

In February 2006, Niels Bjørn Christiansen, Chief Operating Officer and Executive Vice President of Danfoss, a Danish industrial manufacturer headquartered in Nordborg, Denmark, was reviewing the present situation of the company. He was trying to analyse the current corporate strategy, and whether it could ensure continued profitable growth. Since 1993, Danfoss had grown at an 8.5 pct. compound annual growth rate (CAGR) and had consistently delivered healthy profits – still – profitability and growth were underperforming comparable industrial peers.¹ Mr. Christiansen realised the complexity of the strategic situation and its requirements – was he in the midst of rethinking the business?



Danfoss Group

With approximately 18,000 employees throughout the world, net sales of around DKK 16 billion², today, Danfoss is among the twenty largest corporations in Denmark and one of the largest Danish industrial manufacturers. Danfoss is a multi-national group and a leader in research, development and production of mechanical and electronic products and controls. Among other things, Danfoss's products help heat and cool homes and offices, refrigerate food and control production lines.

Originally *Dansk Køleautomatik- og apparatfabrik*³, Danfoss was founded in 1933 by engineer Mads Clausen, father of the current CEO Jørgen M. Clausen. He set up the first offices in the attic of his parents' farm. Since 1996, this house has functioned as a Danfoss museum. Later, factories, headquarters, and other facilities were built around Nordborg, and ever since, its headquarters have been located in this city on the small island called AIs in the southern part of Jutland. The former office of Mads Clausen at Danfoss's headquarters is, more than 35 years after his death, still left untouched leaving the "Patent Mads" spirit still present at Danfoss⁴.

¹ Due to the organizational structure and scope of Danfoss, a direct one-to-one peer comparison is impossible on a company-wide scale. This, however, can be done for each business unit. Instead, one can benchmark Danfoss against other diversified industrials, to get performance estimates.

² 1 Euro is approximately DKK 7.45

³ A direct translation of the name is similar to: "Danish automatic cooling control- and appliance manufacturer". In 1946 the company was renamed Danfoss

⁴ Mads Clausen was called "Patent Mads" by many people simply because of Danfoss's many patent applications throughout the company's history.

Danfoss is privately held and more than 95 pct. of the company's shares are owned by *The Bitten and Mads Clausen Foundation* or members of the Clausen family. The remainder of the shares are held by the employees of Danfoss. Exhibit 1 shows different milestones on Danfoss's way to becoming the worldwide company it is today.

Exhibit 1—Danfoss Timeline

1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s
1933: Danfoss founded	1949: Danfoss's first company abroad: Argentina	1952: Danfoss launches its thermostatic radiator valve 1953: Employee No. 1,000	1966: Founder Mads Clausen dies	1972: Annual revenue exceeds DKK 1 billion	1985: Danfoss is the first company to receive the Quality Award for its quality control 1989: Danfoss produces compressor no. 100,000,000	1996: Jørgen Mads Clausen appointed as president and CEO	2000: Merger between Danfoss Mobile Hydraulic and Sauer Inc forms public entity Sauer-Danfoss, Inc.

Vision and Goals

Corporate goals of Danfoss are to globalise further and to be number one or two globally in its core businesses. The hard targets are to achieve sales of DKK 24 billion, EBIT-margin⁵ of 10 pct., and a RONA on 20 pct. by 2008. These targets are set for the entire Danfoss group, including supporting, service and venture activities.

Organisation

Danfoss is split into three divisions: (1) Refrigeration and Air Conditioning (Blue division), (2) Heating (Red division), and (3) Motion Controls (Green division). Further, Danfoss has its venture activities placed in Danfoss Ventures. The company also has a 38.5 pct. ownership share in publicly traded Sauer-Danfoss, which was formed by the merger of Danfoss subsidiary Danfoss Fluid Power and Sauer, Inc.

