalties paid by customers who did not buy products as contractually agreed.

### E. Other operating expenses

Loss on disposal of activities
Loss on disposal of tangible fixed assets
Impairments
Other

Parent Company		Group	
2009	2010	2009	2010
-1	-62		-31
-1	-4	-85	-34
-3		-918	-4
-28	-24	-477	-189
-33	-90	-1,480	-258

The impairments of the year are based on expected utilization values. In 2009 they were mainly regarding goodwill in Sauer-Danfoss Inc. (910 mill DKK). The item "Other" comprises employment termination indemnities of 92 mill DKK, which are mainly ascribable to dismissals carried out in Germany, France and USA.

In 2009, the item "Other" included 353 mill DKK of employment termination indemnities and expenses primarily in connection with redundancies in Sauer-Danfoss Inc. and the shutting down of Danfoss Bauer's factory in Munich, Germany.

### F. Fees to the auditors appointed at the Annual General Meeting

KPMG:

Audit fee
Fees for auditor statement with assurance
Tax and VAT advice
Other fees
Total

Parent Company		Group	
2009	2010	2009	2010
8	6	34	30
	1	8	3
4	5	3	11
12	12	45	44

## 6. Non-current financial assets

mill DKK

	Parent Company				Group	
	2009				2009	
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Investments in associates and joint ventures	Other investments
Balance at 1 January	9,079		391	2	384	109
Disposal through merger with subsidiary	-465					
Foreign exchange adjustments etc.					7	
Acquisitions	1,033		7		13	19
Disposals	-101					-7
Balance at 31 December	9,546		398	2	404	121
Adjustments balance at 1 January	-219				-188	-78
Foreign exchange adjustments etc.					-8	-2
Impairments	-741		-46			-8
Net profit/value adjustment					-37	
Adjustments balance at 31 December	-960		-46		-233	-88
Carrying amount at 31 December	8,586		352	2	171	33

Impairment in "Investments in subsidiaries" concerns Danfoss Ventures A/S, Danfoss Distribution Services A/S, Danfoss Industries S.A. de C.V. and Sauer-Danfoss Inc. where impairments were made to utilization value.

	Parent Company				Group	
	2010				2010	
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Investments in associates and joint ventures	Other investments
Balance at 1 January	9,546		398	2	404	121
Foreign exchange adjustments etc.					15	
Acquisitions	107	1,135			2	14
Disposals	-111		-13		-21	-3
Balance at 31 December	9,542	1,135	385	2	400	132
Balance at 1 January	-960		-46		-233	-88
Foreign exchange adjustments etc.					-10	
Net profit/value adjustment					14	-12
Impairments	-222		-14			
Dividends					-3	
Disposal					8	
Balance at 31 December	-1,182		-60		-224	-100
Carrying amount at 31 December	8,360	1,135	325	2	176	32

At the end of 2010, impairment tests were made on the carrying amount of "Investments in subsidiaries". When carrying out the impairment test, the present value of cash flow from subsidiaries is compared with their carrying amount. Where possible, "Other investments" are recorded at fair value. Alternatively, they are recorded at cost price minus accumulated impairment losses.

Impairment in "Investments in subsidiaries" concerns mainly Avenir Energie, ECO Heat Pumps Ltd., Danfoss FZCO and Danfoss Compressor Holding A/S, where impairments were made to utilization value.

Further information about associated companies and joint ventures is provided in the notes 7. Financial income, 8. Financial expenses, 22. Financial instruments and 30. Related parties.

## 7. Financial income

mill DKK

	Parent Company		Group	
	2009	2010	2009	2010
Interest from subsidiaries	439	427		
Interest from associates and joint ventures	2	3	3	3
Interest from banks etc.		13	22	37
Foreign exchange gains, net	73			63
Unrealized/realized gains bonds and shares				4
Fair value adjustment for stock options and warrants *)	130		204	
Gain on liabilities from renegotiation	654		654	
Dividend from subsidiaries	712	379		
Dividend from associates and joint ventures		3		
	2,010	825	883	107

\*) Cf. note 19. Equity compensation benefits.

Renegotiation gains were obtained from Danfoss' acquisition of an additional 20.8% of the shares in Sauer-Danfoss Inc. In connection with the acquisition of Sauer-Danfoss Inc. shares in 2008, Danfoss accepted an option to buy an extra 20.8% of the shares. In the accounts, the acquisition was already considered to be performed in 2008 and the acquisition price was recorded as an liability. In November 2009, following negotiations with Sauer Holding GmbH, it was decided to bring forward Danfoss' acquisition of the additional 20.8% of shares. Thereby, an agreement was made to cancel the earlier option agreement to buy shares at a value which was 654 mill DKK higher.



## 8. Financial expenses

mill DKK

	Parent Company		Group	
	2009	2010	2009	2010
Interest to subsidiaries	-10	-14		
Interest to bank etc.	-326	-335	-482	-411
Interest on discounted provisions	-20		-20	
Foreign exchange losses, net		-233	-17	
Fair value adjustment for stock options and warrants *)		-1		-1
Impairment/loss on loans**)		-1,084		-16
Impairment/loss on disposal of shares in subsidiaries and associates/JV	-825	-236		
Loss on other investments			-15	-13
	-1,181	-1,903	-534	-441

\*) Cf. note 19. Equity compensation benefits.

\*\*) Impairment of loans for subsidiaries are mainly performed as a result of the sale of the compressor business.

## 9. Corporation tax expenses

mill DKK

Current tax expenses  
Change in deferred taxes  
Adjustments concerning previous years

Parent Company		Group	
2009	2010	2009	2010
-60	-96	-326	-682
4	8	674	-63
62	2	4	8
6	-86	352	-737

Tax of result from continuing operations is defined as:

Tax of result before tax of continuing operations  
Income from associates and joint ventures after tax  
Adjustment of tax in foreign subsidiaries calculated at 25%  
Impairment goodwill  
Tax exempt income/non-deductible expenses  
Adjustment of net tax assets  
Dividends exempt of tax  
Adjustments regarding prior years  
Other adjustments  
Effective tax rate

25.0%	25.0%	25.0%	25.0%
		0.7%	-0.1%
		12.8%	-2.0%
		-25.7%	
10.3%	-48.2%	21.6%	1.8%
		-2.7%	
-26.6%	13.2%		
-9.3%	0.4%	-0.4%	0.2%
-0.3%	-2.3%	0.2%	0.1%
-0.9%	-11.9%	31.5%	25.0%

Tax of result from continuing operations  
Tax on changes in equity  
Total taxes

Parent Company		Group	
2009	2010	2009	2010
6	-86	352	-737
12	15	16	20
18	-71	368	-717

## 10. Earnings per share

mill DKK

Net profit of continuing operations  
 Minority interests  
 The Group's share of net profit of continuing operations  
 Result from discontinued operations  
 The Group's share of net profit

Group	
2009	2010
-767	2,207
218	-269
-549	1,938
-635	-829
-1,184	1,109

Nominal value (mill DKK)

Average number of shares  
 Average number of own shares  
 Average number of shares issued  
 Effect of ordinary share options/warrants on issue  
 Diluted average number of ordinary shares issued

1,026.9	1,026.9
-5.6	-6.6
1,021.3	1,020.3
32.1	42.1
1,053.4	1,062.4

Earnings per share (share of nominal 100 DKK) of continuing operations  
 Earnings per share, diluted (share of nominal 100 DKK) of continuing operations

-53.8	189.9
-52.1	182.4

Earnings per share (share of nominal 100 DKK)  
 Earnings per share, diluted (share of nominal 100 DKK)

-115.9	108.7
-112.4	104.4

## 11. Intangible fixed assets

mill DKK

	<b>Group</b>							
	<b>2009</b>							
	Goodwill	Software	Brand	Technology	Customer relations	Patents, trademarks etc.	Development costs	Total
Cost at 1 January	4,744	588	869	2,867	1,712	407	364	6,807
Foreign exchange adjustments	-73	-1	-9	-56	5	7	2	-52
Addition through acquisition of subsidiaries	-20							
Additions		48			-90	92	106	156
Disposals		-11			-2	-64		-77
Cost at 31 December	4,651	624	860	2,811	1,625	442	472	6,834
Depreciation and impairment losses at 1 January		373		165	108	262	63	971
Foreign exchange adjustments		-1		-5	-10	13		-3
Amortization for the year		84		191	134	65	40	514
Impairments for the year	910				1	4	55	60
Disposals		-11				-50		-61
Depreciation and impairment losses at 31 December	910	445		351	233	294	158	1,481
Carrying amount at 31 December	3,741	179	860	2,460	1,392	148	314	5,353
	<b>Group</b>							
	<b>2010</b>							
	Goodwill	Software	Brand	Technology	Customer relations	Patents, trademarks etc.	Development costs	Total
Cost at 1 January	4,651	624	860	2,811	1,625	442	472	6,834
Foreign exchange adjustments	229	5	37	121	67	14	10	254
Addition through acquisition of subsidiaries	13			49	1	24		74
Additions		38					62	100
Disposals	-12	-14				-37	-38	-89
Cost at 31 December	4,881	653	897	2,981	1,693	443	506	7,173
Depreciation and impairment losses at 1 January	910	445		351	233	294	158	1,481
Foreign exchange adjustments	52	2		13	8	4		27
Amortization for the year		75		203	139	39	50	506
Impairments for the year	3	2				1	15	18
Disposals	-3	-14				-27	-38	-79
Depreciation and impairment losses at 31 December	962	510		567	380	311	185	1,953
Carrying amount at 31 December	3,919	143	897	2,414	1,313	132	321	5,220

On the divestment of the compressor activities, an impairment at fair value was performed, which resulted in an impairment of intangible fixed assets of 20 mill DKK. The impairment is included in the result of discontinued operations.

### Impairment tests

At the end of 2010, impairment tests have been performed on goodwill and brand (assets with indefinable useful life). The impairment tests were performed on Divisions representing the base level of Cash Generating Units (CGU), to which the value of goodwill and brand can be allocated with a fair degree of accuracy. Acquired activities and companies are integrated as quickly as possible into the division for optimum synergy utilization. One of the consequences is that, soon after, it will not be possible to allocate the accounting value 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 CGUs are compared with the net book values of the assets. The estimated cash flow is based on budgets and forecasts for the years 2011-2020 prepared and approved by management in the respective CGUs and Group management. The forecasts were elaborated for a 10 year period in accordance with the fact that decisions on acquisitions are made on the basis of 10 year forecasts. The primary variables are sales, EBIT, working capital and investments. The discount rates are set under consideration of the individual CGU's size, main geographical markets, risks and the coherence with Danfoss' core business areas.



## 11. Intangible fixed assets (continued)

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

Group 2009					
	Danfoss Heating Solutions	Sauer-Danfoss Inc.	Danfoss Refrigeration & A/C Controls	Danfoss Commercial Compressors	Other
Share of the Group's goodwill at the end of 2009	32%	23%	12%	13%	20%
Share of the Group's brand at the end of 2009		100%			
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	0-2%
Discounted cash flow rate before tax in % as per 31 December	12-13%	12-13%	12-13%	12-13%	12-13%
<b>Sensitivity analysis of the impairment test:</b>					
Possible growth reduction in the terminal period (percentage points)	<20	-	*)	<35	
Possible increase in the discounted cash flow rate (percentage points)	<5	-	<16	5-6	
Group 2010					
	Danfoss Heating Solutions	Sauer-Danfoss Inc.	Danfoss Refrigeration & A/C Controls	Danfoss Commercial Compressors	Other
Share of the Group's goodwill at the end of 2010	30%	23%	14%	14%	19%
Share of the Group's brand at the end of 2010		100%			
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	0-2%
Discounted cash flow rate before tax in % as per 31 December	10-11%	10-11%	10-11%	10-11%	10-11%
<b>Sensitivity analysis of the impairment test:</b>					
Possible growth reduction in the terminal period (percentage points)	*)	*)	*)	*)	
Possible increase in the discounted cash flow rate (percentage points)	<20	<9	<37	<16	

\*) The expected growth in the terminating period can be annulled without the need for impairment.

### *Danfoss Heating Solutions*

The goodwill allocated to Danfoss Heating Solutions (HS) derives primarily from the acquisition of the Devi Group in 2003 and Thermia Wärme AB in Sweden in 2005. Earnings were at a satisfactory level in 2010 and are expected to exceed the general development share in the future. The net cash flow during the terminal period from 2021 and onwards is estimated at a 2% annual growth level, which is assumed to be at or below the market development. EBIT margin is expected to remain unchanged during the terminal period, and so is the working capital in % of sales. Investments are assumed to be at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2009: 20%), or the discount cash flow rate can be increased by up to 20% (2009: 5%), without causing a need for impairment.

### *Sauer-Danfoss Inc.*

The intangible fixed assets with indefinable useful lifetime, assigned to Sauer-Danfoss Inc., comprise goodwill and brand, and derive from Danfoss' financial recognition of the purchase of an additional 38.2% of the share capital in Sauer-Danfoss Inc. in 2008. The weighted, average growth rate up until 2020 is estimated to be at the same level as the general market development. Therefore, an unchanged future market share is assumed. The expected net cash flow growth rate in the terminal period from 2021 and onwards is estimated to be 2% and is assessed to be at or below the market development. EBIT margin in the terminal period is expected to remain unchanged, and this is also the case for the working capital as a percentage of sales. Investments are assumed to be at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2009: 0%), or the discount cash flow rate can be increased by up to 9% (2009: 0%), without causing a need for impairment.

## 11. Intangible fixed assets (continued)

### *Danfoss Refrigeration & A/C Controls*

The goodwill allocated to Danfoss Refrigeration & A/Controls (RC) was primarily acquired in connection with the acquisition of Aztec Energy Partners in the USA in 2006 and Chatleff LLC in the USA in 2007. The result in RC has been satisfactory in 2010, and it is also assumed that future growth will improve significantly. The result is expected to remain unchanged. The weighted average growth rate until 2020 is estimated at a higher level as the general market development and therefore assuming a higher market share. The net cash flow during the terminal period from 2021 and onwards is estimated at a 2% annual growth level and is assumed to be at or below the market development level. EBIT margin is estimated to remain unchanged during the terminal period, and so is the working capital in % of sales. Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2009: the same) or that the discounted cash flow rate can be increased by up to 37% (2009: 16%) without causing a need for impairment.

### *Danfoss Commercial Compressors*

The goodwill allocated to Danfoss Commercial Compressors (CC) was primarily acquired in 2006 in connection with the acquisition of Scroll Technologies, USA. The result in CC has been satisfactory in 2010, and the weighted average growth rate until 2020 is assumed at a higher level than the general market development and therefore assuming a higher market share. The net cash flow during the terminal period from 2021 and onwards is estimated at a 2% annual growth level and is assumed to be at or below the market development level. EBIT margin is estimated to remain unchanged during the terminal period, and so is the working capital in % of sales. Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2009: 35%) or that the discounted cash flow rate can be increased by up to 16% (2009: 5-6%) without causing a need for impairment.

### *Software and development cost*

Software in progress amounts to 26 mill DKK (2009: 23 mill) and is primarily concerning SAP implementations. Of the entire Group's development activities capitalised development expenditure in progress amounts to 160 mill DKK (2009: 163 mill). Development activities in progress are regarding a larger amount of development projects in several segments. Software and capitalised development expenditure was mainly built up internally.

In 2010, the Group performed impairment tests of the carrying amount for 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 has not led to a impairment of current development assets (2009: 55 mill DKK). For the other assets, the recoverable amount is estimated to be above the carrying amount.

## 11. Intangible fixed assets (continued)

mill DKK

Cost at 1 January	
Addition through merger with subsidiary	
Additions	
Disposals	
Cost at 31 December	
Depreciation and impairment losses at 1 January	
Addition through merger with subsidiary	
Amortization for the year	
Disposals	
Depreciation and impairment losses at 31 December	
Carrying amount at 31 December	

### Parent Company

2009				
Goodwill	Software	Patents, trademarks etc.*)	Develop- ment costs	Total
19	371	183	70	624
452		17	58	75
	34	1	14	49
	-4	-17		-21
471	401	184	142	727
	234	116	8	358
		9	7	16
	56	27	19	102
	-4	-17		-21
	286	135	34	455
471	115	49	108	272

Cost at 1 January	
Additions	
Disposals	
Cost at 31 December	
Depreciation and impairment losses at 1 January	
Amortization for the year	
Disposals	
Depreciation and impairment losses at 31 December	
Carrying amount at 31 December	

### Parent Company

2010				
Goodwill	Software	Patents, trademarks etc.*)	Develop- ment costs	Total
471	401	184	142	727
	22	20	10	52
-9	-1	-33	-11	-45
462	422	171	141	734
	286	135	34	455
	52	22	16	90
	-1	-25	-11	-37
	337	132	39	508
462	85	39	102	226

\*) The amounts under Patents, trademarks etc. are mainly related to non competition clauses.

In relation to the Parent Company's intangible assets, impairment tests of the carrying amounts were implemented at the end of 2010. For more information, please refer to the section "Impairment tests" for Group.

