



Press release

# Danfoss A/S

## Third quarterly report

### 2005

Danfoss is one of the largest industrial companies in Denmark. The global Group is a leader within research, development, production, sales and service of mechanical and electronic components for a number of industries. Danfoss' activities are divided into three main business areas: Danfoss Refrigeration & Air Conditioning Division, Danfoss Heating Division and Danfoss Motion Controls Division, 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 attain its goals with minimum 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 of social responsibility towards both employees and the surrounding environment.

*“We are in the process of creating the foundations of a strong and competitive Danfoss which will ensure satisfactory profits in the future. We are retaining this strategic target and the required investment, even though this is a period of major price competition and high raw material prices which means that the profit drops. The management thinks that we will have to come to terms with the reduced level of results for a period of time, in order to reach the long-term targets.”*

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

### Highlights from the first three quarters of 2005:

- **Net sales** increased by 5%, when converted to last year's level of exchange rates and adjusted for acquisitions and divestments. In concrete figures, this is, however, a decrease of 3% from 12.5 billion DKK to 12.1 billion DKK. The decrease was primarily caused by the fact that the divested activities outside Danfoss' core business, such as the wholesaler companies in the Elsmark Group, had bigger net sales than the acquired activities that strengthened the core businesses.
- **Operating profit (EBIT)** fell from 778 million DKK to 630 million DKK (19%). This is caused by intensified price competition and high prices for raw materials which have particularly impacted on Danfoss' activities in Europe, where growth was limited. At the same time, Danfoss has maintained a high level of investment in order to reach its long-term targets.
- **Profit before tax** fell from 788 million DKK to 737 million DKK (6%).
- **The number of employees** decreased from 18,390 to 18,090 (2%).

### Expectations for 2005:

- The Group maintains the expectations for net sales and profit for the whole of 2005, which were announced at the end of the half-year.
- Net sales are expected to be between 15.75 and 16.25 billion DKK, while EBIT is expected to be between 700 and 800 million DKK.
- Any impact of future acquisitions and divestments is not included in the expectations.

The third quarterly report for 2005 has been prepared according to the same accounting principles used for the revised 2004 Annual Report, except for a few changes, cf. the separate paragraph.

Nordborg, November 15, 2005

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Further information about Danfoss is available on the Danfoss website: [www.danfoss.com](http://www.danfoss.com)

## Financial highlights

Million DKK (unless otherwise stated) All quarterly figures are unaudited.	Q3 2004	Q3 2005	Change in %	Q3 2004 YTD	Q3 2005 YTD	Change in %	2004	Q3 2005 EUR YTD
<b>Profit and Loss Accounts<sup>3)</sup>:</b>								
Net sales	4,254	4,273	0%	12,498	12,145	-3%	16,345	1,630
EBITDA	578	453	-22%	1,364	1,196	-12%	1,746	161
<i>EBITDA Margin</i>	13.6%	10.6%		10.9%	9.8%		10.7%	9.8%
Operating profit (EBIT)	377	272	-28%	778	630	-19%	1,072	85
<i>EBIT Margin</i>	8.9%	6.4%		6.2%	5.2%		6.6%	5.2%
Profit before tax	305	257	-16%	788	737	-6%	927	99
<i>Return on Sales</i>	7.2%	6.0%		6.3%	6.1%		5.7%	6.1%
<b>Key figures<sup>1)</sup>:</b>								
Free cash flow				-372	-700		281	-94
Interest bearing debt				1,588	1,681	6%	1,124	225
RONA <sup>2)</sup>	4.9%	3.3%		10.8%	8.0%		15.5%	8.0%

<sup>1)</sup> In those cases where the key figures have been defined by the Danish Society of Financial Analysts, they have been calculated accordingly.

<sup>2)</sup> RONA (Return On Net Assets): Result of operating profit as percentage of average net assets. Net assets are total assets deducting investments in associates and joint ventures, cash and cash equivalents, total provisions and non-interest bearing debt.

<sup>3)</sup> The comparison figures for 2004 have been adjusted according to the changed accounting principles. Refer also to page 15.

