



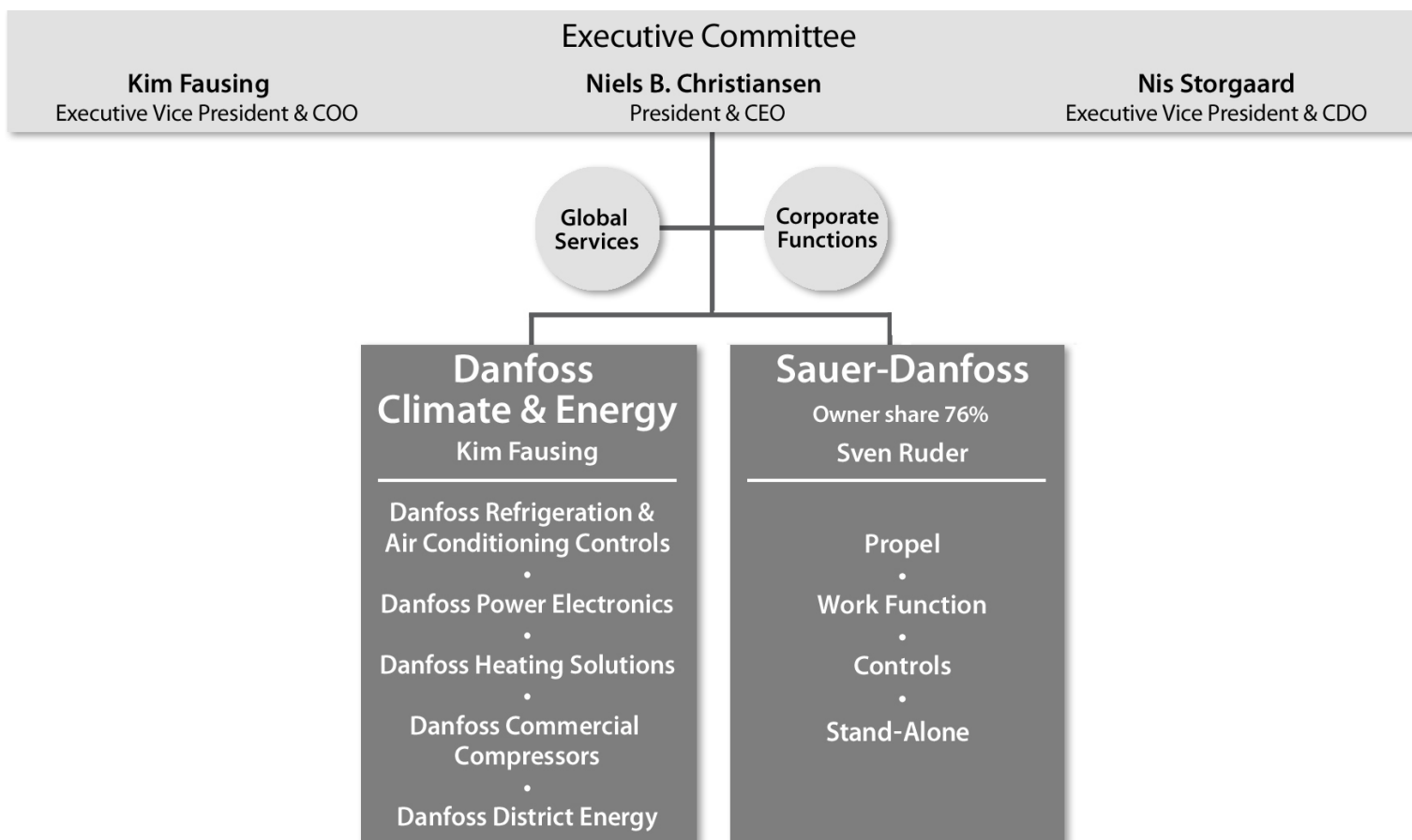
# Annual Report 2011

## Danfoss delivers strong results



# Organization

On December 31, 2011



## The Danfoss Group in brief

Danfoss is a global leader in the field of energy-efficient solutions that help save energy and meet the challenge of climate change. Our key competencies are the cooling of food, air conditioning, the control of electric motors and heating systems in buildings – as well as the provision of solutions for renewable energy such as solar power. Danfoss also includes Sauer-Danfoss, which is one of the world's leading manufacturers of mobile hydraulics. We have built up our competencies within energy-efficient solutions for 78 years. Today Danfoss employs approximately 23,500 employees globally and has 110 sales companies around the world. Read more about Danfoss at [www.Danfoss.com](http://www.Danfoss.com) and about our energy-efficient solutions at: [www.danfoss.com/SolutionsReady/](http://www.danfoss.com/SolutionsReady/)

Date of publication: March 28, 2012

This report is available in Danish and English. In the event of any discrepancy between the two versions, the Danish version shall prevail.

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# CSR highlights

	2007	2008	2009	2010	2011
<b>CLIMATE &amp; ENVIRONMENT</b>					
Energy consumption (TJ)	1,940	1,965	1,808	1,529	1,367
Total CO <sub>2</sub> emission (ton)	177,594	176,521	157,233	137,998	131,523
Emission from electricity	137,357	136,712	119,529	105,950	105,119
Emission from heat	40,238	39,809	37,704	32,048	26,404
CO <sub>2</sub> emission target (ton)	180,000	177,500	175,000	172,500	170,000
CO <sub>2</sub> emission in % of target	99	99	90	80	77
Water consumption (m <sup>3</sup> )	829,793	839,004	742,083	692,261	773,007
Group's total raw material volume	299,955	284,186	253,438	165,947	151,546
CRAN materials (ton)	1,263	1,219	904	1,213	1,302
Organic solvents (ton)	288	347	261	266	263
Discharged industrial waste water (m <sup>3</sup> )	256,465	261,179	198,047	211,504	184,471
Waste (ton)	79,912	76,717	55,788	25,826	22,267
<b>HUMAN RESOURCES</b>					
Total employee turnover (%)	17.9	19.5	20.2	16.9	15.7
Total EDDs completed (%)	65.9	62.8	59.3	71.9	68.7
Number of accidents (blue collar)	312	330	254	184	133
Frequency of accidents (blue collar)	15.5	16.8	15.5	12.8	9.4
Number of accidents (white collar)		21	22	14	13
Frequency of accidents (white collar)		2.3	2.7	1.3	1.3
Total number of days of absence	5,438	6,864	5,048	4,697	1,990
<b>SOCIAL RESPONSIBILITY</b>					
Suppliers in high-risk countries	390	376	665	533	905
Suppliers having signed Code of Conduct		28%	29%	81%	53%
Suppliers in medium-risk countries	540	564	350	442	358
Suppliers having signed Code of Conduct		8%	28%	46%	56%
Suppliers in low-risk countries	2,070	2,819	2,484	3,284	2,251
Suppliers having signed Code of Conduct		17%	47%	46%	65%
Number of dismissals due to unethical behavior	36	64	29	40	26
Number of juveniles between 15 and 18	126	192	78	95	48



# Financial highlights of the Group (DKK)

mill DKK

	2007	2008	2009	2010	2011
<b>INCOME STATEMENT</b>					
Net sales	22,196	27,535	24,165	31,550	33,904
Operating profit added depreciations, amortizations and impairments (EBITDA)	2,576	2,099	1,354	5,053	5,924
EBIT excl. other income, etc.	1,634	687	-40	3,400	3,653
Operating profit (EBIT)	1,616	410	-1,431	3,264	4,226
Income from associates and joint ventures after tax	210	44	-37	14	16
Financial items, net	-448	-579	349	-334	-1,024
Profit before tax of continuing operations	1,063	-157	-1,119	2,944	3,218
Result from discontinued operations			-635	-829	-931
Net profit	1,063	-157	-1,402	1,378	1,314
<b>BALANCE SHEET</b>					
Total non-current assets	11,054	21,237	19,289	18,703	17,422
Total assets	19,857	32,928	28,642	29,868	28,124
Equity	9,744	11,867	10,055	11,700	12,597
Net interest-bearing debt	3,737	9,776	9,144	6,675	4,634
Net assets	12,227	21,326	18,995	18,167	17,037
Capital expenditure	1,931	12,614	1,009	973	1,335
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	1,016	1,428	2,858	3,387	3,359
Cash flow from investing activities	-1,593	-4,543	-1,894	-741	-209
acquisition of intangible and tangible fixed assets	-1,399	-2,167	-895	-634	-1,220
acquisition of subsidiaries and activities	-310	-2,383	-893	-132	1,106
Free cash flow	-577	-3,115	964	2,646	3,150
Free cash flow before M&A	-423	-639	1,906	2,792	2,078
Cash flow from financing activities	431	3,050	-733	-2,037	-2,530
<b>NUMBER OF EMPLOYEES</b>					
Number of employees	22,323	31,717	25,740	23,392	23,430
<b>KEY FIGURES</b>					
Real net sales growth (%)	12	2	-12	25	10
EBIT margin excl. other income, etc. (%)	7.4	2.5	-0.2	10.8	10.8
EBIT margin (%)	7.3	1.5	-5.9	10.3	12.5
EBITDA margin (%)	11.6	7.7	5.6	16.0	17.5
RONA (%)	14.1	2.4	-7.1	17.6	24.0
Return on equity (%)	11.4	-0.9	-13.0	12.3	9.0
Equity ratio (%)	49.0	36.0	35.1	39.2	44.8
Leverage ratio (%)	38.4	82.4	92.5	62.2	36.8
Net interest bearing debt to EBITDA ratio	1.5	4.7	6.8	1.3	0.8
Dividend pay-out ratio (%)	24.1	neg.	0.0	7.5	25.0
Dividend ratio per share (%)	25.0	20.0	0.0	10.0	31.5

The Income Statement and the Statement of Cash Flow for 2009, 2010 and 2011 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 26. Discontinued operations.

In situations where the key figures 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.

# 2011 highlights

- **Net sales** increased by 7.5% to DKK 33,904m from DKK 31,550m in 2010. When adjusted for the exchange rate effect, acquisitions and divestitures, growth was 10% compared to 25% in 2010, when the comparison was against weak 2009 results.
- **Operating profit excluding other operating income and expenses** was DKK 3,653m compared to DKK 3,400m the previous year.
- **Operating profit (EBIT)** was DKK 4,226m compared to DKK 3,264m the previous year.
- **Profit before tax on continuing operations** was DKK 3,218m compared to DKK 2,944m the previous year. **Profit from continuing operations (after tax)** was DKK 2,245m compared to DKK 2,207m in 2010.
- **Profit from discontinued operations (after tax)** was a loss of DKK 931m compared to a loss of DKK 829m in 2010.
- **Net profit** was DKK 1,314m compared to DKK 1,378m the previous year. The result was positively affected in particular by DKK 578m from the divestment of Danfoss Geared Motors and Danfoss Water Controls, whereas the American and European settlement in the competition case regarding household compressors had a negative effect on the result, amounting to DKK 685m.
- **Free cash flow** was DKK 3,150m compared to DKK 2,646m the year before, while **free cash flow before mergers and acquisitions (M&A)** was DKK 2,078m compared to DKK 2,792m in 2010.
- **Net interest-bearing debt** was DKK 4,634m compared to DKK 6,675m the year before. The current net interest-bearing debt level is 0.8 times the EBITDA of the previous four quarters.
- **Dividend** is proposed to be fixed at 25% of the net profit equivalent to 31.5% per share.

## Corporate citizenship (excl. Sauer-Danfoss)

- CO<sub>2</sub> emissions fell by 4.7% to 131,493 tons from 137,998 tons in 2010, despite the increased net sales and activity level
- Employee turnover fell to 15.7 % from 16.9% in 2010
- The accident frequency in production areas (accidents per 1 million working hours) fell to 9.4 compared to 12.8 the previous year

## Expectations for 2012

The financial unrest and low financial visibility which characterized the end of 2011 are expected to continue in 2012 resulting in a higher degree of uncertainty in the 2012 expectations. The traditionally large US and European markets are expected to continue being impacted by the debt crisis, failing confidence and consumer reluctance. On the other hand, above-average growth rates in the BRIC countries are expected to partially compensate for this. Concurrently, strong demand for climate and energy solutions is also expected to contribute to retaining the high net sales seen in 2011, despite the financial unrest and divestitures carried out in the first half of 2011. At the same time, Danfoss as a whole expects to retain the recently obtained profitability level through the strategic adjustments, which have been implemented since 2010 and which will continue to receive extensive attention in 2012.

**The 2012 net sales** are expected to remain at the same level as 2011.

**The 2012 operating profit** is expected to remain at the same level as 2011.

The expectations do not include the impact of divestitures, discontinued operations or acquisitions.



*Danfoss*





# Letter from the Management – Danfoss delivers strong results

*Dear Reader,*

2011 was yet another good year for Danfoss. With a good first half-year, we laid the basis for strong results for the second consecutive year. However, the declining growth rates during the second half, which were caused by global financial unrest, give reason to lower expectations for the coming year.

Demand was driven throughout the year by a high interest in hydraulics and climate and energy solutions due to a greater focus on global warming, rising energy prices and an increasing desire among the world's nations to become energy independent and secure energy supplies.

At the same time, Danfoss developed very positively in the BRIC markets, which accounted for more than twenty percent of our net sales in 2011, thereby getting closer to the level of our traditionally large US- and German markets. Danfoss benefits from having invested in the establishment of solid foundations in the world's new growth markets. Today Brazil, Russia, India and China are among Danfoss' fifteen largest markets. We expect this development to intensify over the coming years and will continue our targeted investments in these markets. To this end, we launched an ambitious new plan in October 2011 in order to strengthen our presence in India, where investments will be made in development and production facilities in 2012 and beyond. Earlier in the year in 2011, we announced our plans to invest further in China as part of Sauer-Danfoss' growth plans.

Sauer-Danfoss contributed throughout the year with extraordinarily high net sales and impressive earnings. On the other hand, our solar inverter business experienced a significant slowdown in the trend-setting German market in particular, as a result of lower feed-in tariffs and difficult loan conditions for investors. However, we believe that the solar energy market has major potential in the long run and we expect the market to recover over time.

Despite the global financial unrest in the second half of 2011 and the dampening in net sales growth, we maintained high earnings. This proves the success of our strategy to focus on our core business. Moreover, we sharpened the focus on our core businesses through the divestitures of Danfoss Geared Motors and Danfoss Water Controls. Meanwhile, as part of this strategy, Danfoss has made a committed effort to improve core deliveries, reduce complexity and strengthen the focus on customers and innovation even further. Consequently we have reduced our debt by more than half compared to when it peaked during the crisis in 2009. Even though we have fulfilled our strategic objectives in a number of areas earlier than expected, we are far from exhausting the opportunities to improve. We will continue the strategic journey towards 2015, and we are better prepared for it than ever before. The annual employee perception survey, which was carried out in September, showed strong support for our strategy and a very high level of employee engagement, which is vital for us to reach our objectives.

2011 saw the closing of a dark chapter in Danfoss' history with the American and European settlements in the case concerning violations of the competition rules in the household compressor market. As a consequence of the case, we strengthened our internal control procedures in 2011, among others setting up an internal audit function and introducing a compulsory ethics test for all leaders. We cannot and we will not accept violations of legislative rules nor of our ethical rules, and there can be no doubt that compliance with rules will be prioritized very highly in future.

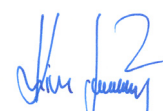
All in all we are well prepared for 2012, which looks more uncertain and where focus, flexibility and our strong portfolio of concrete solutions to the climate and energy challenges will be decisive factors in our efforts to maintain results on level with the strong 2011 results.



Nis Storgaard



Niels B. Christiansen



Kim Fausing





# Strategic status

## – Continued focus on core deliveries in 2012

In 2010, Danfoss launched the strategy Core & Clear, which sets the direction of the Danfoss Group up until 2015. The strategy defines climate and energy as the basis for Danfoss' activities. With this as its framework, Danfoss will take a targeted approach to its core businesses, which are defined as the business areas where Danfoss is already occupying, or is close to occupying, first or second place in the global market.

With the divestitures of Danfoss Water Controls and Danfoss Geared Motors in the second quarter of 2011, Danfoss achieved a key target of the strategy, meaning that Danfoss has now executed the most significant adjustments in its business portfolio.

A key element of the Core & Clear strategy is to make the Danfoss Group more flexible. In this connection, Danfoss reached an important milestone in 2011 cutting more than half of corporate debt, thereby further improving the Group's ability to develop the business.

In order to make Danfoss more agile and strengthen basic qualities such as reliability, excellence and innovation, it is necessary to create a world-class supply chain. Danfoss wants to develop an aligned supply chain ensuring synergies, economies of scale and a high competence level across the Group.

In 2011, Danfoss initiated and implemented a number of activities through Danfoss Business System to reduce complexity, strengthen quality, innovation and customer focus in the core businesses. One effect was that Danfoss Climate & Energy reduced code numbers by 20% over the course of the year. The target is to reduce the number of code numbers by an additional 33% by 2015. Danfoss has also revised its supplier approval procedures in order to concentrate purchases on fewer suppliers and, instead, build stronger and more mutually binding partnerships. Danfoss aims to reduce the number of suppliers by 20% in 2012 and envisions that 50% of the suppliers will have been cut by the end of 2015.

Furthermore, Danfoss has continued its efforts to make sure that all its businesses comply with the ISO/TS16949 quality standard by 2015. The standard was first developed for use in the automotive industry and is one of the world's strictest quality systems. As part of the implementation Danfoss began updating the processes regarding the approval of changes to sub-parts and production processes so that they comply with ISO/TS16949.

In addition, the Group began to revise supplier monitoring and quality assurance of purchased parts used in Danfoss' production processes. Danfoss is drawing on implementation experiences gained at the Danfoss plants and production lines which are already compliant with the ISO/TS16949 requirements.

In 2011, Danfoss increased the investment level in the core businesses. At the same time, the Group introduced new processes for the systematic involvement of customers from the early stages of product development. In combination with value propositions, which specifically define why customers should choose to buy from Danfoss, the aim is to ensure that Danfoss keeps and continues to keep a sharp focus on customers and their needs. This move has strengthened Danfoss' innovation capacity and has enabled the Group to present a wide range of new products and solutions in 2011, such as the electronic thermostats in the Living by Danfoss series, which reduces the heating consumption and improves user-friendliness. In 2011, Danfoss also launched micro-channel heat exchangers which, apart from being more energy-efficient than existing technologies, are produced using fewer raw materials than traditional heat exchangers. Finally, the Group introduced a new line of energy-efficient heat pumps as well as a new type of industrial compressor with variable speed control technology that significantly reduces energy consumption in for instance cold stores.

The Group's strategic focus will remain unchanged in 2012: further developing the core businesses and focusing to a much larger extent on the activities which create the best possible value for customers on a global scale.













# Financial report for the Danfoss Group

For the second consecutive year, Danfoss obtained its best-ever operating profit in 2011. The positive development of 2010 continued in the first half-year, whereas it diminished in the second half of the year as a result of the global financial unrest.

## Presentation of results

**Net sales** increased by 7.5% to DKK 33,904m compared to DKK 31,550m in 2010, hence sales was just above the expected range of 33-34bn despite the divestitures of Danfoss Water Controls and Danfoss Geared Motors in April and May, respectively, totaling annual net sales of approx. DKK 1,300m.

Sauer-Danfoss contributed with an extraordinarily high net sales growth of 19%, whereas Danfoss Climate & Energy generated net sales growth of 15%. Danfoss Climate & Energy includes the Danfoss solar inverter business, which experienced a fall in net sales as a result of changed sales conditions in the German market, in particular. With effect from the third quarter, the Danfoss Development segment was no longer included in the financial reporting as a separate segment because the majority of the segment's activities ceased with the divestitures of Danfoss Water Controls and Danfoss Geared Motors.

Throughout the year, the development was driven by a major demand for climate and energy solutions and hydraulics. The BRIC markets continued double-digit growth rates and ended up accounting for more than a fifth of the Group's total 2011 net sales. These four economies are on the list of Danfoss' fifteen largest markets. The American market also contributed with solid growth of 14%, while, following a good start to the year, the European market stagnated in the second half of the year, ending the year with total growth of 3.5%.

**Operating profit excluding other operating income and expenses** was DKK 3,653m compared to DKK 3,400m in 2010, which equals growth of 7% and is attributed to Danfoss' targeted strategic measures and tight cost control.

**Operating profit (EBIT)** showed a profit of DKK 4,226m compared to DKK 3,264m the year before. Adjusted for the extraordinary gain of DKK 578m from the divestitures of Danfoss Water Controls and Danfoss Geared Motors, the operating result was just above the expected range of DKK 3.3bn-3.5bn.

**The share of results from associates/joint ventures** was DKK 16m compared to DKK 14m the year before and was primarily due to increased earnings at Danfoss Turbocor.

**Financial items** showed costs of DKK 1,024m compared to costs of DKK 334m in 2010, which was mainly the result of provisions made for the Group's unutilized stock option programs caused by the fact that the Danfoss share price increased to 3,431 from 1,077 following the record result in 2010.

**Profit before tax from continuing operations** was DKK 3,218m compared to DKK 2,944m the previous year. **Profit from continuing operations (after tax)** was DKK 2,245m compared to DKK 2,207m in 2010. **Profit from discontinued operations (after tax)** showed a deficit of DKK 931m compared to a deficit of DKK 829m in 2010 and was partly due to costs paid in the competition case on the household compressor market and partly due to the purchase price regulation made in connection with the divestiture of Danfoss Household Compressors, which was taken over by Aurelius Commercial Beteiligungs GmbH in 2010.

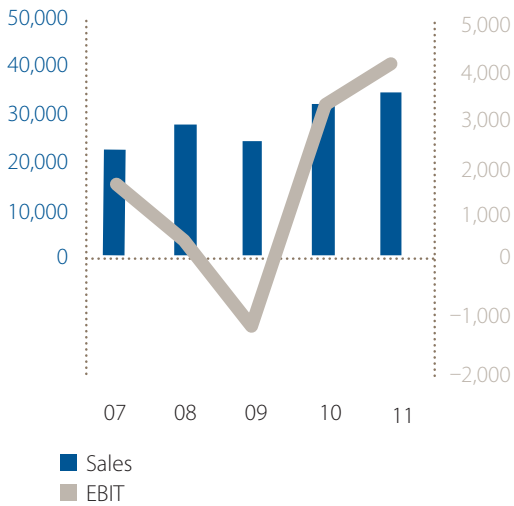
**Net profit** was DKK 1,314m compared to DKK 1,378m the previous year. The result developed as expected for 2011 and in light of the extraordinary costs relating to the competition case and the provisions made, the result is very satisfactory.