## 12. Tangible fixed assets

mill DKK

Cost at 1 January	
Foreign exchange adjustments	
Transfers	
Additions	
Disposals	
Cost at 31 December	
Depreciations and impairment losses at 1 January	
Foreign exchange adjustments	
Depreciations for the year	
Impairments for the year	
Disposals	
Depreciations and impairment losses at 31 December	
Carrying amount at 31 December	
Hereof financial leasing contracts	

<b>Group</b>			
<b>2009</b>			
Land and buildings	Machinery	Equipment	Work in progress
4,780	10,582	1,094	1,214
-6	27	7	-41
143	1,010	-42	-1,111
109		49	647
-264	-832	-87	-21
4,762	10,787	1,021	688
1,887	5,878	714	
7	3	-9	
180	1,245	102	
16	7		
-210	-750	-79	
1,880	6,383	728	
2,882	4,404	293	688
	37	17	

Cost at 1 January	
Foreign exchange adjustments	
Addition through acquisition of subsidiaries	
Transfers	
Additions	
Disposals	
Cost at 31 December	
Depreciations and impairment losses at 1 January	
Foreign exchange adjustments	
Transfers	
Depreciations for the year	
Impairments for the year	
Disposals	
Depreciations and impairment losses at 31 December	
Carrying amount at 31 December	
Hereof financial leasing contracts	

<b>Group</b>			
<b>2010</b>			
Land and buildings	Machinery	Equipment	Work in progress
4,762	10,787	1,021	688
101	42	22	23
1	14		
182	571	17	-770
56	86	36	582
-174	-3,098	-193	-18
4,928	8,402	903	505
1,880	6,383	728	
13	-121	13	
-5		4	
174	1,131	83	
107	469	11	
-94	-2,995	-182	
2,075	4,867	657	
2,853	3,535	246	505
	27	17	

In connection to the divestment of the compressor activities, an impairment at fair value was performed, which resulted in an impairment of tangible fixed assets of 582 mill DKK. The impairment are included in the result of discontinued operations.

The Group's financial leasing contracts are mainly concerning machinery. At the expiration of the leasing contracts the Group has an option to acquire the leased machinery at favourable prices. The leased assets are pledged as collateral for the leasing obligations.

The Group has committed to receive tangible fixed assets at a value of 417 mill DKK, of which the 193 mill DKK relate to 2011.

In relation to projects started after January 1 2009, borrowing expenses are included in the cost price. However, major projects have not been launched, so borrowing expenses have not been recognized for 2009 or 2010.

## 12. Tangible fixed assets (continued)

mill DKK

Cost at 1 January	
Addition through merger with subsidiary	
Transfers	
Additions	
Disposals	
Cost at 31 December	
Depreciations and impairment losses at 1 January	
Addition through merger with subsidiary	
Depreciations for the year	
Impairments for the year	
Disposals	
Depreciations and impairment losses at 31 December	
Carrying amount at 31 December	

### Parent Company

2009	Land and buildings	Machinery	Equipment	Work in progress
	248	2,283	422	221
	10	100	5	2
	1	121	9	-131
		4	2	40
	-2	-182	-30	-11
	257	2,326	408	121
	208	1,728	250	
	8	63	6	
	5	153	38	
		3		
	-2	-145	-29	
	219	1,802	265	
	38	524	143	121

Cost at 1 January	
Transfers	
Additions	
Disposals	
Cost at 31 December	
Depreciations and impairment losses at 1 January	
Depreciations for the year	
Disposals	
Depreciations and impairment losses at 31 December	
Carrying amount at 31 December	

### Parent Company

2010	Land and buildings	Machinery	Equipment	Work in progress
	257	2,326	408	121
	2	82	3	-87
				97
	-1	-140	-22	4
	258	2,268	389	135
	219	1,802	265	
	4	143	30	
		-122	-21	
	223	1,823	274	
	35	445	115	135

The Parent company has committed to receive tangible fixed assets worth 325 mill DKK delivered, of which the 102 mill DKK relate to 2011.

## 13. Inventories

mill DKK

Inventories before provision for obsolescence	
Provision for obsolescence	
Inventories	
Inventories stated at net realisable value	
Impairment of inventories to net realizable value amount are included in cost of sales	
Cost of goods sold included in cost of sales	

Parent Company		Group	
2009	2010	2009	2010
697	780	4,401	5,193
-81	-76	-553	-507
616	704	3,848	4,686
57	47	287	241
25	8	229	84
2,992	3,838	13,247	15,787



## 14. Trade receivables and receivables from subsidiaries

mill DKK

Trade receivables before provision for bad debts  
Provision for bad debts  
Trade receivables

Parent Company		Group	
2009	2010	2009	2010
224	277	4,003	4,613
-14	-11	-180	-171
210	266	3,823	4,442

Hereof trade receivables due after 1 year

12	1
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Provision for bad debts 1 January  
Foreign exchange adjustments  
Change in provisions during the year  
Realized loss during the year  
Provision for bad debts 31 December

-6	-14	-142	-180
		-2	-10
-8	1	-55	-22
	2	19	41
-14	-11	-180	-171

Trade receivables from subsidiaries  
Short-term borrowings to subsidiaries  
Receivables from subsidiaries

1,028	1,472
5,896	3,085
6,924	4,557

Allocation of trade receivables due as per 31 December:

Due date maturity:  
Up to 30 days due  
From 30 to 90 days due  
More than 90 days due

Parent Company		Group	
2009	2010	2009	2010
5	3	115	177
9	9	99	117
15	15	148	157
29	27	362	451

The carrying amount of trade receivables is estimated to represent their fair value.

### Credit risk and quality of credit

Trade receivables are allocated on a number of customers and geographical areas. The allocation on geographical areas is not significantly different from the allocation of Net sales according to note 4. Segment reporting. A systematic credit rating is carried out on customers, and any write down carried out to meet a loss on trade receivables 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. The credit risk is insured when considered appropriated. Historically, the Group has only had limited losses on bad debts.

## 15. Marketable securities

mill DKK

Listed bonds recorded in Danish Kroner

Parent Company		Group	
2009	2010	2009	2010
		35	60

The Group's portfolio of marketable securities are acquired via the Group's reinsurance company in accordance with statutory requirements of insurance companies regarding cash. The portfolio is measured at fair value and includes listed bonds recorded in Danish Kroner. The average weighted duration of the bond portfolio, was 1.7 years (2009: 0.4). The bond holding has a fixed interest rate.

## 16. Share capital

### Shareholders holding more than 5% of the shares or 5% of the votes

	Shares	Votes
Bitten & Mads Clausen Foundation, Nordborg, Denmark	46.03%	84.87%
Clausen Controls A/S, Sonderborg, Denmark	25.49%	5.39%
Henrik Mads Clausen, Lake Forrest, USA	10.71%	2.26%
Karin Clausen, Holte, Denmark	7.04%	1.49%

### Distribution of shares

2009								
A-shares			B-shares			Total shares		
Pcs.	Nominal value	mill DKK	Pcs.	Nominal value	mill DKK	Pcs.	mill DKK	
4,250,000	100 DKK	425.0	6,019,028	100 DKK	601.9	10,269,028	1,026.9	

2010								
A-shares			B-shares			Total shares		
Pcs.	Nominal value	mill DKK	Pcs.	Nominal value	mill DKK	Pcs.	mill DKK	
4,250,000	100 DKK	425.0	6,019,028	100 DKK	601.9	10,269,028	1,026.9	

A-shares entitle the holder to ten votes for each share while B-shares entitle the holder to one vote for each share. The holders of A-shares also have pre-emptive rights to A-shares in the event of any increases in share capital. Otherwise no shares have special rights.

Amendments to the Articles of Association or Danfoss A/S'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.

### Issue of shares

	2006	2007	2008	2009	2010
Mill DKK	1		3		

### Dividend per share (DKK)

	2009	2010
Proposed dividend per 100 DKK share		10.0
Dividend paid per 100 DKK share	20.0	

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

### The development in the Group's holding of own shares (pcs.) is as follows (B-shares of 100 DKK)

	2009	2010
Holding at 1 January	29,534	56,766
Acquired in the year from employees	27,837	10,808
Sold in the year to employees	-605	
Holding at 31 December	56,766	67,574

The primary purpose of holding own shares is to secure the share option programme in Danfoss A/S. The total cost price in 2010 for own shares amounts to 10 mill DKK (2009: 57 mill). Total sales price relating to own shares amounts to 0 mill DKK in 2010 (2009: 1 mill). The Group's holding of own shares represents 0.66% (2009: 0.55%) of the Group's share capital. The value of own shares held amounts to 73 mill DKK (2009: 47 mill).

### Capital management

It is the policy of the Group only to execute investments that at all times will allow the Group to qualify for a comfortable "investment grade credit rating".

## 17. The development of capital and reserves

mill DKK

### Specification of hedging reserve

	Parent Company		Group	
	2009	2010	2009	2010
Hedging reserve at 1 January	-23	-58	-93	-72
Foreign exchange adjustment				7
Additions and disposals	33	-60	26	-169
Transferred to net sales in the profit and loss account *)	-80		-49	91
Transferred to cost of sales in the profit and loss account *)			32	-5
Tax effect	12	15	12	18
Hedging reserve at 31 December	-58	-103	-72	-130

\*) Income in profit and loss account (-)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedging of transactions that have not yet occurred.

The hedging procedures were amended in 2010 which means that it is no longer possible to calculate a currency position for the Parent Company alone.

The reserve on January 1 concerning forward exchange contracts has been transferred to the Profit and Loss Account, under Financial items. Subsequently, the reserve for hedging transactions in the Parent Company includes only derivate interest products.

### Specification of other reserves

	Parent Company		Group	
	2009	2010	2009	2010
Other reserves at 1 January	4,978	5,695	9,503	8,236
Addition through merger with subsidiary	40			
Transferred from net profit	678	-911	-1,184	1,007
Actuarial gain/loss (-) on defined benefit plans			-109	-56
Tax effect			32	-26
Share based payment				1
Transferred from reserve for own shares	-1		-1	
Transferred to Share premium account		-136		-136
Purchase of minority interest			-5	
Other reserves at 31 December	5,695	4,648	8,236	9,026

Other reserves comprise transferred profit from the profit and loss account as well as other equity adjustments such as actuarial gains and losses on defined benefit plans. Furthermore, other reserves comprise share based payments that are recorded directly on the equity account without having to be tied up as a separate reserve.

## 18. Provisions

mill DKK

Provisions at 1 January  
Foreign exchange adjustments etc.  
Provisions used in the year  
Provisions reversed in the year  
Provisions made in the year  
Disposals through sale of subsidiaries  
Provisions at 31 December

<b>Group</b>					
<b>2010</b>					
Warranty	Restruc- turing	Contingent consideration	Other	Total	
383	265	92	196	936	
15		8	3	26	
-151	-200	-46	-27	-424	
-51	-12	-14	-12	-89	
298	54		85	437	
-28	-55		-28	-111	
466	52	40	217	775	

Estimated maturity of above provisions:  
Within 1 year  
Between 1 and 5 years  
After more than 5 years

<b>Group</b>		
<b>2009</b>	<b>2010</b>	
630	429	
236	246	
70	100	
936	775	

Provisions at 1 January  
Provisions used in the year  
Provisions reversed in the year  
Provisions made in the year  
Provisions at 31 December

<b>Parent Company</b>					
<b>2010</b>					
Warranty	Restruc- turing	Contingent consideration	Other	Total	
25	6	12	25	68	
-5	-3	-4	-2	-14	
-5	-3	-8		-16	
16	1		13	30	
31	1		36	68	

Estimated maturity of above provisions:  
Within 1 year  
Between 1 and 5 years  
After 5 years

<b>Parent Company</b>		
<b>2009</b>	<b>2010</b>	
35	28	
17	26	
16	14	
68	68	

Provisions for warranty comprise expected costs arising during the warranty period of the Group's products. Some of the warranty obligations are expected to be covered by the Group's insurance companies. These expected compensations of 8 mill DKK (2009: 54 mill) are recognized under receivables as part of assets.

The Group's allocated provision for restructuring mainly consists of expected cost to termination benefits. Conditional acquisition payments consist of "earn out" agreements in connection with 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.

## 19. Equity compensation benefits

The share programmes established in Danfoss A/S and the subsidiary Sauer-Danfoss Inc. are included in Danfoss Group. The three most significant programmes are described below in separate paragraphs.

### Danfoss A/S share schemes

Since 2001 Danfoss has had share scheme programmes as described individually below.

The calculation of fair values for the balance sheet as per balance sheet dates and for stating the values of the 2004 and subsequent programmes as per the allotment dates is based on the Black & Scholes model. The assumptions for the statement of outstanding options and warrants are:

	2009	2010
Share price	830	1,077
Expected volatility	56.0%	49.0%
Expected dividends	1.0%	1.0%
Risk-free interest rate	3.3%	1.7-3.2%
Exercise prices and terms of maturity for the programmes	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 2010 of 1,077 has been regulated at the general assembly in 2010 while the new share price will be fixed at the annual general assembly in 2011.

### Equity compensation benefits established in 2001

In 2001 Danfoss established a share option programme for the Board and a warrant programme for executives and senior managers. In addition to the share scheme programme a phantom share scheme programme was established for a few nonresident senior managers. This programme applies the same principles as the original share scheme programme and is therefore being accounted for correspondingly. Participation in the programme was conditioned by purchasing shares at the market value before the annual general assembly in 2002. One third of the share options/warrants were granted at the start-up of the programme in 2001. The main condition for achieving the right to receive the remaining options/warrants was for RONA to exceed a certain minimum level for the accounting years 2002 and 2003. Based on this condition, options and warrants were granted in 2003 and in 2004.

The granted share options and warrants entitle to purchasing or subscribing for B-shares (at 100 DKK each), respectively, from the year Danfoss will be listed on the stock exchange, at various exercise prices according to the below statement. If Danfoss is not going to be listed on the stock exchange, the value of the options and warrants can be cashed. When cashing in an option or a warrant, the value will be calculated as the current share price minus the exercise price. The warrants must be exercised or cashed in before the general assembly the 29th of April 2011.

Holdings and exercises/transfers of options/warrants in relation to the above programme are specified below:

Outstanding at 31 December 2009					
	The Board (number)	Executives Committee (number)	Executives (number)	Other (number)	Fair value (DKK each)
Options/warrants - exercise price at 749				5,801	292
Options/warrants - exercise price at 752				7,799	291
				13,600	4
Exercise/transfer(-) in 2010:					
					Exercise price
Options/warrants - exercise price at 749				-2,467	1,077
Options/warrants - exercise price at 752				-3,333	1,077
				-5,800	2
Outstanding at 31 December 2010					
					Fair value (DKK each)
Options/warrants - exercise price at 749				3,334	328
Options/warrants - exercise price at 752				4,466	325
				7,800	2



## 19. Equity compensation benefits (continued)

### Equity compensation benefits established in 2004 and subsequent programmes

In 2004 and 2007 Danfoss A/S established a share option programme for the Board and a warrant programme for executives and senior managers. The condition for participation in the programme was for the executives and the senior managers to purchase compulsory shares. Equivalent to the previous share scheme programme, the main condition for achieving the right to receive the remaining options/warrants was for RONA to exceed a certain minimum level for the respective accounting years. The granted options and warrants give the right to purchase/subscribe to B-shares (at 100 DKK each) 3 years after the allotment date at the earliest, at fixed exercise prices.

In 2009, Danfoss A/S set up a new warrant programme for executive committee members and senior managers. As opposed to former programmes, participation in the 2009 programme was not conditional on the purchase of shares. Likewise, a RONA minimum level was not defined for the programme. Since Danfoss A/S has an obligation to rebuy shares under the share option programmes, provisions are being made in the balance sheet.

Information on the 2004 and subsequent programmes

	Granted (year)	Granted (number)	Fair value at date of allotment (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
Options/warrants - exercise price at 1,808	2008	59,053	895	May 2011	May 2014
Warrants - exercise price at 1,100	2009	139,050	365	May 2012	May 2015
		<u>466,578</u>			

Holdings and exercises/transfers of options/warrants in relation to the 2004 and subsequent programmes are specified below:

Granted options/warrants 31 December 2009:

	The Board (number)	Executives Committee (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (mill DKK)
Options/warrants - exercise price at 1,222	8,767			42,141	356	18
Options/warrants - exercise price at 1,522	9,067	8,400		65,594	348	29
Options/warrants - exercise price at 1,932	9,566	10,800		74,055	338	32
Options/warrants - exercise price at 1,808	6,620	9,000		42,159	242	14
Warrants - exercise price at 1,100		29,550		109,150	365	51
	<u>34,020</u>	<u>57,750</u>		<u>333,099</u>		<u>144</u>

Exercise/transfer due to retirements:

Options/warrants - exercise price at 1,222	-300		5,332	-5,499	413	
Options/warrants - exercise price at 1,522	-300		10,299	-10,466	392	
Options/warrants - exercise price at 1,932	-300		12,038	-12,204	370	
Options/warrants - exercise price at 1,808	-150		9,077	-8,027	249	
Warrants - exercise price at 1,100			24,400	-29,000	445	-2
	<u>-1,050</u>		<u>61,146</u>	<u>-65,196</u>		<u>-2</u>

Changes in the share price/fair value:

Options/warrants - exercise price at 1,222					57	3
Options/warrants - exercise price at 1,522					44	3
Options/warrants - exercise price at 1,932					32	3
Options/warrants - exercise price at 1,808					7	1
Warrants - exercise price at 1,100					80	10
						<u>20</u>

Granted options/warrants:

Options/warrants - exercise price at 1,222	8,467		5,332	36,642	413	21
Options/warrants - exercise price at 1,522	8,767	8,400	10,299	55,128	392	32
Options/warrants - exercise price at 1,932	9,266	10,800	12,038	61,851	370	35
Options/warrants - exercise price at 1,808	6,470	9,000	9,077	34,132	249	15
Warrants - exercise price at 1,100		29,550	24,400	80,150	445	59
	<u>32,970</u>	<u>57,750</u>	<u>61,146</u>	<u>267,903</u>		<u>162</u>

The total provision per 31 December 2010 for 2004 and subsequent share schemes is calculated at 133 mill DKK.

## 19. Equity compensation benefits (continued)

### Equity compensation benefit Sauer-Danfoss Inc.

In Sauer-Danfoss Inc. a number of equity compensation plans are established.

#### *Programme for Employees*

In 2006 Sauer-Danfoss Inc. established a performance programme for their senior management. The condition for receiving performance units is a set of performance goals, which are conditioned by growth in net sales and RONA performance. The settlement of performance units is in shares of Sauer-Danfoss Inc. stock or cash. The compensation committee of Sauer-Danfoss Inc. sets performance goals for each performance unit grant and depending on the extent to which these goals are met will determine the number of performance units that will be paid out to the participants.

The performance units entitle the participants to receive an amount equal to Sauer-Danfoss Inc.' dividends during the vesting period. The total number of shares that can be issued under the 2006 programmes cannot exceed 3.5 mill shares.

