



Danfoss A/S

First quarterly report

2004

Danfoss is one of the largest industrial companies in Denmark. The global group is a leader within research, development and production, sales and service of mechanical and electronic components for several industries. Danfoss' activities are divided into three main business areas: Refrigeration & Air Conditioning, Heating & Water and Motion Controls, each leading within its industry. Danfoss has a large ownership share in one of the world's leading manufacturers and suppliers of mobile hydraulics, Sauer-Danfoss. Danfoss seeks to obtain its goals with a minimal consumption of raw materials and energy, the least possible impact on its surroundings and the most efficient use of resources. Danfoss has a long tradition for a social responsibility towards both employees and the surrounding environment.

"We are beginning to see a tentative recovery, which is also reflected in net sales. The business climate is looking brighter than in 2003; it is, however, too early to say that the recovery is permanent. We therefore expect the 2004 results to be similar to the level previously made public."

Jørgen M. Clausen, President and CEO, Danfoss A/S

Highlights from the first quarter of 2004:

- **Net sales** increased 7% to 3.9 billion DKK, compared to the same period last year (3.7 billion DKK). Growth amounted to 10%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments, compared to 4% in the same period of 2003.
- **EBIT (operating profit)** fell by 13% to 132 million DKK (152 million DKK). **EBIT Margin** reached 3.4%, compared to 4.1% last year, equalling a decrease of 0.7 percentage points. EBIT is affected by the fact that the 2003 figures include non-recurrent income as a result of the sale of buildings. **Operating profit excl. other income and expenses** increased by 2% to 129 million DKK (126 million DKK).
- **The profit before tax** increased by 11% to 198 million DKK (179 million DKK). The effect of the reduced EBIT is counteracted by positive finance income.
- **Free cash flow** improved by 238 million DKK to -407 million DKK (-645 million DKK), primarily due to fewer investments in new companies.

Expectations for 2004:

- The Group maintains its expectations for the year, expecting net sales of 15.75-16.25 billion DKK and an operating profit (EBIT) of 825-925 million DKK.
- The expectations do not include any impacts from future acquisitions and divestments.

The Danfoss A/S Board has reviewed and approved the 2004 quarterly accounts. The report has not been audited and is presented according to the same accounting principles used for the 2003 annual report.

Nordborg, May 24 2004

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Danfoss is a Danish Group and therefore the accounts are prepared in DKK. The comparative euro figures can be found in the right-hand column in the table of accounts.

Financial highlights

Million DKK (unless otherwise stated)	Q1 03 unaudit.	Q1 04 unaudit.	Change in %	2003	Q1 04 YTD unaudit. EUR
Profit and loss account:					
Net sales	3,688	3,931	7%	15,434	528
EBITDA	345	323	-6%	1,994	43
<i>EBITDA Margin</i>	9.3%	8.2%		12.9%	8.2%
Operating profit excl. other income and expenses	126	129	2%	768	17
Operating profit (EBIT)	152	132	-13%	1,109	18
<i>EBIT Margin</i>	4.1%	3.4%		7.2%	3.4%
Profit before tax	179	198	11%	1,029	27
<i>Return on Sales</i>	4.8%	5.1%		6.7%	5.1%
Key figures¹⁾:					
Free cash flows ²⁾	-645	-407		112	-55
Interest-bearing debt	2,115	1,468	-31%	1,766	197
RONA ²⁾	2.2%	1.9%		16.7%	1.9%

¹⁾ The key figures are calculated based on the instructions from the Danish Society of Financial Analysts.

²⁾ RONA (Return On Net Assets): Result of operating profit as percentage of average net assets. Net assets are total assets deducted capital shares in associates and joint ventures, cash and cash equivalents, total provisions and non-interest bearing debt.

Efficiency efforts are intensified

The Danfoss Group's **net sales** increased in the first quarter to 3.9 billion DKK, from 3.7 billion DKK in the same period last year. The operating profit decreased to 132 million DKK from 152 million DKK. The profit before tax was 198 million DKK, a growth of 11%. The result is considered satisfactory and reflects that the recovery is beginning to show.

The Group's net sales are still affected by exchange rates fluctuations, since the foreign currency translation effect was minus 3% (lower net sales in DKK, when translating from the currencies Danfoss deals in). Adjusted for the foreign currency translation effect, growth in the first quarter was 10%, which is a considerable improvement compared to 4% in 2003.