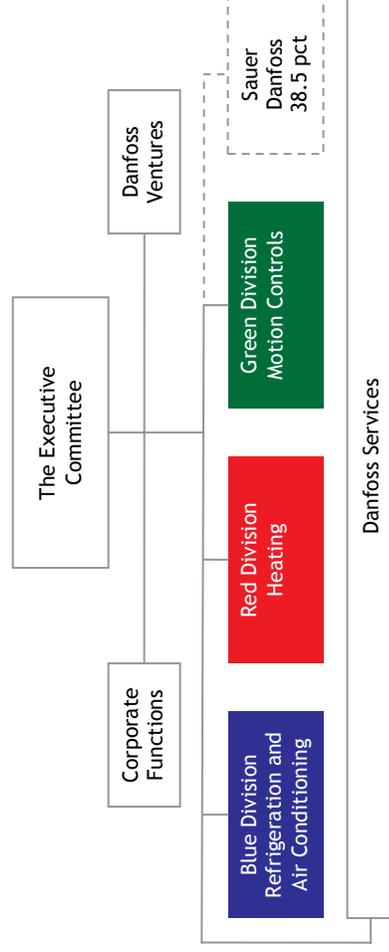
Danfoss has corporate functions as well as services to accommodate the three divisions; however, core functions such as sales are relatively autonomous and placed within each distinct division and business unit.

⁵ EBIT = Earnings before interest and tax

Although the business units are autonomous, the Danfoss culture is inherent in all three divisions with respect to management, innovation, and corporate social responsibility. However, very limited interplay occurs, exemplified, for instance, by the separate sales functions.

Overall management of Danfoss resides with the Executive Committee. The president and chief executive officer is Jørgen Mads Clausen. The executive vice presidents are Hans Kirk (chief development officer), Niels Bjørn Christiansen (chief operating officer), and Ole Steen Andersen (chief financial officer).

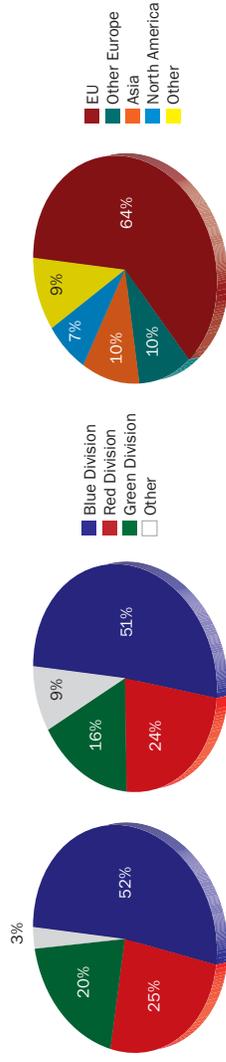
Exhibit 2—Organisational Chart



In 2004, group sales amounted to DKK 16.3 billion growing at a CAGR of 8.5 pct. since 1993. 52 pct. of sales come from Blue division, 25 pct. from Red division, 20 pct. from Green division, and 3 pct. from other activities. EBIT were DKK 1,090 million. The number of employees has been roughly constant since 2000 and the distribution across the division is shown below.

The largest geographical markets for Danfoss are Germany, Italy, Great Britain, France and Denmark, which in total contributed to just below 40 pct. of total sales in 2004. A large proportion of the projected revenue increase for Danfoss over the coming years is set to come from China, both organically and by acquisitions. Nevertheless, it has been difficult so far to find qualified targets in China, inasmuch as potential candidates are relatively young and cannot meet the high quality requirements set by Danfoss. See **Error! Reference source not found.** for a detailed overview of sales across geographical markets.

Exhibit 3—Revenue (left) and Employees (middle) across Divisions. Revenue across Regions (right).



Danfoss is a multi-national company with production, distribution, and sales facilities across the world. Production facility locations include Denmark, Germany, Poland, Slovakia, Mexico, and China. Since the products and production processes in each of the three divisions are very different from one another, production rarely occurs cross-divisional. Danfoss's distribution and sales takes place virtually world-wide either through own offices or agents. See Appendix for detailed information on Danfoss's world-wide presence.

The Danfoss Culture

The organisational culture of Danfoss is heavily influenced by its history, ownership, and management, which all can be traced back to the Clausen family. It is a culture of innovation and idea generation across all levels of the organisation. Danfoss believes in the importance of shared values. An often used slogan is "*think global, act local*" in respect to local norms and attitudes. The heritage comes to expression in the responsibility that Danfoss assumes both with respect to business and social relations. Danfoss has always had a strong focus on the customers' needs and has always been reluctant to compete with its current customers.