Holdings, grants and settlements of "performance units" in relation to the above programmes are specified below:

	Equity units	Weighted Average Grant date fair value (USD each)	Fair value (USD each)	Fair value (mill DKK)
<i>Equity based:</i>				
Units outstanding at 1 January	339,998	23.90	12.01	21
Units converted into shares	-138,541	31.18		
Units forfeited	-35,390	18.89		
Units outstanding at 31 December	166,067	18.89	28.25	26

In addition to the above, "deferred" shares worth 76,486 were allotted on December 31 2010. "Deferred" shares are shares which will formally be allotted over the next years. Accounting expenses incurred from these shares have been recognized in previous years.

#### *Programme for Non-employee members of the board of directors for Sauer-Danfoss Inc.*

In 2006 a programme was established for certain members of the board of directors of Sauer-Danfoss Inc. The programme permits the granting of non-qualified stock options and restricted common stock to directors of Sauer-Danfoss Inc. who are not employees of Sauer-Danfoss Inc.

Allotted shares are subject to restrictions for a three-year period from the time of allotment and the right to shares is lost in case of non-fulfilment of certain conditions. In 2010, 13,500 (2009: 13,500) shares were issued under this programme. Outstanding, restricted shares amount to 52,500 shares. The total number of shares to be allotted and issued under this plan must not exceed 250,000. The 26,220 shares allotted up until and including 2010 to members of the Danfoss Group Board and Executive Committee remain subject to restrictions.

The fair value of performance units is determined at the share price for the Sauer-Danfoss Inc. share at the given dates.

## 19. Equity compensation benefits (continued)

### Recognition of equity compensation programmes concerning Danfoss A/S and Sauer-Danfoss Inc.

mill DKK

#### Recognition of programmes in Profit and loss account

	Cash value programmes		Share based programmes	
	2009	2010	2009	2010
	Financial items		Fixed expenses	
Subsidiaries	-74		14	17
Parent company	-130	1	27	25
The Danfoss Group	-204	1	41	42

#### Recognition of programmes in balance sheet

	Parent Company		Group	
	2009	2010	2009	2010
Long term debt	12	31	14	31
Short term debt	83	102	82	104
	95	133	96	135

	Group	
	2009	2010
Equity compensation benefits established in 2001	4	2
Equity compensation benefits established in 2004 and subsequently *)	92	133
	96	135

\*) Since the fair value of the share schemes is accrued up to the first possible vesting date the above fair values for the 2004 and subsequent programmes (162 mill DKK) cannot be reconciled with the recognized long term liabilities (133 mill DKK).

## 20. Deferred tax assets and liabilities

mill DKK

### Changes in deferred taxes

	Parent Company		Group	
	2009	2010	2009	2010
Deferred taxes at 1 January, (net) *)	-166	-87	-669	-29
Additions through acquisition of/merger with subsidiary	5			-16
Foreign exchange adjustment			-2	14
Changes in the year	74	11	642	-43
Impairment related to sale of subsidiaries				-108
Deferred taxes at 31 December, (net) *)	-87	-76	-29	-182

\*) Liability (-)

On the divestment of the compressor activities, an impairment at fair value was performed, which resulted in an impairment of deferred tax assets of 108 mill DKK. The impairment are included in the result of discontinued activities.

### Deferred tax assets and liabilities attributed to accounting items

	Parent Company		Group	
	2009	2010	2009	2010
	Deferred tax asset	Deferred tax asset	Deferred tax asset	Deferred tax asset
Intangible fixed assets			91	76
Fixed assets and non-current financial assets	82	68	346	511
Current assets	6	14	147	303
Liabilities	32	33	646	678
Gross tax value of loss carry-forwards			1,104	742
Non-activated tax assets from tax deficits			-233	-109
	120	115	2,101	2,201
Set-off of tax	-120	-115	-484	-525
Deferred tax assets	0	0	1,617	1,676

	Parent Company		Group	
	2009	2010	2009	2010
	Deferred tax liability	Deferred tax liability	Deferred tax liability	Deferred tax liability
Intangible fixed assets	62	52	1,460	1,512
Fixed assets and non-current financial assets	8		395	467
Current assets	19	15	62	218
Liabilities	2	14	151	79
Deferred tax regarding Danish joint taxation	116	107	116	107
	207	188	2,130	2,383
Set off of tax	-120	-112	-484	-525
Deferred tax liabilities	87	76	1,646	1,858

A major part of the tax asset related to carry-forward tax losses of 633 mill DKK net (2009: 871 mill) is deriving from companies that have suffered tax losses in the last three years. This tax asset is expected to be utilized primarily through higher future taxable income in the respective companies.

The tax value of unrecognized tax assets related to carry-forward tax losses amounts to 109 mill DKK (2009: 233 mill). The amount is not recognized as an asset, as the carry-forward tax losses are not expected to be utilized.

Of the Parent Company's deferred tax liability of 76 mill DKK (2009: 87 mill), 107 mill DKK (2009: 116 mill) can be attributed to taxes relating to joint taxation with foreign subsidiaries in previous years.

## 21. Defined benefit plans

The major part of the Group's pension plans are defined contribution plans. However, a number of foreign subsidiaries have defined benefit plans with obligations that are unfunded or only partly funded in some cases.

It is the Group's policy that pension plans within the Group should be arranged as defined contribution plans. However, in countries like USA, Great Britain, Germany, the Netherlands and Norway there is a tradition for defined benefit plans. Defined benefit plans that are unfunded are mainly located in the subsidiaries Sauer-Danfoss Inc., Danfoss Bauer GmbH and Danfoss Compressors GmbH. In these companies unfunded plans amount to approximately 632 mill DKK (2009: 572 mill). The obligations in these plans are slowly being reduced, as benefits are only indexed and not offered to new employees.

Funded and partly funded plans are mainly located in USA, Great Britain, Germany, the Netherlands and Norway. All significant defined benefit plans are calculated by independent actuarial advisors.

mill DKK

### The Group's defined benefit plan obligations

Present value of funded and unfunded obligations  
Fair value of the assets connected to the plans

Above obligations are recorded as follows:

Defined benefit plans, net asset  
Defined benefit plans, liabilities

Group	
2009	2010
2,489	2,758
-1,357	-1,625
1,132	1,133
2	
1,134	1,133

### Development in the present value of defined benefit plan obligations

Net liability at 1 January  
Foreign exchange adjustments  
Pension expenses in the year  
Interest  
Actuarial gains(-)/losses  
Gains from reductions and redemptions  
Disbursed pensions from the Group  
Disbursed pensions from pension plan assets  
Transfer from other long term debt  
Disposals through sale of subsidiaries  
Net liability at 31 December

Group	
2009	2010
2,250	2,489
6	106
38	36
134	140
194	132
-17	
-49	-57
-92	-88
25	8
	-8
2,489	2,758

### Development in the fair value of pension plan assets

Pension plan assets at 1 January  
Foreign exchange adjustments  
Estimated return on pension plan assets  
Actuarial gains/losses(-)  
Payments by the Group  
Disbursed pensions  
Adjustments  
Pension plan assets at 31 December

Group	
2009	2010
1,153	1,357
14	71
88	97
83	54
71	129
-80	-87
28	4
1,357	1,625

### Actual return on the pension plan's assets

Estimated return on the pension plan assets  
Actuarial gains/losses(-)

Group	
2009	2010
88	97
83	54
171	151



## 21. Defined benefit plans (continued)

mill DKK

### Expenses recognized in the profit and loss account

	Group	
	2009	2010
Pension expenses in the year	38	36
Interest	134	140
Estimated return on pension plan assets	-88	-97
Gains from reductions and redemptions	-17	
Expensed in profit and loss account	67	79

### Health benefit plans

In the above specifications, the following health benefit plans are included. The plans are all included in Sauer-Danfoss Inc. and are covering certain employees in the United States. Sauer-Danfoss Inc. has the right to modify or terminate any of these plans in the future. The development in the health benefit plans is specified below.

### Development in the present value of health benefit plans

	Group	
	2009	2010
Net liability at 1 January	217	228
Foreign exchange adjustments	-3	18
Service costs	1	1
Interest	14	16
Plan participant contribution	3	3
Actuarial gains(-)/losses	33	54
Gains from reductions and redemptions	-15	
Disbursed payments	-21	-23
Net liability at 31 December	228	297

	Group	
	2009	2010
Specification of disbursed payments:		
Payments by the Group	-18	-20
Payments by plan participants	-3	-3
Total payments	-21	-23

In the statement of recognized gains and losses, the following accumulated actuarial gains/losses(-) since 1 January 2005 have been recorded directly on the equity account:

	Group	
	2009	2010
Danfoss subsidiaries total	-228	-307

### Pension plan assets consist of the following:

	Group		Group	
	2009	2009	2010	2010
Shares and similar securities	586	43%	956	59%
Bonds	612	45%	626	38%
Other	159	12%	43	3%
	1,357	100%	1,625	100%

## 21. Defined benefit plans (continued)

### Principal actuarial assumptions at the balance sheet date

	Group		Group	
	2009	2009	2010	2010
	Range	Weighted average	Range	Weighted average
Discount rate	3.7-8.0%	5.7%	3.8-8.0%	5.3%
Estimated future salary increase	1.5-5.0%	3.6%	1.5-4.5%	3.4%
Estimated return on pension plan assets	3.3-7.3%	7.0%	3.3-7.3%	6.9%

The estimated return on the pension plan assets is based on external actuary advice and determined from the composition of the assets and considering the general expectations to the economic development.

The assumed weighted average annual rate of increase in the per capita cost of medical benefits is 8% for 2010 (2009: 8%) and is assumed to decrease gradually in 2011 through 2027 to a level of 4.5%. (2009: 4.5%). After 2027 the rate of increase is expected at 4.5% per year. (2009: 4.5%). 1% increase or decrease in the annual health care trend rate would have increased or decreased the Net liability at 31 December 2010 by 28 mill DKK. The weighted average discount rate is fixed at 5.3% (2009: 6%).

The Group expects to pay in 110 mill DKK to defined benefit plans in 2011. In 2010, 129 mill DKK was paid in.

### The Group's pension obligations for the present year and for the previous 4 years amount to:

	Group				
	2006	2007	2008	2009	2010
Present value of defined benefit plan obligations	-1,178	-1,018	-2,250	-2,489	-2,758
Present value of pension plan assets	651	629	1,153	1,357	1,625
Surplus-/insufficient(-) cover	-527	-389	-1,097	-1,132	-1,133
Actuarial gains(-)/losses, obligations	7	-121	-112	194	132
Actuarial gains/losses(-), pension plan assets	36	-23	-301	83	54
Net changes (reduced net obligations(-))	-29	-98	189	111	78

## 22. Financial instruments

### Financial risks

Danfoss Group's rate of profitability and cash flow are exposed to financial risks, among other factors as a consequence of Danfoss' international business profile. These risks include currency, interest rate, raw materials, credit and liquidity risks. Risk management activities focus on risk coverage and minimisation, with a particular emphasis on reducing fluctuations in the company's cash flows and profitability in local currency within a 12-18 month horizon.

It is the Group's policy not to undertake active speculation regarding financial risks. The Group's financial control is therefore heading towards controlling and reducing the financial risks that are a direct result of the Group's activities, investments and financing.

For a description of accounting policies and procedures such as applied recognition criteria and basis of measurement, please see the disclosure under note 3. Accounting policies.

### Currency exposure

Currency exposure consists of three elements:

1. *Transaction risk*: Major consolidated risks and 12 months' expected cash flows in foreign currency (excluding cash flow from certain countries with inconvertible currencies) are covered on an ongoing basis.
2. *Translation risk (conversion risk)*: Danfoss does not generally cover translation risks, as these do not directly affect the underlying cash flows. It does however try to reduce translation risks through loan financing in local currencies as much as possible.
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. However, they are controlled as far as possible at strategic level, since Danfoss aims for products to be produced in as close cooperation with the customer as possible.

mill DKK	Isolated decline	Expected effect on cash flow in 2010	Expected effect on cash flow in 2011
DKK/EUR	1%	10	18
DKK/USD	10%	1	-11
DKK/GBP	10%	1	9

The amounts are based on the exchange rate of 31 December 2010 and expected net cash flow in 2011 in foreign currency. In this context the incurred financial instruments recognized per 31 December 2010 have been taken into consideration.

### Interest rate risk

The Group's interest rate risk derives primarily from interest-bearing debt and cash funds. The Group makes use of both fixed-rate and variable loans, as well as derived interest products.

A 1 percent point increase in the interest level compared to the balance date is estimated to have an isolated negative effect on profit before tax in 2011 of 27 mill DKK (2010: 11 mill). The amounts are based on interest bearing liabilities with variable interest rates as per the balance date, i.e. liabilities with no derived interest products associated.

### Raw materials risk

Developments in the global price of raw materials can have an effect on the Group's earnings. As well as having fixed price agreements with suppliers, Danfoss uses financial instruments to cover risks relating to its purchase of certain metals and electricity. Danfoss' overriding policy is to ensure that significant raw materials risks are reduced through a combination of risk coverage and active price adjustment. Expected consumption of metals and electricity is covered for at least 6 months and at most 18 months in advance where they are deemed significant.

### Credit risk

The Group's credit risks primarily apply to trade receivables and bank deposits (the so-called counterpart risk). For further information on credit risk on trade receivables see note 14. Trade receivables and receivables from subsidiaries. It is Danfoss' policy to minimize the risk, in case that one or several of Danfoss' financial partners are not able to fulfill a commitment. The counterpart risk is prevented, as much as possible, by only using solid regional and global financial partners with a minimum credit rating of "A" according to Standard & Poors credit rating terminology.

### Liquidity risk

Danfoss' policy is to ensure at all times that the Group has the liquidity necessary to meet its obligations and to finance its planned strategic action. The Group minimizes its liquidity risk through a combination of effective liquidity management and planning, by establishing irredeemable credit facilities and by ensuring that cash funds are liquid and accessible. It is Danfoss' policy to have a qualified investment grade credit rating and to have a significant liquidity reserve in the form of unused long term irredeemable credit facilities without any financial covenants.

At the end of 2010, Danfoss' liquidity reserve in the form of unused long term irredeemable credit facilities were recorded at 6.0 bn DKK (2009: 4.8bn). Additional to this amount comes cash and cash equivalents and significant amount of short term credit lines. The Group considers the liquidity reserve to be sufficient in relation with actual plans and the market situation in general.

Loans and credit facilities that expire during 2011 and 2012 have been addressed during the year through a combination of strong cash flow and new long term irredeemable credit facilities. Danfoss has no refinancing tasks until 2013.

## 22. Financial instruments (continued)

mill DKK

### The Group's cash and cash equivalents

The major part of the Group's cash and cash equivalents of 853 mill DKK (2009: 616 mill) is placed on short term deposits, with an interest rate below 1% p.a.

### The Group's debt categories and maturities

	Group 2009				Group 2010			
	Carrying amount	Maturity			Carrying amount	Maturity		
		0-1 year	1-5 years*)	Over 5 years		0-1 year	1-5 years*)	Over 5 years
Non-derivative financial liabilities:								
Bank debt	9,307	826	7,259	1,222	7,048	2,495	4,279	274
Mortgage debt	2,296	75	241	1,980	1,735	49	155	1,531
Employee bonds	71	2	37	32	69	2	67	
Financial leasing liabilities	59	13	33	13	44	13	25	6
Trade creditor	2,157	2,157			3,084	3,084		
Debt associates/joint ventures	26	26			32	32		
Derivative financial liabilities:								
Derived interest products	413	133	278	2	230	99	131	
Forward exchange transactions	15	15			73	73		
	14,344	3,247	7,848	3,249	12,315	5,847	4,657	1,811
Deducted interest	-2,110				-829			
Carrying amount	12,234				11,486			

\*) Maturity is evenly spread over the period.

### The above debt is recorded as follows:

	Group	
	2009	2010
Non-current liabilities	9,012	5,704
Current liabilities	3,222	5,782
	12,234	11,486

### Financial covenants

No financial covenants exist in The Danfoss Groups loan contracts.

## 22. Financial instruments (continued)

mill DKK

### Fair value of financial instruments for the Group

	Group		Group	
	2009	2009	2010	2010
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	33	33	32	32
Financial assets available-for-sale	33	33	32	32
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	3	3	31	31
Derivative financial instruments for the hedging of future cash flows	12	12		
Financial assets used as hedging instruments	15	15	31	31
Trade receivables	3,823	3,823	4,442	4,442
Other receivables	841	841	995	995
Cash and cash equivalents	616	616	853	853
Loans and receivables	5,280	5,280	6,290	6,290
Securities	35	35	60	60
Derivative financial instruments for financial hedging	4	4	11	11
Financial assets measured at fair value via the profit and loss account	39	39	71	71
Interest-bearing debt	9,917	9,856	8,127	8,066
Treade creditors and other debt	4,505	4,505	5,645	5,645
Financial liabilities measured at amortized cost	14,422	14,361	13,772	13,711
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	17	17	62	62
Derivative financial instruments for the hedging of future cash flows	110	110	174	174
Financial liabilities used as hedging instruments	127	127	236	236
Derivative financial instruments for financial hedging	7	7	7	7
Financial liabilities measured at fair value via the profit and loss account	7	7	7	7

The value of derivative financial instruments is stated according to generally accepted valuation techniques, based on relevant observable swap price and foreign 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 was the Group's current interest rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at the price of 100.

The methods applied remain unchanged, compared to 2009.