The demand for the Group's products was generally increasing on all markets throughout the quarter, continuing the trend of the fourth quarter of 2003. Sales in Eastern Europe, Russia, Asia and especially China have continued with their positive growth rates. The important European market, previously characterised by low growth, is beginning to improve within selected product groups.

Increasing raw material prices as a result of an increased international demand negatively influenced the production costs of the period. If this development continues, it will also have a negative impact on the annual profit and the consequence can be increases in the Group's sales prices.

Operating profit excluding other income and expenses has increased by 2% to 129 million DKK from 126 million DKK and the **operating profit (EBIT)** decreased by 13% from 152 million DKK to 132 million DKK. The continued effort to improve productivity improvements and the efficiency of logistics, sales and administrative functions contributed to positive earnings in the quarter. However, EBIT was negatively affected by costs amounting to 19 million DKK related to the Group's new "lean production project" and increased production costs as well as expenses in connection with the integration of

acquired companies. Compared to the same period last year, the change in EBIT is also influenced by the fact that the 2003 figures include non-recurrent income of 26 million DKK as a result of the sale of buildings.

The share of income from Sauer-Danfoss was 50 million DKK, compared to 46 million DKK in the first quarter of 2003, an increase of 9%. In the first quarter, Sauer-Danfoss had increased net sales and earning compared to the same period last year, which means that the Danfoss share of income increased correspondingly.

Financial income/expenses show a profit of 16 million DKK, compared to a deficit of 19 million DKK in 2003. The increase is primarily due to the currency translation adjustments following the development in the currency market and reduced interest expenses relating to the repayment of loans. The introduction of IAS39 at the end of 2003 has also meant that the currency translation adjustments made in connection with financial instruments for the hedging of future cash flows is no longer adjusted via financial items, but via equity. It has been decided not to update the comparison figures of the first quarter of 2003.

The free cash flow, which is a combination of cash flows from operations of -202 million DKK and cash flows from investments of -205 million DKK, totalled -407 million DKK in the first quarter, compared to -645 million DKK the year before.

The improvement in the free cash flow is primarily due to fewer investments, mainly due to fewer acquisitions of companies. Changes in the operating capital have, however, reduced the cash flows of the primary operation, which in turn negatively affected the free cash flow. The free cash flow development equals the expectations of the first quarter and is considered satisfactory.

Acquisitions and sales of companies

In the first quarter, Danfoss acquired Gemina Termix A/S in Sunds, Denmark, and its 50 employees, with net sales of 85 million DKK. The company supplies water heaters and district heating sub-stations for apartments, detached houses and large buildings. The acquisition of Gemina Termix is part of the Group's strategy to become the leading supplier within the field of district heating. The company is not included in this quarterly report.

After the first quarter an agreement has been entered for the sale of the Group's refrigeration wholesalers, the Elsmark Group, to the Swedish group G & L Beijer. The divestment has been made as part of Danfoss' efforts to concentrate the activities on the core businesses. The Elsmark Group has net sales of 735 million DKK and employs 330 people.

As of April 2, Danfoss increased its owner share in Convec A/S in Karlslunde, Denmark, to 97% from 39%. An agreement has also been made to acquire the remaining 3% during the autumn. Convec A/S produces a unique convector system for both heating and comfort cooling. Three people are employed.

Changes in number of employees, Executive Committee and Board

The Danfoss Group employed 17,899 people at the end of the first quarter, amounting to an increase of 222 or 1%, compared to the same period the year before.

At the Danfoss Annual General Meeting on April 16, Henrik E. Nyegaard was elected Chairman of the Board and Tom Kähler was elected Vice Chairman of Danfoss A/S. Sven Murmann was elected a new member of the Board.

Expectations for 2004

The Group maintains its expectations for the year, expecting net sales of 15.75-16.25 billion DKK, and an operating profit (EBIT) of 825-925 million DKK.

The expectations do not include impacts from future acquisitions and divestments.

Prerequisites and risks:

The prerequisites are based on the expectation that the US dollar remains at the forecasted level (6.20 DKK/USD) throughout the year. Since a large part of sales outside Europe is dependant on the dollar, a weak dollar will also contribute to a moderate growth in net sales. In spite of the weak signs of an improvement in several markets, a change of the situation in the Group's main markets is not immediately expected before the second half of 2004.

Restructuring and adjustment of production at the Gearmotor Division in Germany is expected to be complete during 2004.

The present development with increasing raw material prices on a global scale can negatively affect the financial result of the Group. Expectations are, however, that prices will stabilise during the second quarter.