**Equity** was DKK 12,597m at the end of 2011 compared to DKK 11,700m the previous year. The increase can primarily be attributed to the recognition of the positive result for the year.

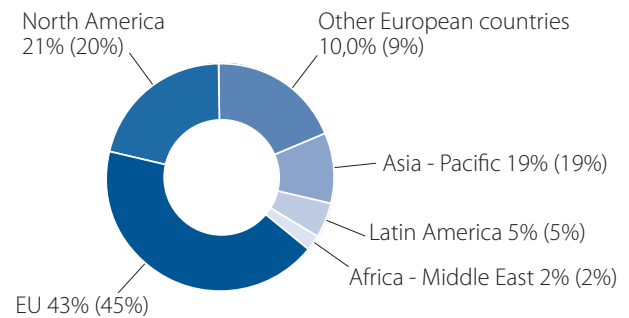
At the end of the year, **total assets** amounted to DKK 28,124m compared to DKK 29,868m at the end of 2010.

**Net interest-bearing debt** fell to DKK 4,634m from DKK 6,675m at the end of 2010. The drop in debt is primarily caused by improved free cash flow as a result of increased earnings from primary operations and proceeds generated by the divestitures of Danfoss Water Controls and Danfoss Geared Motors. The present level of net interest-bearing debt equals 0.8 x EBITDA of the previous four quarters, which is very satisfactory. Of the interest-bearing debt, DKK 3,543m (76%) are long-term and due after more than a year. As of December 31 2011, the Group's untapped and irrevocable, non-current credit commitments totaled DKK 5,700m compared to DKK 6,000m the previous year to which should be added cash and cash equivalents as well as ordinary business credits.

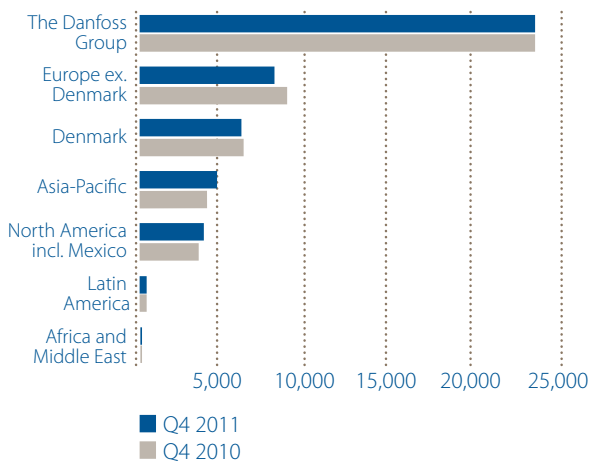
## Group Net Sales & EBIT mill DKK



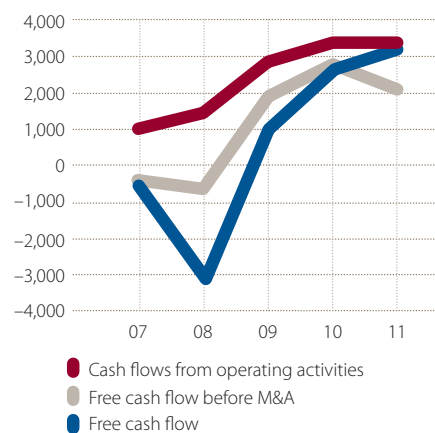
## Sales distribution by regions 2011 (2010)



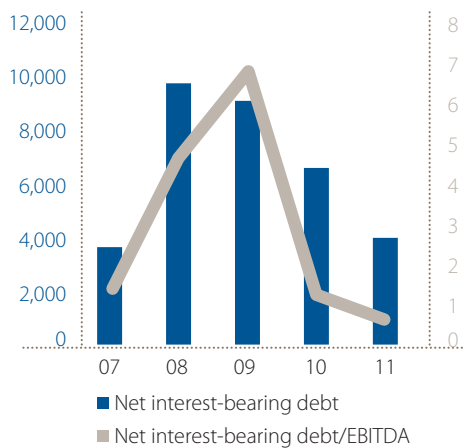
## Number of employees



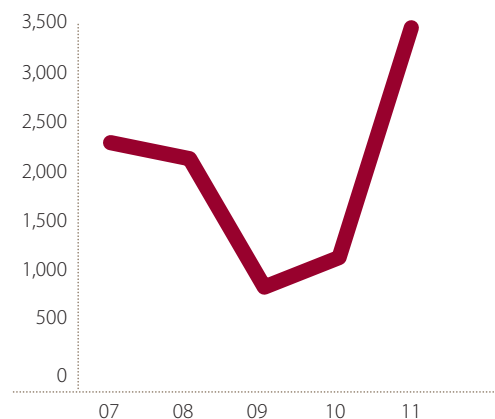
## Cash flow, mill DKK



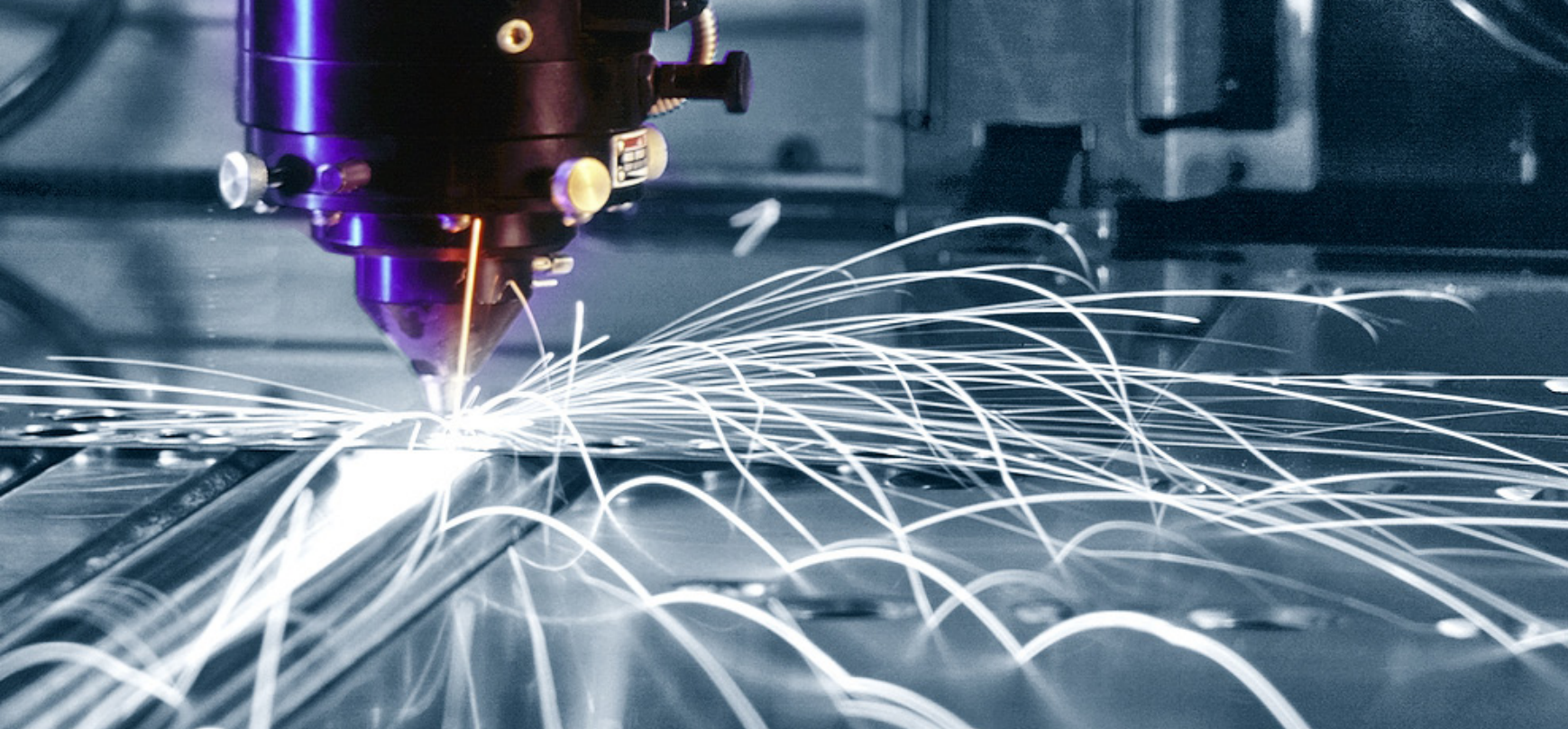
## Net interest-bearing debt, mill DKK



## Share price, DKK







Throughout 2011, Danfoss maintained a high level of positive free cash flow despite the increased activity level. **Free cash flow**, which consists of cash flow from operating activities of DKK 3,359m and cash flow from investing activities of DKK –209m, amounted to DKK 3,150m compared to DKK 2,646m in 2010. Cash flow was extraordinarily impacted by DKK 1,138m from the divestitures of Danfoss Water Controls and Danfoss Geared Motors. **Free cash flow before mergers and acquisitions (M&A)** was DKK 2,078m compared to DKK 2,792m in 2010.

### Innovation

Innovation activities at Danfoss are focused on developing energy-efficient and performance-improving products for the benefit of the Group's customers and the communities where they live. In 2011, Danfoss invested DKK 1,263m in product development compared to DKK 1,054m in 2010. This amounts to an increase to 3.7% from 3.3% when measured as a percentage of net sales. Innovation is one of the cornerstones of the Danfoss Core & Clear strategy and as such, Danfoss has focused its development activities and investments in the core business areas to an even larger degree, which means that investments increased to 4.2% of net sales compared to 3.3% of net sales in 2010. This change of focus resulted in the launch of a wide range of new, energy-efficient and performance-improving products in 2011. They included a new series of electronic thermostats, a new generation of heat pumps, a new type of heat exchanger and a new series of industrial compressors, which all distinguish themselves by using either state-of-the-art technology or by combining well-proven solutions with innovative applications.

In 2011, Danfoss filed 143 new patent applications compared to 52 the year before. The Group had a total of 223 patents granted as opposed to 200 in 2010. The total number of patents at the end of 2011 was 1,784 compared to 1,850 the previous year.

### Human capital

In order for Danfoss to maintain and expand its leading market position in its core business areas, it is important that the Group is able to attract and retain employees with the right knowledge and competencies.

Danfoss offers special incentive schemes to retain key staff and managers. In addition, Danfoss makes an ongoing effort to build and develop the employees' competencies via work-related training, courses and other forms of education. Ongoing competence development also improves the individual's ability to adapt and enhances his or her value as an employee.

In addition, an Employee Development Dialogue is held at least once a year at Danfoss, where employee and manager jointly prepare a written development plan including specific activities for the year ahead.

### Employees

At the end of 2011, the Danfoss Group had 23,430 employees, which is 38 more than in 2010, despite the company divestitures which totaled 1,074 jobs. Employee numbers at Danfoss' core businesses increased throughout 2011. The employees are geographically distributed as follows: 8,001 in Europe excluding Denmark (2010: 8,765); 3,971 in North America including Mexico (2010: 3,716); 458 in Latin America (2010: 461); 4,919 in Asia-Pacific including China (2010: 4,310); and 58 in Africa-Middle East (2010: 59). In Denmark, 6,023 people were employed at the end of 2011 compared to 6,081 the year before.

### Acquisitions and business expansions in 2011

In March, Danfoss strengthened its heat pump business in Finland through the acquisition of the remaining minority stake in Thermia Partners OY, which distributes Danfoss heat pumps in Finland.

In September, Sauer-Danfoss announced its plans to invest approx. DKK 500m in the rapidly growing Chinese market where Sauer-Danfoss expects to triple its net sales from the current approx. DKK 1,500m to around DKK 4,500m by 2015. Among other things, Sauer-Danfoss intends to invest in production and product development in China and to tailor the products to the dynamic Chinese market.

In September, Danfoss increased its owner's share in Danfoss IXA A/S, which develops a new sensor technology, so that the total owned share rose to 59%.

In October, Danfoss announced its plans to invest approx. DKK 500m in the rapidly growing Indian market by 2015. The aim is to increase Danfoss net sales in India by almost four times to reach approx. DKK 1,500m. Among other things, Danfoss aims to construct facilities in the Chennai area for sales, product development and production activities, and Danfoss also intends to expand its sales organization covering all of India.

In November, Danfoss Silicon Power inaugurated new and larger production facilities in Flensburg, Germany, which in addition to new and larger clean-room facilities for power module production will also house the production of power stacks.

#### **Sale and closure of companies and activities in 2011**

In January, Danfoss shut down its production and development of heat pumps in France and, instead, concentrated the production and development activities in Poland and Sweden. The purpose of the restructuring was to reduce the complexity of the business structure and strengthen competitiveness.

In April, Danfoss sold its water valve business Danfoss Water Controls, which had annual net sales of approx. DKK 740m, to Watts Water Technologies Inc.

In May, Danfoss sold its geared motor business, Danfoss Geared Motors, which had annual net sales of approx. DKK 550m, to Altra Holdings Inc.

#### **Competition case**

At the beginning of 2009, the European Commission's Directorate General for Competition and other competition authorities instigated investigations against Danfoss Household Compressors, among others, on suspicion of the violation of competition rules. Following extensive internal investigations and cooperation with the competition authorities, Danfoss stated in the Danfoss Half-year Report 2010 that it could no longer be ruled out that violations had occurred. On the basis of further investigations and the close cooperation with the competition authorities, Danfoss chose to make a provision of DKK 720m in the 2011 Half-year Report.

The competition case relating to the USA was ended in October 2011, when Danfoss made a settlement with the US Department of Justice, amounting to approx. DKK 16m. By doing so, Danfoss acknowledged that employees at the Group's subsidiary, Danfoss Flensburg GmbH, Germany, without the knowledge of the top management and in direct violation of Danfoss' internal rules, had exchanged information with other competitors between 2004 and

2007 which could be used to coordinate prices of compressors sold directly onto the American market by Danfoss' subsidiary in Germany. The settlement agreement was approved by the Michigan Court in December 2011. The competition case relating to Europe was also concluded in December, when Danfoss made a settlement with the European Commission, amounting to approx. DKK 669m, for similar violations of European competition rules.

Over the course of the fall 2011, the competition authorities in New Zealand and Canada announced that they had ceased to investigate Danfoss regarding the case. Investigations are currently taking place in Brazil, Mexico and South Africa, and civil lawsuits are pending against Danfoss in the USA and Canada. At present, Danfoss has no knowledge of the outcome of the pending cases.

As a consequence of the case, Danfoss set up an independent, internal audit function in 2011 which pays unannounced inspection visits to the Group's companies. Danfoss has also strengthened its compliance function which makes sure that every Danfoss employee meets legislative rules and internal guidelines. Finally, Danfoss has introduced a compulsory ethical test for all managers and has asked them to sign the Group's ethical code of rules.

#### **Discontinued operations**

In accordance with IFRS 5 on discontinued activities, the result and cash flow of the divested activities in all periods are shown as separate items in the Income Statement and the Statement of Cash Flow.

The discontinued operations accounted for net sales of DKK 0m in 2011 compared to DKK 1,206m the previous year as well as a result of DKK -931m compared to DKK -829m the year before. The discontinued operations relating to Danfoss Household Compressors, which Danfoss sold to Aurelius Commercial Beteiligungs GmbH in 2010, include particular costs incurred in 2011 as a result of the competition case and accounting provisions made in connection with the divestiture.

#### **Events following the accounting year**

From April 30, 2012, Danfoss A/S and Sanhua Holding Group have decided to dissolve their four-year old joint venture for the production and development of heat exchangers, because both parties have agreed that the initial objectives of the joint venture have been fulfilled. Both companies will continue operations separately.

#### **Accounting policies**

The Annual Report has been prepared in accordance with the International Financial Reporting Standards (IFRS) as well as the Danish disclosure requirements for annual reports for accounting class D. The accounting policies were amended in 2011 as a result of new accounting standards and interpretive guidelines. The amendments have not had significant impact on recognition and measurement.





# Corporate governance, risk management & compliance







### The board of the Danfoss Group

From the left: Bitten Clausen, Hans Michael Jebsen, Kasper Rørsted, Jørgen M. Clausen, Gunnar Jensen, Peter M. Clausen (in front), Svend Aage Hansen, Jens Peter Nielsen, William Ervin Hoover and Björn Rosengren.

	Companies with major board activities:	Qualifications	Options
<b>Jørgen M. Clausen</b> Chairman (born 1948) Member since 1985	<b>Chairman of:</b> Danfoss Universe A/S, Sauer-Danfoss Inc., Danish Energy Industries Federation, The Danish National Advanced Technology Foundation, and Foundation of Entrepreneurship Young Enterprise <b>Board member of:</b> Bitten and Mads Clausen Foundation and Danfoss Universe A/S	Bachelor of Science Engineering, MBA Professional experience managing a Danish based international company and from other board memberships	29,250
<b>Hans Michael Jebsen</b> Vice-Chairman (born 1956) Member since 2005	<b>Chairman of:</b> Jebsen & Co Ltd <b>Vice-Chairman of:</b> Bitten and Mads Clausen Foundation <b>Board member of:</b> Hysan Development Co Ltd and Wharf (Holdings) Ltd	Professional experience 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	0
<b>Peter M. Clausen</b> Board member (born 1949) Member since 1993	<b>Chairman of:</b> Bitten and Mads Clausen Foundation, Fabrikant Mads Clausen Foundation, Danfoss Educational Scholarship, Project Zero Foundation and Sønderborg Havneselskab A/S (harbor association) <b>Board member of:</b> The Mads Clausen Institute	Professional experience from other board memberships	2,038
<b>William Ervin Hoover</b> Director (born 1949) Member since 2007	<b>Chairman of:</b> ReD Associates Holding A/S <b>Vice-Chairman of:</b> GN Store Nord A/S (Great Nordic) <b>Board member of:</b> Sauer-Danfoss Inc., NorthStar Battery and Lego Foundation	MBA from Harvard Professional experience with supply chain, performance transformation, organization changes and mergers & acquisitions	150
<b>Kasper Rørsted</b> CEO of Henkel AG & Co. (born 1962) Member since 2009	<b>Board member of:</b> Bertelsmann AG	Professional experience managing an international company and from other board memberships	0
<b>Björn Rosengren</b> Chief Executive Officer and President of Wärtsilä Corporation (born 1959) Member since 2010	<b>Board member of:</b> HTC Sweden AB and Höganäs AB	Head of a global company focusing on profitable growth, international and cultural experience from stays and jobs in China, North America, Switzerland, Netherlands, Finland and Sweden	0
<b>Svend Aage Hansen</b> Employee-elected board member HR Consultant - Labour Relations Danfoss A/S (born 1959) Member since 2008		Cooperation courses and board activities	0
<b>Gunnar Jensen</b> Employee-elected board member, Senior Shop Steward at Danfoss (born 1948) Member since 2010	<b>Vice-Chairman of:</b> Group Club Danfoss Denmark <b>Board member of:</b> Bitten and Mads Clausen Foundation and Metal Sønderborg	Cooperation courses and board activities	0
<b>Jens Peter Nielsen</b> Employee-elected board member, Senior Shop Steward at Danfoss Kolding. (born 1957) Member since 2006	<b>Chairman of:</b> Danfoss Employee Foundation and Group Club Danfoss Denmark <b>Board member of:</b> Bitten and Mads Clausen Foundation, Metal Kolding, LO-Kolding (The Danish Confederation of Trade Unions)	Cooperation courses and board activities	0
<b>Bitten Clausen</b> Honorary Member			



**Executive- and Group Committee**

From the back left: Mogens Terp Paulsen, ●Nis Storgaard, Troels Petersen, Lars Tveen and Leif Fløjgaard  
 From the front left: Per Have, ●Kim Fausing, Kjeld Stærk, Kim Christensen and ●Niels B. Christiansen (● = Executive Committee)

	Companies with major board activities	Options
<b>Niels B. Christiansen</b> President and CEO of Danfoss A/S (born 1966) Member since 2004	<b>Chairman of</b> Axcel <b>Vice-Chairman of</b> Danske Bank A/S and Sauer-Danfoss Inc. <b>Board member of</b> William Demant Holding A/S and Danish Industries Federation	15,000
<b>Kim Fausing</b> Executive Vice President and COO of Danfoss A/S (born 1964) Member since 2008	<b>Vice-Chairman of</b> Velux A/S <b>Board member of</b> Sauer-Danfoss Inc., Danfoss Turbocor Compressors Inc. and Hilti AG	14,275
<b>Nis Storgaard</b> Executive Vice President and CDO of Danfoss A/S (born 1950) Member since 2009		4,550
<b>Kim Christensen</b> Division President (born 1965)		
<b>Leif Fløjgaard</b> Division President (born 1952)		
<b>Per Have</b> Chief Financial Officer CEO of Danfoss A/S CEO of Bitten and Mads Clausen Foundation (born 1957)		
<b>Mogens Terp Paulsen</b> Division President (born 1948)		
<b>Troels H. Petersen</b> Division President (born 1965)		
<b>Kjeld Stærk</b> Division President (born 1959)		
<b>Lars Tveen</b> Division President (born 1963)		



## 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	-	●
Bitten Clausen (Honorary Member)	DK	-	

<sup>1)</sup> Valid from the Annual General Meeting of April 2011 to the Annual General Meeting of April 2012.

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

● Chairman of the Audit Committee

Corporate governance is based on key concepts such as responsibility and integrity. Transparency about group activities plays an essential role. Corporate governance also concerns the way in which the company is managed and the overall principles and structures which determine the interaction 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 Executive Committee. Danish law as well as the company's Articles of Association, values and a number of internal management and control procedures are also elements that form part of Danfoss' corporate governance. Danfoss' corporate governance does not 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. For further information about corporate governance in Sauer-Danfoss, please refer to [www.sauer-danfoss.com](http://www.sauer-danfoss.com)

The board meets in accordance with the standing orders of the board at least five times a year. In addition, the board holds extraordinary meetings when deemed necessary. The Danfoss Board consists of six members elected at the Annual General Meeting and three employee-elected members. As a result of the composition of Danfoss' ownership structure, individual board members may inevitably have particular interests. However, the board is aware of this. Having the necessary competencies in place is another important area of focus. The current board has a broad composition and global perspective to ensure the existence of the competencies needed for Danfoss' future development. Of the six members elected at the Annual General Meeting, three (Kasper Rørsted, William Ervin Hoover and Björn Rosengren) are independent.