## 22. Financial instruments (continued)

### Derivatives as per 31 December for the Group

	<b>Group</b>				<b>Group</b>			
	<b>2009</b>				<b>2010</b>			
	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:								
Securities	35		33	68	60			60
Other investments							32	32
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		3		3		31		31
Derivative financial instruments for the hedging of future cash flows		12		12				
Derivative financial instruments for financial hedging		4		4	11			11
Total financial assets	35	19	33	87	71	31	32	134
Financial liabilities:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		17		17		62		62
Derivative financial instruments for the hedging of future cash flows		110		110		174		174
Derivative financial instruments for		7		7		7		7
Total financial liabilities		134		134		243		243

## 22. Financial instruments (continued)

### Derivatives as per 31 December for the Group

	Group 2009						Group 2010					
	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Due less 1 year	Due between 1 and 5 years	Due after 5 years	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Due less 1 year	Due between 1 and 5 years	Due after 5 years
Derivatives, sale/buy:												
USD sale	2,327	8	-15	23			920	-18	-13	-5		
USD buy	186	10	3	7			204	-3	-3			
CHF sale	172	-2	-1	-1			163	-11	-5	-6		
CHF buy	52	1		1			10	1	1			
GBP sale	308	3		3			269	2	-1	3		
GBP buy	106	-1	-1				121	-1	-1			
MXN sale							138	1	1			
MXN buy							91					
AUD sale							153	-16	-8	-8		
NOK sale							110	-3	-2	-1		
NOK buy							29					
RUB sale							202	-8	-8			
RUB buy							55	2	2			
EUR sale							259	1	1			
EUR buy							1,990	-13	-13			
Other currencies sale	2,076	-40	-16	-24			690	-17	-9	-8		
Other currencies buy	609	9	3	6			202	7	7			
		-12	-27	15				-76	-51	-25		
Interest swaps		-143	-21	-60	-62			-170	-19	-74	-77	
Rawmaterial contracts (sale)	15	-1	-1				72					
Rawmaterial contracts (buy)	77	10	1	9			72					
Other derivatives								11	11			
Derivatives end of year		-146	-48	-36	-62			-235	-59	-99	-77	

At the end of the year 2010, unrealized gains on derivatives recognized in equity amounted to -176 mill DKK (2009: -98 mill).

In the specification of hedging reserve in note 17. Capital and reserves, the unrealized net value has been stated net of tax on the Group's cash flow hedge transactions. The reserve for hedging transaction is expected released to the Profit and Loss Account in the period in which the cash flows are due.

Derivatives are primarily used for full or partial hedging of future cash flow in selected currencies, and hedging of future procurement of selected raw materials and the hedging of future interests on interest-bearing debt.

As a consequence of the implemented efficiency tests, 0 mill DKK were taken to the profit and loss account in 2010 (2009: 17 mill DKK).

## 22. Financial instruments (continued)

mill DKK

### Parent Company's non-current receivables from subsidiaries

The interest rates concerning the above receivables have typically been at the level of 9.2% p.a. in 2010 (2009: 8,0%).

### Parent Company's cash and cash equivalents

The major part of the Parent Company's cash and cash equivalents of 106 mill DKK (2009: 9 mill.) is placed on short term deposits, with an interest rate below 1% p.a.

### Parent Company's debt categories and maturities

	Parent Company 2009				Parent Company 2010			
	Carrying amount	Maturity			Carrying amount	Maturity		
		0-1 year	1-5 years*)	Over 5 years		0-1 year	1-5 years*)	Over 5 years
Non-derivative financial liabilities:								
Bank debt	8,565	445	6,932	1,188	6,535	2,054	4,213	268
Mortgage debt	438	10	42	386	327	5	20	302
Employee bonds	71	2	37	32	69	2	67	
Interest-bearing debt, subsidiaries **)	2,028	2,028			2,991	2,991		
Financial leasing liabilities	1	1						
Trade creditors **)	670	670			682	682		
Derivative financial liabilities:								
Derived interest products	413	133	278	2	216	90	126	
Forward exchange transactions	41	41			66	66		
	12,227	3,330	7,289	1,608	10,886	5,890	4,426	570
Deducted interest	-1,287				-432			
Carrying amount	10,940				10,454			

\*) Maturity is equally distributed over the whole period.

\*\*) Besides interest-bearing debt of 2,991 mill DKK (2009: 2,028 mill) the line "Debt to subsidiaries" in the balance sheet contains accounts payables etc. of 230 mill DKK (2009: 342 mill). In total 3,221 mill DKK (2009: 2,370 mill).

### The above debt is recorded as follows:

	Parent Company	
	2009	2010
Non-current liabilities	7,871	4,596
Current liabilities	3,069	5,858
	10,940	10,454

## 22. Financial instruments (continued)

mill DKK

### Categories of financial instruments

	Parent Company		Parent Company	
	2009	2009	2010	2010
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	2	2	2	2
Financial assets available-for-sale	2	2	2	2
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	-5	-5		
Derivative financial instruments for the hedging of future cash flows	7	7		
Financial assets used for hedging	2	2		
Trade receivables	210	210	266	266
Trade receivables at subsidiaries	6,981	6,981	4,557	4,557
Other receivables	155	155	152	152
Cash and cash equivalents	9	9	106	106
Loans and receivables	7,355	7,355	5,081	5,081
Derivative financial instruments for financial hedging	13	13	42	42
Financial assets, measured at fair value via the profit and loss account	13	13	42	42
Interest-bearing debt	8,111	8,050	6,546	6,484
Debt to subsidiaries	2,370	2,370	3,221	3,221
Trade creditors and other debt	820	820	1,262	1,262
Financial liabilities measured at amortized cost	11,301	11,240	11,029	10,967
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	16	16		
Derivative financial instruments for the hedging of future cash flows	85	85		
Financial liabilities used as hedging instruments	101	101		
Derivative financial instruments for financial hedging	31	31	236	236
Financial liabilities measured at fair value via the profit and loss account	31	31	236	236

The value of derivative financial instruments is stated according to generally accepted valuation techniques, based on relevant observable swap price and foreign 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 was the Group's current interest rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at the price of 100.

The methods applied remain unchanged, compared to 2009.

## 22. Financial instruments (continued)

### Derivatives as per 31 December for the Parent Company

	<b>Parent</b>					<b>Parent</b>			
	<b>2009</b>					<b>2010</b>			
	Quoted prices Level 1	Observ- able input Level 2	Non- observ- able input Level 3	In total		Registered prices Level 1	Observ- able input Level 2	Non- observ- able input Level 3	In total
Financial assets:									
Securities and other investments			2	2				2	2
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		-5		-5					
Derivative financial instruments for the hedging of future cash flows		7		7					
Derivative financial instruments for financial hedging		13		13		11	31		42
Total financial assets		15	2	17		11	31	2	44
Financial liabilities:									
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		16		16					
Derivative financial instruments for the hedging of future cash flows		85		85					
Derivative financial instruments for financial hedging		31		31			236		236
Total financial liabilities		132		132			236		236



## 22. Financial instruments (continued)

	Parent Company						Parent Company					
	2009						2010					
	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Due less 1 year	Due between 1 and 5 years	Due after 5 years	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Due less 1 year	Due between 1 and 5 years	Due after 5 years
Derivatives, sale/buy:												
USD sale	2,221	5	-16	21			711	-12	-12			
USD buy	125	10	3	7			107	-2	-2			
CHF sale	172	-2	-1	-1			163	-11	-11			
CHF buy	52	1		1			10	1	1			
GBP sale	308	3		3			269	2	2			
GBP buy	106	-1	-1				121	-1	-1			
MXN sale							138	1	1			
MXN buy							91					
AUD sale							153	-16	-16			
NOK sale							110	-3	-3			
NOK buy							29					
RUB sale							202	-8	-8			
RUB buy							55	2	2			
EUR sale							259	1	1			
EUR buy							1,990	-13	-13			
Other currencies sale	2076	-40	-15	-25			632	-21	-21			
Other currencies buy	609	9	2	7			202	10	10			
		-15	-28	13				-70	-70			
Interest swaps		-140	-49	-46	-45			-170	-32	-66	-72	
Rawmaterial contracts (sale)	308						72					
Rawmaterial contracts (buy)	308						72					
Other derivatives		4	4					11	11			
Derivatives end of year		-151	-73	-33	-45			-229	-91	-66	-72	

At the end of 2010, unrealized gains on derivatives amounted to -138 mill DKK (2009: -78 mill).

In the specification of hedging reserve in note 17. The development of capital and reserves, the unrealized net value of the Group's cash flow hedge transactions has been stated net of tax on the parent company's cash flow hedge transactions.

## 23. Current corporation tax

mill DKK

Corporation tax payable/receivable (-) at 1 January  
 Foreign exchange effect on corporate tax expenses  
 Paid during the year  
 Tax adjustments previous years  
 Disposals through sale of subsidiaries  
 Current tax expenses  
 Corporate tax expenses of discontinued operations  
 Corporation tax payable/receivable (-) at 31 December

Parent Company		Group	
2009	2010	2009	2010
11	92	-54	48
	-1	1	-1
25	-172	-222	-558
	-2	-4	-8
			3
56	84	326	682
		1	
92	1	48	166
		171	86
92	1	219	252
92	1	48	166

The above corporation tax is recorded as follows:

Assets  
 Liabilities

## 24. Adjustment for non-cash transactions

mill DKK

Depreciations/amortizations and impairments continued operations  
 Gain on disposal of tangible assets and business activities  
 Share of income from associates/joint ventures after tax  
 Financial income  
 Financial expenses  
 Others, including provisions

Parent Company		Group	
2009	2010	2009	2010
304	267	2,785	1,789
-9	63	74	25
		37	-14
-2,010	-825	-883	-107
1,181	1,903	534	441
146	-19	61	45
-388	1,389	2,608	2,179

## 25. Change in working capital

mill DKK

Change in inventories  
 Change in receivables  
 Change in payables

Parent Company		Group	
2009	2010	2009	2010
78	-102	1,237	-1,034
277	-464	908	-913
-35	23	-5	1,139
320	-543	2,140	-808

## 26. Acquisition and sale of subsidiaries and activities

mill DKK

	Group		Group	
	2009	2010	2009	2010
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible fixed assets except goodwill		-74		19
Tangible fixed assets		-16		6
Inventories		-2		301
Receivables		-1		603
Cash and cash equivalents		-1		73
Interest-bearing debts		2		
Provisions including deferred taxes		16		-120
Payables		1		-327
Net assets acquired		-75		555
Goodwill(-)/gain on disposal	20	-13		-24
Consideration paid(-)/received	20	-88		531
Cash and cash equivalents		1		-73
Net consideration paid(-)/received	20	-87		458
Net consideration paid(-)/received is paid as follows:				
Cash and cash equivalents	-893	-145		13
Payable, 1 January	1,732	98		
Payable, 31 December	-92	-40		
Gain on liabilities from renegotiation	-654			
Foreign exchange adjustment and interest element of payable amount	-73			
Receivable, 1 January			-19	-19
Receivable, adjustment				12
Receivable, 31 December			19	444
Shares				8
	20	-87		458

The difference between payable 31 December 2009 and payable 1 January 2010 is due to a foreign exchange adjustment of 6 mill DKK.

In 2009, the Group did not acquire new companies or activities, and, therefore, the adjustments were primarily made in connection with the bringing forward in 2009 of the redemption of options in Sauer-Danfoss Inc. In 2010, the Group acquired and sold a few companies and activities and, furthermore, earn-outs pertaining to previous acquisitions were paid during the year. Each of the acquisitions and divestments are specified below.

### Acquisition of subsidiaries and activities:

2010						
Company	Country	Profit and loss account consolidated from	Holding acquired	Turnover per year mill DKK *)	No. of employees	Consideration paid mill DKK
Danfoss Energy Products (Guiyang) Co., Ltd.	China	April	100%	8	106	101

\*) Unaudited net sales in 2010, or the accounting year prior to the acquisition.

Goodwill resulting from the acquisition of companies primarily concerns the value of staff, know-how and synergies.

For more information about the connection with cash generating units, refer to note 11. Intangible fixed assets.

### Sale of subsidiaries and activities:

2010					
Company	Country	Profit and loss account consolidated until	Holding acquired	Turnover per year mill DKK *)	No. of employees
Danfoss AquaZ A/S	Denmark/USA	July	51%	0	9
Danfoss Household Compressors	Germany/Slovenia Slovakia/China	September	100%	1,488	2,938
Danfoss Fumao	China	November	51%	7	41

\*) realized net sales to customers in 2009.

## 26. Acquisition and sale of subsidiaries and activities (continued)

### Parent company

mill DKK

	Parent Company		Parent Company	
	2009	2010	2009	2010
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible fixed assets except goodwill				17
Tangible fixed assets				2
Investments in subsidiaries	-1,032	-108	101	111
Inventories				6
Payables				-2
Net assets acquired	-1,032	-108	101	134
Goodwill(-)/gain on disposal			-29	-62
Net consideration paid(-)/received	-1,032	-108	72	72
Net consideration paid(-)/received is paid as follows:				
Cash and cash equivalents	-1,320	-120	76	81
Payable, 1 January	1,533	12		
Foreign exchange adjustment and interest element of payable amount	-55			
Gain on liabilities from renegotiation	-654			
Payable, 31 December	-12			
Investments in subsidiaries	-578			
Receivable, subsidiaries	54			
Receivable, 1 January			-22	-18
Receivable , adjustment				12
Receivable, 31 December			18	-3
	-1,032	-108	72	72

The Parent Company's capital increase and aquisition of undertakings and activities amounting to -108 mill DKK (2009: -1032 mill ) is primarily concerning the increase in capital and internal transfers.

The Parent Company's divstment of companies and activities of 72 mill DKK (2009: 72 mill) mainly consists of internal transfers.

## 27. Discontinued operations

In order to ensure increased focus on the core business, Danfoss decided that some operations would undergo strategic reassessment for possible sale, entrance into joint ventures or other forms of alliances. This included Danfoss Household Compressors, among others, where an agreement was made for the sale to the German company AURELIUS. The deal was concluded on November 5, 2010.

At the time the divestment was announced, the Danfoss Household Compressors assets were impaired at fair value less costs of sale.

The earnings and cash flows of the divested operations from all periods are recorded as separate items in the Profit and Loss Statement.

### Financial highlights discontinued operations

mill DKK

#### Profit and loss account

Net sales  
Expenses  
Impairments at fair value less costs to sell  
Profit before tax  
Corporate tax expenses  
Profit from discontinued operations

Group	
2009	2010
1,488	1,206
-2,074	-1,299
	-733
-586	-826
-49	-3
-635	-829

#### Cashflow

Cash flows from operating activities  
Cash flows from investing activities  
Cash flows from financing activities  
Cash flows from discontinued operations

-137	-249
-42	-63
-8	-89
-187	-401

Earnings per share of discontinued operations (share of nominal 100 DKK)

Earnings per share diluted of discontinued operations (share of nominal 100 DKK)

-62.2	-81.3
-60.3	-78.0

## 28. Acquisition(-) and sale of other investments etc.

mill DKK

Sale of shares and other securities  
Purchase of shares and other securities

Increase/decrease of lending

Parent Company		Group	
2009	2010	2009	2010
	15		14
-7		-49	-28
-7	15	-49	-14
-1,100	599	-57	39
-1,107	614	-106	25



## 29. Contingent liabilities, assets and security

mill DKK

### Security

	Parent Company		Group	
	2009	2010	2009	2010
Land and buildings are subject to a registered debenture to secure bank loans/mortgages with a carrying amount of	25	23	1,073	858
Leasing assets subject to a registered debenture to secure leasing commitments			54	44
Secured loans from credit institutions			1,324	1,319

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

### Contingent liabilities

Danfoss in Nordborg, Flensburg and Turin received an unannounced visit from the competition authorities on February 17, 2009. At the same time two of Danfoss' companies in the USA received a federal grandjury subpoena from the US Department of Justice, due to suspected illegal price-fixing agreements and the illegal exchange of information between competitors concerning household compressors. The Brazilian competition authorities have stated that they have launched an official enquiry into the alleged contravention of the law. Competition authorities in Mexico, New Zealand and Chile have also approached Danfoss A/S and requested information on the market, in particular for household compressors. It cannot be ruled out that competition authorities in other countries will also launch similar investigations. A number of class actions suits have been brought in the USA against manufacturers of household compressors, in particular. Charges have been brought against Danfoss' American companies. All class actions have been consolidated in proceedings at a court in Michigan. The claimants maintain that they have suffered a loss as the result of the alleged illegal pricing agreements on the market for household compressors in particular, for which they are seeking damages. A corresponding case is being brought in Canada. Danfoss is working with the authorities to clarify any claims of wrongdoing. Based on Danfoss' own internal investigations, it can no longer be denied that employees have, without top management's knowledge, and in direct violation of Danfoss' internal rules, participated in practices that may constitute a violation of the EU's anti-trust legislation. Danfoss has thus taken a number of steps and consequences in response to these activities. Nor can it be denied for the time being that the irregular activities of the employees in question may result in Danfoss facing a reaction from the European Commission. At present Danfoss has no knowledge of the conclusions of the European Commission or of other competition authorities.

A number of claims have been raised against the Group. The opinion of the management is that the outcome of these will not materially change the financial position of the Group beyond what has been stated in the annual report.

### Operating leases (lease expenses)

	Parent Company		Group	
	2009	2010	2009	2010
Operating lease rentals are payable as follows:				
Buildings:				
Less than 1 year	59	60	125	114
Between 1 and 5 years	226	218	396	410
More than 5 years	102	94	474	511
Machinery etc.:				
Less than 1 year	22	29	131	187
Between 1 and 5 years	18	26	182	347
More than 5 years			24	44

The Group has expensed 329 mill DKK in operating lease rentals in 2010 (2009: 334 mill) and they relate mainly to buildings and machinery. There were no significant conditional leasing rentals in 2010 and 2009.

### Operating leases (lease income)

	Parent Company		Group	
	2009	2010	2009	2010
Operating lease rentals are receivable as follows:				
Less than 1 year	56	58	12	18
Between 1 and 5 years	183	180	3	12
More than 5 years	19	18		

The Group has operating leasing income of 25 mill DKK in 2010 (2009: 25 mill). The above rentals relate mainly to buildings. The operating lease rentals in the Parent Company is primarily relating to the rental of buildings to the subsidiaries.

### Contractual obligations

The Group has committed to buying stock and services worth 621 mill DKK, of which 563 mill DKK pertain to 2011.