Another very important cultural element of Danfoss is its corporate social responsibility. All production units must, in order to fulfil the company's environmental awareness, implement and maintain international ISO certified standards. Additionally, with regard to cost relocation, Danfoss takes great pride in balancing the need for relocation with the needs of current employees and their origins.

All this, but more importantly Danfoss's reputation for producing high quality products, has resulted in a strong brand value for Danfoss's products in the industry. An example of Danfoss products with high brand value is self-regulating

controls, where, Danfoss is the value-master according to Niels Bjørn Christiansen. Although it is becoming increasingly difficult, Danfoss has traditionally been able to capitalise on its brand value in form of relatively higher margins on its products, compared to non-branded producers. In the home market, the Danfoss brand is well-respected and positioned—a situation that Danfoss would like to extend into other markets. It is already the case with respect to some business units, particularly in the Red division, where Danfoss is close to the end-consumer.

Peers and Finance

The capital structure of the company is conservative with considerable equity and only little debt. Its total non-current debt position in 2004 amounted to DKK 739 million with total equity equalling DKK 7.3 billion. The management is aware of the possibilities of increasing leverage, for instance, in the case of acquisitions, however, being a family-owned company there has traditionally been reluctance towards having too much debt.

Even though it is, and has been, the company's strategy to grow both organically and by acquisitions, it has been difficult for Danfoss to acquire appropriate target companies and grow according to plans set out in vision and goals. Several of Danfoss's peers have conducted acquisitions lately. One of them, Parker-Hannifin has recently acquired one of Danfoss' biggest competitors in refrigerating valves, Sporlan. Emerson Group, another competitor in valves but also compressors, has also grown more than 10 pct. the last years, including acquisitions. Examples of other industrial peers are Eaton, IMI, Rockwell Automation, and Metso.

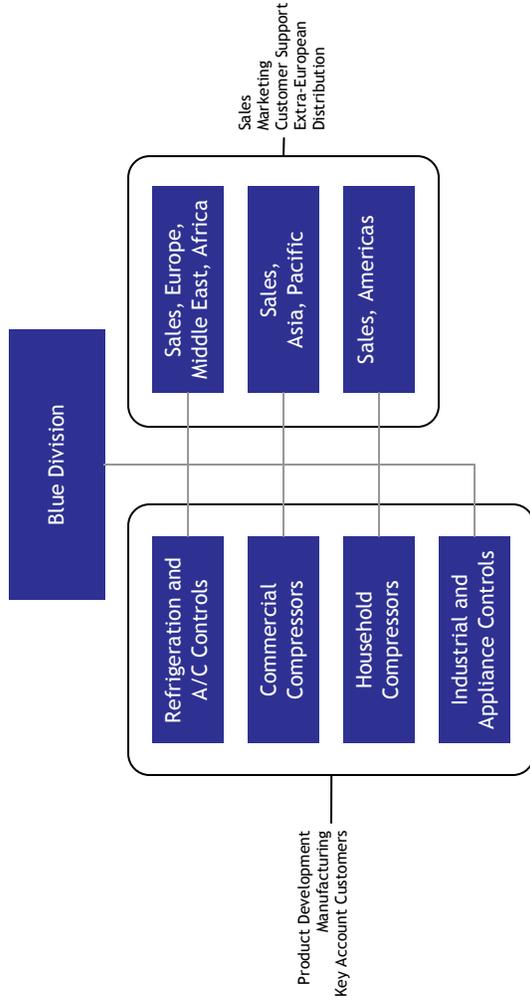
Blue Division: Refrigeration and Air Conditioning

Danfoss Refrigeration and Air Conditioning Division, Blue division, consists of four business units and three geographic sales units and is headed by Vagn Helberg. The four business units are Household Compressors, Refrigeration and A/C Controls, Commercial Compressors, and Industrial and Appliance Controls. In general, these four business units are responsible for product development, manufacturing and key account customers. In addition to this Danfoss has set up separate sales business units that, apart from sales are responsible for marketing, support, etc. Three geographic sales business units are set up to cover all markets; one for Americas, one for Europe, Middle East and Africa and finally one for Asia/Pacific. "Traditionally, we have had iron curtains between production and

sales," said Vagn Rosenkilde, Senior Vice President of Industrial and Appliance Controls.