Danfoss established an audit committee in 2010. According to the rules, the audit committee can be an independent committee or composed of the full board. At Danfoss, the entire board functions as an audit committee, whose activities and tasks are specified in the committee's rules of procedures. The audit committee met four times in 2011.

In addition, an internal audit function was set up in 2011 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 controls 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, listed companies must state whether they are covered by a code of company ethics. Moreover, they are required to describe the main elements of their internal risk management and control systems when presenting the company's annual report and describing the composition of their management bodies, and committees. Even though Danfoss is not a listed company, the Group has decided to comply with this section in order to ensure increasing professionalization of the Group. For the complete account of Danfoss' corporate governance, please refer to the corporate homepage: [www.danfoss.com/corporategovernance2011](http://www.danfoss.com/corporategovernance2011).



## RISK MANAGEMENT

Danfoss considers efficient risk management a prerequisite for running a business and responding rapidly and flexibly when conditions change. Danfoss works systematically with identifying and controlling risks according to a model inspired by the enterprise risk management approach.

Throughout the Danfoss Group, all entities work according to shared principles applying to risk management, irrespective of their location. Being a listed company, Sauer-Danfoss complies with its own policies of risk management but these cover the same significant elements as those of Danfoss. This makes it possible to assess and prioritize risks across the Group, and it ensures that management teams in Danfoss share the same language and line of thought when handling risks.

Risk management is an integral part of Danfoss' strategic planning, and risk management is applied within a wide range of areas: the overall safeguarding of corporate governance, business management, compliance programs, projects, outsourcing, purchasing, insurance, currencies, interests, raw materials, reputation, patents, IT systems, contracts, the environment, etc.

Where possible, Danfoss strives to make the management of specific risks measurable, or, as a minimum, to make sure that the effect can be verified in an objective manner. Danfoss defines '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 Group has committed to four overall, though not mutually exclusive, types of risk:

- Strategic risks, which are incorporated into strategic business planning and implementation, among other things
- Operational risks, mainly related to operations or efficiency
- Financial risks, including insurable risks
- Hazard risks, which are risks caused by or to Danfoss, also including, for example, compliance-related risks

## Responsibility

The Group's risk management activities are based on the Board of Directors' standing orders, which places responsibility for risk management with the Executive Committee. The Executive Committee is 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 Executive Committee'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 corporate functions as defined in Group policies.

Danfoss has set up a risk management structure which includes, among other things:

- The Danfoss Board including the Board's audit committee
- Internal Audit, set up in 2011, which performs independent internal controls and submits the outcomes directly to the Board's audit committee
- Corporate Ethics & Compliance, which is in charge of preparing and implementing the Group's compliance programs as well as the Group's whistle-blower function
- Corporate Treasury, which centrally manages the Group's financial risks, including insurance risks
- Internal controlling, which cover management systems, business systems and controls, among other things
- Activities to safeguard assets and earnings associated with day-to-day operations management. These activities are related to, among other things, business risks, the monitoring and interpretation of legislation and standards, IT security, the global insurance program, patents and trademark rights, product quality, fire protection, environment and working environment, etc.





### **Risk reporting and control**

Risks are reported on an ongoing basis between the managerial levels, for example in connection with quarterly business reviews. In addition, an annual consolidated report is prepared for the Board and the Board's audit committee including the most significant known risks, the existing policies and processes used to control them as well as evaluations of their implementation and effect.

### **Risk profile**

It is Danfoss' view that there are no isolated risks capable of threatening the survival of the Group. However, the aggregate risk profile consists of a number of external and internal risks where the ability to respond optimally is crucial to Danfoss' future potential.

In order to best evaluate Danfoss' performance in relation to these risks, specific measurement criteria have been established and risk-seeking and assessment is regularly performed. Important risk conditions relate to the following:

- Global market conditions and megatrends, including
  - continued increased focus on energy-efficient and socially sustainable solutions
  - Fair and equal access to markets
  - Competition from especially China and India
  - Global economic growth
  - Key markets are, in particular, the USA, Germany, China, Russia and India
  - The most important segments are new construction, renovation, raw materials extraction and processing, production of consumer durables and the retail trade
- Customer relations and reputation, including
  - Danfoss' ability to maintain and build long-lasting and trusting cooperation bases with customers and other major cooperation partners
- Competitiveness and innovation, including
  - The ability to support customers with efficient solutions, attractive cost levels and high product quality
- Financial sustainability, including
  - the Group's ability to continuously reduce debt and fund new growth

## COMPLIANCE

Danfoss wishes to maintain and continuously improve its reputation as a decent and respectable company. This means that all parts of the Group, in every detail, must and will do their utmost to live up to their legal and ethical responsibilities.

As a global enterprise, Danfoss is continuously facing stricter legal requirements in all parts of the world as well as increasing awareness among all stakeholders regarding corruption, fair competition and good company ethics. Consequently, the lack of ability of companies to meet and comply with legislation and rules poses an increasingly greater risk in terms of reputation and financial performance. Likewise, Danfoss' continuing growth and globalization are factors which constitute challenges to the Group's organizational structure. It is therefore of increasing importance to have ethical guidelines for Danfoss' business conduct and compliance programs together with training which help managers and employees globally to understand and comply with the guidelines.

Danfoss' compliance-related activities are based on prevention, detection and response. It is a management responsibility to ensure compliance with the rules supported by training and clear guidelines. The control and verification of the efficiency of the existing guidelines is integrated into the internal controls and audits. Moreover, compliance with the rules is also subject to spot tests performed by Danfoss' internal audit function, which submits the findings to the Board's audit committee.

In 2011, Danfoss intensified its efforts to comply with legislation and rules through the establishment and restructuring of a number of bodies and functions. This included a Risk & Compliance Committee, the merger of the corporate compliance and sustainability functions into the legal department as well as the setting up of an independent internal audit function, which may to pay unannounced inspection visits and control companies in the Danfoss Group.

In 2011, the Group had active compliance programs regarding anti-corruption, competition law, export control, code of conduct and ethics. In addition, in December 2011, Danfoss launched a new ethics training program aimed at people managers in the Group. The training is designed as an e-learning program where managers are asked to respond to a number of examples and scenarios, as part of an introduction to the Danfoss Ethics Handbook. The training is concluded with a compulsory ethics test. A total of approx. 700 managers were required to take the ethics training in 2011, and approx. 1,500 managers are planned to receive training in 2012. In the future, all managers will be required to pass the ethics test on a regular basis.

In addition to the compliance programs, Danfoss also has a whistleblower function, called the Ethics Hotline, which was set up in 2008. Individual employees can use the hotline to report possible irregularities anonymously and without involving a manager. The Ethics Hotline recorded 81 cases in 2011, of which 47 were concluded by the end of the year, whereas 34 are still being investigated. Dismissal took place in 13 other cases, while six employees received a written or verbal warning.

In 2012, Danfoss will continue to have sharp focus on the compliance of legislation and internal rules, including the extension of existing compliance programs.

## Risk overview

Risk	Description/Comment
<b>Strategic/operational risks</b>	
Insufficient ability to develop products and solutions which meet regional growth markets' specific demands of price and quality	China and India, in particular, are fostering a number of local companies which are developing and producing products that 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 competitive 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.
Regional economic recession	A continued financial downturn or recession may have a negative impact on the economic environment, also for Danfoss. 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 Brazil, Russia, India and China. In addition, a number of committed initiatives have been introduced to increase business flexibility. One of the objectives is to increase the use of sub-suppliers, which will reduce fixed costs and tied-up funds, which, in turn, will have a beneficial effect during any new financial crisis.
Increasing global protectionism	The massive budget deficits of different countries have resulted in the implementation of savings and initiatives to boost 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.
Insufficient product quality	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 products. 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 a high quality of products, quality programs have been introduced under ISO9001 and TS16949.
Breaching Danfoss' design, patent or brand name rights	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 and 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.
Insufficient/erroneous contractual basis with customers and suppliers	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.
Breaching competition act	Danfoss is subject to a wide range of national and regional statutory regulations. The group and the employees strive at all times to monitor and comply with current laws. Moreover, Danfoss has set up ethical guidelines which in some areas go beyond what is required by law. These areas, which are given special attention, include participation in price fixing cartels, misuse of a dominant market position and corruption. Executives are updated on statutory regulations and internal rules through information meetings and training. Furthermore, all employees have been informed about internal guidelines via the Danfoss Ethics Handbook.
Damage to Danfoss' reputation	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 pertaining to social responsibility, environmental management and employee ethics, among other things.
Supply Chain interruptions	The supplier failure, supplier error or major production stoppages at their own factories may have serious consequences on Danfoss' ability to service key OEM customers, in particular. First and foremost, the group focuses on preventing interruptions in the supply chain, but it is also striving to make sure that it can handle any emergency situation so that there is the least possible impact on the customer, irrespective of the cause of the interruption.
<b>Financial risks</b>	
Cash	It is one of Danfoss' top priorities 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 both planned and unplanned 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 a BBB credit rating and have considerable cash reserves in the form of undrawn, irredeemable credit facilities and cash. Danfoss estimates that the cash resources are sufficient to cover current plans and the general market situation.
Interests	The group's interest risk is primarily ascribable to interest-bearing liabilities, pension obligations and total cash equivalents. The group controls the risk through fixed-interest loans, floating rate loans and derivative interest products.
Price of raw materials	Trends within global raw material prices, particularly industrial metals and energy, can have a negative impact on group earnings. Danfoss controls this type of risk primarily through fixed price agreements with suppliers and regulation clauses with major customers. In some instances, Danfoss also hedges risks using financial instruments. It is Danfoss' policy to ensure 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.
Exchange rates	The exchange rate risk consists of three elements: <b>1. Transaction risk</b> 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. <b>2. Translation risk (conversion risk)</b> 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 to the widest possible extent in local currencies as well as through continuous dividend payments in order to ensure subsidiaries' solvency to remain at 30%. <b>3. Financial/structural risk (strategic risk)</b> Financial, structural currency risk cannot be efficiently hedged using financial instruments and are therefore not part of Danfoss' operational/financial risk control strategy. It is controlled as far as possible at strategic level by placing production in as close cooperation with the customer as possible.
Counterpart risk	It is Danfoss' policy to minimize the risk of one or more of Danfoss' financial partners not being able to fulfil obligations. Such a situation is countered to the largest extent possible by only using sound regional or global financial partners of minimum "A" according to Standard & Poors' credit rating terminology.
Pension obligations	Danfoss has pension obligations in the form of defined benefit plans at subsidiaries in a few countries. Danfoss takes steps to minimize the related risks, among other, the existing schemes have been closed to new members and additional schemes are not created.
<b>Hazard risks</b>	
Commercial and product liability	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 Board of Directors' liability insurance.
Damage to property, fixtures and equipment	
Breakdown of critical IT systems	The operation of information and communication systems is vital for customer service, including the receipt and execution of orders.



Principles and guidelines	Responsible
Danfoss' strategy and action plans, management systems, Corporate Governance, internal controls, Code of Conduct, accounting rules and other policies	Executive Committee and business management, relevant corporate and service functions
Policy of Treasury Risk Management	Executive Committee and Corporate Treasury
Pension solution policies. In connection with company acquisitions, evaluation of pension obligations are covered by the due diligence process.	Executive Committee and Corporate Treasury
Policies for the protection of assets, internal controls, contingency plans and re-establishment plans.	Executive Committee and business management, Corporate Treasury
Policies for the protection of assets, internal controls, information security, IT architecture and re-establishment plans.	Executive Committee, business management, Danfoss IT.



# Corporate citizenship



In line with the Danish Financial Statements Act, Section 99a, the annual report must include a corporate citizenship report. Over a number of years, Danfoss has voluntarily reported on the matter introducing a CSR policy in 2003 and reporting according to UN Global Compact since then. The full account can be found on [www.danfoss.com/corporatecitizenship2011](http://www.danfoss.com/corporatecitizenship2011). The report does not cover Sauer-Danfoss, which is listed on the New York Stock Exchange and, as a result, presents its accounts according to American stock exchange rules.

As part of its report on social, environmental and ethical risks, Danfoss has identified a range of important focus areas for the Group itself and its stakeholders including free and fair competition, anti-corruption, employee conditions, local communities, supplier management, employees, climate change and natural resources.

### **Ethics**

In 2011, Danfoss intensified its efforts to secure ethical business conduct following the competition case regarding household compressors. Subsequently, Danfoss strengthened its internal control mechanisms and functions and introduced compulsory ethics training for all people managers. The training was initiated in December when the first 700 managers were required to participate in the training. In 2012, Danfoss will extend the training to include approx. 1,500 additional managers who will receive the training and take the test, which is available in eight languages. Also, all managers have been asked to re-confirm that they intend to meet Danfoss' ethical guidelines and emphasize as well as enforce the guidelines upon their employees.

In 2011 Danfoss dismissed 26 employees for violations of the Group's ethical guidelines. The violations amounted to theft and unethical use of company funds (five cases); manipulation of time reporting and/or the lack of performance (four cases); misuse of confidential information (two cases); conflicts of interest, where the employee's relationship with other companies have caused a conflict of interest with the Danfoss Group (four cases) and attempts of bribery (one case).

### **Employee conditions**

In 2011, Danfoss specifically followed up on cases relating to overtime work which was reported to have taken place at three of the Group's plants in 2010. Danfoss took steps to revise its HR procedures in China, among other things, where the local HR department has directly approached individual production supervisors and where the leaders were asked to submit monthly overtime work reports. In 2011, Danfoss registered a decrease in overtime work, which, in addition to the above-mentioned activities, is ascribed to a more normal order intake than was the case in 2010, which was characterized by significant growth compared to the previous year. In 2011, Danfoss only recorded overtime work as having taken place at one of the three plants. This was due primarily to the fact that the factory had been periodically challenged with a lack of raw materials and, consequently, had had to catch up with backlogs in production.

### **Local communities**

Danfoss supports the local communities in which the Danfoss Group is operating through the Danfoss Employee Foundation and the Fabrikant Mads Clausen Foundation. In 2011, the Employee Foundation gave financial support amounting to DKK 3.2m to employees in financial difficulty due to unemployment, whose domestic partnerships had been dissolved and for employees with financial problems. The foundation also granted financial support to 200 employees who needed legal assistance. In 2011, the Fabrikant Mads Clausen Foundation granted DKK 9.4m to a range of good causes. The biggest donations were for humanitarian projects outside Denmark, including the victims of flooding in Australia and Brazil as well as those affected by drought in Africa.

### **Supplier management**

Since 2004, Danfoss has maintained a Code of Conduct towards its direct suppliers, outlining how they should act so as to be socially and environmentally responsible. Of Danfoss' approx. 3,500 suppliers, 2,151 had signed the Code of Conduct by the end of 2011. The objective is for all direct suppliers to sign the Code of Conduct, and Danfoss has this as a prioritized target by first focusing on the suppliers who pose the biggest risk of violating the rules. The risk profile of each supplier is defined on the basis of geographical location and Danfoss' purchasing volume.

In 2011, Danfoss maintained special focus on the auditing of Chinese suppliers, performed by the Chinese auditing office set up by Danfoss in 2010. 93 audits were carried out. On a global scale, Danfoss carried out audits at 22% of suppliers in high-risk countries like China, at 25% of suppliers in mid-risk countries and at 10% of suppliers in low-risk countries.

The audit inspections typically led to the disclosure of problems relating to employees' salary levels, working hours and safety, including, for example, the lack of adequate emergency exits. Danfoss is entering into a dialogue with the suppliers in question to rectify matters and will follow up to make sure that the agreed amendments are implemented. In the case of non-compliance, Danfoss can choose to cancel cooperation with the supplier. Experience shows, however, that the suppliers are in favor of continuing the partnership, and in 2011 it only proved necessary to end cooperation with few suppliers as a result of the lack of compliance with the Code of Conduct.

### **Employees**

The number of employees in the Danfoss Group, excluding Sauer-Danfoss, was 16,949 in 2011 compared to 17,362 the previous year. The drop in numbers is ascribed to the fact that Danfoss divested some business units, which employed 1,074 people, so in reality there was an actual increase in the number of employees in the Group's core businesses.

Engaged and motivated employees are a prerequisite for Danfoss to be able to implement its strategy and reach business targets. The annual 2011 Employee Perception Survey revealed the highest level of engagement since Danfoss introduced the survey – The response rate amounting to 90% was the highest ever.



Danfoss aims to make sure that the employees remain valuable and attractive so that the individual employee has the best possible foundation for adapting to the development of Danfoss. Employee development at Danfoss is enhanced using supplementary and work-related training. During 2011, Danfoss extended the internal, global training academy, DBS Academy, to cover more employees with the introduction of the e-learning platform called Danfoss Learning Platform. Danfoss continued efforts within leadership development through revised evaluation and feedback processes. Danfoss also intensified activities relating to the development of leadership talents, for example through the internal intensive development programs.

Over the course of the year, the number of employees who chose to leave increased to 7% compared to 5.2% the year before. The increase is due to the low labor mobility witnessed in the preceding years which were characterized by the economic crisis. The combined employee turnover was 15.7% in 2011 compared to 16.9% in 2010.

Moreover, in 2011, Danfoss doubled the number of participants Post Graduate Program, a program ensuring that talents with a Master's degree enter Danfoss. The number of participants is set to increase in 2012.

#### **Climate, environment and natural resources**

Danfoss aims to reduce CO<sub>2</sub> emissions by 25% by 2025 and increase the share of renewable energy by 25% compared to the group level in 2007.

In 2011, Danfoss reduced CO<sub>2</sub> emissions by approx. 5% despite the increasing activity and net sales level. Electricity consumption fell by an equal rate and consumption of energy for heating decreased by 11%. The drop is partly due to the divestment of business areas with more energy-consuming production processes but also to the extra activities which Danfoss launched in 2011 to reduce the overall energy consumption at its factories. Initially, the focus is on the fifteen largest Danfoss factories, where the energy consulting firm Danfoss Solutions is set to carry out energy-saving projects which include investments in energy-saving technologies and training of employees in energy-saving conduct.

In 2011, Danfoss' energy consumption was split on 58% for electricity and 42% for heating. 24% of the electricity consumption was covered from renewable sources, such as solar, water, wind and bio-mass; 10% was covered by nuclear power, and the remaining part from fossil sources such as carbon, oil and gas. Carbon remains to be the primary source of electricity amounting to 48%. All of the energy consumption for heating was covered by fossil fuels, with natural gas being the most used.

In 2011 Danfoss' use of raw materials fell by 9%, despite the increased activity and net sales level. Similarly, there was a decrease in the consumption of auxiliary materials for use in production processes, for example cutting oils and detergents. The amount of cutting oils for the cooling and lubrication of metals was 264 tons in 2011, which corresponds to a decrease of 15% compared to the previous year.

The consumption of chemicals which are environmentally impacting and potentially harmful including organic solvents remained unchanged in 2011. Danfoss is working to continuously reduce the use of harmful substances, and the Group has taken further measures in 2011 to reduce use of the same substances among its suppliers.

Danfoss recorded 29 violations in 2011 of the environmental regulations and in these cases, either the authorities imposed orders or the factories intervened to deal with the violations.

#### **Working environment**

For Danfoss, a healthy and safe work environment is one of the prerequisites of running a sound and well-performing company. The number of work-related accidents at Danfoss has dropped since 1999, when the accident rate exceeded 28. In 2011, the rate for production employees was 9.4 compared to 12.8 in 2010. The accident rate for white-collar employees increased to 1.31 in 2011. The accident rate is defined as the number of accidents per 1 million work hours.

In 2011, 145 accidents resulting in at least one day's absence were recorded. The injured employees were absent for a total of 1,990 days, which corresponds to an average of 14 days per accident. In 2010, the average was 25 days, so the accidents in 2011 were significantly less serious compared to the year before.

In 2011 Danfoss recorded 11 cases of violations of the working environment legislation, where found by internal audits or where local authorities imposed orders. All cases are minor and have been settled without problems.







# 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 are all leading within climate and energy. The segment focuses on delivering energy-efficient and climate-friendly solutions for a range of selected business sectors. The divisions plays a leading role within research, development, production, sales and service of mechanical and electronic products sold on the global market for refrigeration and air-conditioning, comfort and heating, the control of electro-motors and for industries where energy efficiency is important.

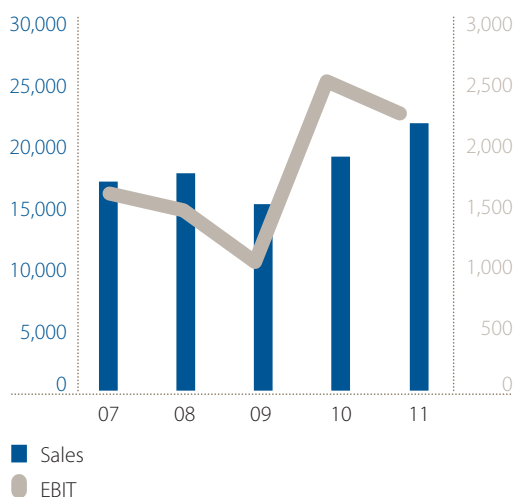
## Market development

Danfoss Climate & Energy maintained the positive development seen in 2010, with double-digit growth on the BRIC markets and extensive progress on the American market. The segment retained its market share on the European market which over the course of the year was negatively impacted by the debt crisis in Southern Europe and the diminishing trust in the European economy and currency. Moreover, the German market of solar energy solutions was particularly impacted by the slowdown caused by the changed framework conditions for investments in solar energy. The segment also saw a slowdown on the residential market in North America.

## Results

Net sales increased to DKK 21,791m from DKK 18,923m in 2010, an increase of 15%. When adjusted for the effect of exchange rate changes, acquisitions, divestitures and restructurings, net sales grew by 15% compared to a net sales growth of 20% in 2010, when the comparison basis, however, was constituted by a weaker 2009 result. The sales developed as anticipated throughout 2011, including a steadily increasing decline in the second half-year following a very strong first half-year. The operating profit (EBIT) was DKK 2,289m as opposed to DKK 2,509m the previous year. This corresponds to a 9% drop and is primarily caused by the setback on the German solar inverter market, which was a result of changed feed-in tariffs and loan conditions for investors in solar energy. The EBIT margin was 10.5% compared to 13.3% in 2010.