Contractual obligations relating to services primarily consist of the obligations which have arisen as a result of outsourced activities.

## 30. Related parties

Danfoss A/S' related parties include the Bitten & Mads Clausen Foundation, other shareholders with significant ownership, cf. note 16. Share capital, subsidiaries, associates, joint ventures, the Board of Directors, the Executive Committee and senior managers.

Further related parties include 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 46.03% of the shares in Danfoss A/S and controls 84.87% of the voting power, has the controlling influence.

In the financial year a limited number of transactions have taken place between the Bitten & Mads Clausen Foundation, its other subsidiaries including Danfoss Universe and certain shareholders of the Clausen Family. The transactions comprise 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 does not exceed 25 mill DKK (2009: 25 mill). Around 92% 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 senior managers

In the financial year, no transactions took place with the Board of Directors or the Executive Committee other than 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 2014. The rent payment amounted to 4 mill DKK in 2010 (2009: 4 mill). In 2010, the Group sold the subsidiary AquaZ to a company owned by Jørgen M. Clausen. Besides that, companies in which Jørgen M. Clausen has significant influence have sold goods and services below 5 mill DKK (2009: 5 mill) to the Danfoss Group. A company, which is owned by Hans Michael Jebsen, has sold services amounting to less than 1 mill DKK in 2010 (2009: 0 mill) to one of the Group's companies. 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 notes 5. Expenses and other operating income, section A. Personnel expenses and 19. Equity compensation benefits.

### Joint ventures and associated companies

Danfoss has ownership shares in joint ventures and associated companies. The main items relating to them are recorded below and include the full values, not Danfoss' proportionate ownership share.

mill DKK

#### Joint ventures:

	Parent Company		Group	
	2009	2010	2009	2010
Non-current assets	274	290	276	292
Current assets	295	371	295	371
Total assets	569	661	571	663
Non-current liabilities	79	80	79	80
Current liabilities	153	237	154	237
Total liabilities	232	317	233	317
Equity	337	344	338	346
Net sales	468	889	469	889
Expenses	510	856	511	856
Net profit	-42	33	-42	33

#### Associated companies:

	Group	
	2009	2010
Total assets	35	44
Total liabilities	23	36
Equity	12	8
Net sales	19	25
Expenses	76	42
Net profit	-57	-17

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

### 30. Related parties (continued)

mill DKK

#### Transactions with joint ventures and associated companies:

	Parent Company		Group	
	2009	2010	2009	2010
Net sales of goods and services	9	3	34	27
Purchase of goods and services	4	4	56	198

Loans, trade receivables and liabilities in relation to joint ventures and associated companies are stated separately in the balance sheet of the Parent Company and the Group.

Besides the above transactions with joint ventures and associated companies are described in the notes 6. Non-current financial assets, 7. Financial income, 8. Financial expenses and 22. Financial instruments.

#### Transactions between the Parent Company and the subsidiaries:

	Parent Company	
	2009	2010
Net sales of goods and services	4,879	6,022
Purchase of goods and services	2,051	2,159
Purchase of intangible and tangible fixed assets	5	2
Disposal of intangible and tangible fixed assets	42	19

Besides the above transactions between the Parent Company and subsidiaries are described in the notes 6. Non-current financial assets, 7. Financial income, 8. Financial expenses and 22. Financial instruments.

### 31. Government grants

The Group received government grants amounting to 26 mill DKK in 2010 (2009: 22 mill). The grants are primarily related to research and development projects as well as grants for the establishment of workplaces.

### 32. Events after the balance sheet date

On February 28 2011, Danfoss and Altra Holdings Inc. signed the final agreement for the takeover of substantially all of the gearmotor activities in Danfoss Bauer GmbH at a price of 43.1 mill EUR. The price, which must be paid at conclusion of the deal, depends on adjustments of the working capital and other matters. Closing the deal is subject to existing conditions, including the approval of the competition authorities, and is expected to be completed in the second quarter of 2011.

The size of assets and obligations from the sale of the Gearmotor business is insignificant for the understanding of the annual accounts. Neither the assets nor the liabilities have, therefore, been reclassified as activities held for sale, and the result and cash flows are not shown as separate items.

On February 9 2011, Watts Water Technologis, Inc. (NSYE symbol "WTS") announced that it intends to acquire Danfoss Socla and the accompanying water valve business from Danfoss A/S. The potential takeover is conditional upon the signing of a final acquisition agreement and the approval of the competition authorities. The proposed price is expected to be between 115 and 120 mill EUR.

The management still evaluates that it is uncertain as to whether the sale of the water valve business will be completed over the next year, so assets held for sale as well as the result and cash flows are not shown as separate items.

Subsequent to 31 December 2010 there have been no further events with any significant effect on the annual accounts beyond what has been considered and disclosed in the annual report.

### 33. New accounting regulations

**IASB has prepared new accounting standards (IAS and IFRS) and interpretation contributions (IFRIC) which Danfoss A/S is not required to include in the 2010 Annual Report:**

IFRS 9  
Amendment to IFRIC 14  
Amendment to IFRIC 19  
Revised IAS 24  
Amendment to IFRS 1  
Amendment to IFRS 7  
Amendment to IAS 32  
Improvements to IFRS (May 2010)  
Amendments to IAS 12

IFRS 9, amendments to IFRS1, IFRS 7 and IAS 12 have not yet been approved by the EU.

The standards and interpretation contributions, approved with a different commencement date in the EU than similar commencement dates set by IASB, are implemented prematurely so that implementation complies with the IASB commencement dates pertaining to accounting years, which begin on January 1 2011, or later. None of the new standards or interpretation contributions are assumed to have any significant impact on the presentation of the Danfoss A/S accounts.

DANFOSS GROUP COMPANIES

# Danfoss Group Companies



## December 31, 2010

Unless otherwise specified after the company name, the companies are 100% owned by Danfoss. Sauer-Danfoss companies are marked with blue and are 100% owned by Sauer-Danfoss, unless otherwise specified.

# EUROPE

## Belgium

Danfoss Socla Benelux S.P.R.L., Brussels  
N.V. Danfoss S.A., Groot-Bijgaarden  
[Sauer-Danfoss bvba, Brussels](#)

## Bulgaria

Danfoss EOOD, Sofia

## Denmark

AqSep A/S – 29.17% (associated company)  
Danfoss A/S, Nordborg (Parent Company)  
Danfoss Captive Reinsurance A/S, Nordborg  
Danfoss Compressor Holding A/S, Nordborg  
Danfoss Distribution Services A/S, Rødekro  
Danfoss Drives A/S, Gråsten  
Danfoss Ejendomsselskab A/S, Nordborg  
Danfoss Global Sales A/S, Nordborg  
Danfoss International A/S, Nordborg  
Danfoss IXA A/S, Vejle  
– 35% (associated company)  
Danfoss Murmann Holding A/S, Nordborg  
Danfoss Polypower A/S, Nordborg  
Danfoss Redan A/S, Hinnerup  
Danfoss Semco A/S, Odense – 60%  
Danfoss Solutions A/S, Kolding  
Danfoss Development A/S, Nordborg  
Flexucell ApS, Østervrå – 50% (joint venture)  
Gemina Ejendomsselskab A/S, Sunds  
Gemina Termix Production A/S, Sunds  
Issab Holding ApS, Nordborg  
Tantaline A/S, Nordborg  
– 20% (associated company)  
[Sauer-Danfoss ApS, Nordborg](#)  
[Sauer-Danfoss Holding Aps, Nordborg](#)

## Estonia

Danfoss AS, Tallinn  
Proekspert AS, Tallinn – 75.20%

## Finland

Oy Danfoss Ab, Leppävirta  
Thermia Partners Oy, Masala – 60%  
[Oy Sauer-Danfoss Ab, Espoo](#)

## France

Avenir Energie, Valence  
Danfoss Commercial  
Compressors S.A., Trevoux  
Danfoss Desbordes, Villeurbanne  
Danfoss France Holding S.C., Trappes  
Danfoss S.a.r.l., Trappes  
Danfoss Socla S.A.S., Virey Le Grand  
Valpes S.a.r.l., Moirans  
[Sauer-Danfoss SAS, Dammarie-lès-Lys](#)

## Greece

Danfoss E.P.E (in liquidation), Moschato

## Netherlands

Danfoss B.V., Schiedam  
Danfoss Energie Systemen B.V., CJ Houten  
Danfoss Holding B.V., Schiedam  
Danfoss Turbocor  
Compressors B.V., Amsterdam  
– 50% (joint venture)  
[Sauer-Danfoss B.V., Gouda](#)

## Ireland

Danfoss Ireland Ltd., Dublin  
DEVI-HEAT Limited, Dublin

## Iceland

Danfoss hf., Reykjavik

## Italy

Danfoss Socla Italia S.r.l., Milan  
Danfoss S.r.l., Torino  
Danfoss Electronics spa, San Vendemiano  
[Sauer-Danfoss S.r.l., Reggio Emilia](#)

## Croatia

Danfoss d.o.o., Zagreb

## Latvia

SIA Danfoss, Riga

## Lithuania

Danfoss UAB, Vilnius

## Norway

Danfoss AS, Skui, Oslo  
[Sauer-Danfoss AS, Skui, Oslo](#)

## Poland

Danfoss LPM Sp.z.o.o., Chwaszczyno  
Danfoss Saginomiya Sp.z.o.o., Grodzisk Mazowiecki – 50% (joint venture)  
Danfoss Sp.z.o.o., Grodzisk Mazowiecki  
Elektronika S.A., Gdynia – 50% (joint venture)  
[Sauer-Danfoss Sp. z o.o., Wrocław](#)

## Portugal

Danfoss (Portugal), Lda., Carnaxide

## Romania

Danfoss s.r.l., Bucharest  
Danfoss District Heating S.r.l., Bucharest

## Russia

Danfoss Dzerzhinsk LLC, Nizhny Novgorod  
OOO Danfoss, Istra  
OOO Gruppa LPM, St. Petersburg  
ZAO Danfoss, Moskva  
ZAO Ridan, Nizhny Novgorod  
[Sauer-Danfoss LLC, Moscow](#)

## Switzerland

Danfoss AG, Frenkendorf

## Serbia

Danfoss d.o.o., Belgrade

## Slovakia

Danfoss spol. S.r.o., Zlaté Moravce  
[Sauer-Danfoss a.s. Povazska Bystrica](#)

## Slovenia

Danfoss d.o.o., Ljubljana  
Danfoss Trata d.o.o., Ljubljana – 99.35%

## Spain

Danfoss S.A., Madrid  
Danfoss Socla Iberica S.A., Madrid  
Sauer-Danfoss S.A., Madrid

## Great Britain

Danfoss Heat Pumps UK Ltd., South Yorkshire  
Danfoss Holding UK Limited, Denham  
Danfoss Limited, Denham  
Danfoss Randall Limited, Bedford  
Senstronics Holding Ltd., London  
– 50% (joint venture)  
[Sauer-Danfoss Ltd., Swindon](#)



## Sweden

Danfoss AB, Linköping  
Danfoss District Heating AB, Göteborg  
EP Technology AB, Malmö  
Thermia Värme AB, Arvika  
[Sauer-Danfoss AB, Älmhult](#)

## Czech Republic

Danfoss s.r.o., Prague

## Turkey

Danfoss Otomasyon ve  
Urunleri Tic Ltd., Istanbul

## Germany

Bar GmbH, Dattenberg  
Danfoss Bauer GmbH, Esslingen  
Danfoss Flensburg GmbH, Flensburg  
Danfoss GmbH, Offenbach/Main  
Danfoss Silicon Power GmbH, Schleswig  
Danfoss Socla GmbH, Rheinbach  
Danfoss Werk Offenbach GmbH,  
Offenbach/Main  
Promeos GmbH, Erlangen  
– 23.05% (associeret selskab)  
[Sauer-Danfoss GmbH & Co. OHG, Neumünster](#)  
[Sauer-Danfoss Informatic GmbH, Neumünster](#)  
[Sauer-Danfoss GmbH, Neumünster](#)

## Ukraine

Danfoss T.o.v., Kiev

## Hungary

Danfoss Ktf., Budapest

## Austria

Danfoss Gesellschaft m.b.H., Guntramsdorf

# NORTH AMERICA

## Canada

Danfoss Inc., Mississauga, Ontario  
Turbocor Inc., Dorval – 50% (joint venture)

## Mexico

Danfoss Industries S.A.  
de C.V., Apodaca, Monterrey  
Danfoss S.A. de C.V., Monterrey

## USA

Aztec Energy Partners, Atlanta, Georgia

Danfoss Acquisitions, Inc., Wilmington

Danfoss LLC, Baltimore, Maryland

Danfoss Holding, Inc.,  
Lawrenceville, Georgia

Danfoss Chatleff LLC, Austin, Texas

Danfoss Flomatic Corporation,  
Glenn Falls, New York

Danfoss Hago Inc., Newark, New Jersey

Danfoss Turbocor Compressors, Inc.,  
Tallahassee, Florida – 50% (joint venture)

Danfoss Scroll Technologies LLC,  
Arkadelphia, Arkansas

Danfoss Sea Recovery Corporation,  
Los Angeles, California

Powerlynx, Inc.

Hydro-Gear Inc., Sullivan, Illinois – 60%

Hydro-Gear Limited Partnership,  
Sullivan, Illinois – 60%

[Sauer-Danfoss \(US\) Company, Ames, Iowa](#)

[Sauer-Danfoss Inc., Lincolnshire, Illinois](#)

# SOUTH AMERICA

## Argentina

Danfoss S.A., Buenos Aires

## Brazil

Danfoss do Brasil Indústria e Comércio Ltda.,  
São Paulo  
[Sauer-Danfoss Hidraulica Mobil Ltda, Caxias do Sul](#)  
[Sauer-Danfoss Ltda., Sao Paulo](#)

## Chile

Danfoss Industries Ltda., Santiago

## Colombia

Danfoss S.A., Santiago de Cali

## Venezuela

Danfoss S.A., Valencia

# AFRICA

## South Africa

Danfoss (Pty) Ltd., Rivonia, Johannesburg  
Elsmark Investment Holdings (Proprietary)  
Limited, Johannesburg  
Elsmark South Africa (Proprietary) Limited,  
Johannesburg

## Namibia

Elsmark (Namibia)

Commercial Wholesalers  
(Proprietary) Limited

# ASIA

## Philippines

Danfoss Inc., Manila

## United Arab Emirates

Danfoss FZCO, Dubai – 95%

## India

Danfoss Industries Pvt. Limited, Chennai  
[Sauer-Danfoss India Pvt. Ltd., Pune](#)

## Japan

[Daikin-Sauer-Danfoss Manufacturing LTD,,](#)  
Osaka – 45%  
[Sauer-Danfoss-Daikin LTD., Kobe – 65%](#)

## Kazakhstan

Danfoss LLP, Almaty

## China

Danfoss Anshan Controls Co. Ltd., Anshan  
Danfoss Energy Products (Guiyang) Co., Ltd.  
Danfoss (Shanghai) Automatic  
Controls Co. Ltd., Shanghai  
Danfoss (Tianjin) Limited, Tianjin  
Danfoss Industries Limited, Hong Kong  
Zhejiang Holip Electronic  
Technology Co. Ltd., Zhejiang  
Danfoss Plate Heat Exchanger, Hangzhou  
Danfoss Compressors (Tianjin) Co., Ltd., Tianjin  
Danfoss Sanhua (Hangzhou) Micro Channel  
Heat Exchanger Co., Ltd. – 50%  
[Sauer-Danfoss Hydrostatic Transmission Co. Ltd.,](#)  
[Shanghai – 65%](#)  
[Sauer-Danfoss \(Shanghai\) Co. Ltd., Shanghai](#)  
[Sauer-Danfoss-Daikin Mobile Hydraulics](#)  
(Shanghai) Co., Ltd., Shanghai – 65%  
Tau Energy Holdings (HK) Limited

## Malaysia

Danfoss Industries Sdn Bhd, Selangor

## Singapore

Danfoss Industries Pte. Ltd., Singapore  
[Sauer-Danfoss Pte. Ltd. Singapore – 65%](#)

**South Korea**

Danfoss Ltd., Seoul

Sauer-Danfoss-Daikin LTD., Seoul – 65%

**Taiwan**

Danfoss Co. Ltd., Tapei

**Thailand**

Danfoss (Thailand) Co. Ltd., Bangkok

## AUSTRALIA

**Australia**

Danfoss (Australia) Pty. Ltd., Melbourne

Sauer-Danfoss-Daikin Pty. Ltd. – 65%

**New Zealand**

Danfoss (New Zealand) Ltd., Auckland



# Accounts and notes Corporate Citizenship

# Assurance statement - Corporate Citizenship

## Introduction

Det Norske Veritas AS (DNV) has been asked by the management of Danfoss (the Company) to carry out an assurance engagement on its Corporate Citizenship reporting for 2010 (the Report), as presented in the Annual Report and on the Company's website.

Danfoss is responsible for the collection, analysis, aggregation and presentation of information in the Report. DNV's responsibility in performing this work is to the management of Danfoss only and in accordance with agreed terms of reference. This statement is intended for the management and broader stakeholders of Danfoss.

## Scope of Assurance and Limitations

DNV agreed the following scope of work with Danfoss:

- Verification of the text and performance data for Corporate Citizenship in the Report, covering Danfoss' global activities from 1 January to 31 December 2010.
- Evaluation of the underlying processes for collecting and analysing data from production sites and consolidating at corporate level.
- The information regarding Sauer-Danfoss is not included in the scope.
- We did not interview any external stakeholders.
- Verification activities took place at the Danfoss Head Office in Denmark as well as four production sites: Danfoss Sp. z.o.o. (Grodzisk, Poland), Danfoss ZAO (Moscow, Russia), Danfoss Industries (Monterrey, Mexico) and Danfoss Comfort Controls (Silkeborg, Denmark), during February 2011.