## Cost of strategic projects affects profit

The Danfoss Group's **net sales** were 4.3 billion DKK in the third quarter, which is largely on a level with the same period in the previous year. Real growth was almost 7%, when adjusted for acquisitions and divestments and converted at last year's exchange rates. The operating profit (EBIT) fell by 28% to 272 million DKK.

In the first nine months of 2005, net sales decreased from 12.5 billion DKK to 12.1 billion DKK, which equals a decrease of 3%. However, growth was almost 5%, when converted at last year's exchange rates and adjusted for acquisitions and divestments. EBIT decreased from 778 million DKK to 630 million DKK, which is a result of harsh price competition and high raw material prices. The result is regarded as unsatisfactory. However, investments and expenses in relation to strategic projects are being maintained to ensure Danfoss' long-term targets.

Sales in the Group's markets generally developed positively in the third quarter. The important markets in the EU showed the beginnings of a positive trend in the period. This trend is expected to continue through the rest of the year. Net sales in Eastern Europe were positive, and Russia, in particular, showed decent progress, with double-digit growth. In the markets in North and South America, the positive developments of the first half-year continued with decent double-digit growth rates, while the sales development in Asia remained unchanged, on the whole, compared to the third quarter of 2004. The Chinese market did not quite live up to expectations in the third quarter.

The cost of raw materials remained high through the quarter, which, together with harsh price competition, had a significant impact on profits. In spite of this, a number of strategic projects have been initiated which will create the foundations for improved profits in the long run. The projects will increase the cost level in the short term.

One project involves the wind up of the sales organisation in Japan, in order to increase Danfoss' sales in the market in partnership with Saginomiya. This has resulted in a need to pay non-recurrent costs and make provision for future obligations. Some of the Group's outsourcing and efficiency-making projects have been brought forward, which has also led to a higher level of cost. In total, the strategic initiatives have increased costs by approx. 60 million DKK in the quarter.

**The operating profit (EBIT)** decreased from 778 million DKK to 630 million DKK, which equals 19%. As anticipated, the adjustments of the cost level, which were implemented after the end of the half-year, have not yet had any significant impact on the profit.

**Income from joint ventures and associates** was 79 million DKK, which is a decrease of 31% compared to the same period the year before. This item includes, among other things, a share of income from Sauer-Danfoss of 98 million DKK, compared to 115 million DKK in the same period the year before.

**Financial net items** showed a surplus of 28 million DKK compared to a deficit of 104 million DKK the year before. The positive development of the financial items was primarily due to considerable exchange rate adjustments/gains in 2005 as a result of increasing rates of the USD and USD related currencies. In the third quarter of 2005, the financial items were affected by a provision made for the Group's share remuneration schemes of 14 million DKK compared to 59 million DKK in 2004.

**The profit before tax** was 737 million DKK compared to 788 million DKK in 2004.

**The profit after tax** was 566 million DKK compared to 584 million DKK the year before.

**The shareholders' equity** was 8,392 million DKK at the end of the third quarter, which corresponds to an equity ratio of 57.5% compared to 58.7% at the end of 2004.

**The free cash flow**, which is a combination of cash flows from operations of 445 million DKK and cash flows from investments of -1,145 million DKK, was -700 million DKK against -372 million DKK in the year before. Compared to 2004, the change is primarily due to the acquisition of companies.

**The research and development costs** were approx. 4% of net sales and amounted to approx. 476 million DKK against 402 million DKK in the first nine months of 2004, which corresponds to an increase of 18%. The increase is a part of the Group's plan to strengthen activities within research and development.

## Acquisitions and sale of companies

In September, Danfoss entered an agreement with the Japanese group, Saginomiya Seisakusho Inc. The result is that Saginomiya will handle the sale and servicing of Danfoss products in the Japanese market, with effect from January 1, 2006. The agreement means that Danfoss' Japanese subsidiary will close on December 31, 2005. The company employs 67 people and about 20 of them will be offered jobs at Saginomiya.

After the end of the third quarter, in November, Danfoss acquired the Chinese company Holip (Zhejiang Haili Electronic Technology Co., Ltd) which employs approx. 200 people and had net sales of approx. 65 million DKK in 2004.