## Net sales & EBIT mill DKK

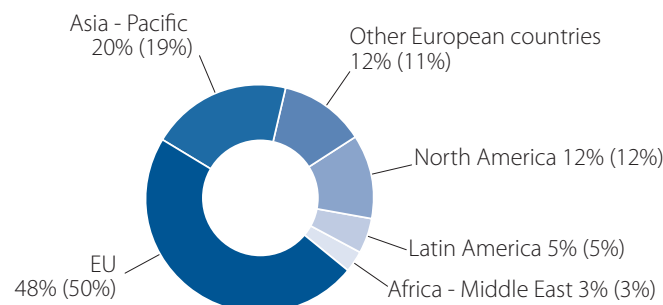


## Financial highlights for Danfoss Climate & Energy

mill DKK

	2010	2011
<b>INCOME STATEMENT</b>		
Net sales	18,923	21,791
Operating profit (EBIT)	2,509	2,289
<b>BALANCE SHEET</b>		
Intangible fixed assets	3,876	3,789
Tangible fixed assets	3,817	4,219
Total assets	13,984	14,700
<b>OTHER INFORMATION</b>		
Capital expenditure	552	935
Depreciation/amortization	714	835
<b>NUMBER OF EMPLOYEES</b>		
Number of employees	13,476	14,747
<b>KEY FIGURES</b>		
EBIT margin	13.3%	10.5%

## Sales distribution by regions 2011 (2010)







# Sauer-Danfoss





## Segment description

Sauer-Danfoss is a worldwide leader in the design, manufacture and sale of energy-efficient and performance-improving hydraulic and electronic systems and components for use primarily in mobile equipment. The company operates within the following segments: Agriculture, Construction, Material Handling, Turf Care and Specialty. Danfoss owns 76% of the Sauer-Danfoss shares which are listed on the New York Stock Exchange and the company's share price can be monitored under the code SHS.

The figures in this section are the official Sauer-Danfoss figures prepared in accordance with US GAAP. They are not the figures reflected in the Danfoss consolidated financial statements. Danfoss' financial statements are prepared according to IFRS.

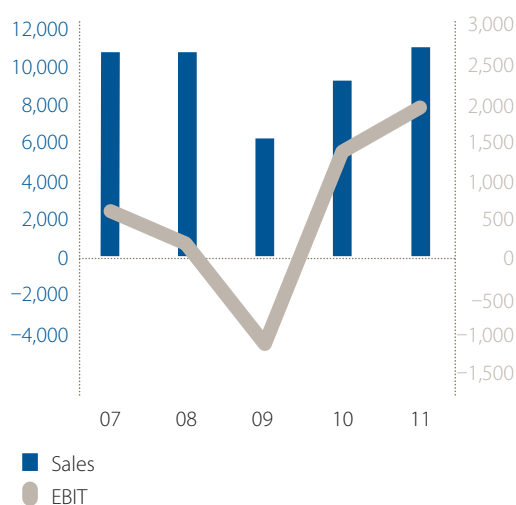
## Market trends

In 2011, Sauer-Danfoss maintained the extraordinarily positive development which began at the end of 2009. All of Sauer-Danfoss' business units made progress. The Controls and Propel divisions showed the highest growth rates, increasing by 28% and 27% respectively. The Work Function division grew by 13%. The Stand-alone division, which was set up in 2011, had growth of 12%. The sales in Europe and North and South America increased by 25% and 22% respectively, while net sales in Asia and the Pacific Region increased by 12%. In line with the company's overall strategic priorities, Sauer-Danfoss has continued the implementation of the strategy "The Sauer-Danfoss Pulse", which has resulted in an increase of earnings compared to sales and a record high free cash flow, which in combination made the company debt free by the end of 2011.

## Results

Net sales increased by 19% to DKK 11,022m in 2011 compared to DKK 9,231m the year before. When calculated at last year's exchange rate level and adjusted for acquisitions and divestitures, growth in net sales amounted to 22% compared to 42% the previous year. The operating profit was DKK 1,963m compared to DKK 1,384m the year before. The EBIT margin was 17.8% compared to 15.0% in 2010.

## Net sales & EBIT mill DKK

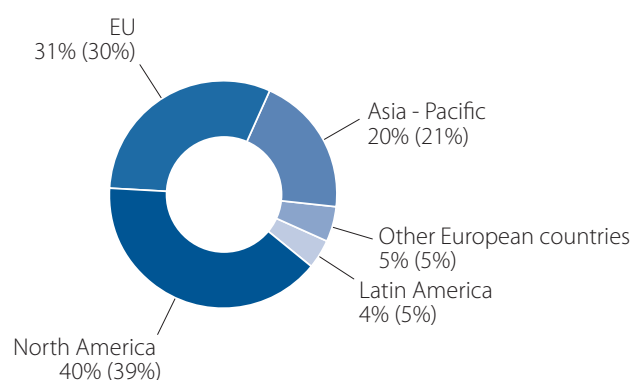


## Financial highlights for Sauer-Danfoss Inc.

mill DKK (US GAAP)

	2010	2011
<b>INCOME STATEMENT</b>		
Net sales	9,231	11,022
Operating profit (EBIT)	1,384	1,963
<b>BALANCE SHEET</b>		
Intangible fixed assets	300	296
Tangible fixed assets	2,291	2,121
Total assets	6,302	7,304
<b>OTHER INFORMATION</b>		
Capital expenditure	147	277
Depreciation/amortization	546	472
<b>NUMBER OF EMPLOYEES</b>		
Number of employees	6,030	6,481
<b>KEY FIGURES</b>		
EBIT margin	15.0%	17.8%

## Sales distribution by regions 2011 (2010)



# Shareholders

The Danfoss share capital amounts to DKK 1,043m and is divided into two share classes: A-shares, which total DKK 425m, and B-shares, which total DKK 618m. The A-shares give the right to ten votes 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 carry special rights. The Bitten and Mads Clausen Foundation and the Clausen family own all issued A-shares and a number of B-shares corresponding to 98.3% of share votes. At the end of 2011, Danfoss had 4,000 registered employee shareholders. Around three quarters of the shareholders reside in Denmark, while the remaining shareholders reside abroad.

## Share price development

The Danfoss share price is set once a year, based on a valuation prepared by Danske Markets (a division of Danske Bank A/S) immediately before the Annual General Meeting held in April. The price was first set in 2001 when Danfoss issued its first employee shares. The 2001 share price was DKK 749.

The share price calculation is made on the basis of the financial development of Danfoss, the Group's expectations for the year, its ability to meet expectations, the financial development of a number of comparable companies and their expectations for the future, as well as the general development on the share market. In 2011, the price was set at DKK 3,431 per share. The new price will be announced at the 2012 Danfoss Annual General Meeting in April.

## Dividends and the Annual General Meeting

As part of the strategy in 2010 and 2011, Danfoss focused on reducing the debt. Consequently, a dividend was only paid to a limited extent to the shareholders. As Danfoss obtained significantly improved results in 2011, the Board will recommend the Annual General Meeting to increase the payment of dividends in 2012 and pay dividends of 25% of the net profit equivalent to 31.5% per share.

The Annual General Meeting will be held in Nordborg on April 27, 2012.

Shareholders with more than 5% of share capital

	Shares	Votes
The Bitten and Mads Clausen Foundation, Nordborg, Denmark	45.31%	84.58%
Clausen Controls A/S, Sønderborg, Denmark	25.09%	5.38%
Henrik Mads Clausen, Lake Forrest, USA	10.55%	2.27%
Karin Clausen, Holte, Denmark	6.93%	1.48%





# Expectations for 2012

The economic unrest and financial volatility which prevailed at the end of 2011 are expected to continue in 2012 resulting in more uncertain expectations. The traditionally large US and European markets are expected to continue being impacted by the debt crisis, failing confidence and consumer reluctance. Above-average growth rates in the BRIC markets are expected to partially compensate for the negative impact, even though growth in these markets will be at a more normalized level in 2012 than was the case in the extraordinary first half of 2011.

Concurrently, Danfoss expects that climate and energy solutions will continue to have a growth potential above the market average as a result of the rising energy prices, the increasing international concern about climate change and a still more widespread desire among the world's nations to ensure energy supplies and independence. Based on this, Danfoss expects to take additional market shares in 2012 and consequently maintain the high net sales from 2011 in spite of financial unrest and divestitures.

Meanwhile, Danfoss expects to maintain the recently obtained profitability through the strategic activities already implemented by the Group, which will continue in 2012 with a strong focus on core businesses and core deliveries. Compared to the extraordinary first half of 2011, a slight relative decrease in earnings is expected to occur at the beginning of the year as a result of the divestitures carried out in 2011 and the investments which are planned to take place in 2012 in the BRIC countries. However, it is anticipated that this decrease will be compensated by the performance in the second half of the year.

**The 2012 net sales** are expected to remain at the same level as 2011.

**The 2012 operating profit** is expected to remain at the same level as 2011.

The expectations do not include the effect of divestitures, discontinued operations or acquisitions.







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

Net sales increased to DKK 7,825m in 2011 from DKK 7,340m the year before; an increase of 7%.

Net financial income and costs amounted to DKK 234m compared to a loss of DKK 1,078m in 2010. In 2011, financial income increased due to dividends, which were higher than previously, whereas financial costs were negatively affected as a result of a fair value adjustment of share options and warrants as well as lowered impairments of loans to subsidiaries.

The result after tax was DKK –294m compared to DKK –809m in 2010. Equity fell to DKK 5,192m from DKK 5,697m. Danfoss A/S employed 3,036 people at the end of 2011, which is 143 less than the previous year.

The 2012 net sales are expected to be in line with 2011. In total, Danfoss A/S is expected to end 2012 with a profit.

Please refer to the Management Report for the Danfoss Group for a review of the remaining significant factors that have affected the Parent Company.

No significant incidents have been observed after the balance sheet date that are not recognized or discussed in the Annual Report.

# 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, 2011.

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, 2011, 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, 2011.

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 27, 2012*

## 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*



# Audit report

## Independent auditors' report

### To the shareholders of Danfoss A/S

#### Independent auditors' report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and the parent company financial statements of Danfoss A/S for the financial year 1 January-31 December 2011. The consolidated financial statements and the parent company financial statements comprise income statement (US)/profit and loss account (UK), statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the group as well as for the parent company (pp. 42-105). The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards, which have been adopted by the EU, and additional disclosure requirements in the Danish Financial Statements Act.

#### Management's responsibility for the consolidated financial statements and the parent company financial statements

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 2011 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 2011 in accordance with International Financial Reporting Standards, which have been adopted by the EU, and additional 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 27 March 2012*

#### KPMG

Statsautoriseret Revisionspartnerselskab

*Jesper Koefoed*

State Authorised Public Accountant

*Thorbjørn Bruhn*

State Authorised Public Accountant

# Financial highlights, quarterly

Mill. DKK (unless otherwise stated)

Key figures per quarter have not been audited

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	2010	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011
<b>Income statement</b>										
Net sales	6,740	8,229	8,410	8,172	31,550	8,519	8,932	8,380	8,074	33,904
Operating profit added depreciations, amortisations and impairments (EBITDA)	849	1,321	1,472	1,410	5,053	1,380	1,953	1,493	1,098	5,924
Operating profit excl. other income and expenses	412	842	1,168	979	3,400	958	1,004	1,077	614	3,653
Operating profit (EBIT)	401	799	1,124	940	3,264	956	1,534	1,081	655	4,226
Financial income/expenses	-69	-72	-130	-64	-334	-125	-660	-127	-112	-1,024
Profit before tax of continuing operations	339	743	1,001	862	2,944	834	880	953	551	3,218
Profit from discontinued operations	-9	0	-675	-145	-829	0	-720	-24	-188	-931
Net profit	255	525	92	506	1,378	595	-77	708	87	1,314

## Balance sheet

Total non-current assets	19,562	19,882	18,087	18,703	18,703	17,830	17,310	17,449	17,422	17,422
Assets	30,539	32,173	30,196	29,868	29,868	30,207	30,118	29,663	28,124	28,124
Total shareholders' equity	10,530	11,357	11,046	11,700	11,700	12,096	11,766	12,532	12,597	12,597
Net interest-bearing debt	9,561	9,563	8,153	6,675	6,675	6,815	5,883	4,912	4,634	4,634
Net assets	19,871	20,687	18,955	18,167	18,167	18,715	17,447	17,254	17,037	17,037
Capital expenditure	266	197	160	349	973	220	380	255	481	1,335

## Statement of cash flows

Cash flow from operating activities	152	772	1,990	3,387	3,387	-6	331	1,586	3,359	3,359
Cash flow from investing activities	-204	-305	-429	-741	-741	-259	420	264	-209	-209
net investments of intangible/tangible assets	-101	-187	-296	-634	-634	-209	-539	-788	-1,220	-1,220
net investments in companies	-92	-135	-126	-132	-132	-35	992	1,106	1,106	1,106
Free Cash flow	-52	467	1,561	2,646	2,646	-265	751	1,850	3,150	3,150
Free cash flow before M&A	54	610	1,697	2,792	2,792	-231	-216	781	2,078	2,078
Cash flow from financing activities	332	20	-1,098	-2,037	-2,037	200	-614	-1,763	-2,530	-2,530

## Key figures

Real net sales growth (%)	11	37	30	25	25	23	15	4	0	10
EBIT margin excl. other operating income etc. (%)	6.1	10.2	13.9	12.0	10.8	11.2	11.2	12.8	7.6	10.8
EBIT margin (%)	6.0	9.7	13.4	11.5	10.3	11.2	17.2	12.9	8.1	12.5
EBITDA margin (%)	12.6	16.1	17.5	17.3	16.0	16.2	21.9	17.8	13.6	17.5
Equity ratio (%)	34.5	35.3	36.6	39.2	39.2	40.0	39.1	42.2	44.8	44.8
Leverage ratio (%)	92.3	85.6	75.4	62.2	62.2	56.4	49.5	39.2	36.8	36.8
Net interest bearing debt to EBITDA ratio	4.6	2.8	1.9	1.3	1.3	1.2	0.9	0.8	0.8	0.8

## Geographical segments

### Total net sales

EU	3,201	3,645	3,729	3,711	14,281	3,667	3,869	3,588	3,340	14,462
Rest of Europe	542	703	851	775	2,872	663	827	899	956	3,344
Asia	965	1,354	1,532	1,532	5,384	1,542	1,578	1,499	1,422	6,041
North America	1,459	1,835	1,561	1,486	6,342	1,924	1,932	1,646	1,613	7,116
Africa	65	82	83	62	292	72	83	79	53	286
Pacific	116	126	136	140	520	148	150	162	207	667
Latin America	306	366	422	366	1,459	378	383	407	410	1,579
Middle East	86	118	96	100	400	125	110	100	73	409
Total	6,740	8,229	8,410	8,172	31,550	8,519	8,932	8,380	8,074	33,904

### Number of employees

Europe excl. Denmark	10,939	11,012	10,912	8,765	8,765	8,993	8,146	8,178	8,001	8,001
North America incl. Mexico	3,505	3,713	3,746	3,716	3,716	3,870	4,137	4,141	3,971	3,971
Latin America	389	396	440	461	461	461	466	465	458	458
Asia-Pacific incl. China	4,246	4,581	4,798	4,310	4,310	4,516	4,786	4,952	4,919	4,919
Other regions	64	61	60	59	59	60	59	60	58	58
Denmark	6,300	6,389	6,105	6,081	6,081	6,126	6,075	6,093	6,023	6,023
Total	25,443	26,152	26,061	23,392	23,392	24,026	23,669	23,889	23,430	23,430
Total excluding sold companies and operations	21,808	22,018	22,034	22,318	22,318	22,935	23,669	23,889	23,430	23,430



# Accounts and notes



## INCOME STATEMENT

1 January to 31 December

mill DKK

	Note	Parent Company		Group	
		2010	2011	2010	2011
Net sales .....	4	7,340	7,825	31,550	33,904
Cost of sales .....	5	-5,703	-6,142	-22,672	-24,048
<b>Gross profit</b>		<b>1,637</b>	<b>1,683</b>	<b>8,878</b>	<b>9,856</b>
Sales and distribution expenses .....	5	-723	-638	-4,371	-4,821
Administrative expenses .....	5	-482	-459	-1,107	-1,382
<b>Operating profit excl. other operating income and expenses</b>		<b>432</b>	<b>586</b>	<b>3,400</b>	<b>3,653</b>
Other operating income .....	5	13	14	122	769
Other operating expenses .....	5	-90	-508	-258	-196
<b>Operating profit (EBIT)</b>	4	<b>355</b>	<b>92</b>	<b>3,264</b>	<b>4,226</b>
Income from associates and joint ventures after tax .....	6			14	16
Financial income .....	7	825	1,128	107	43
Financial expenses .....	8	-1,903	-1,362	-441	-1,067
<b>Profit before tax on continuing operations</b>		<b>-723</b>	<b>-142</b>	<b>2,944</b>	<b>3,218</b>
Corporate tax expenses of continuing operations.....	9	-86	-152	-737	-973
<b>Profit from continuing operations</b>		<b>-809</b>	<b>-294</b>	<b>2,207</b>	<b>2,245</b>
Profit from discontinued operations.....	26			-829	-931
<b>Net profit</b>		<b>-809</b>	<b>-294</b>	<b>1,378</b>	<b>1,314</b>
Attributable to:					
Proposed dividends reserve .....		102	329		
Other reserves .....		-911	-623		
		<b>-809</b>	<b>-294</b>		
Attributable to:					
Shareholders in Danfoss A/S .....				1,109	940
Minority interests .....				269	374
				<b>1,378</b>	<b>1,314</b>
Basic earning per share of continuing operations (share of nominal 100 DKK) .....	10			189.9	183.8
Diluted earnings per share of continuing operations (share of nominal 100 DKK) .....	10			182.4	176.6
Basic earnings per share (share of nominal 100 DKK) .....	10			108.7	92.3
Diluted earnings per share, diluted (share of nominal 100 DKK) .....	10			104.4	88.7



## STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

mill DKK

		Parent Company		Group	
	Note	2010	2011	2010	2011
<b>Net profit</b>		<b>-809</b>	<b>-294</b>	<b>1,378</b>	<b>1,314</b>
<b>Other Comprehensive Income:</b>					
Foreign exchange adjustments when converting foreign currency into DKK etc.....				680	115
Fair value adjustment of hedging reserve:					
Foreign exchange adjustments regarding net investments in subsidiaries .....				-141	-50
Fair value for the hedging of future cash flows .....		-60	36	-171	-50
Fair value adjustments transferred to net sales in the Income Statement .....				91	37
Fair value adj. transferred to cost of sales in the Income Statement .....				-5	
Tax on value adjustment of hedging instruments .....	22	15	-9	53	18
Actuarial gain/loss (-) on defined benefit plans .....	20			-78	-203
Tax on actuarial gains/losses from defined benefit plans .....	19			-33	58
<b>Other Comprehensive Income after tax</b>		<b>-45</b>	<b>27</b>	<b>396</b>	<b>-75</b>
<b>Total Comprehensive Income</b>		<b>-854</b>	<b>-267</b>	<b>1,774</b>	<b>1,239</b>
Attributable to:					
Shareholders of Danfoss A/S .....				1,459	845
Minority interests .....				315	394
				<b>1,774</b>	<b>1,239</b>

## BALANCE SHEET

As of 31 December

mill DKK

### ASSETS

#### Non-current assets

Goodwill .....		462	462	3,919	3,828
Other intangible fixed assets .....		226	251	5,220	4,846

#### Intangible fixed assets

11 **688 713 9,139 8,674**

Land and buildings .....		35	33	2,853	2,702
Machinery .....		445	369	3,535	3,227
Equipment .....		115	158	246	274
Buildings and machinery under construction .....		135	242	505	798

#### Tangible fixed assets

12 **730 802 7,139 7,001**

Investments in subsidiaries .....	6	8,360	8,384		
Receivables from subsidiaries .....	6	1,135	1,132		
Investments in associates and joint ventures .....	6	325	307	176	164
Other investments .....	6	2	2	32	43
Other non-current assets .....		6	1	541	286
Deferred tax assets .....	19			1,676	1,254

#### Financial assets

**9,828 9,826 2,425 1,747**

#### Total non-current assets

**11,246 11,341 18,703 17,422**

#### Current assets

Raw materials and consumables .....		171	156	2,056	2,005
Work in progress .....		94	120	588	551
Finished goods and goods for resale .....		439	462	2,042	2,029

#### Inventories

13 **704 738 4,686 4,585**

Trade receivables .....	14	266	220	4,442	4,246
Receivables from subsidiaries .....	14	4,557	5,144		
Receivables from associates and joint ventures .....		2	2	11	17
Receivable corporation tax .....	22			86	176
Financial derivatives (positive fair value) .....	21	42		42	3
Other receivables .....		108	113	985	846