## Verification Methodology

DNV planned and carried out the assurance engagement in accordance with DNV's Protocol for Verification of Sustainability Reporting. We reviewed the mechanisms for implementing the Company's policies on a range of topics within Corporate Citizenship (including environment, health & safety, human resources, suppliers and business ethics) and challenged the related statements made in the Report. We assessed the robustness of the underlying data management systems, information flows and internal control processes. To trace key performance data up through the reporting system, we conducted on-site verification at the above-mentioned factories and performed sample-based data checks of a further five production sites worldwide,

selected using a risk-based approach. Finally, we evaluated the Report's adherence to six principles: Materiality, Completeness, Reliability, Stakeholder Inclusiveness, Responsiveness and Neutrality. Our conclusions are based on interviews with 43 staff of various functions (including senior management) and review of relevant documentation and tools.

## Conclusions

In DNV's opinion, the Corporate Citizenship reporting for 2010 provides a fair and credible representation of Danfoss' performance. The Report conveys in a factual manner Danfoss' activities in those areas that are material for the Company and in a way that will help stakeholders make informed decisions about the Company's performance and overall management of its corporate social responsibility. DNV has evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

**Materiality:** Good. Danfoss continues to expand and strengthen its monitoring of the Company's material risks relating to Corporate Citizenship, and it works systematically at the corporate level to map significant issues, for example according to ISO26000. The Company's most material impacts and outcomes are addressed in the Report, together with commitments to future action.

**Completeness:** Acceptable. Within the scope and boundaries for reporting defined by Danfoss we do not believe the Report omits important information that would significantly influence a stakeholder's assessment of whether the Company manages its social and environmental impacts in a responsible manner. The omission of Sauer-Danfoss, despite Danfoss' majority shareholding, is explained.

**Reliability:** Acceptable. Danfoss generally demonstrates good internal data management and traceability, based on documented accounting principles and effective internal control procedures at corporate level. At a few production sites, certain internal control procedures were found to be less effective. However, from our review of data and underlying evidence, it is our opinion that the environmental and social data in the Report are stated in accordance with the Company's accounting principles and are reliable.

<sup>1)</sup> [www.dnv.com/services/assessment/corporate\\_responsibility/services\\_solutions/sustainabilityreporting](http://www.dnv.com/services/assessment/corporate_responsibility/services_solutions/sustainabilityreporting)



**Stakeholder Inclusiveness:** Acceptable. Danfoss maintains an active dialogue between employees and management, both locally and at the corporate level, and thereby seeks to understand and respond to internal stakeholders' expectations of Corporate Citizenship. The Company also engages external stakeholders on the subject in different forums and integrates the feedback to a reasonable extent in its Corporate Citizenship activities and reporting.

**Responsiveness:** Good. Danfoss is dedicated to incorporating sustainability principles into its large and small business decisions, and the Report reflects the Company's efforts across the most significant challenges. Competent management of the working environment and good dialogue between employees and management help to ensure responsible, effective management of difficult situations locally (such as redundancy). The Company's introduction of a more systematic approach and training on anti-corruption and supply chain management has strengthened local competence in managing risks, particularly in high risk countries.

**Neutrality:** Good. Danfoss' reporting is balanced and frank in its presentation of results for 2010. Positive and negative performance is reported, along with commitments to future improvements.

#### **Opportunities for Improvement**

The following is an excerpt from DNV's observations and suggestions for improvement, as we have reported them to the management of Danfoss.

- Complete a comprehensive mapping of stakeholders – both for the Company and for local production sites – as the basis for a systematic approach to stakeholder engagement and incorporation of the results in future reporting.
- Continue efforts to enhance internal audit processes at local production sites to strengthen data reliability in the future.
- Explore how Sauer-Danfoss' management of its environmental and social impacts can gradually be integrated into the Report to ensure the most complete presentation of the Corporate Citizenship activities undertaken in the name of Danfoss.

#### **DNV's Competence and Independence**

DNV provides sustainability risk management services through qualified specialists worldwide. DNV was not involved in the preparation of any statements or data included in the Report except for this Assurance Statement. DNV maintains complete impartiality towards people interviewed during the assignment.



**For Det Norske Veritas AS**

*Copenhagen, 4 March 2011*

Dr Helena Barton  
Lead Verifier

Jens Peter Høiseeth  
Key Customer Manager



# Accounting principles, Corporate Citizenship

The overall principles are materiality, relevance and transparency.

## Scope and limitations

The Corporate Citizenship section of the Annual Report contain information about:

- Working environment
- Labor practices
- Anti-corruption
- Supply chain
- Society and community
- Products
- Recruitment & retention
- Fair marketing & anti-trust
- Climate change
- Environment

The subjects: right to privacy (including the use of medical tests), child labor, juveniles at work, freedom of association, use of prison labor, discrimination, complain to and from the communities in which Danfoss operates, head-count by region, type, sex and age, employee turnover on age, seniority, type, sex and region, employee development dialogue, and leaders' national origin can be found in the GRI table.

The CSR section covers all companies (both manufacturing and sales companies) where Danfoss has had a majority share throughout 2010. The environment section covers all factories where Danfoss has had a majority share throughout 2010. Companies that have been acquired in 2010 will first appear in the Corporate Citizenship Report for 2011. All data are exclusive Sauer-Danfoss.

## Collection of data

### CSR

Data for the CSR section is collected through five channels:

- An annual electronic questionnaire (CSR survey) distributed to all of the group's factories and sales companies.
- An electronic questionnaire (People Manager Survey) to all of the group's managers with direct reports. Danfoss CSR survey and People Manager survey are compiled in SurveyXact, developed by Ramboll Management. Respondents are registered in SurveyXact with all relevant information such as country, company code, email address.
- Factory visits during which data is collected using observation, interviews and dialogues

- Supplier data is gathered in SCoCIS II (Supplier CoC Information System II), a database maintained by Global Procurement
- Data on suppliers is also collected from Danfoss' purchasers who are interviewed about their experiences with activities in the supplier chain.

### HR

Data for the HR part of Danfoss' Corporate Citizenship section is gathered from the personnel management system HR-SAP, where information about the employees are registered.

### Environment

Once a year, data on all factories' environmental impact, raw materials, energy, water and potentially harmful substances, as well as data on sewage, heavy metals and waste are collected through Hyperion Financial Management (HFM), which also is the factories' tool for financial reporting. Factories must also inform about the number and nature of accidents and indicate whether they have exceeded the conditions of their environmental permits or other agreements with environmental authorities.

## Rules and guidelines

### CSR and HR

Since 2003, Danfoss has conducted an annual CSR survey about human rights, labor rights, business ethics and anti-corruption of all of the group's factories and sales companies.

Danfoss conducted for the first time in 2009 a survey (People Manager Survey) amongst all managers with direct reports focusing on business ethics and compliance to certain legislative requirements.

The results from the CSR survey are reported to the respondents and the Executive Committee. The Executive Committee also receives the results of the People Manager Survey.

If critical conditions are established, the companies involved are approached with the purpose of rectifying the matters.

Most results from the CSR survey are included in Danfoss' Corporate Citizenship report, which is published as part of the company's efforts to make Danfoss' activities and results transparent. Some results are only included in the internal report.

Danfoss applies the guidelines contained in GRI (Global Reporting Initiative) to ensure transparent and comprehensive results in the HR, CSR and environmental reports. It is not compulsory for organizations to submit reports on financial, environmental and social dimensions of their activities. The GRI table includes a list of the indicators covered by the Corporate Citizenship reporting.

Since Danfoss has signed the UN Global Compact, the company is under an obligation to prepare an annual Communication on Progress (CoP) for UN. The paper discusses the work with human rights, labour rights and anti-corruption. Danfoss' CoP is the Corporate Citizenship report.

The basis for reporting of CSR data exist in two Danfoss standards: One, Corporate Environmental Reporting (corporate standard 500B0806), establishes the general guidelines for reporting of data. The second, Danfoss Headcount Definition (corporate standard 500B1146) define together with Work Instructions and Guidelines for HR-SAP Administrators definitions for HR data.

### **Environment**

At the factories the major data are collected in accordance with procedures in the environmental management systems. Development of these data is monitored continuously.

The foundation of the reporting of data for the Group Environmental Accounts is available in two Danfoss standards: The first, "Corporate Citizenship Reporting" (corporate standard 500B0806), defines the general guidelines for reporting of data. The second, "Environmental Reporting" (corporate standard 500B0734), defines the precise guidelines for the reporting of raw materials, auxiliary materials and potentially harmful substances."

The latter also defines what to observe in order to avoid reporting by double entry due to internal trading with other Danfoss factories and what should be done to ensure inclusion of all relevant data in the reporting.

In order to support the factories in their work to provide valid data to be used in the Environmental Accounts, training a group environmental reporting seminars are held once a year regularly and training also takes place during factory visits.

The factories must report a total of 85 different parameters (data types) via Hyperion Financial Management (HFM), which is also used for reporting of financial figures in the group. To ensure a uniform and valid reporting of data, guidelines and help texts are available for each parameter.

## **Data handling and validation**

### **CSR and HR**

Validation of data takes place after deadline. Respondents whose replies are controversial, questionable or self-contradictory are contacted in order to correct or clear up any errors. If there is a need to include supplementary explanations in the Corporate Citizenship report or in the internal reporting, the companies in question are asked to provide the necessary information. The data is analyzed in a spreadsheet and form the basis for the survey conclusions. The internal reporting of social issues also includes a wide range of graphs.

HR data are validated in the HR organization according to guidelines.

### **CSR survey and People Manager survey**

The CSR survey 2010 was distributed to 108 contact people (Presidents/ General Managers) who were asked to give their feedback on behalf of all factories and companies in the group.

Feedback was received from 104 out of 108 respondents, resulting in a response rate of 96.3%. The answers represent 98.4% of the group's 17,373 employees.

In 2010, the People Manager survey was distributed to 2,040 managers with employees reporting to them. 1,888 managers filled in the questionnaire, a response rate of 91.8%.

### **Supply chain**

Danfoss' suppliers are grouped in a risk-effect matrix. The purpose is to ensure a systematized approach to supplier management, prioritizing the most risk-prone suppliers. All of the countries are rated according to the level of risk, which describes the risk of the supplier not complying with the Code of Conduct, and the effect is determined by the extent of the purchase.

### **Environment**

Consumption of raw material and potentially harmful substances occurs according to two principles: either at the registering of movements in stock or at purchasing. Most factories of the group use the latter. Other data is mainly stated in proportion to drawn up invoices in connection with purchasing/ sales. This applies for example to the purchasing of energy and water or generation of waste. Heavy metals in wastewater data is normally measured by external laboratories.

### **Raw materials and auxiliary materials**

The consumption of raw materials is reported as 23 different types of raw materials. The raw material types have been selected for their significance as to volume or since they include important information on the sectors in which Danfoss is active. Raw material types that cannot be related to a specific raw material type are reported under "Other raw materials". Auxiliary materials and consist of cutting fluids and cleaning agents used in production processes.

### **Potentially harmful substances**

The materiality criterion of potentially harmful substances in the Environmental Accounts is the volume or hazardousness of the substances, or that they are covered by the factories' environmental approvals. In order to facilitate clarity, the substances are grouped. It should be noted that some substances are only included in regard to the working environment. This applies for example to the substances that are called CRAN substances. These substances are considered carcinogenic, harmful to the ability to reproduce healthy children, allergenic, or harmful to the central nervous system.

11 substance groups exist in the potentially harmful substances category. Some substances are found in several substance groups, for example the chlorinated refrigerants HCFC, HFC and CFC, which, apart from being individually reported, are also included in the group of organic solvents. Danfoss has selected this approach to show the development in consumption of the substances that are particularly important in the public environmental issues debate but also to emphasise that the substances often have several characteristics.

The CRAN substances are stated according to national law on the labelling of substances, to ensure best possible coherence with the factories' environmental management systems.

Moreover, the refrigerants CFCs, HCFCs and HFCs are reported as they have a special significance in the environmental debate on climate change.

### Accidents

The frequency of accidents is calculated as the total number of accidents (including possible fatalities) per one million working hours.

### Erroneous reporting

If systematic errors are revealed in the reported data or in the foundation of the data, the data in question are corrected five years back to ensure comparability. If changes are made to the classifying of chemical substances, the change only takes effect as of the year referred to, since it creates an entirely new situation.

Changes in historical data must be approved by the external audit: (refer below).

### Environmental Impact Index (EII)

The Environmental Accounts include an environmental impact index (EII), to express the group's relative environmental impact. EII reflects how efficiently resources are used and of the group's ability to reduce the discharges relative to the volume of production. A decreasing EII indicates a lower relative environmental impact.

The environmental impact index is calculated as the index of environmental impact divided by the index of activity. Activity index is calculated from the average of the index for raw materials and the index of turnover.

In previous years, the activity index was based solely on raw materials consumption, but as the raw material consumption per product is minimized, the previous method is no longer usable.

### Internal audit of data prior to consolidation

An internal audit Group reviews a total of about 5,000 data reported each year by the factories, before the consolidation of data. During the internal audit comparisons are made on basis of previous years' of data, and a number of correlations between different data are reviewed. An example is the correlation between raw material consumption, energy consumption and waste, or the question whether the different kinds of waste types or potentially harmful substances have been correctly reported.

The Environmental Accounts includes 48 reporting entities. Some factories are split into several reporting entities (mostly located in Nordborg and China). Other factories make an aggregate reporting because a split of e.g. electricity is impossible between the factories if located at the same premises.

### Consolidation

When consolidating data, extracts are made for the different kinds of information and these are being consolidated at Group level. This applies for example to raw materials and potentially harmful substances. It is also checked that data are in accordance with previous years' consolidated data. Central reporting of wastewater emission data, energy and water consumption and consumption of piped media is performed for the factories in Nordborg, since these are shared facilities. These data are checked and consolidated with other data on Group level.

### Calculation of flue gas emissions

The calculation of flue gas emissions is made on basis of the energy consumption multiplied by relevant emission factors. The source of the emission factors is the Greenhouse Gas Protocol ([www.ghgprotocol.org](http://www.ghgprotocol.org)). The calculation is based on Danfoss' consumption of oil and gas, its own energy production and heating consumption as a result of purchased electricity and district heating at external energy manufacturers. Each factory reports their consumption of energy as coming from renewable and non-renewable sources.

### Transport

The environmental impact of internal transport and transport of products are not included in the Environmental Accounts 2010. This is due to the weighing between the impacts on the factories and on the other hand lack of methodical simplicity in the statement of the environmental impact of transport.

## Activities and changes during the year

### Factories in environmental accounts

Accounts include all the factories where Danfoss has had a majority share in all of 2010. During 2010, Household Compressor factories in Germany, China, Slovakia and Slovenia sold off together with heat pump plant in France. Data from these factories are not included in the accounts.

In addition, several of Global Services' functions in Nordborg (including workshops and horticulture) were outsourced in 2010 and therefore not part of the reporting.

### Factory visits

Over the years site visits are conducted, where information about the environmental and social conditions at Danfoss' companies is collected.

Reports, minutes and correspondence from here form the basis of some of the information in the Corporate Citizenship Report.

In 2010, there have been four factory visits in China, Poland, England and Denmark.

### External verification

External and independent third party verification of data and information in the Corporate Citizenship section of Danfoss' Annual Report is performed.

Information about Sauer-Danfoss is not subject to verification

The verification is conducted by Det Norske Veritas as sample checks, factory visits and verification of the procedures for reporting and audit of data.

Interviews with employees and managers in key functions are conducted in order to make assessment of both system as attitude aspects of the preparation of Corporate Citizenship report.