## Changes in employee numbers

At the end of the third quarter, the Danfoss Group employed 18,090 people, a decrease of 300 employees compared to the year before.

There are 14,591 employees in Europe (14,948 in the third quarter of 2004), 1,598 in North America including Mexico (1,645), 1,411 in Asia-Pacific (1,227) and 490 in other regions (570). In Denmark, 5,920 people were employed at the end of the third quarter, compared to 6,377 in the year before. The reduction in the number of employees in Denmark is primarily due to the divestment of activities.

## Expectations for 2005

The Group maintains its expectations for the entire year, in which net sales are expected to be between 15.75 and 16.25 billion DKK, while the operating profit (EBIT) is expected to be between 700 and 800 million DKK.

Any impact of future acquisitions and divestments is not included in the expectations.

### **Prerequisites and risks:**

The prerequisites are based on the expectation that the market development throughout the rest of 2005 will not change significantly. The overseas markets are primarily expected to drive growth.

A continued rise in raw material prices on a global scale could negatively affect the financial result of the Group.

## Danfoss' core business areas

*“The Danfoss Refrigeration & Air Conditioning Division’s profit is being negatively affected by continued high raw material prices - as was the case in the first half-year - and a growth in net sales which is lower than anticipated at the beginning of the year. This is in line, however, with the expectations from the half-year and reflects expenses and non-recurrent costs in relation to the realisation of a number of strategic initiatives and adaptations which will ensure the future profit of the area.”*

Niels B. Christiansen, Executive Vice President and COO, Danfoss A/S

**Danfoss Refrigeration & Air Conditioning Division** experienced an acceptable development in net sales in the third quarter. Net sales fell to 6,334 million DKK from 6,703 million DKK, which corresponds to a decrease of 6%. However, this was an increase of almost 4%, when converted at last year’s exchange rates and adjusted for acquisitions and divestments.

<b>Danfoss Refrigeration &amp; Air Conditioning Division</b>								
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2004	Q3 2005	Change in %	Q3 2004 YTD	Q3 2005 YTD	Change in %	2004	Q3 2005 EUR YTD
Net sales	2,192	2,141	-2%	6,703	6,334	-6%	8,583	850
Operating profit (EBIT)	200	82	-59%	574	324	-44%	615	44
EBIT Margin	9.1%	3.8%		8.6%	5.1%		7.2%	5.1%
Net assets				3,775	3,979	5%	3,449	533
Net investments*	144	89	-38%	320	328	3%	647	44
Number of employees				9,544	9,220	-3%	9,006	

\*Excl. Goodwill

The markets in the EU showed decent growth, when adjusted for acquisitions and the divestment of activities, whereas the markets in North and South America showed double-digit growth rates. The sales development in the Asian markets showed a marginal improvement, whereas the Chinese market still did not quite live up to expectations.

The operating profit fell by 44% from 574 million DKK to 324 million DKK, which is not satisfactory but corresponds to the expectations for the half-year. A high price level for raw materials and a reduced capacity utilisation following the current relocation of production from Denmark and Germany to Slovakia, still have an impact on the profit of the Division. Non-recurrent costs in connection with the strategic restructuring of the Division and increased costs in relation to Group projects have also reduced profitability in the period. The future wind-up of Danfoss’ sales organisation in Japan has also resulted in non-recurrent costs and provisions to meet future obligations.

“The **Danfoss Heating Division** has carried out a number of acquisitions over the past years and the Division takes a very active approach to its business areas. It is important for us to continue the growth strategy, even though, in the short term, resources will be required to integrate the new business areas.”

Ole Steen Andersen, Executive Vice President and CFO, Danfoss A/S

**Danfoss Heating Division** (including Danfoss Water Controls) had an acceptable third quarter. Net sales increased by 6% from 3,047 million DKK to 3,235 million DKK. When adjusted for acquisitions, divestments and foreign currency translation, the growth in net sales was, however, just under 2%.