#### Accounts receivable

**4,975 5,479 5,566 5,288**

#### Marketable securities

15 **60 85**

#### Cash and cash equivalents

21 **106 2 853 744**

#### Total current assets

**5,785 6,219 11,165 10,702**

#### Total assets

**17,031 17,560 29,868 28,124**



## BALANCE SHEET

As of 31 December

mill DKK

### LIABILITIES AND SHAREHOLDERS' EQUITY

mill DKK

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Parent Company		Group	
		2010	2011	2010	2011
<b>Shareholders' equity</b>					
Share capital .....	16	1,027	1,043	1,027	1,043
Premium share account .....		136	685	136	685
Reserves .....		4,432	3,135	8,473	8,283
Proposed dividends .....		102	329	102	329
Danfoss A/S' share of equity .....		5,697	5,192	9,738	10,340
Minority interest .....				1,962	2,257
<b>Total shareholders' equity</b>		<b>5,697</b>	<b>5,192</b>	<b>11,700</b>	<b>12,597</b>
<b>Liabilities</b>					
Provisions for warranty and other provisions .....	17	40	35	346	450
Provisions for stock options and warrants .....	18	31		31	
Deferred tax liabilities .....	19	76	38	1,858	1,558
Defined benefit plans .....	20	28	28	1,133	1,090
Debt, unsecured .....	21	4,360	2,430	4,429	2,530
Debt, secured .....	21	236	278	1,275	1,249
Derived financial instruments (negative fair value) .....	21	156	92	156	92
Other non-current debt .....		35	67	48	82
<b>Non-current liabilities</b>		<b>4,962</b>	<b>2,968</b>	<b>9,276</b>	<b>7,051</b>
Provisions for warranty and other provisions .....	17	28	28	429	332
Provisions for stock options and warrants .....	18	102	503	104	503
Debt, unsecured .....	21	1,950	1,706	2,392	2,051
Debt, secured .....	21		16	31	31
Trade payables .....	21	451	394	3,084	2,581
Debt to subsidiaries .....	21	3,221	5,913		
Debt to associates and joint ventures .....	21	1	3	32	23
Corporation taxes .....	22	1	80	252	196
Financial derivatives (negative fair value) .....	21	80	203	87	226
Other debt .....		538	554	2,481	2,533
<b>Current liabilities</b>		<b>6,372</b>	<b>9,400</b>	<b>8,892</b>	<b>8,476</b>
<b>Total liabilities</b>		<b>11,334</b>	<b>12,368</b>	<b>18,168</b>	<b>15,527</b>
<b>Total liabilities and shareholders' equity</b>		<b>17,031</b>	<b>17,560</b>	<b>29,868</b>	<b>28,124</b>

## STATEMENT OF CASH FLOWS

1 January to 31 December

mill DKK

	Note	Parent Company		Group	
		2010	2011	2010	2011
Profit before tax from continuing operations.....		-723	-142	2,944	3,218
Adjustments for non-cash transactions .....	23	1,389	483	2,179	1,981
Changes in working capital .....	24	-543	-213	-808	-414
<b>Cash flow generated from operations</b>		<b>123</b>	<b>128</b>	<b>4,315</b>	<b>4,785</b>
Financial income .....		443	308	40	37
Financial expenses .....		-350	-481	-413	-608
Dividends received .....		381	816	3	12
<b>Cash flow from operations before tax</b>		<b>597</b>	<b>771</b>	<b>3,945</b>	<b>4,226</b>
Paid tax .....	22	-172	-120	-558	-867
<b>Cash flow from operating activities</b>		<b>425</b>	<b>651</b>	<b>3,387</b>	<b>3,359</b>
Acquisition of intangible fixed assets .....		-52	-109	-98	-101
Acquisition of tangible fixed assets .....		-95	-192	-741	-1,182
Proceeds from sale of tangible fixed assets .....		12	7	205	63
Acquisition of subsidiaries etc. ....	25	-120	-49	-145	-43
Proceeds from disposal of subsidiaries etc. ....	25	81	12	13	1,149
Acquisition (-) and sale of other investments etc. ....	27	614	-774	25	-95
<b>Cash flow from investing activities</b>		<b>440</b>	<b>-1,105</b>	<b>-741</b>	<b>-209</b>
<b>Free cash flow</b>		<b>865</b>	<b>-454</b>	<b>2,646</b>	<b>3,150</b>
Financing by non-shareholders:					
Repayment of (-)/proceeds from interest-bearing debt .....		-758	591	-1,908	-2,190
Financing by shareholders:					
Repurchase (-)/sale of own shares .....		-10	-139	-10	-139
Addition/disposal of minority interest .....				15	3
Dividends paid to shareholders in the Parent Company.....			-102		-102
Dividends paid to minority shareholders.....				-134	-102
<b>Cash flow from financing activities</b>		<b>-768</b>	<b>350</b>	<b>-2,037</b>	<b>-2,530</b>
<b>Cash flow from discontinued operations</b>	26			<b>-401</b>	<b>-714</b>
<b>Net change in cash and cash equivalents</b>		<b>97</b>	<b>-104</b>	<b>208</b>	<b>-94</b>
Cash and cash equivalents per 1 January .....		9	106	616	853
Foreign exchange adjustment of cash and cash equivalents .....				29	-15
<b>Cash and cash equivalents as of 31 December</b>		<b>106</b>	<b>2</b>	<b>853</b>	<b>744</b>
<b>Specification: Statement of free cash flow adjusted for acquisition and disposal of subsidiaries etc. (M&amp;A)</b>					
Free cash flow .....		865	-454	2,646	3,150
Acquisition of subsidiaries etc. ....	25	120	49	145	43
Proceeds from disposal of subsidiaries etc. ....	25	-81	-12	-13	-1,149
Purchase and sale of shares and other securities .....	27	-15	-17	14	34
<b>Free cash flow before M&amp;A</b>		<b>889</b>	<b>-434</b>	<b>2,792</b>	<b>2,078</b>

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



## STATEMENT OF CHANGES IN EQUITY

mill DKK

	Group										
	Share capital	Share premium	Hedging reserves	Currency translation	Reserve own shares	Other reserves	Reserves	Proposed dividends	Danfoss A/S' share of equity	Minority interest	Total equity
Balance as of 1 January 2010	1,027		-72	-800	-103	8,236	7,261		8,288	1,767	10,055
Comprehensive Income in 2010											
Net profit						1,007	1,007	102	1,109	269	1,378
Other Comprehensive Income											
Foreign exchange adjustments when converting foreign currencies			7	596			603		603	77	680
Fair value adjustment of hedging reserve:											
Fair value adj. of the year regarding hedging of net investments in subsidiaries				-141			-141		-141		-141
Fair value adjustment of the year regarding the hedging of future cash flows			-169				-169		-169	-2	-171
Fair value adjustment transferred to Net sales			91				91		91		91
Fair value adjustment transferred to costs of sales			-5				-5		-5		-5
Actuarial gain/loss (-) on defined benefit plans						-56	-56		-56	-22	-78
Tax on Other Comprehensive Income			18	35		-26	27		27	-7	20
Other Comprehensive Income			-58	490		-82	350		350	46	396
Comprehensive income in the period			-58	490		925	1,357	102	1,459	315	1,774
Transactions with owners											
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
Total transactions with owners		136			-10	-135	-145		-9	-120	-129
Balance as of 31 December 2010	1,027	136	-130	-310	-113	9,026	8,473	102	9,738	1,962	11,700
Comprehensive Income in 2011											
Net profit						611	611	329	940	374	1,314
Other Comprehensive Income											
Foreign exchange adjustments when converting foreign currencies				67			67		67	48	115
Fair value adjustment of hedging reserve:											
Fair value adj. of the year regarding hedging of net invest. in subsidiaries				-50			-50		-50		-50
Fair value adjustment of the year regarding the hedging of future cash flows			-46				-46		-46	-4	-50
Fair value adjustment transferred to Net sales			37				37		37		37
Actuarial gain/loss (-) on defined benefit plans						-166	-166		-166	-37	-203
Tax on Other Comprehensive Income			2	16		45	63		63	13	76
Other Comprehensive Income			-7	33		-121	-95		-95	20	-75
Comprehensive income in the period			-7	33		490	516	329	845	394	1,239
Transactions with owners											
Dividends to shareholders								-102	-102	-102	-204
Purchase of minority interest						-5	-5		-5	-3	-8
Shares issued/capital increase	16	549			-701		-701		-136	6	-130
Total transactions with owners	16	549			-701	-5	-706	-102	-243	-99	-342
Balance as of 31 December 2011	1,043	685	-137	-277	-814	9,511	8,283	329	10,340	2,257	12,597

## STATEMENT OF CHANGES IN EQUITY (continued)

mill DKK

### Parent Company

	Share capital	Share premium	Hedging reserves	Reserve own shares	Other reserves	Reserves	Proposed dividends	Total equity
<b>Balance as of 1 January 2010</b>	<b>1,027</b>		-58	-103	5,695	<b>5,534</b>		<b>6,561</b>
<b>Comprehensive Income in 2010</b>								
Net profit					-911	<b>-911</b>	102	<b>-809</b>
<b>Other Comprehensive Income</b>								
Fair value adjustment of hedging reserve:								
Fair value adjustment of the year			-60			<b>-60</b>		<b>-60</b>
Tax on Other Comprehensive Income			15			<b>15</b>		<b>15</b>
Other Comprehensive Income			-45			<b>-45</b>		<b>-45</b>
Comprehensive Income in the period			-45		-911	<b>-956</b>	102	<b>-854</b>
<b>Transactions with owners</b>								
Additions in the year				-10		<b>-10</b>		<b>-10</b>
Transfers		<b>136</b>			-136	<b>-136</b>		
Total transactions with owners		<b>136</b>		-10	-136	<b>-146</b>		<b>-10</b>
<b>Balance as of 31 December 2010</b>	<b>1,027</b>	<b>136</b>	-103	-113	4,648	<b>4,432</b>	102	<b>5,697</b>
<b>Comprehensive Income in 2011</b>								
Net profit					-623	<b>-623</b>	329	<b>-294</b>
<b>Other Comprehensive Income</b>								
Fair value adjustment of hedging reserve:								
Fair value adjustment of the year			36			<b>36</b>		<b>36</b>
Tax on Other comprehensive Income			-9			<b>-9</b>		<b>-9</b>
Other Comprehensive Income			27			<b>27</b>		<b>27</b>
Comprehensive Income in the period			27		-623	<b>-596</b>	329	<b>-267</b>
<b>Transactions with owners</b>								
Dividends to shareholders							-102	<b>-102</b>
Shares issued/capital increase	<b>16</b>	<b>549</b>		-701		<b>-701</b>		<b>-136</b>
Total transactions with owners	<b>16</b>	<b>549</b>		-701		<b>-701</b>	-102	<b>-238</b>
<b>Balance as of 31 December 2011</b>	<b>1,043</b>	<b>685</b>	-76	-814	4,025	<b>3,135</b>	329	<b>5,192</b>

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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 2011 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 2011 has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements according 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 Annual Report 2011 on March 27 2012, and it will be presented for approval at the Ordinary General Meeting to be held at April 27 2012.

Unless otherwise specified, the annual report is 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,

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 or fair value less costs to sell.

The accounting policies set out in [note 3 "Applied accounting policies"](#) 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.

### **Changes in accounting policies**

Danfoss A/S has implemented the standards and interpretive contributions which have become effective for 2011. None of these have had any effect on recognition or measurements made in 2011, or are expected to have a material future impact on Danfoss A/S.

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

As a consequence of the accounting policies, determining the carrying amount of certain assets and liabilities requires estimates of how future events will affect the value of these assets and liabilities at the Balance Sheet date. The volatility of the global economy and the financial markets has made it more difficult to forecast the development of some future key prerequisites – such as liquidity risk, credit risk, interest level and capital control, etc.. Therefore, Danfoss provides additional information about items in the group accounts and the annual accounts whose accounting value is 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 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 Management assumptions which 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.

### 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 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 and a need for impairment write-downs or the incurrence of losses on the disposal of the non-current assets. The amortization and depreciation periods used are described in 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 tax value of loss carryforwards, are recognized with their expected value. The assessment of deferred tax assets regarding loss carryforwards, which have not been activated, is based on the expected, future taxable income of the respective units and the due date of the losses. Please refer to [note 19. Deferred tax assets and liabilities for deferred tax assets](#) which are not recognized.

### Measurement of inventories

Inventories are recognized at cost or the net realizable 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 losses on trade receivables and other receivables

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 accounting periods.

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 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 internal and external legal assistance and common practice. Further information is disclosed in [note 17. Provisions](#).

## 2. Critical accounting policies and significant accounting estimates and judgements (continued)

### 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 net settlement of the option or right, a liability is recognized in the Balance Sheet. The liability is recognized 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 18. Share incentive programmes](#).

### Defined benefit plans and health care obligations

The group has established defined benefit plans with certain employees at some of the group's foreign companies. The plans place the group under an obligation to pay a certain benefit in connection with retirement (e.g. in the form of a fixed amount at retirement or a share of the employee's exit salary). The pension obligations are determined by discounting the pension obligations at the present value. The present value is determined on the basis of assumptions about the future development in financial 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 20. Defined benefit plans and health care obligations](#).



### 3. Applied accounting policies

#### The group statements

The group statements 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 a controlling interest in the company's financial and operations policies with a view to obtaining a yield or other benefits from its activities. Companies in which the group has between 20% and 50% of the voting rights and exercises a significant, but not controlling interest, are considered associates or jointly controlled entities (joint ventures) when the joint venture conditions of IAS 31 are met. 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 statements 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 recognized in full. The minority interests' proportionate share of the profit/loss for the year is recognized as part of the group's profit/loss for the year and as a separate share of the group's equity.

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

#### Business combinations

Newly acquired or established companies are recognized in the group accounts from the acquisition date, and divested companies are recognized in the consolidated Income statement 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 recognized if they can be separated or arise from a contractual right. The tax

effect of revaluations is recognized. The time of takeover is the day when the Danfoss Group de facto obtains control of the acquired company.

The cost of a business comprises the fair value of the purchase price 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 related to business combinations are recognized directly in the Income statement 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 determined 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 recognized directly in the Income statement.

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 amortized, 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, carried out 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 of subsidiaries, associates or joint ventures are recognized as the difference between the sales amount or the disposal costs and the carrying amount of net assets, incl. goodwill at the date of disposal, and disposal costs.

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

Upon the merger of companies, which are subject to the same control, 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

### 3. Applied accounting policies (continued)

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.

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 included in the minority interests' ownership share in the acquired company, whereas in the latter case, goodwill is not included as a part of 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 Income statement under financial items. Non-monetary assets and liabilities denominated in foreign currencies are recognized at the foreign exchange rates at the transaction date.

On recognition in the group accounts of companies with another functional currency than DKK, the Income statements are translated at the exchange rates at the transaction date, and the Balance Sheet items are translated at the exchange rates at the Balance Sheet date. An average exchange rate for 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. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the Balance Sheet date and on translation of the Income statements from the exchange rates at the transaction date to the exchange rates at the Balance Sheet date are recognized directly in the statement of comprehensive income 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 other comprehensive income and which can be ascribed to the unit, are reclassified from "Reserve for exchange rate adjustment" to the Income statement, 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 Income statement.

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

#### Income statement

##### Net sales

Net sales of goods for resale and finished goods are recognized in the Income statement, provided 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 Income statement 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 Income statement when the aggregated 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 capitalization and amortization of capitalized development costs.

### 3. Applied accounting policies (continued)

#### **Sales and distribution expenses**

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.

#### **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.

#### **Income 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 Income Statement 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 from capital shares in subsidiaries, associates and joint ventures are recognized in the Parent Company's Income statement 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 and licenses**

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 is present, 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 Income statement 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 amortized 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 Income statement 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, and depreciated separately.



### 3. Applied accounting policies (continued)

#### **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 is recognized in the Income statement as incurred.

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

Buildings .....	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.

Depreciations are recognized in the Income statement under Costs of sale, Distribution costs or Administrative costs to the extent that depreciations are not included in the cost price of assets produced by Danfoss A/S.

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 Income statement under Other operating income or Other operating expenses.

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

Operating leases are systematically expensed over the lease period.

#### **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 recognized only to the extent that it is probable that the assets will be utilized.

The carrying amount of other non-current assets is tested annually for 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.

Impairments are recognized in the Income statement when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.

Impairment of assets is reversed to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortization, 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 and jointly controlled enterprises are tested for impairment, when an indication of it occurring exists.

In the parent company's annual accounts, investments in subsidiaries, associates and jointly controlled enterprises are measured at cost. In case of an indication of a decrease in value, an impairment test is made. 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, the calculation of which is based on current market data and well-known valuation methods pertaining to unlisted securities. If the fair value cannot be determined reliably, the assets are measured at cost. Unrealized value adjustments are recognized directly in other comprehensive income, except for impairment losses and reversals. On realization, the accumulated value adjustment recognized in other comprehensive income is transferred to financial items in the Income statement.

### 3. Applied accounting policies (continued)

#### 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 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 Income statement 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 increases, and gains and losses 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 other comprehensive income under the hedging reserve, until the hedged transaction is realized. The recognized changes in the fair value are included in hedging reserve 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 Income statements from the exchange rates at the transaction date to the exchange rates at the Balance Sheet date, are recognized directly in a separate translation reserve in other comprehensive income under the item currency rate adjustments. Exchange rate adjustments of non-current 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 recognized directly in other comprehensive income. 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 changes in present values is recognized under financial costs.

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

### 3. Applied accounting policies (continued)

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.

#### 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.

For equity-settled schemes, the fair value is measured at the grant date and recognized in the Income statement 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 recognized in the Income statement under financial items.

On initial recognition of the share options and warrants, the Company estimates the number of options and warrants expected to be vested, cf. the service condition described in [note 18. Share incentive programmes](#). 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.

#### Employee shares

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

#### Pension obligations

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 Income statement in the period to which they relate, and any contributions outstanding are recognized in the Balance Sheet as other debt.

For defined benefit 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 Income statement 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 realized amounts determined at year end constitutes actuarial gains or losses and is recognised directly in other comprehensive income. If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognised 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 expensed in the Income statement 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 care plans

The plans contribute with payment for medical expenses for certain employee groups in the USA after their retirement. These plans are recognized 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 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 Income statement immediately. Other long-term employee benefits include jubilee benefits.



### 3. Applied accounting policies (continued)

#### 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 less any principal repayments and plus or less the cumulative amortization of any difference between cost and nominal amount. Any capitalized residual obligation on finance leases is recognized in the Balance Sheet as a liability. The interest element of the lease payment is expensed in the Income statement under financial items.

#### Government grants

Government grants, which are received as compensation for expenses eligible for grants, are recognized systematically in the Income statement 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 non-current assets.

#### Corporation tax and deferred tax

Danfoss A/S' companies are generally 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 sister 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.

#### Income statement

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

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

#### Balance Sheet

Current tax payable and receivable 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 measured according to the balance sheet liability method, which means that all temporary differences between the carrying amount and the tax base of assets and liabilities are recognized in the Balance Sheet as deferred tax liabilities and deferred tax assets, respectively. Exceptions are 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 set-off 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 crystallize as current tax. In Denmark, the tax rate was 25% in 2011 (2010: 25%).

#### Derivatives

Derivatives, such as foreign exchange contracts or options and raw material contracts, are recognized and measured at fair value. Positive and negative fair values of derivatives are shown as separate items in the Balance Sheet. Set-off of positive and negative values is only made when the Company has the right and the intention to settle several financial instruments net.

Provided that the documentation requirements etc. are met, 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 other comprehensive income under the hedging reserve until the hedged transaction is realized. At this point, gains or losses relating to such hedging transactions are transferred from other comprehensive income 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 Income statement under financial items.

#### Discontinued operations

Discontinued operations 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 operations also include companies which have been classified as "held for sale" in connection with an acquisition.

The result after tax from discontinued operations and value adjustments after tax of relating assets and liabilities as well as profit/loss incurred from sales must be recorded separately in the Income statement, including adjustment of comparative figures. The Notes include an explanation of net sales, costs, value adjustments and tax pertaining to the discontinued operation. Assets and related liabilities pertaining to discontinued operations 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.

### 3. Applied accounting policies (continued)

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 Income statement 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.

#### Statement of Cash flows

The statement of cash flows shows the cash flows from operating, investing and financing activities for the year, and cash equivalents at the beginning and the end of the year. Cash flow effect 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 statement of cash flows 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 operations 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. Entrance into finance leases is treated as non-cash transactions.

#### Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the share capital, the raising and repayment of long-term and short-term bank debt, acquisition of minority interests, acquisition and disposal of 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 subject 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 and jointly controlled enterprises. Short-term assets are those which are used directly for segment operations, including inventories, trade accounts receivables and other receivables.

Segment obligations include both long-term and short-term obligations, derived from segment operations, including trade payables, other debt and warranty obligations as well as other provisions.

Trade between segments takes place according to market conditions or 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

#### INCOME STATEMENT

	2010				2011			
	Danfoss Climate & Energy	Sauer-Danfoss Inc. (US GAAP)	Other areas	Group	Danfoss Climate & Energy	Sauer-Danfoss Inc. (US GAAP)	Other areas	Group
Net sales	18,923	9,231	3,396	<b>31,550</b>	21,791	11,022	1,091	<b>33,904</b>
internal net sales	25	36	-61		51	48	-99	
Net sales, external	18,898	9,195	3,457	<b>31,550</b>	21,740	10,974	1,190	<b>33,904</b>
Depreciation/amortization	714	546	524	<b>1,784</b>	835	472	367	<b>1,674</b>
Net gain upon disposal of activities							578	<b>578</b>
Impairments/reversal of impairment losses previous years (-)	1		3	<b>4</b>	2		22	<b>24</b>
Operating profit (EBIT)	2,509	1,384	-629	<b>3,264</b>	2,289	1,963	-26	<b>4,226</b>
Income from associates and joint ventures after tax	16		-2	<b>14</b>	16			<b>16</b>
Profit before financial items	2,525	1,384	-631	<b>3,278</b>	2,305	1,963	-26	<b>4,242</b>

#### BALANCE SHEET

Total assets *)	13,984	6,302	9,582	<b>29,868</b>	14,700	7,304	6,120	<b>28,124</b>
Capital expenditure	552	147	274	<b>973</b>	935	277	123	<b>1,335</b>
Impairments	1		3	<b>4</b>	2		22	<b>24</b>
Investment in associates and joint ventures	163		13	<b>176</b>	154		10	<b>164</b>
Total liabilities	3,997	4,230	9,941	<b>18,168</b>	3,863	3,972	7,692	<b>15,527</b>

#### OTHER INFORMATION

Number of employees	13,476	6,030	3,786	<b>23,392</b>	14,747	6,481	2,202	<b>23,430</b>
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In 2010, segment reporting includes "Danfoss Climate & Energy", "Sauer-Danfoss Inc." and "Danfoss Development". As a result of the divested Danfoss Water Controls and Danfoss Geared Motor activities, the remaining activities at "Danfoss Development" decreases, cf the IFRS 8.13 requirements of segment reporting. Therefore, reporting has only been made for "Danfoss Climate & Energy" and "Sauer-Danfoss Inc." in 2011. The remaining Danfoss Development activities have been transferred to the column "Other areas". The 2010 figures have been restated.

The two segments, "Danfoss Climate & Energy" and "Sauer-Danfoss Inc." are further described in separate reports. As described in "Applied 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 adjustments from US GAAP to IFRS have been recorded in the column "Other areas".