A fourth sales unit lies within Industrial and Appliance Controls and thus only focuses on selling products of this business unit, mainly due to the large number of worldwide OEM customers.

Exhibit 4- Organisational Chart for Blue Division⁶



The product range of Blue division consists primarily of components, which can be standardised to a smaller or larger extent, but as a new initiative in recent years also of more complex units, i.e. a unit consisting of several different components and/or systems of devices.

The division has many different customers to its products. The general customers in this division are the so-called original equipment manufacturers (OEMs), which use Danfoss products to assemble a given end-product. An example of this occurs in Industrial and Appliance Controls, where Danfoss's controls are used in refrigerators assembled by customers. This business unit, for instance, is characterised by only five to seven worldwide customers and is the

⁶ Industrial and Appliance Controls has a separate sales organization in Europe, which is not depicted in the exhibit.

least fragmented business unit customer-wise in the Blue division. Some of the large customers for Blue division are Electrolux, Ariston Merloni, Bosch, Gorenje, Atlas Copco, Carrier, York, Wal Mart, Lennox, Trane Boc Edwards, and Solar. While many of the customers are OEM's, Danfoss also sells to a very large number of significant as well as small installers and wholesalers. The trend from the car industry with end-producers demanding units to implement in the final product seems to be present in this area as well.

As in many other manufacturing industries, the competition from Asian, especially the Chinese, markets is ever increasing. This has throughout the last years put an increasing pressure on the industry players, including Danfoss. As Mogens Søholm, Vice President Appliance Controls, puts it: "Even though Danfoss's products often have superior quality, the price parameter has an ever increasing influence on the purchase decision. Danfoss will probably never be able to compete with its Chinese competitors on price – our strengths lie in other places, such as quality and service. We have taken necessary steps to minimize the cost gap on several of our products, among other things by establishments in e.g. China, as well as the implementation of a lean manufacturing programme."

"Cost optimization and relocation – that's a given in all Danfoss divisions," said Nicholai Tandrup, Senior Director of Strategy and Business Development. With increasing pressure on prices due to heavy competition, Danfoss has relocated substantial portions of its production to low cost productions sites in Blue division, including compressors. "We are constantly evaluating what makes sense to move and act accordingly," said Mr. Tandrup. Acquisitions and increasing establishments in e.g. Russia and China have also taken place. Expectations are that more acquisitions will follow in the years to come.

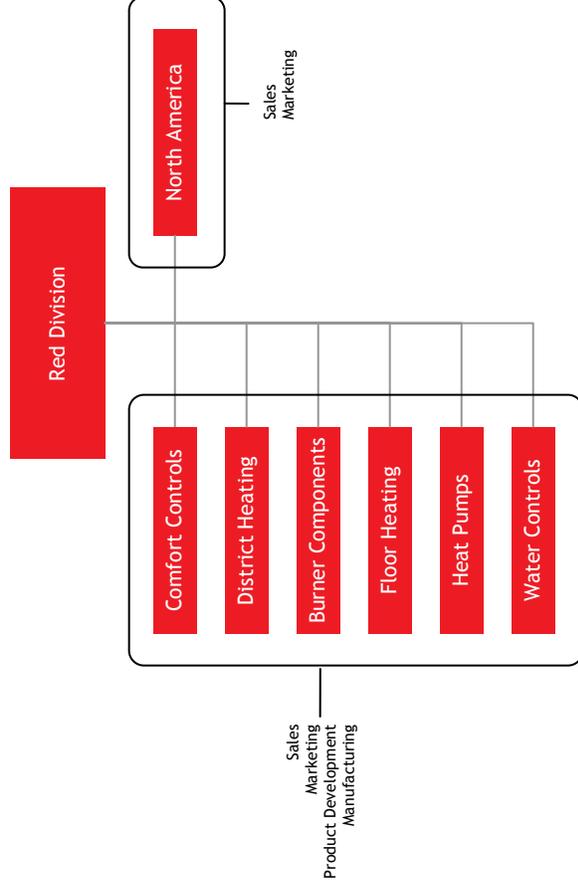
In 2004 the Refrigerating and Air Conditioning Division reported net sales of DKK 8,583 million, making it the largest Division in Danfoss. Furthermore it reported an EBIT of DKK 620 million in 2004. In the 2008 perspective plan, Danfoss expects net sales of DKK 12 billion, EBIT margin of 10 pct. and finally a RONA of 26 pct.