<b>Danfoss Heating Division</b> (incl. Danfoss Water Controls)								
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2004	Q3 2005	Change in %	Q3 2004 YTD	Q3 2005 YTD	Change in %	2004	Q3 2005 EUR YTD
Net sales	1,115	1,280	15%	3,047	3,235	6%	4,192	434
Operating profit (EBIT)	161	174	8%	280	299	7%	449	40
EBIT Margin	14.4%	13.6%		9.2%	9.3%		10.7%	9.3%
Net assets				2,186	3,133	43%	2,109	420
Net investments*	52	274	427%	165	398	141%	197	53
Number of employees				4,141	4,511	9%	4,143	

\*Excl. goodwill

Sales in the EU markets did not entirely live up to expectations and declined by almost 2%, compared to the third quarter of 2004. In the period, sales in Germany and Poland were below the expected level, primarily due to difficult market conditions. The English market and the Danube region, on the other hand, realised high growth rates. Many of the other European markets also showed decent double-digit growth rates. The market development in the Middle East was better than anticipated and sales in North and South America continued the positive development of the first half-year. Sales in Asia fell by 8% compared to the same period in the previous year, whereas sales in China continued to grow beyond expectations in a number of areas.

Operating profit increased from 280 million DKK to 299 million DKK, which corresponds to an increase of 7%. When compared to last year, the improvement of net sales and EBIT was primarily due to the companies acquired in the year.

“The positive sales development at **Danfoss Motion Controls Division** continued in the quarter, and it is pleasing to note that the important German market, in particular, has grown by 9% compared to the previous year. It shows that the strategic focus on the Division’s two business areas was a good approach.”

Hans Kirk, Executive Vice President and CDO, Danfoss A/S

**Danfoss Motion Controls Division** achieved positive sales development in the third quarter. The decrease in net sales, from 2,483 million DKK in the third quarter of 2004 to 2,385 million DKK, which equals 4%, was primarily due to the divestment of Marine Systems in 2004. Growth was 10%, when adjusted for acquisitions, divestments and foreign currency translation.

<i>Danfoss Motion Controls Division</i>								
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2004	Q3 2005	Change in %	Q3 2004 YTD	Q3 2005 YTD	Change in %	2004	Q3 2005 EUR YTD
Net sales	857	823	-4%	2,483	2,385	-4%	3,208	320
Operating profit (EBIT)	96	67	-30%	175	167	-5%	354	22
EBIT Margin	11.2%	8.1%		7.0%	7.0%		11.0%	7.0%
Net assets				1,094	898	-18%	871	120
Net investments*	29	35	21%	91	106	16%	74	14
Number of employees				3,126	2,912	-7%	2,816	

\*Excl. goodwill

The positive sales trend in the EU markets continued in the third quarter, and the German market in particular showed a decent improvement. The markets in Asia and the Pacific also showed positive sales developments and the growth in the Chinese market corresponded to the general market growth. North and South America continued to realise decent demand for the Division’s products. The demand was not, however, as high as in the first half-year.

The operating profit fell by 5% to 167 million DKK from 175 million DKK in the year before. Even though the profit of the third quarter was affected by the divestment of Marine Systems and increased costs in relation to Group projects, it was possible to retain the same EBIT margin as last year. When adjusted for the divestment of Marine Systems, the remaining business realised a decent growth in profit. The continued flow of new orders improved the Division’s profitability and, together with the successful turn-around at Danfoss Gear Motors, contributed to the results of the period.

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

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

<i>Sauer-Danfoss Inc.</i>				
Million USD (unless otherwise stated). All quarterly figures are unaudited.	Q3 2004 YTD	Q3 2005 YTD	Change in %	2004
Net sales	1,065	1,203	13%	1,404
Profit after tax	40	35	-13%	33