Board decisions

The Danfoss Annual General Meeting on April 16 decided to offer employees new Danfoss shares at a favourable price before the next Annual General Meeting. It was also decided that the Board, Executive Committee and senior employees will be offered a new share scheme in a three-year period from 2004-2006. The scheme will be in the form of warrants for management and options for the Board

Danfoss' core businesses

Refrigeration & Air Conditioning achieved growth in both net sales and earnings. Net sales increased to reach 2,120 million DKK from 1,943 million DKK in the same period the year before, a growth of 8%. The growth amounted to 11%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments.

<i>Refrigeration & Air Conditioning</i>					
Million DKK (unless otherwise stated)	Q1 03 unaudit.	Q1 04 unaudit.	Change in %	2003	Q1 04 YTD unaudit. EUR
Net sales	1,943	2,120	8%	8,133	285
Operating profit (EBIT)	107	134	20%	393	18
EBIT Margin	5.5%	6.3%		4.8%	6.3%
Net assets	3,646	3,623	-1%	3,307	487
Net investments	119	81	-47%	411	11
Number of employees	9,298	9,320	0%	9,021	

The operating profit increased from 107 million DKK in 2003 to 134 million DKK, equalling a growth of 20%. In spite of increasing raw material prices, earnings were successfully improved through continued efforts with efficiency projects. Danfoss has warned of price increased to meet the price rises.

The continued weak US dollar has negatively affected sales, but translated into local currencies growth was positive in all markets during the quarter. The Asian market showed growth of 25% in local currency, which equals a growth of 7% when translated into DKK. The American markets also showed double-digit growth rates. Even the Japanese market showed growth, despite the fact that the market has been characterised by stagnation for a longer period of time.

Heating & Water experienced a satisfactory development in net sales throughout the first quarter. Net sales increased to 938 million DKK from 819 million DKK, equalling a growth of 13%. The growth amounted to 4%, when adjusted for acquisitions, divestments and foreign currency translation.

<i>Heating & Water</i>					
Million DKK (unless otherwise stated)	Q1 03 unaudit.	Q1 04 unaudit.	Change in %	2003	Q1 04 YTD unaudit. EUR
Net sales	819	938	13%	3,672	126
Operating profit (EBIT)	73	61	-20%	472	8
EBIT Margin	8.9%	6.5%		12.8%	6.5%
Net assets	1,672	2,033	18%	1,906	273
Net investments	24	35	31%	237	5
Number of employees	3,460	3,952	12%	3,864	

The operating profit fell from 73 million DKK in 2003 to 61 million DKK, a decrease of 20%. The result is negatively affected by increasing raw material prices and integration costs in connection with the business area's acquisitions.

Sales in the markets in Eastern Europe and China continue to have high growth rates, and particularly Russia has had large growth. Projects to establish potential growth areas have been initiated to increase sales on the Chinese market.

A Heating Change Office has been established to strengthen the sales process of the core business area. The purpose of the office is to ensure ongoing improvements of the sales process between salespeople and buyers.

The acquisition of Gemina Termix A/S further strengthened the business area within district heating and is now ready to expand its market position.

Motion Controls developed satisfactorily during the quarter, with a growth within all business areas. The decrease in net sales from 865 million DKK in 2003 to 795 million DKK, equalling 9%, is only ascribable to the divestment of the flow meter business in 2003. The growth was 7%, when adjusted for acquisitions and divestments and converted at last year's exchange rate.

Motion Controls					
Million DKK (unless otherwise stated)	Q1 03 unaudit.	Q1 04 unaudit.	Change in %	2003	Q1 04 YTD unaudit. EUR
Net sales	865	795	-9%	3,372	107
Operating profit (EBIT)	35	29	-21%	193	4
EBIT Margin	4.1%	3.6%		5.7%	3.6%
Net assets	1,227	1,100	-12%	1,041	148
Net investments	14	24	42%	131	3
Number of employees	3,485	3,076	-13%	3,071	

¹⁾ The 2003 first quarter figures include the flow meter business.

The operating profit decreased from 35 million DKK in 2003 to 29 million DKK in 2003, equalling a decrease of 21%. Adjusted for divestments, the present business shows improved earnings. The continued efforts to complete efficiency programs also contribute positively to earnings.

The Latin American markets developed very positively during the period. With a growth in local currency of 29% (24% when translated to DKK) signs are beginning to show that the region is recovering from the crisis that has characterised the situation during the last years. The markets in Asia and North America also showed double-digit growth rates. On the European market signs are also beginning to show that the recovery is starting. The market showed a growth of 4% in the first quarter, compared to only 0.5% during the whole of 2003.