# Significant CSR parameters

<b>Certified working environment management systems</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Worldwide		35%	42%
Denmark		80%	93%
<b>Dismissals due to unethical behaviour</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total	64	29	40
Hereof cases that were safely reported through the Ethics Hotline	6	1	4
<b>Juveniles between 15 and 18</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Total	192	78	95
Production	119	37	69
Hereof trainees	83	21	33
Administration	27	11	17
Hereof trainees	21	5	8
Other functions	46	30	9
Hereof trainees	41	26	1
<b>Cases of discrimination</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Number of cases	2	2	2
<b>Product liability cases</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Number of cases	7	2	0
<b>Employees with disabilities</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Number of employees		185	156
<b>Complaints from local community</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Number of complaints	2	1	0
<b>Helbredstest af medarbejdere (antal virksomheder)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Medical examination		60	31
X-ray		17	11
Blood sample		35	18
Urine test		27	15
HIV/AIDS		2	0
Hepatitis		9	5
<b>Health test of applicants (number of companies)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Medical examination		24	18
X-ray		5	7
Blood sample		14	10
Urine test		23	7
HIV/AIDS		0	0
Hepatitis		3	4
<b>Suppliers</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Direct suppliers (supply goods for products)	3.758	3.498	4.259
<b>Distribution of direct suppliers</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
High risk countries	10%	19%	13%
Medium risk countries	15%	10%	10%
Low risk countries	75%	71%	77%
<b>Suppliers having signed Code of Conduct (number)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
High risk countries	28%	29%	81%
Medium risk countries	8%	28%	46%
Low risk countries	17%	47%	46%
<b>Audits at suppliers (%)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
High risk countries	23%	14%	38%
Medium risk countries	8%	7%	18%
Low risk countries	4%	5%	5%
<b>Donations from Fabrikant Mads Clausens Fond</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Donations (m DKK)	10	11,6	20,2
<b>Danfoss Employee Foundation</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Number of cases	400	300	300
Donations (m DKK)	5	2,6	3

# Significant HR parameters

Headcount per region		GLOBAL	Denmark	Europe ex DK	NAM	LAM	APAC	Others
End of 2010		17,373	4,928	6,489	2,018	243	3,635	60
End of 2009		19,623	5,226	8,907	1,829	212	3,385	64
End of 2008		22,133	6,149	10,287	2,365	227	3,041	64
End of 2007			6,465	10,339	2,626	220	2,609	64
Headcount per employment type		TOTAL	Execs	Manager	Salary paid	Hourly paid	Trainee Appren	
End of 2010		17,373	74	2,117	7,366	7,634	182	
End of 2009		19,623	75	2,266	7,408	9,481	393	
End of 2008			88	2,267	8,210	11,165	403	
Employee turnover by Age group (%)		TOTAL	15-24	25-34	35-44	45-54	55+	
2010	Total turnover	17	48	16	12	11	18	
2010	Voluntary resignation rate	5	15	7	5	2	2	
2009	Total turnover	20	35	20	16	16	30	
2009	Voluntary resignation rate	4	11	5	3	2	1	
2008	Total turnover	20	14	25	17	14	27	
2008	Voluntary resignation rate	7	4	9	7	6	5	
Employee turnover by Service length (%)		TOTAL	0-2	2-4	5-9	10-19	20+	
2010	Total turnover	17	37	13	9	8	16	
2010	Voluntary resignation rate	5	13	5	4	2	1	
2009	Total turnover	20	31	18	14	11	16	
2009	Voluntary resignation rate	4	7	4	2	1	1	
2008	Total turnover	20	33	14	12	7	9	
2008	Voluntary resignation rate	7	11	7	5	2	1	
Employee turnover by Employee group (%)		TOTAL	Execs	Manager	Salary paid	Hourly paid		
2010	Total turnover	17	1	10	12	22		
2010	Voluntary resignation rate	5	-	5	6	5		
2009	Total turnover	20	15	7	18	26		
2009	Voluntary resignation rate	4	1	2	5	4		
2008	Total turnover	20	8	8	13	24		
2008	Voluntary resignation rate	7	3	4	7	7		
Employee turnover by Gender (%)		TOTAL	Males	Females				
2010	Total turnover	17	17	16				
2010	Voluntary resignation rate	5	6	5				
2009	Total turnover	20	19	23				
2009	Voluntary resignation rate	4	4	3				
2008	Total turnover	20	19	21				
2008	Voluntary resignation rate	7	7	7				
Employee Turnover by region (%)		GLOBAL	Denmark	Europe ex DK	NAM	LAM	APAC	Others
2010	Total turnover	16.9	19.4	13.3	13	33.8	16.7	15.8
2010	Voluntary resignation rate	5.2	3.8	3.7	3.6	12	9	7.9
2009	Total turnover	20.2	19.7	18.9	34.4	11.9	17.5	14.8
2009	Voluntary resignation rate	3.8	2.9	2.7	4.4	0.6	8.1	6.3
2008	Total turnover	19.5	21.5	15.9	31.2	20.1	17.2	17.2
2008	Voluntary resignation rate	6.8	9.4	3.4	13	6.8	7.3	11.7
Leading people at Danfoss (participant days)		TOTAL						
No. of days 2010		476						
No. of days 2009		856						
No. of days 2008		488						
No. of days 2007		51						

Manager EDDs completed (%)		GLOBAL	Denmark	Europe ex DK	NAM	LAM	APAC	Others
2010	Dialogues	86.8	97.2	74.3	90.4	76.8	94.7	80
2009	Dialogues	63	65.4	72.1	79	54.2	49	
2008	Dialogues	69.5	83.6	73.7	73.5	41.8	29.9	
2007	Dialogues	74.2	81.5	70.3	71.1	78.1	71	
Total EDDs completed (%)		GLOBAL	Denmark	Europe ex DK	NAM	LAM	APAC	
2010	Dialogues	71.9	82.7	56.2	65.8	66.8	86.6	
2009	Dialogues	59.3	68.5	52.8	70	72.2	52.9	
2008	Dialogues	62.8	82.1	52.4	78.9	31.7	46.6	
2007	Dialogues	65.9	82.5	54	70	64.2	66.6	
Employee Categories by gender		2008		2009		2010		
		Males	Females	Males	Females	Males	Females	
Total		14,869	7,238	13,348	6,275	11,345	6,028	
Executives		88	-	75	-	72	2	
Managers		1,842	399	1,824	442	1,710	407	
Salary paid employees		5,601	2,609	5,029	2,379	4,837	2,529	
Hourly paid employees		7,046	4,119	6,136	3,345	4,588	3,046	
Trainees/ Apprentices			111	284	109	138	44	
Employee Categories by Age group		15-24	25-34	35-44	45-54	55+		
2010	Total		5,505	4,950	3,725	1,848		
	Executives		1	22	33	18		
	Managers		398	962	571	185		
	Salary paid employees		2,762	2,140	1,423	783		
	Hourly paid employees		2,304	1,818	1,697	862		
	Trainees/ Apprentices			8	1	-		
2009	Total		5,913	5,722	4,338	2,096		
	Executives		1	19	38	17		
	Managers		475	951	601	236		
	Salary paid employees		2,638	2,249	1,454	823		
	Hourly paid employees		2,738	2,493	2,245	1,020		
	Trainees/ Apprentices			11	-	-		
2008	Total		7,043	5,605	4,994	2,519		
	Executives		-	26	36	26		
	Managers		469	949	595	246		
	Salary paid employees		3,022	2,426	1,497	933		
	Hourly paid employees		3,484	2,190	2,866	1,313		
	Trainees/ Apprentices			14	-	1		
Manager National Origin (%)		DK	CN	DE	US	FR	SI	Others
2010	Total managers	28.8	12.8	5.4	6.5	6.3	1.6	38.6
2010	Executives	67.1	0	6.8	2.7	4.1	1.4	17.8
2009	Total managers	28.4	8.8	8.1	5.8	5.3	4.2	39.4
2009	Executives	65.2	0	10.5	2.1	4.2	3.2	11.6
2008	Total managers	29.7	9.5	7.5	6.7	6.4	4.8	35.4
2008	Executives	71.7	2	7.1	2	3	3	11.2
Employees & Managers per gender (%)		GLOBAL	Denmark	Europe ex DK	NAM	LAM	APAC	Others
2010	All employees - Males	65	63	64	63	67	67	65
2010	All employees - Females	35	37	36	37	33	33	35
2010	Male Managers	81	84	84	80	81	72	87
2010	Female Managers	19	16	16	20	19	28	13
2009	All employees - Males	68	65	69	66	82	70	67
2009	All employees - Females	32	35	31	34	18	30	33
2009	Male Managers	81	84	83	82	81	71	71
2009	Female Managers	19	16	17	18	19	29	29
2008	All employees - Males	67	64	69	65	83	69	69
2008	All employees - Females	33	36	31	35	17	31	31
2008	Male Managers	83	87	84	82	83	72	72
2008	Female Managers	17	13	16	18	17	28	28

Abbreviations:

**NAM:** North America, **LAM:** Latin America, **APAC:** Asia/Pacific



# Significant environmental impacts

Energy (TJ)	2006	2007	2008	2009	2010	2010 distr.
Energy consumption	1,777	1,940	1,965	1,808	1,530	
ElI - Energy	100	98	101	107	95	
Natural gas	568	623	663	641	609	39.8%
Electricity	1,021	1,126	1,135	1,016	822	53.8%
Gasoil	21	19	17	16	4	0.3%
Heavy fuel	48	45	43	34	3	0.2%
District heat	118	125	104	98	87	5.7%
Other energy	1	2	3	3	4	0.3%
Electricity (MWh)	2006	2007	2008	2009	2010	2010 distr.
<b>Total electricity consumption</b>	<b>284</b>	<b>313</b>	<b>315</b>	<b>282</b>	<b>228</b>	
<b>Non renewables</b>						
Coal		144	143	125	109	45.2%
Oil		10	8	8	9	3.9%
Gas		35	34	22	24	9.4%
Misc.		10	10	12	7	10.7%
<b>Renewables</b>						
Solar, wind		38	45	42	38	13.1%
Biomass		7	8	10	10	3.8%
Misc.		8	6	5	3	1.2%
<b>Nuclear</b>		62	61	59	29	12.8%
CO <sub>2</sub> emissions (tonnes)	2006	2007	2008	2009	2010	2010 distr.
Total emission						
Non renewable sources						
Coal		115,494	115,370	99,650	87,702	64.0%
Oil		11,514	10,008	8,902	6,651	4.9%
Gas		42,383	42,838	38,396	36,493	26.6%
Misc.		8,203	8,304	10,284	6,262	4.6%
Water (m <sup>3</sup> )	2006	2007	2008	2009	2010	2010 distr.
Water consumption	722,762	829,793	839,004	742,083	690,607	
ElI - Water	100	103	106	108	106	
Surface water consumption	124,175	276,550	274,582	300,665	293,834	42.5%
Ground water consumption	545,450	504,611	503,726	384,073	330,195	47.8%
Recycled water	53,137	48,632	60,696	57,345	66,578	9.6%
Water for processes					147,063	21.3%
Water for gardening					29,715	4.3%
Water for other purposes					115,309	16.7%
Raw materials (tonnes)	2006	2007	2008	2009	2010	2010 distr.
Iron	191,523	202,669	189,522	166,230	78,906	47.6%
Stainless steel	4,013	5,474	4,971	3,994	5,579	3.4%
Brass and copper (incl. alloys)	26,334	25,579	26,606	20,984	17,091	10.3%
Aluminium and aluminium alloys	7,176	8,084	8,157	6,944	6,665	4.0%
Other metals	285	168	164	109	175	0.1%
PVC	796	684	725	450	539	0.3%
Plastics with formaldehyde emission	243	276	228	176	191	0.1%
Other plastics types (incl. rubber)	5,189	5,575	5,539	5,124	7,209	4.3%
Electronic and electro-mechanical components	18,540	23,427	21,057	24,614	30,305	18.3%
Soldering materials (incl. leaded)	55	62	67	113	59	0.0%
Wood (incl. Wooden pallets)	10,145	11,619	11,967	10,546	7,209	4.3%
Packaging of cardboard and plastics	6,580	6,973	6,963	6,004	7,065	4.3%
Other raw materials (incl. filling media and chemicals in products)	7,873	9,362	8,219	8,148	4,899	3.0%
Group's total raw material volume	278,751	299,955	284,185	253,437	165,894	
Auxiliary materials (tonnes)	2006	2007	2008	2009	2010	2010 distr.
Cuttings/fluids	594	816	669	571	311	
ElI - cutting fluids	100	124	103	101	58	
Cleanings agents in processes	315	465	396	389	251	
ElI - cleaning agents	100	133	115	130	88	

Potentially harmful substances (tonnes)	2006	2007	2008	2009	2010	2010 distr.
CRAN materials	1.256	1.263	1.219	904	903	
EII - CRAN materials	100	91	89	76	80	
Substances toxic to man	38	37	27	24	32	
EII - Toxic substances	100	88	65	67	95	
Dangerous for the environment	232	288	262	178	151	
EII - Dangerous for the environment	100	112	103	81	72	
Organic solvents	321	288	347	261	266	
EII - Organic solvents	100	81	99	85	92	
HCFCs controlled by the MP (Purchased amounts)	5	10	9	7	5	
HCFC (CO <sub>2</sub> -e)			14.093	11.715	8.120	
EII - HCFC Montreal Protocol	100	193	170	162	119	
Green House Gases control by KP (Purchased amounts of HFCs)	66	85	83	75	82	
Green House Gases (CO <sub>2</sub> -e)			164.074	140.578	143.606	
EII - HFC (Kyoto Protocol)	100	116	116	120	138	
CFC+TRI+ PER (Purchased amounts)	0	0	5	3	3	
CFC+TRI+ PER (CO <sub>2</sub> -e)			903	547	437	
Chlorinated oils	9	10	7	6	10	
EII - Process oil containing chlorine	100	94	67	70	117	
Kerosene	54	37	64	48	37	
EII - Kerosene	100	62	107	93	75	
Waste water (m <sup>3</sup> )	2006	2007	2008	2009	2010	2010 distr.
Discharged industrial waste water	169.498	256.465	261.179	198.047	211.504	
EII - Discharged industrial waste water	100	136	141	123	138	
Heavy metals in waste water (kg)	104	192	186	139	113	
EII - Heavy metals in waste water	100	167	163	141	121	
Waste (tonnes)	2006	2007	2008	2009	2010	2010 distr.
Waste	76.066	79.912	76.717	55.788	23.792	
EII - Waste	100	95	92	77	35	
Waste for incineration	1.514	1.668	1.776	1.308	1.388	
EII - Incineration	100	99	107	91	101	
Waste for landfill	1.454	2.849	3.154	2.006	1.651	
EII - Landfill	100	177	198	145	126	
Oil and chemical waste	4.046	4.057	4.657	4.152	2.359	
EII - Oil and chemical waste	100	90	105	108	65	
Waste for recycling	62.619	64.565	60.958	48.323	18.394	
EII - Recycled waste	100	93	89	81	32	
Accidents with absense (hourly paid)	2006	2007	2008	2009	2010	2010 distr.
Fatal accidents	0	0	0	0	0	
Number of accidents with absense	292	312	330	254	184	
Frequency of accidents	16.2	15.5	16.8	15.5	12.8	
Accidents with absense 1-4 days	95	110	99	92	71	38.6%
Accidents with absense 5-10 days	93	88	99	65	38	20.7%
Accidents with absense 11-19 days	46	43	46	40	26	14.1%
Accidents with absense > 20 days	58	71	86	57	49	26.6%
Total number of days of absense	4.406	5.438	6.864	5.048	4.697	
Finger/Hand/Arm accidents	163	167	172	121	91	49.5%
Head accidents	26	27	30	28	20	10.9%
Legs/Feet accidents	44	68	68	56	40	21.7%
Other parts of body accidents	59	50	60	49	36	19.6%
Accidents with absense (salary paid)	2006	2007	2008	2009	2010	2010 distr.
Fatal accidents	0	0	0	0	0	
Number of accidents with absense			21	22	14	
Frequency of accidents			0.9	1.2	0.8	
Accidents with absense 1-4 days				13	5	35.7%
Accidents with absense 5-10 days				6	5	35.7%
Accidents with absense 11-19 days					2	14.3%
Accidents with absense > 20 days				3	2	14.3%

# GRI indikator

	ISO 26000	GC principle	Page	Results/Comments
<b>PROFILE</b>				
<b>Strategy &amp; Analysis</b>				
<b>1.1</b> Statement from the most senior decision-maker of the organization (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and its strategy.			9	
<b>1.2</b> Description of key impacts, risks, and opportunities			9-10, 34-38	
<b>Organisational Profile</b>				
<b>2.1</b> Name of the organization				The Danfoss Group
<b>2.2</b> Primary brands, products, and/or services			40-47	
<b>2.3</b> Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.			2, 40-47 120-123	
<b>2.4</b> Location of organization's headquarters				Nordborgvej 81, DK-6430 Nordborg, Denmark
<b>2.5</b> Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report			120-123	
<b>2.6</b> Nature of ownership and legal form			30-33, 64	
<b>2.7</b> Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).				
<b>2.8</b> Scale of the reporting organization, including: <ul style="list-style-type: none"> <li>· Number of employees</li> <li>· Net sales (for private sector organizations) or net revenues (for public sector organizations)</li> <li>· Total capitalization broken down in terms of debt and equity (for private sector organisations); and</li> <li>· Quantity of products or services provided.</li> </ul>				Notes in financial report
<b>2.9</b> Significant changes during the reporting period regarding size, structure, or ownership including: <ul style="list-style-type: none"> <li>· The location of, or changes in operations, including facility openings, closings, and expansions; and</li> <li>· Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations)</li> </ul>				Notes in financial report
<b>2.10</b> Awards received in the reporting period			23	
<b>Report Parameters</b>				
<b>3.1</b> Reporting period (e.g., fiscal/calendar year) for information provided.				Reporting period is January 1 - December 31, 2010.
<b>3.2</b> Date of most recent previous report (if any)				Annual Report 2010 published on March 29, 2010.
<b>3.3</b> Reporting cycle (annual, biennial, etc.)				Annual
<b>3.4</b> Contact point for questions regarding the report or its contents.				Corporate Communications & Reputation Management, Chief Reputation Officer

	ISO 26000	GC principle	Page	Results/Comments
<b>Report Scope and Boundary</b>				
<b>3.5</b> Process for defining report content, including: · Determining materiality; · Prioritizing topics within the report; and · Identifying stakeholders the organization expects to use the report.				Detailed accounting principles are available on the Danfoss Group webpage under Corporate Citizenship
<b>3.6</b> Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.				The Corporate Citizenship section of the Annual Report include all companies where Danfoss has an owner share exceeding 50% for the whole year 2010 The Corporate Citizenship section does not include Sauer-Danfoss activities.
<b>3.7</b> State any specific limitations on the scope or boundary of the report			128-130	See accounting principles for Corporate Citizenship
<b>3.8</b> Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.			128-130	See accounting principles for Corporate Citizenship
<b>3.9</b> Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report.			128-130	See accounting principles for Corporate Citizenship
<b>3.10</b> Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).			128-130	See accounting principles for Corporate Citizenship
<b>3.11</b> Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.				Danfoss has sold or closed several business units causing the raw materials to decrease 50%. A new Environmental Impact Index has subsequently been developed.
<b>GRI Content Index</b>				
<b>3.12</b> Table identifying the location of the Standard Disclosures in the report. Identify the page numbers or web links where the following can be found: · Strategy and Analysis 1.1 – 1.2; · Organizational Profile 2.1 – 2.10; · Report Parameters 3.1 – 3.13; · Governance, Commitments, and Engagement 4.1 – 4.17; · Disclosure of Management Approach, per category; · Core Performance Indicators; · Any GRI Additional Indicators that were included; and · Any GRI Sector Supplement Indicators included in the report.				This table
<b>Assurance</b>				
<b>3.13</b> Policy and current practice with regard to seeking external assurance for the report. If not included in the assurance report accompanying the sustainability report, explain the scope and basis of any external assurance provided. Also explain the relationship between the reporting organization and the assurance provider(s).				An external and independent third party verification of data and information in the Corporate Citizenship section of Danfoss' Annual Report is performed by Det Norske Veritas.
<b>Governance</b>				
<b>4.1</b> Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.			30-33	

	ISO 26000	GC principle	Page	Results/Comments
<b>Governance</b>				
<b>4.2</b>	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement).		30-33	
<b>4.3</b>	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members.			Not relevant
<b>4.4</b>	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. Include reference to processes regarding: · The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and · Informing and consulting employees about the working relationships with formal representation bodies such as organization level 'work councils', and representation of employees in the highest governance body.			Please see company website <a href="http://www.danfoss.com">www.danfoss.com</a> for further information about corporate governance.
<b>4.5</b>	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements) and the organization's performance (including social and environmental performance).			Please see company website <a href="http://www.danfoss.com">www.danfoss.com</a> for further information about corporate governance.
<b>4.6</b>	Processes in place for the highest governance body to ensure conflicts of interest are avoided.		32-33	
<b>4.7</b>	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics			Please see company website <a href="http://www.danfoss.com">www.danfoss.com</a> for further information about corporate governance.
<b>4.8</b>	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. Explain the degree to which these: · Are applied across the organization in different regions and department/units; and · Relate to internationally agreed standards.			The topics are described throughout the Annual Report
<b>4.9</b>	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles.  Include frequency with which the highest governance body assesses sustainability performance.			Please see company website <a href="http://www.danfoss.com">www.danfoss.com</a> for further information about corporate governance.
<b>4.10</b>	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.			Please see company website <a href="http://www.danfoss.com">www.danfoss.com</a> for further information about corporate governance.
<b>Commitment to External Initiatives</b>				
<b>4.11</b>	Explanation of whether and how the precautionary approach or principle is addressed by the organization. Article 15 of the Rio Principles introduced the precautionary approach. A response to 4.11 could address the organization's approach to risk management in operational planning or the development and introduction of new products.			Danfoss' environmental policy states that: We will support a precautionary approach to environmental challenges by: • Going further than required by law in restricting the use of substances and processes that might present a potential risk to the environment • Striving to be among the most environmentally conscious companies within our branches of industries. Please see company website <a href="http://www.danfoss.com">www.danfoss.com</a> for further information.