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

## Financial Highlights

Mil. DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2004	Q3 2005	Change in %	Q3 2004 YTD	Q3 2005 YTD	Change in %	2004	Q3 2005 EUR YTD
<b>Profit and loss account:</b>								
Net sales <sup>1)</sup>	4,254	4,273	0%	12,498	12,145	-3%	16,345	1,630
Operating income before other operating income and expenses	374	313	-16%	764	619	-19%	907	83
EBITDA	578	453	-22%	1,364	1,196	-12%	1,746	161
Operating profit (EBIT)	377	272	-28%	778	630	-19%	1,072	85
Income from joint vent./associates	22	15	-32%	114	79	-31%	94	11
Financial income/expenses	-94	-30	-68%	-104	28	-127%	-239	3
Profit before Tax (EBT)	305	257	-16%	788	737	-6%	927	99
Net Profit	219	187	-15%	584	566	-3%	696	76
<sup>1)</sup> Total growth in net sales:	5%	0%		8%	-3%		6%	
Real growth in %	5%	7%		9%	5%		9%	
Exchange rates in %	-2%	-1%		-2%	-2%		-2%	
Acquired/sold activities net in %	2%	-6%		1%	-6%		1%	
<b>Balance Sheet:</b>								
Assets				13,695	14,572		13,228	1,953
Net investments (excl. goodwill)	266	415	56%	699	819	17%	1,125	110
Net investments in goodwill	2	316	***	66	330	400%	82	44
Total shareholders' equity				7,681	8,392		7,784	1,125
Interest-bearing debt				1,588	1,681	6%	1,124	225
Net interest-bearing debt				868	1,084	25%	166	145
<b>Cash flow statement:</b>								
Cash flows from operating activities				428	445		1,200	59
Cash flows from investing activities				-800	-1,145		-919	-153
Free cash flow				-372	-700		281	-94
Cash flows from financing activities				-297	308		-705	41
Cash and cash equivalents (end of period)				720	597		958	80
<b>Key figures:</b>								
Number of employees (end of period)				18,390	18,090	-2%	17,543	
RONA <sup>1)</sup>	4.9%	3.3%	-1.6	10.8%	8.0%		15.5%	
EBIT margin	8.9%	6.4%	-2.5	6.2%	5.2%		6.6%	
EBITDA margin	13.6%	10.6%	-3.0	10.9%	9.8%		10.7%	
Net investment percentage	6.3%	17.1%	10.8	6.1%	9.5%		7.4%	
Return on sales	7.2%	6.0%	-1.2	6.3%	6.1%		5.7%	
Return on equity				7.9%	6.9%		9.4%	
Equity ratio				55.7%	57.5%		58.7%	

<sup>1)</sup> RONA (Return On Net Assets)

Result of operating profit as percentage of average net assets. Net assets are total assets deducting investments in associates and joint ventures, cash and cash equivalents, total provisions and non-interest bearing debt.

## Profit & Loss Account

Million DKK (unless otherwise stated) All quarterly figures are unaudited.	Q3 2004	Q3 2005	Change in %	Q3 2004 YTD	Q3 2005 YTD	Change in %	2004	Q3 2005 EUR YTD
Net sales	4,254	4,273	0%	12,498	12,145	-3%	16,345	1,630
Sale of services etc.	99	108	9%	289	338	17%	398	45
Cost of sales	-2,887	-3,088	7%	-8,888	-8,869	0%	-11,654	-1,190
<b>Gross profit</b>	<b>1,466</b>	<b>1,293</b>	<b>-12%</b>	<b>3,899</b>	<b>3,614</b>	<b>-7%</b>	<b>5,089</b>	<b>485</b>
	34.5%	30.3%		31.2%	29.8%		31.1%	29.8%
Distribution expenses	-926	-848	-8%	-2,641	-2,506	-5%	-3,492	-336
Administrative expenses	-166	-132	-20%	-494	-489	-1%	-690	-66
<b>Operating profit excl. other income and expenses</b>	<b>374</b>	<b>313</b>	<b>-16%</b>	<b>764</b>	<b>619</b>	<b>-19%</b>	<b>907</b>	<b>83</b>
	8.8%	7.3%		6.1%	5.1%		5.5%	5.1%
Other operating income and expenses	3	-41	***	14	11	-21%	165	2
<b>Operating profit (EBIT)</b>	<b>377</b>	<b>272</b>	<b>-28%</b>	<b>778</b>	<b>630</b>	<b>-19%</b>	<b>1,072</b>	<b>85</b>
	8.9%	6.4%		6.2%	5.2%		6.6%	5.2%
Income from joint ventures and associates	22	15	-32%	114	79	-31%	94	11
Financial income/expenses	-94	-30	-68%	-104	28	-127%	-239	3
<b>Profit before tax</b>	<b>305</b>	<b>257</b>	<b>-16%</b>	<b>788</b>	<b>737</b>	<b>-6%</b>	<b>927</b>	<b>99</b>
Corporate tax expenses	-86	-70	-19%	-204	-171	-16%	-231	-23
<b>Profit after tax</b>	<b>219</b>	<b>187</b>	<b>-15%</b>	<b>584</b>	<b>566</b>	<b>-3%</b>	<b>696</b>	<b>76</b>