## 4. Segment reporting (continued)

mill DKK

### Products and services

	<b>Group</b>	
	<b>2010</b>	<b>2011</b>
Heating, Ventilation and Air conditioning (HVAC)	19,081	21,588
Hydraulics	9,271	11,223
Other	3,198	1,093
	<b>31,550</b>	<b>33,904</b>

### Geographical segments (secondary segments)

	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 non-current fixed assets *)	7,965	541	297	1,662	6,241		71	250		17,027

	Group									
	2011									
	Denmark	Other EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales	1,172	13,435	3,182	6,058	7,116	286	667	1,579	409	33,904
Total non-current fixed assets *)	5,887	3,618	284	1,878	4,171		86	244		16,168

\*) Deferred tax assets are not included.

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

## 4. Segment reporting (continued)

mill DKK

### Specification of other areas - External net sales

Non-reporting segments  
Sauer-Danfoss Inc. IFRS adjustments  
Total net sales

Group	
2010	2011
3,458	1,191
-1	-1
3,457	1,190

### Specification of other areas - Profit before financial items

Net gain upon disposal of activities  
Non-reporting segments  
Central functions, not allocated  
Sauer-Danfoss Inc. - IFRS adjustments \*)  
Eliminations and other  
Profit before financial items

Group	
2010	2011
	578
-53	-86
-278	-311
-302	-182
2	-25
-631	-26

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

### Specification of other areas - Assets

Non-reporting segments  
Central functions not allocated \*)  
Sauer-Danfoss Inc. - IFRS and PPA adjustments  
Eliminations of internal accounts \*\*)  
Total assets

Group	
2010	2011
1,951	405
2,437	2,039
5,206	4,656
-12	-980
9,582	6,120

### Specification of other areas - Liabilities

Liabilities - non-reporting segments  
Central functions not allocated \*\*\*)  
Net interest bearing debt  
Sauer-Danfoss Inc. - IFRS and PPA adjustments  
Eliminations and other\*\*)  
Total Liabilities

Group	
2010	2011
843	339
1,262	1,704
7,946	5,833
1,321	998
-1,431	-1,182
9,941	7,692

\*) Central functions, not allocated, are primarily deferred tax and cash equivalents.

\*\*) Primarily interest bearing debt in the Sauer-Danfoss Segment. Interest bearing debt is not included in "Danfoss Climate & Energy".

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

## 5. Expenses and other operating income

mill DKK

### A. Personnel expenses

	Parent Company		Group	
	2010	2011	2010	2011
Salaries and wages	1,559	1,568	7,266	7,184
Termination benefits	9	19	92	100
Equity compensation benefits *)	25	15	42	23
Social security	12	14	628	594
Defined contribution plans	122	125	384	428
Defined benefit plans excluding gains from reductions and redemptions			79	64
Gains from reductions and redemptions				-136
	1,727	1,741	8,491	8,257
Average number of employees	3,293	3,155	25,181	24,133
Total number of employees as of end of the year	3,179	3,036	23,392	23,430

\*) Benefits cf. further information in note 18. Share incentive programs.

Expenses for defined benefit plans are described in note 20. Defined benefit plans and health care obligations.

	Parent Company		Group	
	2010	2011	2010	2011
Personnel expenses distribution on functions:				
Production costs	1,222	1,195	4,633	4,586
Distribution expenses	195	230	2,535	2,762
Administration expenses	301	297	862	945
Other operating income and expenses	9	19	92	-36
Profit from discontinued operations			369	
	1,727	1,741	8,491	8,257

	Parent Company		Group	
	2010	2011	2010	2011
Board of Directors:				
Directors' fees *)	6	3	7	4
Equity compensation benefits **)	2		2	
	8	3	9	4
Executive Committee:				
Salaries	18	20	19	21
Pension expenses for defined contribution plans	1		1	
Bonus	18	29	18	29
Equity compensation benefits **)	8	6	8	6
	45	55	46	56
Executives:				
Salaries	13	15	26	30
Pension expenses for defined contribution plans	1	1	3	3
Bonus	2	10	5	15
Equity compensation benefits **)	4	3	6	5
	20	29	40	53
Termination benefits:				
Executives		4	6	4
Total compensation	73	91	101	117

\*) After retiring as CEO, Jørgen M. Clausen has maintained a remuneration of 3 mill DKK in 2010 in accordance with the retirement conditions stated in his original employment contract as a CEO.

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



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

mill DKK

### B. Depreciation/amortization and impairment losses

Divided into categories:

Amortization of intangible fixed assets  
Impairment on intangible fixed assets

Depreciation of tangible fixed assets  
Impairment on tangible fixed assets

Depreciation and impairment for the year

Distribution on functions:

Intangible fixed assets:

Cost of sales  
Distribution expenses  
Administration expenses  
Result from discontinued operations

Tangible fixed assets:

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

### C. Research and development expenses

Research and development costs  
Capitalized development costs  
Amortization development costs

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	
2010	2011	2010	2011
90	84	506	505
		21	
90	84	527	505
177	171	1,388	1,172
	2	587	24
177	173	1,975	1,196
267	257	2,502	1,701

34	61	296	317
24	12	168	139
32	11	40	49
		23	
90	84	527	505
162	156	1,204	1,086
2	2	58	57
13	13	20	29
	2	4	24
		689	
177	173	1,975	1,196
267	257	2,502	1,701

Parent Company		Group	
2010	2011	2010	2011
201	248	1,054	1,263
-10	-1	-62	-26
16	25	65	74
207	272	1,057	1,311

Parent Company		Group	
2010	2011	2010	2011
1	1	7	578
1	6	33	19
11	7	82	172
13	14	122	769

In 2011, the most significant amount under the item "Other" was income recognition of pension obligations in The Netherlands and income recognition of health obligations in the USA caused by a transfer to an external cooperation partner (as a result of a shift from defined pension benefit plans to defined contribution plans). In 2010, the most significant amount of the item "Other" was returned canteen VAT from previous years. The profit from the sale of activities pertain to the group's divestment of Danfoss Water Controls and Danfoss Geared Motors, which is referred to in note 25. Acquisition and sale of subsidiaries and activities.

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

mill DKK

### E. Other operating expenses

	Parent Company		Group	
	2010	2011	2010	2011
Loss on disposal of activities	-62		-31	
Loss on disposal of tangible fixed assets	-4	-4	-34	-12
Impairments		-2	-4	-24
Other	-24	-502	-189	-160
	-90	-508	-258	-196

The impairments of the year are based on expected utilization values. The item "Other" comprises employment termination indemnities of 100 mill DKK, which are mainly attributable to dismissals carried out in Germany, France and Denmark. In 2010, the item comprises employment termination indemnities of 92 mill DKK, which are mainly attributable to dismissals carried out in Germany, France and USA.

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

	Parent Company		Group	
	2010	2011	2010	2011
KPMG:				
Audit fee	6	6	30	28
Fees for auditor statement with assurance				
Tax and VAT advice	1	1	3	4
Other fees	5	3	11	5
Total	12	10	44	37

## 6. Non-current financial assets

mill DKK

	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 as of 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 as of 31 December	9,542	1,135	385	2	400	132
Adjustments balance as of 1 January	-960		-46		-233	-88
Foreign exchange adjustments etc.					-10	
Net profit/value adjustment					14	-12
Impairments	-222		-14			
Dividends					-3	
Disposals					8	
Adjustments balance as of 31 December	-1,182		-60		-224	-100
Carrying amount as of 31 December	8,360	1,135	325	2	176	32

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

	Parent Company				Group	
	2011				2011	
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Investments in associates and joint ventures	Other investments
Balance as of 1 January	9,542	1,135	385	2	400	132
Foreign exchange adjustments etc.					10	
Acquisitions	49					13
Disposals		-3	-18		-17	
Balance as of 31 December	9,591	1,132	367	2	393	145
Balance as of 1 January	-1,182		-60		-224	-100
Foreign exchange adjustments etc.					-9	
Net profit/value adjustment					16	-2
Impairments	-25					
Dividends					-12	
Balance as of 31 December	-1,207		-60		-229	-102
Carrying amount as of 31 December	8,384	1,132	307	2	164	43

At the end of 2011, impairment tests were performed on the carrying amount of "Investments in subsidiaries". When performing the impairment test, the present value of cash flow from subsidiaries is compared with their carrying amount. Where possible, "Other investments" are recognized at fair value. Alternatively, they are recognized at cost price minus accumulated impairment losses.

Impairment in "Investments in subsidiaries" concerns mainly Avenir Energie, ECO Heat Pumps Ltd., Danfoss S.A. de C.V., where impairments were made to utilization value and impairments relating to Sauer-Danfoss Inc. have been reversed.

Further information about associated companies and joint ventures is provided in the notes 7. Financial income, 8. Financial expenses, 21. Financial risk and instruments and 29. Related parties.



## 7. Financial income

mill DKK

Interest from subsidiaries
Interest from associates and joint ventures
Interest from banks etc.
Foreign exchange gains, net
Unrealized/realized gains on loans, bonds and shares
Dividend from subsidiaries
Dividend from associates and joint ventures

Parent Company		Group	
2010	2011	2010	2011
427	289		
3	3	3	4
13	16	37	33
		63	
	5	4	6
379	802		
3	13		
825	1,128	107	43

## 8. Financial expenses

mill DKK

Interest to subsidiaries
Interest to bank etc.
Interest on discounted provisions
Foreign exchange losses, net
Fair value adjustment for stock options and warrants *)
Impairment/loss on loans
Impairment/loss on disposal of shares in subsidiaries and associates/joint ventures
Loss on other investments
Borrowing costs incurred by the asset cost price

Parent Company		Group	
2010	2011	2010	2011
-14	-43		
-335	-235	-411	-324
	-1		-1
-233	-138		-101
-1	-425	-1	-644
-1,084	-499	-16	-2
-236	-25		
		-13	
	4		5
-1,903	-1,362	-441	-1,067

\*) Cf. note 18. Share incentive programs.

Impairment of loans to subsidiaries in 2010 and 2011 was primarily done as a consequence of the 2010 sale of the compressor business. An efficient interest rate, which equals to the Group's weighted average general borrowing costs, was used for the calculation of borrowing costs pertaining to the cost price of assets. No specific loans have been raised for the construction or development of assets.

## 9. Corporation tax expenses

mill DKK

Current tax expenses  
Change in deferred taxes  
Adjustments concerning previous years

Parent Company		Group	
2010	2011	2010	2011
-96	-197	-682	-806
8	38	-63	-173
2	7	8	6
-86	-152	-737	-973

Tax on result from continuing operations is defined as:

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

25.0%	25.0%	25.0%	25.0%
		-0.1%	-0.1%
		-2.0%	3.1%
-48.2%	-272.5%	1.8%	2.7%
13.2%	143.5%		
0.4%	5.6%	0.2%	-0.5%
-2.3%	-8.6%	0.1%	
-11.9%	-107.0%	25.0%	30.2%

Tax on result from continuing operations (Income Statement)  
Tax on fair value adjustment of hedging reserve (Other Comprehensive Income)  
Tax on actuarial gains and losses, defined benefit plans (Other Comprehensive Income)  
Total taxes

Parent Company		Group	
2010	2011	2010	2011
-86	-152	-737	-973
15	-9	53	18
		-33	58
-71	-161	-717	-897

## 10. Earnings per share

mill DKK

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

Group	
2010	2011
2,207	2,245
-269	-374
1,938	1,871
-829	-931
1,109	940

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	1,039.1
-6.6	-21.2
1,020.3	1,017.9
42.1	41.7
1,062.4	1,059.6

Basic earnings per share (share of nominal 100 DKK) from continuing operations  
 Diluted earnings per share (share of nominal 100 DKK) from continuing operations

189.9	183.8
182.4	176.6

Basic earnings per share (share of nominal 100 DKK)  
 Diluted earnings per share (share of nominal 100 DKK)

108.7	92.3
104.4	88.7



## 11. Intangible fixed assets

mill DKK

	<b>Group</b>							
	<b>2010</b>							
	<b>Goodwill</b>	Software	Brand	Technology	Customer relations	Patents, trademarks etc.	Development costs	<b>Total</b>
Cost as of 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
Additions through acquisition of subsidiaries	13			49	1	24		74
Additions		38					62	100
Disposals	-12	-14				-37	-38	-89
Cost as of 31 December	4,881	653	897	2,981	1,693	443	506	7,173
Depreciation and impairment losses as of 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 as of 31 December	962	510		567	380	311	185	1,953
Carrying amount as of 31 December	3,919	143	897	2,414	1,313	132	321	5,220

Due to the divestment of the compressor activities in 2010, an impairment test for the fair value was performed, which resulted in an impairment of intangible fixed assets in amount of 20 mill DKK. The impairment is included in the result from discontinued operations in 2010.

	<b>Group</b>							
	<b>2011</b>							
	<b>Goodwill</b>	Software	Brand	Technology	Customer relations	Patents, trademarks etc.	Development costs	<b>Total</b>
Cost as of 1 January	4,881	653	897	2,981	1,693	443	506	7,173
Foreign exchange adjustments	169	3	13	40	27	3	6	92
Addition through acquisition of subsidiaries	1							
Transfers					51	-51		
Additions		76					26	102
Disposals	-146	-73		-26	-12			-111
Cost as of 31 December	4,905	659	910	2,995	1,759	395	538	7,256
Depreciation and impairment losses as of 1 January	962	510		567	380	311	185	1,953
Foreign exchange adjustments	126	2		14	12	4	4	36
Transfers					17	-17		
Amortization for the year		70		198	140	23	74	505
Disposals	-11	-69		-10	-5			-84
Depreciation and impairment losses as of 31 December	1,077	513		769	544	321	263	2,410
Carrying amount as of 31 December	3,828	146	910	2,226	1,215	74	275	4,846

### Impairment tests

At the end of 2011, 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. 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 2012-2021 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 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 of 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	

### Group 2011

	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 2011	32%	24%	14%	14%	16%
Share of the Group's brand at the end of 2011		100%			
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	2%
Discounted cash flow rate before tax in % as of 31 December	12%	12%	12%	12%	12%
<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	<16	<44	<6	

\*) 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 2011 and are expected to exceed the general development share until 2021. The net cash flow during the terminal period from 2022 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 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 (2010: 0%), or the discount cash flow rate can be increased by up to 20% (2010: 20%), 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 2021 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 2022 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 (2010: 0%), or the discount cash flow rate can be increased by up to 16% (2010: 9%), without causing a need for impairment.

#### 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 2011 and it is also assumed that future growth will improve significantly. The result is expected to remain unchanged. The weighted average growth rate until 2021 is estimated at a higher level compared to the general market development and therefore assuming a higher market share. The net cash flow during the terminal period from 2022 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 (2010: 0% point) or that the discounted cash flow rate can be increased by up to 44% (2010: 37%) without causing a need for impairment.

## 11. Intangible fixed assets (continued)

### *Danfoss Commercial Compressors*

The goodwill allocated to Danfoss Commercial Compressors (CC) was primarily in connection with the acquisition of Scroll Technologies, USA, which was acquired in 2006. The result in CC has been satisfactory in 2011 and the weighted average growth rate until 2021 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 2022 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 (2010: 0% point) or that the discounted cash flow rate can be increased by up to 6% (2010: 16%) without causing a need for impairment.

### *Software and development costs*

Software in progress amounts to 54 mill DKK (2010: 26 mill) and is primarily concerning SAP implementations. Of the entire Group's development activities capitalised development expenditure in progress amounts to 55 mill DKK (2010: 160 mill). Development activities in progress are related to a larger amount of development projects in several segments. Software and capitalised development expenditure was mainly built up internally.

In 2011, the Group performed impairment tests for the carrying amount of software and development in progress. The project development process related to the actual expenses and achieved milestones has been evaluated according to the approved project and business plans. This has not led to a impairment of current development assets (2010: 0 DKK). The recoverable amount is estimated to be above the carrying amount for the other assets.

mill DKK

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

Parent Company				
2011				
		Patents, trademarks etc.*)	Develop- ment costs	Total
Goodwill	Software			
462	422	171	141	734
	59	49	1	109
	-52			-52
462	429	220	142	791
	337	132	39	508
	44	15	25	84
	-52			-52
	329	147	64	540
462	100	73	78	251

\*) 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 2011. For more information, please refer to the section "Impairment tests" for Group. The impairment tests indicates, that there is no need for impairments in 2011.

## 12. Tangible fixed assets

mill DKK

	<b>Group</b>			
	<b>2010</b>			
	Land and buildings	Machinery	Equipment	Assets under construction
Cost as of 1 January	4,762	10,787	1,021	688
Foreign exchange adjustments	101	42	22	23
Additions through acquisition of subsidiaries	1	14		
Transfers	182	571	17	-770
Additions	56	86	36	582
Disposals	-174	-3,098	-193	-18
Cost as of 31 December	4,928	8,402	903	505
Depreciations and impairment losses as of 1 January	1,880	6,383	728	
Foreign exchange adjustments	13	-121	13	
Transfers in the year	-5		4	
Depreciations for the year	174	1,131	83	
Impairments for the year	107	469	11	
Disposals	-94	-2,995	-182	
Depreciations and impairment losses as of 31 December	2,075	4,867	657	
Carrying amount as of 31 December	2,853	3,535	246	505
Financial leasing contracts		27	17	

In connection to the divestment of the compressor activities in 2010, an impairment test for the fair value was performed. This resulted in an impairment of tangible fixed assets of 582 mill DKK. The impairment is included in the result of discontinued operations in 2010.

	<b>Group</b>			
	<b>2011</b>			
	Land and buildings	Machinery	Equipment	Assets under construction
Cost as of 1 January	4,928	8,402	903	505
Foreign exchange adjustments	19	49	-7	8
Addition through acquisition of subsidiaries			1	
Transfers	102	493	-13	-582
Additions	51	189	110	882
Disposals	-245	-734	-78	-15
Cost as of 31 December	4,855	8,399	916	798
Depreciations and impairment losses as of 1 January	2,075	4,867	657	
Foreign exchange adjustments	-3	4	-3	
Transfers	9	4	-16	
Depreciations for the year	162	934	76	
Impairments for the year	22	2		
Disposals	-112	-639	-72	
Depreciations and impairment losses as of 31 December	2,153	5,172	642	
Carrying amount as of 31 December	2,702	3,227	274	798
Financial leasing contracts		17	72	

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



## 12. Tangible fixed assets (continued)

mill DKK

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

Parent Company			
2010			
Land and buildings	Machinery	Equipment	Assets under construction
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

Cost as of 1 January
Transfers
Additions
Disposals
Cost as of 31 December
Depreciations and impairment losses as of 1 January
Depreciations for the year
Impairments for the year
Disposals
Depreciations and impairment losses as of 31 December
Carrying amount as of 31 December
Financial leasing contracts

Parent Company			
2011			
Land and buildings	Machinery	Equipment	Assets under construction
258	2,268	389	135
1	59	8	-68
	6	71	175
	-58	-14	
259	2,275	454	242
223	1,823	274	
3	133	35	
	2		
	-52	-13	
226	1,906	296	
33	369	158	242
		59	

The Parent Company's financial leasing contracts are mainly concerning IT-equipment. The leased assets are pledged as collateral for the leasing obligations.

## 13. Inventories

mill DKK

Inventories before provision for obsolescence  
Provision for obsolescence  
Inventories

Inventories stated at net realizable value

Impairment of inventories at net realizable value is included in production costs

Cost of goods sold included in production costs

Parent Company		Group	
2010	2011	2010	2011
780	799	5,193	5,041
-76	-61	-507	-456
704	738	4,686	4,585
47	50	241	347
8	4	84	113
3,838	4,008	15,787	16,625

## 14. Trade receivables and receivables from subsidiaries

mill DKK

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

Trade receivables due after 1 year

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

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

Parent Company		Group	
2010	2011	2010	2011
277	231	4,613	4,411
-11	-11	-171	-165
266	220	4,442	4,246
		1	2
-14	-11	-180	-171
		-10	3
1	-1	-22	-31
2	1	41	34
-11	-11	-171	-165
1,472	1,653		
3,085	3,491		
4,557	5,144		

## 15. Marketable securities

mill DKK

Listed bonds denominated in DKK

Parent Company		Group	
2010	2011	2010	2011
		60	85

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 nominated in Danish Kroner. The average weighted maturity of the bond portfolio was 1.6 years (2010: 1.7). The bonds have a fixed interest rate.

## 16. Share capital

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

Bitten & Mads Clausen Foundation, Nordborg, Denmark  
 Clausen Controls A/S, Sønderborg, Denmark  
 Henrik Mads Clausen, Lake Forrest, USA  
 Karin Clausen, Holte, Denmark

Shares	Votes
45.31%	84.58%
25.09%	5.38%
10.55%	2.27%
6.93%	1.48%

### Distribution of shares

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	

2011								
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	6,181,028	100 DKK	618.1	10,431,028	1,043.1	

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' 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

	2007	2008	2009	2010	2011
Mill DKK		3			16

### Dividend per share (DKK)

Proposed dividend per 100 DKK share

2010	2011
10.0	31.5

Dividend paid per 100 DKK share

10.0
------

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)

	2010	2011
Holding as of 1 January	56,766	67,574
Acquired in the year from employees and the board	10,808	207,272
Sold in the year to the board		-5,467
Holding as of 31 December	67,574	269,379

The primary purpose of holding own shares is to secure the share option programme in Danfoss A/S. The total cost price in 2011 for own shares amounts to 710 mill DKK (2010: 10 mill). Total sales price relating to own shares amounts to 9 mill DKK in 2011 (2010: 0). The Group's holding of own shares represents 2.58% (2010: 0.66%) of the Group's share capital. The value of own shares held amounts to 924 mill DKK (2010: 73 mill).

### Capital management

It is the policy of the Group always to qualify for a comfortable "BBB credit rating".