	ISO 26000	GC principle	Page	Results/Comments
<b>Commitment to External Initiatives</b>				
<b>4.12</b> Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. Include date of adoption, countries/operations where applied, and the range of stakeholders involved in the development and governance of these initiatives (e.g., multi-stakeholder, etc.). Differentiate between non-binding, voluntary initiatives and those with which the organization has an obligation to comply.				Danfoss has joined UN's Global Compact Initiative, UN's Caring for Climate and ICC's Business Charter for Sustainable Development.
<b>4.13</b> Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: · Has positions in governance bodies; · Participates in projects or committees; · Provides substantive funding beyond routine membership dues; or · Views membership as strategic. This refers primarily to memberships maintained at the organizational level.				Not reported
<b>Stakeholder engagement</b>				
<b>4.14</b> List of stakeholder groups engaged by the organization.	4.5, 5.3, 6.2			Information is collected through CSR survey.
<b>4.15</b> Basis for identification and selection of stakeholders with whom to engage.	4.5, 5.3, 6.2			Not reported
<b>4.16</b> Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	4.5, 5.3, 6.2			We strive to engage the local communities where we operate and are aware of the influence we have on those around us. As a global company, we understand that our stakeholders have an interest in the way we run our business, and engagement with local communities enables us to maintain our social licence to operate. Twice a year Danfoss' CSR and Environment department holds an all-day round-table discussion with NGOs concerning respectively Environment/Climate and CSR/Human Rights agenda. At these meetings the NGOs can ask Danfoss questions and recommend ways to address specific concerns and issues. Examples of NGO involved are organisations that are dealing with Human Rights, Discrimination, a Labour Union etc.
<b>4.17</b> Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.				Not reported
<b>SOCIETY</b>				
<b>Community</b>				
<b>S01</b> Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core)	6.8 6.8.3 6.8.9			Requirements in terms of open and honest communication in company operations is described in the Ethics Handbook that all leaders must sign
<b>Corruption</b>				
<b>S02</b> Percentage and total number of business units analyzed for risks related to corruption. (Core)	6.6 6.6.3			Transparency International's Corruption Perception Index is used for prioritising the efforts against corruption. Country risk analyses are available for all the countries where Danfoss has production facilities. The country-risk analyses uncover the current situation in a country in terms of human rights, labour rights, working environment issues and corruption.
<b>S03</b> Percentage of employees trained in organization's anti-corruption policies and procedures. (Core)	6.2 6.6 6.6.5 6.6.3			Danfoss has developed a dilemma game on corruption and bribery, based on dilemmas that regional sales managers have experienced. Similarly, a dilemma game on ethics has been developed. The dilemma games are used when visiting factories and the dilemma game on corruption and bribery is also available in an on-line version at the Intranet. When carrying out visits to factories and sales companies, workshops on anti-corruption is always a part of the visit. During 2010 the training effort has been concentrated on China and Denmark: 73 Chinese leaders and 55 Chinese and Danish sales persons and purchasers have been through anti-corruption workshops.



	ISO 26000	GC principle	Page	Results/Comments
<b>SOCIETY</b>				
<b>Corruption</b>				
<b>SO4</b> Actions taken in response to incidents of corruption. (Core)	6.6.3	10	14	Danfoss monitors issues of corruption and bribery in two surveys: The annual CSR survey all presidents/general managers and the People Manager Survey, where all People Managers are asked how many employees they have dismissed (or who have voluntarily resigned) due to unethical behaviour. If non-compliance or risk of non-compliance are found the company will be asked to remedy immediately.
<b>Public Policy</b>				
<b>SO5</b> Public policy positions and participation in public policy development and lobbying. (Core)	6.6.4	10		In 2009, Danfoss registered with the lobby registers in both the EU and USA, continuing to build-up contacts to political decision-makers in the EU institutions and the American Congress, to promote energy and environmental policies. Danfoss opened its lobby office in Brussels in August 2009 and has, among other things, contributed with information to be used for the phrasing of EU's Energy Performance Building Directive. In the USA, the contact with other interest organisations and political institutions has contributed to obtaining consensus on the phasing out of HFC refrigerants. This has resulted in a draft bill and a US proposal to include the phasing out of HFC in the Montreal Protocol. Moreover, a series of symposia arranged by Danfoss help foster discussions about energy and environmental politics by hosting forums where our customers, leaders in the business community and representatives of public-sector authorities can exchange ideas on politics, technologies and solutions that can pave the way for and shape an energy-efficient industrial sector.
<b>SO6</b> Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additional)	6.4.4	10		Danfoss' Ethics Handbook states that employees must not use Danfoss' letter head/e-mail address to express personal political views or to link Danfoss' name with party-specific political activities of any kind. Furthermore it is not allowed to financially support political parties on behalf of the company and to use Danfoss effects when taking part in party-specific political activities.
<b>SO7</b> Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes. (Additional)	6.6.5	10	28	
<b>Compliance</b>				
<b>SO8</b> Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. (Core)	6.6	7,8		All significant fines (if any) are mentioned in the Management Report section of the Annual Report. All breaches of laws are mentioned in the Environmental Part of the Annual Report.
<b>LABOUR PRACTICES</b>				
<b>Employment</b>				
<b>LA1</b> Total workforce by employment type, employment contract, and region. (Core)	6.4	6	132-133	
<b>LA2</b> Total number and rate of employee turnover by age group, gender, and region. (Core)	6.4	6	132-133	
<b>LA3</b> Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)	6.4	6		43% percent of companies does not have the same pension scheme for temporary workers as they have for other employees.
<b>Labour/Management Relations</b>				
<b>LA4</b> Percentage of employees covered by collective bargaining agreements. (Core)	6.4	3		Danfoss is operating in a lot of different countries, also countries where there is not a free choice of unionising. In these cases, Danfoss has established alternative forums in terms of discussing work related issues. An example of an alternative forum is the European Information and Consultation Forum established by Danfoss. The main purpose of EICF is to establish a transnational forum for information, consultation and dialogue and to ensure the establishment of information and consultation procedures in matters of importance to Danfoss employees in more than one country.

	ISO 26000	GC principle	Page	Results/Comments
<b>Labour/Management Relations</b>				
<b>LA5</b> Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. (Core)	6.8.5 6.4.4	3		Danfoss monitors issues of corruption and bribery in two surveys: The annual CSR survey all presidents/general managers and the People Manager Survey, where all People Managers are asked how many employees they have dismissed (or who have voluntarily resigned) due to unethical behaviour. If non-compliance or risk of non-compliance are found the company will be asked to remedy immediately.
<b>Occupational Health and Safety</b>				
<b>LA6</b> Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional)	6.4.6	1		65% of the companies that answered the CSR survey reported that the majority of their permanent employees (more than 80% of both salary and hourly paid) are covered by formal management-employee health and safety committees or forums. 8% of the companies reported that less than 20 % of their employees are covered. 20% of companies reports that no employees are covered. Of these are the majority sales companies.
<b>LA7</b> Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. (Core)	6.4.6	1	18, 134-135	
<b>LA8</b> Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. (Core)		1		Not reported
<b>LA9</b> Health and safety topics covered in formal agreements with trade unions. (Additional)		3		Not reported
<b>Training and Education</b>				
<b>LA10</b> Average hours of training per year per employee by employee category. (Core)	6.4.7			Danfoss reports the number of hours used for training in environmental and safety related matters. In 2010 a total of 29,844 hours were spent on training in these matters.
<b>LA11</b> Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)	6.4.7 6.8.5		17-18	
<b>LA12</b> Percentage of employees receiving regular performance and career development reviews. (Additional)	6.4.7		132-133	
<b>Diversity and Equal Opportunity</b>				
<b>LA13</b> Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)	6.4 6.3.7	1,6	30-33 132-133	In a lot of countries there is restrictions on what to register in terms of minorities. We only register the number of disabled people, and also in this area we face restrictions on what to register. 29 companies report that they employ 156 disabled people. 54 companies report that they have no disabled people employed. The rest of the companies do not register the number of disabled people.
<b>LA14</b> Ratio of basic salary of men to women by employee category. (Core)		1,6		Not reported
<b>HUMAN RIGHTS</b>				
<b>HR: Investment and Procurement Practices</b>				
<b>HR1</b> Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)	6.3.3	1,2,3,4,5,6		Not reported
<b>HR2</b> Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)	6.3	1,2,3,4,5,6	15	
<b>HR3</b> Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. (Additional)	6.3	1,2,3,4,5,6	14	Training in the Ethics Handbook contains Human Rights and labour Rights training. Training in the Ethics Handbook by local management are not recorded, while corporate training at the local sites is recorded. Corporate Citizen-ship & Compliance has trained more than 100 leaders and employees in the Ethics Handbook in China while visiting the Chinese factories in November 2009.

	ISO 26000	GC principle	Page	Results/Comments
<b>Non-discrimination</b>				
<b>HR4</b> Total number of incidents of discrimination and actions taken. (Core)	6.3.7	1,6	131	
<b>Freedom of Association and Collective Bargaining</b>				
<b>HR5</b> Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)	6.3.10 6.4.3	1,3		In countries where national law does not give employees the right to freely choose a trade union or where an established trade union system is not possible, Danfoss will make sure that employees can meet with management in other ways to discuss work-related conditions. Nine companies have stated that they have forums or other ways to discuss work related issues. The companies are located in Asia, the Middle East and Latin America.
<b>Child Labour</b>				
<b>HR6</b> Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)	6.3.7 6.3.10	1,5	131	In the CSR survey all companies ask to provide information regarding the use of employees under 15 and between 15-18. No companies have employees below 15 years of age. In production 69 juveniles are working, hereof 33 trainees, in administration 17 juveniles are working, hereof 8 trainees. In other functions 9 juveniles are working and one of them is a trainee. All ILO Conventions regarding child work regulating how to juveniles should be treated at work are adhered to except two sites where juveniles did not enjoy more breaks than adults. In both cases the juveniles are only working a few hours a day after school.
<b>Forced and Compulsory Labour</b>				
<b>HR7</b> Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)	6.3.10	1,4		One Danish company has a cooperation with a prison. The cooperation is under surveillance of Tilsynsrådet, an public authority monitoring such agreements.
<b>Security Practices</b>				
<b>HR8</b> Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations. (Additional)	6.3.5	1		Danfoss has just begun a process where we collect data in order to monitor our use of security guards. 58 companies have security personnel on the premises, and only 21% of them are employed by Danfoss. 90% of companies have a written procedure defining the role and responsibility of the security guards. we have not yet started to monitor which kind of training is provided to security guards.
<b>Indigenous Rights</b>				
<b>HR9</b> Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)	6.8	1		The CSR survey 2010 disclosed no negative impact on indigenous people.
<b>PRODUCT RESPONSIBILITY</b>				
<b>Customer Health and Safety</b>				
<b>PR1</b> Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)	6.7.4	8		Not reported
<b>PR2</b> Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)	6.7.4	8		The CSR survey 2010 disclosed no incidents related to health and safety impacts.
<b>Product and Service Labeling</b>				
<b>PR3</b> Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)	6.7	8		Danfoss applies to all regulations regarding relevant legislation.
<b>PR4</b> Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes. (Additional)		8		Not reported
<b>PR5</b> Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)				Not reported

	ISO 26000	GC principle	Page	Results/Comments
<b>Marketing Communications</b>				
<b>PR6</b> Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)	6.7.3			Danfoss' Communication Policy and Danfoss' Ethics Handbook stipulates the rules and guidelines for marketing communication, sponsorship agreements and the like. Danfoss aims to sponsor forward-looking initiatives for the benefit of the company and others located in the local areas where Danfoss operates. Danfoss supports recognized and established organizations, for example sports clubs with a primary affiliation to Danfoss' employees or other stakeholders in the areas where Danfoss is present. Danfoss bases its sponsorships on the International Chamber of Commerce's (ICC) code of sponsoring, which defines guidelines for companies' ethically sound application of sponsorships. Danfoss does not sponsor motocross or the like, as it does not comply with the company's environmental profile; political or religious associations; purposes or activities which conflict with Danfoss' reputation or values or projects which are closely linked with Danfoss' competitors.
<b>PR7</b> Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes. (Additional)				Not reported
<b>Customer Privacy</b>				
<b>PR8</b> Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)				Not reported
<b>Compliance</b>				
<b>PR9</b> Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core)	6.7		28	
<b>ENVIRONMENT</b>				
<b>Materials</b>				
<b>EN1</b> Materials used by weight or volume. (Core)	6.5.4	8,9	134-135	
<b>EN2</b> Percentage of materials used that are recycled input materials. (Core)	6.5.4	8,9	134-135	
<b>Energy</b>				
<b>EN3</b> Direct energy consumption by primary energy source.(Core)	6.5.4	8	134-135	
<b>EN4</b> Indirect energy consumption by primary source. (Core)	6.5.4	8	134-135	
<b>EN5</b> Energy saved due to conservation and efficiency improvements. (Additional)	6.5.4	8,9	20-21, 134-135	
<b>EN6</b> Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)	6.5.4	8,9		Please see the <a href="http://www.danfoss.com">www.danfoss.com</a> for information about the company's product and services within Climate & Energy.
<b>EN7</b> Initiatives to reduce indirect energy consumption and reductions achieved. (Additional)	6.5.4	8,9	20-21, 134-135	
<b>Water</b>				
<b>EN8</b> Total water withdrawal by source. (Core)	6.5.4	8	134-135	
<b>EN9</b> Water sources significantly affected by withdrawal of water. (Additional)	6.5.4	7,8		Not reported
<b>EN10</b> Percentage and total volume of water recycled and reused. (Additional)	6.5.4	8,9	134-135	

	ISO 26000	GC principle	Page	Results/Comments
<b>Biodiversity</b>				
<b>EN11</b> Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)	6.5.6	8		Not reported
<b>EN12</b> Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)	6.5.6	7,8		Not reported
<b>EN13</b> Habitats protected or restored. (Additional)	6.5.6	8		Not reported
<b>EN14</b> Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)	6.5.6	8		Not reported
<b>EN15</b> Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)	6.5.6	7,8		Not reported
<b>Emissions, Effluents and Waste</b>				
<b>EN16</b> Total direct and indirect greenhouse gas emissions by weight. (Core)	6.5.5	7,8,9	134-135	Please see: <a href="http://www.danfoss.com">www.danfoss.com</a> for further information
<b>EN17</b> Other relevant indirect greenhouse gas emissions by weight. (Core)	6.5.5	7,8,9	134-135	Please see: <a href="http://www.danfoss.com">www.danfoss.com</a> for further information
<b>EN18</b> Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)	6.5.5	7,8,9	134-135	Please see: <a href="http://www.danfoss.com">www.danfoss.com</a> for further information
<b>EN19</b> Emissions of ozone-depleting substances by weight. (Core)	6.5.3	7,8,9	134-135	Please see: <a href="http://www.danfoss.com">www.danfoss.com</a> for further information
<b>EN20</b> NOx, SOx, and other significant air emissions by type and weight. (Core)	6.5.3	8		Not reported
<b>EN21</b> Total water discharge by quality and destination. (Core)	6.5.3	8	134-135	
<b>EN22</b> Total weight of waste by type and disposal method. (Core)	6.5.3	8	134-135	
<b>EN23</b> Total number and volume of significant spills. (Core)	6.5.3	8	134-135	
<b>EN24</b> Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional)	6.5.3	7,8		Not reported
<b>EN25</b> Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. (Additional)	6.5.4 6.5.6	7,8		Not reported

	ISO 26000	GC principle	Page	Results/Comments
<b>Products and Services</b>				
<b>EN26</b> Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)	6.5.4 6.6.6 6.7.5	8,9		Please see: <a href="http://www.danfoss.com">www.danfoss.com</a> for further information
<b>EN27</b> Percentage of products sold and their packaging materials that are reclaimed by category. (Core)	6.5.4 6.7.5	8,9		Not reported
<b>Compliance</b>				
<b>EN28</b> Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. (Core)	6.5	8	22	
<b>Transport</b>				
<b>EN29</b> Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce. (Additional)	6.5.4 6.6.6	8		Not reported
<b>Overall</b>				
<b>EN30</b> Total environmental protection expenditures and investments by type. (Additional)	6.5	7,8		Not reported