## Balance sheet

Million DKK. All quarterly figures are unaudited.	Q3 2004	Q3 2005	2004	Q3 2005 EUR
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	1,094	1,609	1,090	216
Fixed assets	3,692	4,187	4,020	561
Non-current financial assets	1,526	1,645	1,513	220
<b>Total non-current assets</b>	<b>6,312</b>	<b>7,441</b>	<b>6,623</b>	<b>997</b>
<b>Current assets</b>				
Inventories	2,710	2,534	2,411	340
Accounts receivable	3,953	4,000	3,236	536
Cash and cash equivalents	720	597	958	80
<b>Total current assets</b>	<b>7,383</b>	<b>7,131</b>	<b>6,605</b>	<b>956</b>
<b>Total assets</b>	<b>13,695</b>	<b>14,572</b>	<b>13,228</b>	<b>1,953</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Total shareholders' equity</b>	<b>7,681</b>	<b>8,392</b>	<b>7,784</b>	<b>1,125</b>
<b>Total provisions</b>	<b>1,484</b>	<b>1,677</b>	<b>1,711</b>	<b>225</b>
<b>Debt</b>				
Non-current debt	726	920	505	123
Current debt	3,804	3,583	3,228	480
<b>Total debt</b>	<b>4,530</b>	<b>4,503</b>	<b>3,733</b>	<b>603</b>
<b>Total liabilities and shareholders' equity</b>	<b>13,695</b>	<b>14,572</b>	<b>13,228</b>	<b>1,953</b>

## Statement of cash flows

Million DKK. All quarterly figures are unaudited.	Q3 2004 YTD	Q3 2005 YTD	2004	Q3 2005 EUR YTD
Operating profit	778	630	1,072	85
Adjustments for non-cash transactions	536	457	631	61
Changes in working capital	-641	-475	-107	-64
<b>Cash flows generated from operations before interest</b>	<b>673</b>	<b>612</b>	<b>1,596</b>	<b>82</b>
Net financial items	-45	-22	-107	-3
<b>Cash flows from operations before tax</b>	<b>628</b>	<b>590</b>	<b>1,489</b>	<b>79</b>
Paid tax	-200	-145	-289	-20
<b>Cash flows from operating activities</b>	<b>428</b>	<b>445</b>	<b>1,200</b>	<b>59</b>
Acquisition of intangible assets	-96	-79	-175	-11
Acquisition of land and buildings, machinery and equipment	-605	-658	-1,239	-89
Proceeds from sale of land and buildings, machinery and equipment	36	113	125	15
Acquisition of subsidiaries etc.	-194	-587	-213	-79
Proceeds from disposal of subsidiaries etc.	43	123	568	18
Acquisition (-) and sale of other investments	-7	-91	-17	-12
Dividends received	23	34	32	5
<b>Cash flows from investing activities</b>	<b>-800</b>	<b>-1,145</b>	<b>-919</b>	<b>-153</b>
<b>Free cash flows</b>	<b>-372</b>	<b>-700</b>	<b>281</b>	<b>-94</b>
<b>Financing by non-shareholders:</b>				
Financing by non repayment of (-)/proceeds from interest bearing debt	-171	460	-612	61
<b>Financing by shareholders:</b>				
Issuing of shares		7	64	1
Repurchase/sale of own share		-1		
Additions/disposal of minority interest		-3	-31	
Dividends paid	-126	-155	-126	-21
<b>Cash flows from financing activities</b>	<b>-297</b>	<b>308</b>	<b>-705</b>	<b>41</b>
<b>Cash flows from operating, investing and financing activities</b>	<b>-669</b>	<b>-392</b>	<b>-424</b>	<b>-53</b>
Cash and cash equivalents (beginning of period)	1,389	958	1,389	128
Currency adjustment of cash		31	-7	5
<b>Cash and cash equivalents (end of period)</b>	<b>720</b>	<b>597</b>	<b>958</b>	<b>80</b>

## Equity specification

Million DKK.

