

## Interim statement third quarter 2003

### Weak dollar counteracts fledgling growth

**The Danfoss Group's net sales for the third quarter of 2003 were 545 million euros, compared with 518 million euros during the third quarter of 2002. Operating income (EBIT) was 82 million euros, compared with 44 million euros in the same period last year. The result before tax in the third quarter amounted to 78 million euros, an increase from 41 million euros in the third quarter of 2002.**

For the first nine months of 2003 Danfoss had growth of 2.3%. Net sales were 1.56 billion euros, compared with 1.52 billion euros in the first nine months of 2002. Operating income (EBIT) was affected by extraordinary items and increased by almost 48% to 123 million euros, while the result before tax increased by 34% to 119 million euros.

The Danfoss Group's growth rates have been significantly influenced by exchange rate fluctuations, considering that the effect of the foreign currency translation of the weak dollar has been – 4.7%.

As mentioned, EBIT rose by 48% to a total of 123 million euros. This figure includes the extraordinary income stemming from the sale of activities, including the sale of the Group's flow metering business to Siemens as well as extraordinary depreciations, amounting to net 38 million euros.

During the first nine months of the financial year, development in net sales was characterised by the weak dollar. In the third quarter, however, an increasing demand for the Group's products was detected.

The markets in East Europe and Asia show two-digit growth rates, whereas the remaining markets are still characterised by very weak growth. Yet, on the main market in Europe signs of improvement are beginning to show and there are several indications that Germany, which is an important market to Danfoss, is beginning to revive.

The Sauer-Danfoss share of income was 13 million euros, compared with 15 million euros in the same period in 2002. Sauer-Danfoss has in reality had improved sales and increased earnings, but the company has also been affected by a considerable negative foreign currency translation effect.

Financial expenses have increased from 9 million euros to 17 million euros during the first nine months of the year, which can be ascribed to the negative development in the Group's main foreign currencies.

The result before tax for the first three quarters reflects a growth of 35%, to 119 million euros.

At the end of the third quarter, the Danfoss Group employed 17,224, which is a decrease of 60 employees compared with the same period last year.

After the third quarter had ended, agreements were entered into concerning the takeover of the Finnish company LPM and the Danish company Redan. LPM is one of the leading suppliers of compact stations for district heating stations and heat exchangers. LPM employs 260 people, with production in Leppävirta, Finland, and Chwaszczyno, Poland, and has sales companies in nine countries. In 2003, the company expects net sales to amount to about 35 million euros.

Redan, which also produces compact stations, had net sales in 2002 of about 13 million euros and employs almost 100 people. The company's headquarters and production are situated in Århus, Denmark. In 2003, the company expects to achieve net sales of about 15 million euros.

After 39 years with the Danfoss Group, the President of the Refrigeration & Air Conditioning Segment Finn Fastrup has decided to retire. Vagn Helberg, who has headed one of the segment divisions, will replace him on January 1, 2004.

### **Expectations of 2003**

The Group's 2003 net sales are expected to be 2.0-2.1 billion euros. As a result of the extraordinary earnings from the divestment of the Group's activities, the expectations of the 2003 operating income (EBIT) are upgraded to reach between 135 and 150 million euros.

The acquired companies LPM and Redan are included in the Group accounts with effect from October 1, 2003.

In spite of the fledgling signs of improvement of the market conditions in North and Middle Europe the Group does not expect any noticeable growth until mid 2004.

### **Group perspectives 2003-2008**

The Danfoss Board has approved the 2003-2008 Group perspectives. Among the objectives of the new perspective plan is for the 2008 net sales to be around 3.2 billion euros, which equals an annual average growth of 9%.

The Group profitability is also to be improved in the coming years. The target is for RONA (Return on Net Assets) to be a minimum of 14% in the short term, excluding extraordinary items. In the long run, the target is to have a RONA of a minimum of 20%. Growth is expected on the markets in USA, East Europe, Russia and China.