## 17. Provisions

mill DKK

Provisions as of 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 as of 31 December

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

<b>Group</b>					
<b>2011</b>					
Warranty	Restruc- turing	Contingent consideration	Other	Total	
466	52	40	217	775	
6		1	1	8	
-237	-34	-40	-13	-324	
-50	-6	-2	-15	-73	
293	20	6	81	400	
-2			-2	-4	
476	32	5	269	782	

<b>Group</b>		
<b>2010</b>	<b>2011</b>	
429	332	
246	312	
100	138	
775	782	

<b>Parent Company</b>					
<b>2011</b>					
Warranty	Restruc- turing	Contingent consideration	Other	Total	
31	1		36	68	
-6			-5	-11	
-13				-13	
16	2		1	19	
28	3		32	63	

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

<b>Parent Company</b>		
<b>2010</b>	<b>2011</b>	
28	28	
26	23	
14	12	
68	63	

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. As of 31 December no claims receivable related to provisions for warranty are included (2010: 8 mill).

The Group's allocated provision for restructuring mainly consists of expected cost for 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.



## 18. Share incentive programs

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 of 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:

	2010	2011
Share price	1,077	3,431
Expected volatility	49.0%	35.0%
Expected dividends	1.0%	1.0%
Risk-free interest rate	1.7-3.2%	1.4-3.6%
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 2011 of 3,431 has been regulated at the Annual General Meeting in 2011 while the new share price will be fixed at the Annual General Meeting in 2012.

### 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 Meeting 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 financial 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 purchase or subscribe 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 should have been exercised or cashed in before the Annual General Meeting at the 29th of April 2011.

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

Outstanding as of 1 January:	Executive					
	The Board (number)	Committee (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (mill DKK)
Options/warrants - exercise price at 749				3,334	328	1
Options/warrants - exercise price at 752				4,466	325	1
				7,800		2
Exercise/transfer(-) in 2011:					Exercise price	Paid out (mill DKK)
Options/warrants - exercise price at 749				-3,334	1,077	1
Options/warrants - exercise price at 752				-4,466	1,077	1
				-7,800		2
Outstanding as of 31 December:					Fair value (DKK each)	Fair value (mill DKK)
Options/warrants - exercise price at 749				0		
Options/warrants - exercise price at 752				0		
				0		

## 18. Share incentive programs (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) at fixed exercise prices 3 years after the allotment date at the earliest.

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 for this obligation.

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 and warrants in relation to the 2004 and subsequent programmes are specified below:

Granted options/warrants 1 January:

	The Board (number)	Executive Committee (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (mill DKK)
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>

Changes in the share price/fair value:

Options/warrants - exercise price at 1,222					1,842	91
Options/warrants - exercise price at 1,522					1,676	130
Options/warrants - exercise price at 1,932					1,506	124
Options/warrants - exercise price at 1,808					1,517	84
Warrants - exercise price at 1,100					1,907	250
						<u>679</u>

Disposal due to subscription of shares:

Options/warrants - exercise price at 1,222			-3,999	-28,995	2,209	-73
Options/warrants - exercise price at 1,522	-300	-8,400	-7,633	-37,073	1,909	-102
Options/warrants - exercise price at 1,932	-800	-8,400	-7,736	-28,900	1,499	-69
Options/warrants - exercise price at 1,808	-432	-7,125	-8,439	-18,925	1,623	-57
	<u>-1,532</u>	<u>-23,925</u>	<u>-27,807</u>	<u>-113,893</u>		<u>-301</u>

Exercise/transfer due to retirements:

Warrants - exercise price at 1,100			-4,550	1,200		-1
			<u>-4,550</u>	<u>1,200</u>		<u>-1</u>

Granted options/warrants 31 December:

Options/warrants - exercise price at 1,222	8,467		1,333	7,647	2,255	39
Options/warrants - exercise price at 1,522	8,467		2,666	18,055	2,068	60
Options/warrants - exercise price at 1,932	8,466	2,400	4,302	32,951	1,876	90
Options/warrants - exercise price at 1,808	6,038	1,875	638	15,207	1,766	42
Warrants - exercise price at 1,100		29,550	19,850	81,350	2,352	308
	<u>31,438</u>	<u>33,825</u>	<u>28,789</u>	<u>155,210</u>		<u>539</u>

The total provision per 31 December 2011 for 2004 and subsequent share schemes is calculated at 503 mill DKK.

## 18. Share incentive programs (continued)

### Equity compensation benefit Sauer-Danfoss Inc.

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

#### Program for Employees

In 2006 Sauer-Danfoss Inc. established a performance program 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 program cannot exceed 3.5 mill shares.

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

	Equity units	Average fair value on grant date (USD each)	Fair value (USD each)	Fair value (mill DKK)
<i>Equity based:</i>				
Units outstanding as of 1 January	166,067	18.89	28.25	26
Units converted into shares	-166,067			
Units forfeited				
Units outstanding as of 31 December	0			

In addition to the above, "deferred" shares worth 60,626 were allotted on December 31 2011. "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.

The right to shares is lost in case of non-fulfilment of certain conditions. In 2011, 13,500 (2010: 13,500) shares were issued under this programme. Outstanding, restricted shares amount to 27,000 shares. The total number of shares to be allotted and issued under this plan must not exceed 250,000. The Danfoss Group Board and Executive Committee have up until 2011 allotted 15,000 shares which 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.

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

mill DKK

#### Recognition of programmes in the Income Statement

	2010	2011	2010	2011
	Financial items		Fixed expenses	
Subsidiaries		219	17	8
Parent company	1	425	25	15
The Danfoss Group	1	644	42	23

#### Recognition of programmes in Balance Sheet

	Parent Company		Group	
	2010	2011	2010	2011
Long term debt	31		31	
Short term debt	102	503	104	503
	133	503	135	503

\*) 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 (539 mill DKK) cannot be reconciled with the recognized long term liabilities (503 mill DKK).

## 19. Deferred tax assets and liabilities

mill DKK

### Changes in deferred taxes

	Parent Company		Group	
	2010	2011	2010	2011
Deferred taxes as of 1 January, (net) *)	-87	-76	-29	-182
Foreign exchange adjustment			14	48
Additions through acquisition of/merger with subsidiary			-16	
The year's change in deferred tax recognized in the Income Statement	8	38	-63	-173
The year's change in deferred tax recognized in Other Comprehensive Income	3		20	58
Impairment related to sale of subsidiaries			-108	-55
Deferred taxes as of 31 December, (net) *)	-76	-38	-182	-304

\*) Liability (-)

Due to the divestment of the compressor activities, an impairment at fair value was performed in 2010, which resulted in an impairment of deferred tax assets of 108 mill DKK. In 2011 there have been made further impairment of former activated loss on 55 mill DKK, which despite the expectation can not be used. The impairment is included in the result of discontinued activities in both 2010 and 2011.

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

	Parent Company		Group	
	2010	2011	2010	2011
	Deferred tax asset	Deferred tax asset	Deferred tax asset	Deferred tax asset
Intangible fixed assets			76	39
Fixed assets and non-current financial assets	68	50	511	327
Current assets	14	18	303	329
Liabilities	30	79	678	677
Gross tax value of loss carry-forwards			742	730
Non-activated tax assets from tax deficits			-109	-166
	112	147	2,201	1,936
Set-off of tax	-112	-147	-525	-682
Deferred tax assets	0	0	1,676	1,254

	Parent Company		Group	
	2010	2011	2010	2011
	Deferred tax liability	Deferred tax liability	Deferred tax liability	Deferred tax liability
Intangible fixed assets	52	58	1,512	1,447
Fixed assets and non-current financial assets		15	467	377
Current assets	15	15	218	180
Liabilities	14	19	79	158
Deferred tax regarding Danish joint taxation	107	78	107	78
	188	185	2,383	2,240
Set off of tax	-112	-147	-525	-682
Deferred tax liabilities	76	38	1,858	1,558

A major part of the tax asset related to carry-forward tax losses of 564 mill DKK net (2010: 633 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 166 mill DKK (2010: 109 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 38 mill DKK (2010: 76 mill), 78 mill DKK (2010: 107 mill) can be attributed to taxes relating to joint taxation with foreign subsidiaries in previous years. The parent company have deferred tax liability concerning temporary differences in foreign subsidiaries and associates/joint ventures of 316 mill DK (2010: 272 mill). The liabilities are not recognized because the Group decides on their utilization and it is likely, that the liabilities not will be activated in the foreseeable future.



## 20. Defined benefit plans and health care obligations

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 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 521 mill DKK (2010: 632 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 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, liabilities

Group	
2010	2011
2,758	2,794
-1,625	-1,704
1,133	1,090
<hr/>	
1,133	1,090

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

Net liability as of 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  
Disposals through transition to defined contribution plans etc.  
Net liability as of 31 December

Group	
2010	2011
2,489	2,758
106	58
36	35
140	140
132	172
	-136
-57	-44
-88	-93
8	1
	-16
-8	-81
2,758	2,794

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

Pension plan assets as of 1 January  
Foreign exchange adjustments  
Estimated return on pension plan assets  
Actuarial gains/losses(-)  
Payments by the Group  
Disbursed pensions  
Adjustments  
Disposals through transition to defined contribution plans etc.  
Pension plan assets as of 31 December

Group	
2010	2011
1,357	1,625
71	38
97	111
54	-31
129	120
-87	-81
4	3
	-81
1,625	1,704

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

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

Group	
2010	2011
97	111
54	-31
151	80

## 20. Defined benefit plans and health care obligations (continued)

mill DKK

### Expenses recognized in the Income Statement

	Group	
	2010	2011
Pension expenses in the year	36	35
Interest	140	140
Estimated return on pension plan assets	-97	-111
Gains from reductions and redemptions		-136
Expensed in the Income Statement as employment costs	79	-72
Pension costs distribution on functions:		
Pension cost posted under cost of sales	36	29
Pension cost posted under distribution cost	11	9
Pension cost posted under administration cost	32	26
DBP settlements posted under special items		-136
	79	-72

### 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 cover 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	
	2010	2011
Net liability as of 1 January	228	297
Foreign exchange adjustments	18	8
Service costs	1	1
Interest	16	15
Plan participant contribution	3	3
Actuarial gains(-)/losses	54	11
Gains from reductions and redemptions		-112
Disbursed payments	-23	-22
Net liability as of 31 December	297	201

	Group	
	2010	2011
Specification of disbursed payments:		
Payments by the Group	-20	-19
Payments by plan participants	-3	-3
Total payments	-23	-22

	2010	2011
Accumulated actuarial gains/losses(-) since 1 January 2005 have been recorded directly under the equity	-307	-510

### Pension plan assets consist of the following:

	Group		Group	
	2010	2010	2011	2011
Shares and similar securities	956	59%	834	49%
Bonds	626	38%	685	40%
Sundry financial instruments			126	7%
Other	43	3%	59	5%
	1,625	100%	1,704	100%

## 20. Defined benefit plans and health care obligations (continued)

### Principal actuarial assumptions at the balance sheet date

	Group		Group	
	2010	2010	2011	2011
	Range	Weighted average	Range	Weighted average
Discount rate	3.8-8.0%	5.3%	3.3-5.0%	4.7%
Estimated future salary increase	1.5-4.5%	3.4%	1.5-4.2%	3.4%
Estimated return on pension plan assets	3.3-7.3%	6.9%	3.3-7.0%	6.6%

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

The assumed weighted average annual rate of increase in the per capita cost of medical benefits is 8% for 2011 (2010: 8%) and is assumed to decrease gradually in 2012 through 2027 to a level of 4.5%. (2010: 4.5%). After 2027 the rate of increase is expected at 4.5% per year. (2010: 4.5%). 1% increase or decrease in the annual health care trend rate would have increased or decreased the Net liability as of 31 December 2011 by 5 mill DKK. The weighted average discount rate is fixed at 4.2% (2010: 5.3%).

The Group expects to pay in 122 mill DKK to defined benefit plans in 2012. In 2011, 120 mill DKK was paid in.

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

	Group				
	2007	2008	2009	2010	2011
Present value of defined benefit plan obligations	-1,018	-2,250	-2,489	-2,758	-2,794
Present value of pension plan assets	629	1,153	1,357	1,625	1,704
Surplus-/insufficient(-) cover	-389	-1,097	-1,132	-1,133	-1,090
Experience adjustments to pension obligations	-121	-47	82	126	9
Experience adjustments to pension assets	-23	-301	83	54	-34

## 21. Financial risk and 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 mitigation, 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. Applied 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 2011	Expected effect on cash flow in 2012
DKK/EUR	1%	18	7
DKK/USD	10%	-11	17
DKK/GBP	10%	9	10

The amounts are based on the exchange rate of 31 December 2011 and expected net cash flow in 2012 in foreign currency. In this context the incurred financial instruments recognized per 31 December 2011 have been taken into consideration.

### 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). 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.

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. Historically the Group has only had limited losses on bad debts.

Allocation of trade receivables due as of 31 December:

	Parent Company		Group	
	2010	2011	2010	2011
Due date maturity:				
Up to 30 days due	2	1	110	107
From 30 to 90 days due	5	6	73	115
More than 90 days due	9	5	98	16
	16	12	281	238

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



## 21. Financial risk and instruments (continued)

### 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.

All things being equal, a reasonably likely increase in the interest rate amounting to one percentage point compared to the interest rate level on the balance sheet date, would have had the following hypothetical impact on the result of the year and equity at the end of the year:

	Parent Company				Group			
	2010		2011		2010		2011	
	Income Statement	Equity	Income Statement	Equity	Income Statement	Equity	Income Statement	Equity
mill DKK								
Bonds					-1	-1	-1	-1
Cash and debt with variable interest	-12	-12	-8	-8	-15	-15	-12	-12
Hedge instruments (interest swaps)	5	68	2	44		68		44
	-7	56	-6	36	-16	52	-13	31

A reasonable decrease in the interest rate level amounting to one percentage point, compared to the interest level on the balance sheet date, would have had the opposite effect on the result and the equity.

The calculated sensitivities are based on the recognized financial activities and obligations at December 31 2011. In 2011, adjustments have not been made for instalments, borrowing and similar. All hedging of variable interest-bearing loans is deemed 100% efficient. Furthermore the calculated expected fluctuations are based on the current market situation and expectations for the market development of interest rate levels.

### 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 "BBB 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 2011, Danfoss' liquidity reserve in the form of unused long term irredeemable credit facilities were recorded at 5.7 bn DKK (2010: 6.0bn). Additional to this Danfoss has cash and cash equivalents and significant amount of short term credit lines. The Group considers the liquidity reserve to be sufficient in relation to the actual plans and the market situation in general.

The major part of the Group's cash and cash equivalents of 744 mill DKK (2010: 853 mill) is placed on short term deposits with an interest rate below 1% p.a.

### The Group's debt categories and maturities

	Group 2010					Group 2011				
			Maturity					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	6,760	7,048	2,495	4,279	274	4,520	4,670	2,086	1,596	988
Mortgage debt	1,268	1,735	49	155	1,531	1,195	1,835	41	192	1,602
Employee bonds	61	69	2	67		61	67	3	64	
Financial leasing liabilities	38	44	13	25	6	85	92	30	59	3
Trade creditor	3,084	3,084	3,084			2,581	2,581	2,581		
Debt associates/joint ventures	32	32	32			23	23	23		
Derivative financial liabilities:										
Derived interest products	170	230	99	131		144	112	59	53	
Forward exchange transactions	73	73	73			174	174	174		
	11,486	12,315	5,847	4,657	1,811	8,783	9,554	4,997	1,964	2,593

\*) Maturity is evenly spread over the period.

The maturity analysis is based on all non-discounted cash flows including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flows from derived financial instruments are presented as gross value, unless the parties have a contractual right or obligation to make net settlements. Operational leasing obligations and obligations relating to the purchase of tangible assets are not included on the balance sheet, but are included in note 28. Contingent liabilities assets and securities.

### The above debt is recorded as follows:

	Group	
	2010	2011
Non-current liabilities	5,704	3,871
Current liabilities	5,782	4,912
	11,486	8,783

## 21. Financial risk and instruments (continued)

mill DKK

### Fair value of financial instruments for the Group

	Group		Group	
	2010	2010	2011	2011
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	32	32	43	43
<b>Financial assets available-for-sale</b>	<b>32</b>	<b>32</b>	<b>43</b>	<b>43</b>
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	31	31	3	3
<b>Financial assets used as hedging instruments</b>	<b>31</b>	<b>31</b>	<b>3</b>	<b>3</b>
Trade receivables	4,442	4,442	4,246	4,246
Other receivables	995	995	860	860
Cash and cash equivalents	853	853	744	744
<b>Loans and receivables</b>	<b>6,290</b>	<b>6,290</b>	<b>5,850</b>	<b>5,850</b>
Securities	60	60	85	85
Derivative financial instruments for financial hedging	11	11		
<b>Financial assets measured at fair value via the Income Statement</b>	<b>71</b>	<b>71</b>	<b>85</b>	<b>85</b>
Interest-bearing debt	8,127	8,066	5,861	5,800
Trade creditors and other debt	5,645	5,645	5,219	5,219
<b>Financial liabilities measured at amortized cost</b>	<b>13,772</b>	<b>13,711</b>	<b>11,080</b>	<b>11,019</b>
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	62	62	124	124
Derivative financial instruments for the hedging of future cash flows	174	174	186	186
<b>Financial liabilities used as hedging instruments</b>	<b>236</b>	<b>236</b>	<b>310</b>	<b>310</b>
Derivative financial instruments for financial hedging	7	7	8	8
<b>Financial liabilities measured at fair value via the Income Statement</b>	<b>7</b>	<b>7</b>	<b>8</b>	<b>8</b>

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 fair value of receivables from sales and supplier debt with a short credit period are estimated to be equal the accounting value.

The methods applied remain unchanged compared to 2010.

## 21. Financial risk and instruments (continued)

### Derivatives as of 31 December for the Group

	Group 2010				Group 2011			
	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
<b>Financial assets:</b>								
Securities	60			60	85			85
Other investments			32	32	13		30	43
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		31		31		3		3
Derivative financial instruments for financial hedging	11			11				
Total financial assets	71	31	32	134	98	3	29	130
<b>Financial liabilities:</b>								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		62		62		124		124
Derivative financial instruments for the hedging of future cash flows		174		174	22	164		186
Derivative financial instruments for		7		7	6	2		8
Total financial liabilities		243		243	28	290		318

### Financial instruments, measured to fair value, based on Level 3

	Group	
	2010	2011
Carrying amount as of 1. January	33	32
Gain/loss (-) in the Income Statement	-13	-2
Purchase	14	
Disposals	-2	
Carrying amount as of 31. december	32	30
Gain/loss (-) in the Income Statement for assets owned as of 31. december	-13	-2
Gain/loss (-) in the Income Statement under financial income and expenses		

## 21. Financial risk and instruments (continued)

### Derivatives as of 31 December for the Group

	Group 2010						Group 2011					
	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in the Income Statement	Due less than 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 the Income Statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
Derivatives, sale/buy:												
USD sale	920	-18	-13	-5			2,948	-160	-101	-59		
USD buy	204	-3	-3				393	16	5	11		
CHF sale	163	-11	-5	-6			147	2	1	1		
CHF buy	10	1	1				39					
GBP sale	269	2	-1	3			229	-9	1	-10		
GBP buy	121	-1	-1				35					
MXN sale	138	1	1				282	-3	-3			
MXN buy	91						332	-11	2	-13		
AUD sale	153	-16	-8	-8			357	-13	-6	-7		
NOK sale	110	-3	-2	-1			115	-1	-1			
NOK buy	29						25					
RUB sale	202	-8	-8				83	-1	-1			
RUB buy	55	2	2									
EUR sale	259	1	1				3,388	-6	-1	-5		
EUR buy	1,990	-13	-13				4,049	-2	-2			
Other currencies sale	690	-17	-9	-8			650	6	7	-1		
Other currencies buy	202	7	7				534	-8	-12	4		
		-76	-51	-25				-190	-111	-79		
Interest swaps		-170	-19	-74	-77			-123	-15	-18	-90	
Rawmaterial contracts (sale)	72											
Rawmaterial contracts (buy)	72											
Other derivatives		11	11					-5	-5			
Derivatives end of year		-235	-59	-99	-77			-318	-131	-97	-90	

At the end of the year 2011, unrealized gain/loss(-) on derivatives recognized in equity amounted to -187 mill DKK (2010: 176 mill).

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

5 mill DKK were taken to the Income Statement in 2011 (2010: 0 mill) as a consequence of the implemented efficiency tests.



## 21. Financial risk and instruments (continued)

mill DKK

### Parent Company's financial instruments

Subsequently, relevant financial instrument specifications have been made regarding the Parent Company. A description of financial risks can be found in the corporate section of this note, to which reference is made.

### Parent Company's cash and cash equivalents

The major part of the Parent Company's cash and cash equivalents of 2 mill DKK (2010: 106 mill) is placed on short term deposits, with an interest rate below 1% p.a.

### Parent Company's debt categories and maturities

	Parent Company 2010					Parent Company 2011				
	Carrying amount	Contractual cash flow	Maturity			Carrying amount	Contractual cash flow	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	6,249	6,535	2,054	4,213	268	4,075	4,224	1,740	1,499	985
Mortgage debt	236	327	5	20	302	236	364	8	29	327
Employee bonds	61	69	2	67		61	67	3	64	
Interest-bearing debt, subsidiaries **)	2,991	2,991	2,991			5,699	5,699	5,699		
Financial leasing liabilities						58	62	18	44	
Trade creditors **)	681	681	681			608	608	608		
Debt to associates/joint ventures	1	1	1			3	3	3		
Derivative financial liabilities:										
Derived interest products	169	216	90	126		121	112	59	53	
Forward exchange transactions	66	66	66			174	174	174		
	10,454	10,886	5,890	4,426	570	11,035	11,313	8,312	1,689	1,312

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

\*\*) Besides interest-bearing debt of 5,699 mill DKK (2010: 2,991 mill) the line "Debt to subsidiaries" in the balance sheet contains accounts payables etc. of 214 mill DKK (2010: 230 mill). In total 5,913 mill DKK (2010: 3,221 mill).

The maturity analysis is based on all non-discounted cash flows including estimated interest payments. Interest payments are estimated according to the existing market conditions. The non-discounted cash flows from derived financial instruments are presented as gross value, unless the parties have a contractual right/obligation to make net settlements. Operational leasing obligations and obligations relating to the purchase of tangible assets are not included on the balance sheet, but are included in note 28. Contingent liabilities, assets and securities.