All quarterly figures are unaudited.

	Share capital <sup>1)</sup>	Share premium	Reserve according to the equity method	Proposed dividend	Hedge accounting reserve	Currency translation adjustments	Reserve own shares	Minority interests	Other reserves	Total
<b>Balance at 1 January 2004</b>	<b>1,012</b>	<b>26</b>	<b>36</b>	<b>127</b>	<b>69</b>	<b>-351</b>	<b>-12</b>	<b>0</b>	<b>6,360</b>	<b>7,267</b>
Changes in accounting practices								28	-81	-53
<b>Balance at 1 January 2004</b>	<b>1,012</b>	<b>26</b>	<b>36</b>	<b>127</b>	<b>69</b>	<b>-351</b>	<b>-12</b>	<b>28</b>	<b>6,279</b>	<b>7,214</b>
Net profit			95	152				15	434	696
Dividends to shareholders				-126						-126
Dividends received			-31						31	0
Shares issued/sold	11	53						-31		33
Other adjustments			2	-1	-15				10	-4
Currency translation adjustments			-1			-29		1		-29
<b>Balance at 31 December 2004</b>	<b>1,023</b>	<b>79</b>	<b>101</b>	<b>152</b>	<b>54</b>	<b>-380</b>	<b>-12</b>	<b>13</b>	<b>6,754</b>	<b>7,784</b>
Net profit			79					4	483	566
Dividends to shareholders				-154				-1		-155
Dividends received			-50						50	0
Shares issued/sold	7						-1	-3		3
Other adjustments		-79		2	34				95	52
Currency translation adjustments						141		1		142
<b>Balance at 30 September 2005</b>	<b>1,030</b>	<b>0</b>	<b>130</b>	<b>0</b>	<b>88</b>	<b>-239</b>	<b>-13</b>	<b>14</b>	<b>7,382</b>	<b>8,392</b>

<sup>1)</sup> Distribution of shares:

A shares: DKK 425 mill

B shares: DKK 605 mill

## Geographical segments

Million DKK.

All quarterly figures are unaudited.

Group	EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales Q3 2004 YTD	8,015	1,202	1,288	906	326	267	285	209	12,498
Net sales Q3 2005 YTD	7,465	1,233	1,137	1,027	367	269	398	249	12,145

Net sales are based on customer location.

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## Currencies used:

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

Currency:	Q3 2004 Closing rates	Q3 2005 Closing rates	2004 Closing rates	Q3 2004 Average rates	Q3 2005 Average rates	2004 Average rates
EUR	7.44	7.46	7.44	7.44	7.45	7.44
GBP	10.84	10.94	10.49	11.06	10.88	10.97
USD	6.00	6.20	5.47	6.07	5.91	5.99

## Accounting principles:

Since 2002, Danfoss has prepared the accounts according to IFRS (International Financial Reporting Standards). These were used for this quarterly report as well as for the 2004 Annual Report. For a detailed description of these, please refer to the Danfoss A/S Annual Report 2004.

Changes have been made in some areas, compared to the accounting principles for 2004. These areas are described in detail under "Significant Accounting Policies" in the 2004 Annual Report. In addition to these changes, the tax relating to profit shares of joint ventures/associates has been reclassified. Profit shares of joint ventures/associates will therefore in future include shares of profit after tax instead of profit before tax. The reclassification does therefore not have any impact on the Group's net profit.

Comparison figures for 2004 have been adjusted in accordance with the above-mentioned changes, except where goodwill amortisations have lapsed and are consequently not to be adjusted in the comparison figures, cf. IFRS/IAS.