As for Marine Systems, the contracting of ships on a global scale continued on an even higher level than the record year of 2003 – meaning that prospects for this year and coming years are very bright.

Sauer-Danfoss Inc. is listed on the stock exchanges in Frankfurt, Germany, and New York, USA.

The company is a Danfoss A/S joint venture, and the Group owns 38.5% of the shares of Sauer-Danfoss Inc.

Sauer-Danfoss Inc.				
Million USD (unless otherwise stated)	Q1 03 unaudit.	Q1 04 unaudit.	Change in %	2003
Net sales	300	361	20%	1,127
Profit after tax	10	11	10%	11

Sauer-Danfoss Inc. is included in the Danfoss A/S Group accounts under the item "Income from joint ventures and associates".

For further information please refer to the Sauer-Danfoss homepage: www.sauer-danfoss.com

Million DKK (unless otherwise stated)	Q1 03 unaudit.	Q1 04 unaudit.	Change in %	2003	Q1 04 YTD unaudit. EUR
Profit and loss account:					
Net sales ¹⁾	3,688	3,931	7%	15,434	528
Operating income before other operating income and expenses	126	129	2%	768	17
EBITDA	345	323	-6%	1,994	43
Operating profit (EBIT)	152	132	-13%	1,109	18
Income from joint vent./associates	46	50	9%	58	7
Financial income/expenses	-19	16	-184%	-138	2
Profit before Tax (EBT)	179	198	11%	1,029	27
Net Profit	121	130	7%	744	17
¹⁾ Total growth in net sales:	3%	7%		3%	
Real growth in %	4%	10%		5%	
Exchange rates in %	-6%	-3%		-5%	
Acquired/sold activities net in %	5%	0%		3%	
Balance Sheet:					
Assets	12,536	13,049		13,081	1,753
Net investments (excl. goodwill)	118	166	41%	15,434	22
Net investments in goodwill	423	6	-99%	879	1
Total shareholders' equity	6,897	7,448		7,267	1,000
Interest-bearing debt	2,115	1,468	-31%	1,766	197
Net interest-bearing debt	969	784	-19%	377	105
Cash flow statement:					
Cash flows from operating activities	11	-202		1,254	-27
Cash flows from investing activities	-656	-205		-1,142	-28
Free cash flow	-645	-407		112	-55
Cash flows from financing activities	98	-298		-416	-40
Cash and cash equivalents (end of period)	1,146	684		1,389	92
Key figures:					
Number of employees (end of period)	17,677	17,899	1%	17,449	
RONA ¹⁾	2.2%	1.9%		16.7%	
EBIT margin	4.1%	3.4%		7.2%	
EBITDA margin	9.3%	8.2%		12.9%	
Net investment percentage	14.7%	4.4%		10.5%	
Return on sales	4.8%	5.1%		6.7%	
Return on equity	1.8%	1.8%		10.5%	
Equity ratio	55.0%	57.1%		55.5%	

Result of operating profit as percentage of average net assets.

Net assets are total assets deducted capital shares in associates and joint ventures, cash and cash equivalents, total provisions and non-interest bearing debt.

Mil. DKK (unless otherwise stated)	Q1 03 unaudit.	Q1 04 unaudit.	Change in %	2003	Q1 04 YTD unaudit. EUR
Net sales	3,688	3,931	7%	15,434	528
Sale of services etc.	58	75	29%	325	10
Cost of sales	-2,625	-2,862	9%	-11,051	-384
Gross profit	1,121	1,144	2%	4,708	154
	30.4%	29.1%		30.5%	29.1%
Distribution expenses	-837	-843	1%	-3,353	-114
Administrative expenses	-158	-172	9%	-587	-23
Operating profit excl. other income and expenses	126	129	2%	768	17
	3.4%	3.3%		5.0%	3.3%
Other operating income and expenses	26	3	-88%	341	1
Operating profit (EBIT)	152	132	-13%	1,109	18
	4.1%	3.4%		7.2%	3.4%
Income from joint ventures and associates	46	50	9%	58	7
Financial income	12	33	175%	30	4
Financial expenses	-31	-17	-45%	-168	-2
Profit before tax	179	198	11%	1,029	27
Corporate tax expenses	-54	-63	17%	-272	-9
Profit after tax	125	135	8%	757	18
Minority interest	-4	-5	25%	-13	-1
Net profit	121	130	7%	744	17

Annual research and development costs are approx. DKK 500 million.