### The above debt is recorded as follows:

	Parent Company	
	2010	2011
Non-current liabilities	4,596	2,800
Current liabilities	5,858	8,235
	10,454	11,035

## 21. Financial risk and instruments (continued)

mill DKK

### Categories of financial instruments

	Parent Company		Parent Company	
	2010	2010	2011	2011
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	2	2	2	2
<b>Financial assets available-for-sale</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>
Trade receivables	266	266	220	220
Trade receivables from subsidiaries	4,557	4,557	5,144	5,144
Other receivables	152	152	115	115
Cash and cash equivalents	106	106	2	2
<b>Loans and receivables</b>	<b>5,081</b>	<b>5,081</b>	<b>5,481</b>	<b>5,481</b>
Derivative financial instruments for financial hedging	42	42		
<b>Financial assets, measured at fair value in the Income Statement</b>	<b>42</b>	<b>42</b>		
Interest-bearing debt	6,546	6,484	4,430	4,368
Debt to subsidiaries	3,221	3,221	5,913	5,913
Trade creditors and other debt	1,262	1,262	1,018	1,018
<b>Financial liabilities measured at amortized cost</b>	<b>11,029</b>	<b>10,967</b>	<b>11,361</b>	<b>11,299</b>
Derivative financial instruments for financial hedging	236	236	295	295
<b>Financial liabilities measured at fair value in the Income Statement</b>	<b>236</b>	<b>236</b>	<b>295</b>	<b>295</b>

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 of 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 fair value of receivables from sales and supplier debt with a short credit period is estimated to be equal to the accounting value. The methods applied remain unchanged, compared to 2010.

### Derivatives as of 31 December for the Parent Company

	Parent Company				Parent Company			
	2010				2011			
	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	In total	Registered prices Level 1	Observable input Level 2	Non-observable input Level 3	In total
<b>Financial assets:</b>								
Securities and other investments			2	2			2	2
Derivative financial instruments for financial hedging	11	31		42				
Total financial assets	11	31	2	44			2	2
<b>Financial liabilities:</b>								
Derivative financial instruments for financial hedging		236		236	6	289		295
Total financial liabilities		236		236	6	289		295

There has been no change to Other investments categorized on Level 3.

## 21. Financial risk and instruments (continued)

	Parent Company						Parent Company					
	2010						2011					
	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in the Income Statement	Due less than 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 the Income Statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
Derivatives, sale/buy:												
USD sale	711	-12	-12				2,624	-146	-146			
USD buy	107	-2	-2				326	15	15			
CHF sale	163	-11	-11				147	2	2			
CHF buy	10	1	1				39					
GBP sale	269	2	2				229	-9	-9			
GBP buy	121	-1	-1				35					
MXN sale	138	1	1				282	-3	-3			
MXN buy	91						332	-11	-11			
AUD sale	153	-16	-16				357	-13	-13			
NOK sale	110	-3	-3				115	-1	-1			
NOK buy	29						25					
RUB sale	202	-8	-8				83	-1	-1			
RUB buy	55	2	2									
EUR sale	259	1	1				3,344					
EUR buy	1,990	-13	-13				4,049	-2	-2			
Other currencies sale	632	-21	-21				650	6	6			
Other currencies buy	202	10	10				534	-8	-8			
		-70	-70					-171	-171			
Interest swaps		-170	-32	-66	-72			-123	-10	-23	-90	
Rawmaterial contracts (sale)	72											
Rawmaterial contracts (buy)	72											
Other derivatives		11	11					-5	-5			
Derivatives end of year		-229	-91	-66	-72			-299	-186	-23	-90	

At the end of 2011, unrealized gains and losses on derivatives amounted to -113 mill DKK (2010: -138 mill).

## 22. Current corporation tax

mill DKK

Corporation tax payable/receivable (-) as of 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 in Income Statement
Current tax expenses in Other Comprehensive Income
Corporate tax expenses of discontinued operations
Corporation tax payable/receivable (-) as of 31 December

Parent Company		Group	
2010	2011	2010	2011
94	1	48	166
		-1	6
-172	-120	-558	-867
-2	-7	-8	-6
		3	-6
96	197	682	806
-15	9		-18
			-61
1	80	166	20
		86	176
1	80	252	196
1	80	166	20

The above corporation tax is recorded as follows:

Assets
Liabilities

## 23. Adjustment for non-cash transactions

mill DKK

Depreciations/amortizations and impairments on 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	
2010	2011	2010	2011
267	257	1,789	1,701
63	-3	25	-585
		-14	-16
-825	-1,128	-107	-43
1,903	1,362	441	1,067
-19	-5	45	-143
1,389	483	2,179	1,981

## 24. Change in working capital

mill DKK

Change in inventories
Change in receivables
Change in payables

Parent Company		Group	
2010	2011	2010	2011
-102	-36	-1,034	-228
-464	-153	-913	126
23	-24	1,139	-312
-543	-213	-808	-414



## 25. Acquisition and sale of subsidiaries and activities

mill DKK

	Group		Group	
	2010	2011	2010	2011
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible fixed assets except goodwill	-74		19	161
Tangible fixed assets	-16		6	191
Inventories	-2	-1	301	202
Receivables	-1	-1	603	270
Cash and cash equivalents	-1	-1	73	50
Interest-bearing debts	2			-69
Provisions including deferred taxes	16	-1	-120	-24
Payables	1	-1	-327	-169
Net assets acquired	-75	-5	555	612
Goodwill(-)/gain on disposal	-13	-1	-24	578
Consideration paid(-)/received	-88	-6	531	1,190
Cash and cash equivalents	1	1	-73	-50
Net consideration paid(-)/received	-87	-5	458	1,140
Net consideration paid(-)/received is paid as follows:				
Cash and cash equivalents	-145	-43	13	1,149
Payable, 1 January	98	38		
Payable, 31 December	-40			
Receivable, 1 January			-19	-444
Receivable, adjustment			12	222
Receivable, 31 December			444	213
Shares			8	
	-87	-5	458	1,140

The difference between payable amount as of 31 December 2010 and payable amount as of 1 January 2011 is due to a foreign exchange adjustment of 2 mill DKK.

In 2011, the Group acquired a company and sold two activities. Other regulations only concern the payment of earn-outs relating to previous acquisitions. In 2010 the Group acquired one company and earn-outs were paid in connection with previous acquisitions. Acquisitions and sales in 2010 and 2011 are specified below.

### Acquisition of subsidiaries and activities:

2011						
Company/activities	Country	Income Statement consolidated from	Holding acquired	Turnover per year mill DKK *)	No. of employees	Consideration paid mill DKK
Danfoss IXA A/S	Denmark	September	59%	0	8	5

\*) Unaudited net sales in 2011 or the accounting year prior to the acquisition.

### Acquisition of subsidiaries and activities:

2010						
Company/activities	Country	Income Statement 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 to cash generating units, please refer to note 11. Intangible fixed assets.

## 25. Acquisition and sale of subsidiaries and activities (continued)

### Sale of subsidiaries and activities:

2011					
Company/activities	Country	Income Statement consolidated from	Holding acquired	Turnover per year mill DKK *)	No. of employees
Danfoss Water Controls activities	France	April	100%	780	554
Danfoss Geared Motors activities	Germany	May	100%	546	520

\*) realized net sales to customers in 2010.

### Sale of subsidiaries and activities:

2010					
Company/activities	Country	Income Statement consolidated until	Share of ownership	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

### Parent Company

mill DKK

	Parent Company		Parent Company	
	2010	2011	2010	2011
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible fixed assets except goodwill			17	
Tangible fixed assets			2	
Investments in subsidiaries	-108	-49	111	
Inventories			6	
Payables			-2	
Net assets acquired	-108	-49	134	
Goodwill(-)/gain on disposal			-62	1
Net consideration paid(-)/received	-108	-49	72	1
Net consideration paid(-)/received composed of the following:				
Cash and cash equivalents	-120	-49	81	12
Payable as of 1 January	12			
Receivable as of 1 January			-18	3
Receivable, adjustment			12	-4
Receivable as of 31 December			-3	-10
	-108	-49	72	1

The Parent Company's capital increase and acquisition of undertakings and activities amounting to -49 mill DKK (2010: -108 mill ) is primarily concerning the increase in capital and internal transfers.

The Parent Company's divestment of companies and activities of 1 mill DKK (2010: 72 mill) mainly consists of the sale of Geared Motors activities.

## 26. Discontinued operations

In order to ensure increased focus on the core business, Danfoss decided that some operations should undergo strategic reassessment for possible sale, entrance into joint ventures or other forms of alliances. This included Danfoss Household Compressors, where an agreement was made for the sale of the business to the German company AURELIUS. The deal was concluded on November 5, 2010.

When the deal was published the assets in Danfoss Household Compressors was depreciated to current value after deducting of sales costs.

Costs occurred in 2011 are related to the settlements and accompanying legal expenses in the competition case and an accounting adjustment of the purchase price concerning the sale of Danfoss Household Compressors to AURELIUS Commercial Betilignungs GmbH.

The result and cash flows originating from the divested activities are recorded in all periods as separate items in the Income Statement and the Statement of Cash Flow.

### Financial highlights discontinued operations

mill DKK

#### Income Statement

	<b>Group</b>	
	<b>2010</b>	<b>2011</b>
Net sales	1,206	
Expenses	-1,299	-937
Impairments at fair value less costs to sell	-733	
Profit before tax	-826	-937
Corporate tax expenses	-3	6
Result from discontinued operations	-829	-931

#### Cashflow

Cash flows from operating activities	-249	-714
Cash flows from investing activities	-63	
Cash flows from financing activities	-89	
Cash flows from discontinued operations	-401	-714

Basic earnings per share of discontinued operations (share of nominal 100 DKK)

Diluted earnings per share of discontinued operations (share of nominal 100 DKK)

-81.3	-91.5
-78.0	-87.9

## 27. Acquisition(-)/disposal of shares, other securities and lending

mill DKK

Sale of shares and other securities  
Purchase of shares and other securities

Increase/decrease of lending

<b>Parent Company</b>		<b>Group</b>	
<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>
15	17	14	-11
		-28	-23
15	17	-14	-34
599	-791	39	-61
614	-774	25	-95

## 28. Contingent liabilities, assets and security

mill DKK

### Security

	Parent Company		Group	
	2010	2011	2010	2011
Carrying amount of land and buildings pledged as security for bank loans and mortgages	23	22	858	752
Leasing assets pledged as security for leasing commitments		59	44	89
Secured loans from financial institutions	236	294	1,319	1,302

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

### Contingent liabilities

At the beginning of 2009, the European Commission's Directorate General for Competition and other competition authorities instigated investigations against Danfoss Household Compressors, among others, on suspicion of the violation of competition rules. Following extensive internal investigations and cooperation with the competition authorities, Danfoss stated in the Danfoss Half-year Report 2010 that it could no longer be ruled out that violations had occurred. On the basis of further investigations and the close cooperation with the competition authorities, Danfoss chose to make provisions of DKK 720 mill DKK in the 2011 half-year Half-year Report. The competition case relating to the USA was ended in October 2011 when Danfoss made a settlement with the US Department of Justice, amounting to approx. 16 mill DKK. By so doing, Danfoss acknowledged that employees at the group's subsidiary, Danfoss Flensburg GmbH, Germany, without the knowledge of the top management and in direct violation of Danfoss' internal rules, had exchanged information with competitors between 2004 and 2007 which could be used to coordinate prices of compressors sold directly onto the American market by Danfoss' subsidiary in Germany. The settlement agreement was approved by the Michigan Court in December 2011. The competition case relating to Europe was also concluded in December, when Danfoss made a settlement with the European Commission, amounting to approx. 669 mill DKK, for similar violations of European competition rules. Over the course of fall 2011, the competition authorities in New Zealand and Canada announced that they had ceased to investigate Danfoss regarding the case. Investigations are currently taking place in Brazil, Mexico and South Africa, and civil lawsuits are pending against Danfoss in the USA and Canada. At present, Danfoss has no knowledge of the outcome of the pending lawsuits, therefore no recognition have been in the balance sheet.

In addition, the group is party to some disputes, lawsuits and legal actions. It is the view of the Management that the outcome of the legal actions will have no other significant impact on the Group's financial position beyond what has been recognized and stated in the Annual Report.

### Operating leases (lease expenses)

	Parent Company		Group	
	2010	2011	2010	2011
Operating lease rentals are payable as follows:				
Buildings:				
Less than 1 year	60	63	114	130
Between 1 and 5 years	218	233	410	434
More than 5 years	94	84	511	436
Machinery etc.:				
Less than 1 year	29	26	187	176
Between 1 and 5 years	26	35	347	250
More than 5 years			44	21

The Group has expensed 336 mill DKK in operating lease rentals in 2011 (2010: 329 mill) and they relate mainly to buildings and machinery. There were no significant conditional leasing rentals in 2011 and 2010.

### Operating leases (lease income)

	Parent Company		Group	
	2010	2011	2010	2011
Operating lease rentals are receivable as follows:				
Less than 1 year	58	60	18	11
Between 1 and 5 years	180	185	12	5
More than 5 years	18	18		

The Group has operating leasing income of 27 mill DKK in 2011 (2010: 25 mill). The above rentals relate mainly to buildings. The operating lease rentals in the Parent Company is primarily related to the rental of buildings to the subsidiaries.

### Contractual obligations

	Parent Company		Group	
	2010	2011	2010	2011
Service contract commitment other than leases	217	351	269	685
Inventories	160	116	352	875
Fixed assets	325	136	417	259
Related obligations in 2012	433	415	756	1,533



## 29. Related parties

Danfoss A/S' related parties include Bitten & Mads Clausen Foundation and 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 45.31% of the shares in Danfoss A/S and controls 84.58% of the voting power, has the controlling influence.

In the financial year a limited number of transactions have taken place between Bitten & Mads Clausen Foundation, its other subsidiaries including Danfoss Universe and certain shareholders of the Clausen Family. The transactions comprise of service and financial transactions and they have been made according to the arm's length principle or on a cost covering basis. The total payment does not exceed 25 mill DKK (2010: 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 the transactions as a result of conditions of employment, except for the following:

The Group has a rental agreement for a property in Italy with Chairman of the Board Jørgen M. Clausen. The rental agreement runs until 2014. The rent payment amounted to 4 mill DKK in 2011 (2010: 4 mill). Besides that, companies in which Jørgen M. Clausen has significant influence have sold goods and services below 5 mill DKK (2010: 5 mill) to the Danfoss Group. All transactions were performed on an arm's length basis.

For further information about the salaries of the board and the Executive Committee see the notes 5. Expenses and other operating income, section A. Personnel expenses and 18. Share incentive programs.

### **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	
	2010	2011	2010	2011
Non-current assets	290	320	292	322
Current assets	371	342	371	342
Total assets	661	662	663	664
Non-current liabilities	80	106	80	106
Current liabilities	237	234	237	234
Total liabilities	317	340	317	340
Equity	344	322	346	324
Net sales	889	918	889	918
Expenses	856	880	856	880
Net profit	33	38	33	38

#### *Associated companies:*

	Group	
	2010	2011
Total assets	44	18
Total liabilities	36	14
Equity	8	4
Net sales	25	26
Expenses	42	29
Net profit	-17	-3

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

## 29. Related parties (continued)

mill DKK

### Transactions with joint ventures and associated companies:

	Parent Company		Group	
	2010	2011	2010	2011
Net sales of goods and services	3	5	27	27
Purchase of goods and services	4	11	198	210

Loans, trade receivables and liabilities in relation to joint ventures and associated companies are stated separately on the balance sheet of the Parent Company and the Group.

The transactions 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 21. Financial risk and instruments.

### Transactions between the Parent Company and the subsidiaries:

	Parent Company	
	2010	2011
Net sales of goods and services	6,022	6,439
Purchase of goods and services	2,159	2,510
Purchase of intangible and tangible fixed assets	2	49
Disposal of intangible and tangible fixed assets	19	5

The transactions 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 21. Financial risk and instruments.

## 30. Government grants

The Group received government grants amounting to 23 mill DKK in 2011 (2010: 26 mill). The grants are primarily related to research and development projects as well as grants for the establishment of workplaces.

## 31. Events after the balance sheet date

Subsequent to 31 December 2011 there have been no further events with any significant effect on the annual financial statements beyond what has been recognized and disclosed in the annual report.

## 32. 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 2011 Annual Report:**

IFRIC 20,  
IFRS 9-13,  
IAS 27 (2011) and 28 (2011),  
Amendments to IFRS 1,  
Amendments to IFRS 7 (and others),  
Amendments to IAS 1, 12, 19 og 32

Only amendments to IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets 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 1 January 2012, 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.

One of the effects of the amendments made to Employee Benefits in IAS 19 is that whereas the statement of the expected return on pension assets as in accordance with the current IAS 19 is calculated on the basis of the expected development of the value of each asset type included in the pension plan, the amended IAS 19 prescribes that calculation is made of all of the pension assets as a whole, disregarding the pension asset types and using the same interest rate as used to calculate the year's expected development of pension obligations. The calculation of the closing value of pension assets will remain the same, whereby the change alone will result in varying returns from the year as recognized in the Income Statement and the Comprehensive Income, respectively. Had the amendment applied to the 2011 financial year, the result for the year would have been 31 mill DKK lower. Furthermore, the change in pension obligations for the year would have been 31 mill DKK more. Equity, assets and liabilities would not have been affected.

# Danfoss Group Companies



## December 31, 2011

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

### Austria

Danfoss Gesellschaft m.b.H., Guntramsdorf

### Belgium

N.V. Danfoss S.A., Groot-Bijgaarden

[Sauer-Danfoss bvba, Bruxelles](#)

### Bulgaria

Danfoss EOOD, Sofia

### Czech Republic

Danfoss s.r.o., Prague

### Croatia

Danfoss d.o.o., Zagreb

### Denmark

AqSep A/S – 29,17% (associated)

Danfoss A/S, Nordborg (moderselskab)

Danfoss Captive Reinsurance A/S, Nordborg

Danfoss Compressor Holding A/S, Nordborg

Danfoss Development A/S, Nordborg

Danfoss Distribution Services A/S, Røddekro

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 – 59%

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

Flexucell ApS, Østervrå – 50% (joint venture)

Gemina Ejendomsselskab A/S, Sunds

Gemina Termix Production A/S, Sunds

Issab Holding ApS, Nordborg

[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

[Oy Sauer-Danfoss Ab, Espoo](#)

### France

Avenir Energie, Valence

Danfoss Commercial Compressors S.A., Trévoux

Danfoss France Holding S.C., Trappes

Danfoss S.a.r.l., Trappes

[Sauer-Danfoss SAS, Dammarie-lès-Lys](#)

### Germany

Danfoss Esslingen GmbH, Esslingen

Danfoss Flensburg GmbH, Flensburg

Danfoss GmbH, Offenbach/Main

Danfoss Silicon Power GmbH, Slesvig

Danfoss Werk Offenbach GmbH, Offenbach/Main

Promeos GmbH, Erlangen – 27% (associated company)

[Sauer-Danfoss GmbH & Co. OHG, Neumünster](#)

[Sauer-Danfoss Informatic GmbH, Neumünster](#)

[Sauer-Danfoss GmbH, Neumünster](#)

### 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](#)

### Hungary

Danfoss Kft., Budapest

### Ireland

Danfoss Ireland Ltd., Dublin

DEVI-HEAT Limited, Dublin

### Iceland

Danfoss hf., Reykjavik

### Italy

Danfoss S.r.l., Torino

Danfoss Electronics spa, San Vendemiano

[Sauer-Danfoss S.r.l., Reggio Emilia](#)

### Latvia

SIA Danfoss, Riga

### Lithuania

Danfoss UAB, Vilnius



## **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](#)

## **Norway**

Danfoss AS, Skui, Oslo  
[Sauer-Danfoss AS, Skui, Oslo](#)

## **Poland**

Danfoss Poland Sp.z.o.o., Grodzisk Mazowiecki  
Danfoss Saginomiya Sp.z.o.o., Grodzisk Mazowiecki – 50% (joint venture)  
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, Skt. Petersburg  
ZAO Danfoss, Moskva  
ZAO Ridan, Nizhny Novgorod  
[Sauer-Danfoss LLC, Moskva](#)

## **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 – 99,61%

## **Spain**

Danfoss S.A., Madrid  
[Sauer-Danfoss S.A., Madrid](#)

## **Sweden**

Danfoss AB, Linköping  
Danfoss District Heating AB, Göteborg  
Danfoss Värmepumpar AB, Arvika  
EP Technology AB, Malmö  
[Sauer-Danfoss AB, Älmhult](#)

## **Switzerland**

Danfoss AG, Frenkendorf

## **Turkey**

Danfoss Otomasyon ve Urunleri Tic Ltd., Istanbul

## **Ukraine**

Danfoss T.o.v., Kiev

# **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**

Danfoss Acquisitions, Inc., Wilmington  
Danfoss LLC, Baltimore, Maryland  
Danfoss Holding, Inc., Lawrenceville, Georgia  
Danfoss Turbocor Compressors, Inc., Tallahassee, Florida – 50% (joint venture)  
Danfoss Sea Recovery Corporation, Los Angeles, California  
[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., São Paulo](#)

## **Chile**

Danfoss Industries Ltda., Santiago

## **Colombia**

Danfoss S.A., Santiago de Cali

## **Venezuela**

Danfoss S.A., Valencia

## AFRICA

### Namibia

Elsmark (Namibia) Commercial Wholesalers (Proprietary) Limited

### South Africa

Danfoss (Pty) Ltd., Rivonia, Johannesburg

Elsmark Investment Holdings (Proprietary) Limited, Johannesburg

Elsmark South Africa (Proprietary) Limited, Johannesburg

## ASIA

### China

Danfoss Anshan Controls Co. Ltd., Anshan

Danfoss Energy Products (Guiyang) Co., Ltd., Guiyang

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 Sanhua (Hangzhou) Micro Channel Heat Exchanger Co., Ltd. – 50%

Danfoss-Semco (Tianjin) Fire Protection Equipment Co., Ltd., Tianjin – 60%

[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, Hong Kong

### 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

### Malaysia

Danfoss Industries Sdn Bhd, Selangor

### Philippines

Danfoss Inc., Manila

### 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

### United Arab Emirates

Danfoss FZCO, Dubai – 95%

## AUSTRALIA

### Australia

Danfoss (Australia) Pty. Ltd., Melbourne

[Sauer-Danfoss-Daikin Pty. Ltd. – 65%](#)

### New Zealand

Danfoss (New Zealand) Ltd., Auckland