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

*Refrigeration & Air Conditioning's* net sales were in the period significantly affected by the developments in the dollar, whereas the underlying growth developed reasonably. The markets in Asia and North America show two-digit growth rates, whereas sales in Europe reflects the beginning positive development. The sale development on the Latin American market also shows signs of improvement.

<b>Refrigeration &amp; Air Conditioning</b>	<b>2002 9 months</b>	<b>2003 9 months</b>	<b>2002</b>
Net sales [million euros]	870	837	1,125
Operating profit [million euros] EBIT	68	55	79
Number of employees	9,263	9,106	8,989

*Heating & Water* experienced a positive growth in both net sales and earnings in the first nine months of the year. The positive development is a result of the acquired companies and the fact that the implemented efficiency projects contribute positively to the earnings. The acquisition of the Finnish company LPM and the Danish Redan is expected to strengthen the Segment's position in future on the district heating stations, which is characterised by many activities.

<b>Heating &amp; Water</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
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	<b>9 months</b>	<b>9 months</b>	
Net sales [million euros]	275	342	381
Operating profit [million euros] EBIT	29	39	48
Number of employees	2,925	3,541	2,915

*Motion Controls* developed satisfactorily in the first nine months. The weak development in net sales is primarily ascribable to the continued negative development of the dollar, which has had a negative effect on the net sales. The divestment of the flow metering business to Siemens, as of September 1, has influenced the Segment's quarterly result. The extraordinary earnings of the sales are not included in the quarterly result, but are included in the Group result. The activities of all the remaining business areas live up to expectations.

<b>Motion Controls</b>	<b>2002 9 months</b>	<b>2003 9 months</b>	<b>2002</b>
Net sales [million euros]	357	354	478
Operating income [million euros] EBIT	13	17	11
Number of employees	3,391	3,129	3,419

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

*(\*)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 have been adjusted to structural changes.*

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*Enclosed: The Danfoss Group interim accounts  
(Figures are not audited)*

### **Financial highlights and quarterly accounts of the Danfoss Group 2003**

*(Figures are not audited)*

	<b>2002 9 months</b>	<b>2003 9 months</b>	<b>2002 Jul-Sep</b>	<b>2003 Jul-Sep</b>	<b>2002</b>
Net sales [million EUR]	1,520	1,555	518	545	2,008
Operating profit added depreciations (EBITDA)	161	215	70	123	211
Operating profit (EBIT)	83	123	44	82	97
Financial items	(9)	(17)	(4)	(4)	(10)
Profit before tax (EBT)	89	119	41	78	101

Group share of profit after tax (Net Result)	61	90	28	63	69
Total assets	1,722	1,723	1,722	1,723	1,653,,
Shareholders' equity	928	986	928	986	922
Net investment ratio (net investments as percentage of net sales)	4.3	3.7	0.8	1.6	4.8
Cash flow from operations	132	51	76	62	197
Cash flow from investing activities	(71)	(69)	(3)	45	(75)
Free cash flow	61	(18)	72	107	122
Cash flow from financing activities	6	(27)	4	(55)	(21)
Changes in cash and equivalents	67	(45)	76	51	101
Number of employees (end of period)	17,284	17,224	17,284	17,224	16,972
EBITDA margin (operating profit added depreciations as percentage of net sales)	10.6	13.9	13.6	22.7	10.5
EBIT margin (operating profit as percentage of net sales)	5.5	7.9	8.5	15.1	4.8
Return on Sales (profit before tax as percentage of net sales)	5.8	7.7	7.8	14.4	5.0
RONA** (EBIT as percentage of Net Assets)	8.9	13.4	4.7	9.0	10.7
Return on Equity **) (net profit as percentage of total average shareholders' equity)	6.7	9.5	3.1	6.6	7.6
Equity Ratio (shareholders' equity as percentage of total liabilities and shareholders' equity end of year)	53.9	57.2	53.9	57.2	55.8

*\*\*) At the recommendation of the Danish Society of Financial Analysts, the key figures are not converted into a year-round basis, since this would leave a misleading impression of the company's actual or expected year-round figures as a result of large seasonal fluctuations.*

*Refer to the Danfoss A/S Annual Accounts for a definition of key figures.*