Million DKK.	Q1 03 unaudit.	Q1 04 unaudit.	2003	Q1 04 unaudit. EUR
ASSETS				
Non-current assets				
Intangible assets	745	1,026	1,038	138
Fixed assets	3,597	3,572	3,554	480
Non-current financial assets	1,236	1,378	1,370	185
Total non-current assets	5,578	5,976	5,962	803
Current assets				
Inventories	2,510	2,506	2,279	337
Accounts receivable	3,302	3,883	3,451	521
Cash and cash equivalents	1,146	684	1,389	92
Total current assets	6,958	7,073	7,119	950
Total assets	12,536	13,049	13,081	1,753
LIABILITIES AND SHAREHOLDERS' EQUITY				
Total shareholders' equity	6,897	7,448	7,267	1,000
Minority interest	38	41	28	6
Total provisions	1,089	1,269	1,327	171
Debt				
Non-current debt	1,034	807	739	108
Current debt	3,478	3,484	3,720	468
Total debt	4,512	4,291	4,459	576
Total liabilities and shareholders' equity	12,536	13,049	13,081	1,753

Mill DKK.	Q1 03 unaudit.	Q1 04 unaudit.	2003	Q1 04 unaudit. YTD EUR
Operating profit	152	132	1,109	18
Adjustments for non-cash transactions	203	168	489	23
Changes in working capital	-247	-468	143	-63
Cash flows generated from operations before interest	108	-168	1,741	-22
Net financial items	-19	16	-138	2
Cash flows from operations before tax	89	-152	1,603	-20
Paid tax	-78	-50	-349	-7
Cash flows from operating activities	11	-202	1,254	-27
Acquisition of intangible assets	-13	-13	-94	-2
Acquisition of land and buildings, machinery and equipment	-136	-156	-863	-22
Proceeds from sale of land and buildings, machinery and equipment	19	7	236	1
Acquisition of subsidiaries etc.	-495	-104	-776	-14
Proceeds from disposal of subsidiaries etc.		36	395	5
Acquisition (-) and sale of other investments	-37	19	-70	3
Dividends received	6	6	30	1
Cash flows from investing activities	-656	-205	-1,142	-28
Free cash flows	-645	-407	112	-55
Financing by non-shareholders:				
Financing by non Repayment of (-)/proceeds from interest bearing debt	98	-298	-315	-40
Financing by shareholders:				
Issuing of shares				
Repurchase/sale of own share				
Dividends paid			-101	
Cash flows from financing activities	98	-298	-416	-40
Cash flows from operating, investing and financing activities	-547	-705	-304	-95
Cash and cash equivalents (beginning of period)	1,693	1,389	1,693	187
Cash and cash equivalents (end of period)	1,146	684	1,389	92

Mill DKK	Share capital ¹⁾	Share premium	Reserve according to the equity method	Proposed dividend	Hedge accounting reserve	Currency translation adjustments	Reserve own shares	Other reserves	Total
Balance at 1 January 2003	1,012	26	48	101		-142	-12	5,809	6,842
Net profit			53	127					744
Dividends to shareholders				-101					-101
Dividends received			-30					30	
Other					69			-43	26
Currency translation adjustments			-35			-209			-244
Balance at 31 December 2003	1,012	26	36	127	69	-351	-12	6,360	7,267
Net profit			34					96	130
Dividends received			-6					6	0
Other			-4		3			4	3
Currency translation adjustments			-2			50			48
Balance at 31 March 2004.	1,012	26	58	127	72	-301	-12	6,466	7,448

1) Distribution of shares:

A shares: DKK 425 mill

B shares: DKK 587 mill

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Used currencies:

The accounts were prepared in Danish kroner. The Profit and Loss Account figures were translated into DKK at the average rate of the reporting period. The Balance Sheet figures were translated at the closing rate of the reporting period.

Currency:	Q1 2003 Ending rates	Q1 2004 Ending rates	Year 2003 Ending rates	Q1 2003 Average rates	Q1 2004 Average rates	Year 2003 Average rates
EUR	7,43	7,44	7,44	7,43	7,45	7,43
GBP	10,77	11,18	10,58	11,11	10,96	10,75
USD	6,82	6,09	5,96	6,93	5,96	6,59

Accounting principles:

The accounting principles used for the Danfoss A/S Annual Report 2003 were also used for this quarterly report. For a detailed description of these, please refer to the Danfoss A/S Annual Report 2003.

The quarterly report has not been audited.

Financial calendar 2004:

Dates of publication of financial reports:

September 13, 2004:

Half year report 2004

November 22, 2004 :

Third quarterly report 2004