

## **Quarterly announcement January-March 2003**

### **Improved operating income in weak market**

**The Danfoss Group generated net sales of 496 mill EUR in the first quarter of 2003, compared with 481 mill EUR in the first quarter of 2002. The operating income (EBIT) was 20 mill EUR, compared with 10 mill EUR in the same period last year. The profit before tax in the first quarter was 24 mill EUR, which is an increase of 10 mill EUR compared with the first quarter of 2002.**

Developments are characterised by continued weak global economic trends. There are, however, substantial regional differences. North and Middle European markets and North and South American markets are characterised by low growth, while Eastern Europe and Asia show good growth rates. In particular, China has contributed positively.

The operating income (EBIT) is developing positively. This demonstrates that Danfoss is increasingly capable of capitalising on effects from on-going projects within supplier reduction, improved logistics, efficiency in sales and administration functions as well as productivity improvements.

The Sauer-Danfoss share of results contributed with 6.2 mill EUR compared with 6.7 mill EUR in the same period in 2002. The small decline primarily reflects the low exchange rate of the US dollar.

On May 12, the Danfoss Group signed an agreement to sell its flowmeter business to Siemens. Siemens is expected to takeover the business on September 1 2003.

In the first quarter, the Danfoss Group acquired DEVI A/S in Vejle, Denmark. The company is part of the Heating & Water Segment, as the business area Floor Heating. Danfoss also acquired the company Desbordes, France, as of April 1. Desbordes is part of the Water Controls Division. In addition, 51 percent of the Estonian software company, AS Proekspert, was acquired as of April 29 and joined the Motion Controls Segment, where it will handle development for the Drives Division.

The Danfoss Group employed 17,677 people at the end of the quarter, which is an increase of 908 compared with the same period last year. The increase is partly due to company acquisitions, partly development of company production units outside Denmark.

### **Expectations for 2003**

The Danfoss Group's expectations for 2003 remain the same as stated in the 2002 Annual Report and Accounts, which are net sales of 2,010-2,080 mill EUR and an operating income (EBIT) of 100-114 mill EUR.

Ongoing efficiency measure and market adjustments are expected to result in an improvement of the result compared with 2002, since an EBIT margin is expected to increase to between 5.0 and 5.5 percent of net sales, from 4.8 percent in 2002.

Expectations are based on the assumption that trends improve slightly during the year. Organic growth is based on a positive market development is not expected before 2004, but the 2003 growth is not expected to exceed 4.5 percent, which amount to a marginal improvement compared with 2002, when it was 3.7 percent.

### **Business Segments (Danfoss' main markets)**

*Refrigeration & Air Conditioning* had a decline in net sales in the first quarter of 3.4 percent compared with the same period last year. Net sales were 261 mill EUR for the period compared with 271 mill EUR in the first quarter of 2002. The result for the period improved from 11 mill EUR in 2002 to 14 mill EUR in 2003.

The global market is continually characterised by increased consolidation among competitors and customers and the price competition is severe. In spite of this, market shares were won and income improved.

*Heating & Water* experienced an increase in net sales from 92 mill EUR in the first quarter of 2002 to 110 mill EUR in 2003. Result increased from 8 mill to 10 mill EUR.

The segment's growth in net sales and the result stem both from the new business area Floor Heating, and from Eastern Europe and China, while the major German and Polish markets are still experiencing stagnation and low growth.

*Motion Controls* experienced an improvement in net sales from 114 mill EUR in the first three months of 2002 to 118 mill EUR of the first quarter of 2003. The operating income amounted to 5 mill EUR against 3 mill EUR in the first quarter of 2002.

The market shows a slightly positive trend, which is also reflected in the improvement in net sales. Efficiency projects within the segment are being implemented, which contribute to expanded market shares and improvements in operating income. The segment continues to be affected by the cost incurred in connection with the reorganisation of the Gear Motor Division. The project is developing positively and according to plan.

NB: All income figures for the Business Segments are expressed as EBIT.

*Further information:*

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*Enclosed:* Quarterly statement for the Danfoss Group

### **First quarter 2003 statement for the Danfoss Group**

(Figures have not been audited)

	<b>2002</b>	<b>Q1-02</b>	<b>Q1-03</b>
Net sales [million EURO]	2,008	481	496
Operating profit added depreciations (EBITDA)	211	37	46
Operating profit (EBIT)	97	10	20
Profit before tax (EBT)	101	14	24
Group share of profit after tax	69	10	16
Total assets	1,653	1,629	1,688
Shareholders' equity	922	900	929
Net investment ratio (net investments as percentage of net sales)	4.8	6.3	4.6
Cash flow from operations	197	20	1

Cash flow from investing activities	-75	-33	-88
Free cash flow	122	-13	-87
Cash flow from financing activities	-21	1	13
Change in cash and equivalents	101	-12	-74
Number of employees (end of year)	16,972	16,769	17,677
EBITDA margin (operating profit added depreciations as percentage of net sales)	10.5	7.8	9.3
EBIT margin (operating profit as percentage of net sales)	4.8	2.2	4.1
Return of sales (profit before tax as percentage of net sales)	5.0	2.9	4.8
RONA	10.7	4.5	8.9
Return on sales (net profit as percentage of total liabilities and shareholders' equity end of year)	7.6	1.1	1.8
Equity ratio (shareholders' equity as percentage of total liabilities and shareholders' end of year)	55.8	55.3	55.0

<i>Net sales, segments [million EURO]</i>	<b>2002</b>	<b>Q1-02</b>	<b>Q1-03</b>
Refrigeration & Air Conditioning	1,125	271	261
Heating & Water	381	92	110
Motion Controls	478	114	118
<b><i>Operating profit, segments [million EURO]</i></b>			
<b><i>EBIT</i></b>			
Refrigeration & Air Conditioning	79	11	14
Heating & Water	48	8	10
Motion Controls	11	3	5

*As costs and net sales are not fully allocated to the segments, these cannot be reconciled directly with Group figures. Comparative figures for the segments are adjusted structural changes.*