A list of some of Blue division's biggest competitors are Emerson Group, Bitzer, Embraco, Tecumseh, Elektrolux, Parker Hannifin, Saganomiya, Invensys, and Carel.

Red Division: Heating

Headed by Nis Storgaard, Heating comprises six business units; Comfort Controls, District Heating, Floor Heating, Water Controls, Heat Pumps, and Burner Components. Although, Water Controls is placed in Red division, it is autonomous and reports directly to the Executive Committee. Each of these business units is responsible for marketing, sales, manufacturing, and product development. However, for sales and marketing in North America and Asia/Pacific, Heating maintains two separate units. The division has manufacturing facilities in several countries.

Exhibit 5—Organisational Chart for Red Division



Sales in 2004 amounted to DKK 4.2 billion. The goal is to have a minimum of DKK 6 billion in sales by 2008 with an EBIT margin of 15 pct. and a RONA in excess of 17 pct., and, on average, organic growth is to exceed 10 pct. per annum.

Danfoss Heating offers a wide range of components and solutions for generation, distribution, and consumption of heating with the purpose of comfort and energy savings in homes and other buildings. Although the division offers a

wide range of components and solutions, it is evident, that Heating focuses on being a niche player and aim to be among the global leaders in the niche fields they operate in. The business units in Red division share similar characteristics, however, an exception from this is Burner Components, which offers most of its products to OEM customers similar to Blue division.

Comfort Controls is best known for the radiator thermostats, but also comprises electronic controls and cooling systems; District Heating focuses on the facilitation of heating distribution from generation to end-user and is a world-wide leader within this field; Burner Components comprises pre-heaters, nozzles, pumps, igniters, etc. for oil burners; Floor Heating comprises both electric systems and components for hydronic systems; Heat Pumps, a newly acquired business, and finally Water Controls supply valves for drinking water distribution.

The focus has always – as in Blue division – been to produce high quality products. Unlike Blue division, however, Heating's activities are more widespread along the value chain, reaching closer to the end-consumer. "We have a good hold of the end-consumer," said Troels H. Petersen, Senior Vice President, District Heating. This position in the value chain is also reflected in a relatively high marketing budget, which exceeds 5 pct. of revenue.

Part of the explanation can be found in the fact that focus of Red division, within the past year, has shifted forward in the value chain. Within a matter of days, at one point during the past year, Danfoss (District Heating) identified, targeted, and acquired three companies ahead of them in the value chain, thereby establishing a leading market share.

Customers to the business units of Red division are generally smaller and possess less bargaining power compared to those of Blue division. Thus, it is difficult to put representative company names on Red division's customers as there are many. Two examples of customers are installers of district heating systems and building contractors that use Danfoss products when they make end-user installations.

Competitors to the business units of Red division include SBT, Honeywell, Samson, Suntec, IMI, Comab, IVT, and Nibe.

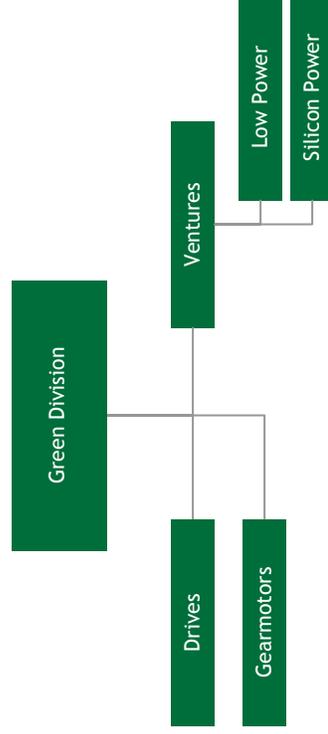
Green Division: Motion Controls

Danfoss Motion Controls, headed by Sven Ruder, comprises the two business units Drives and Gearmotors. Further, the two new, developing business areas, Silicon Power and Low Power report to Green division. Overall, Green division has superior products to peers, and they have deep understanding of customers' needs and expectations. There are numerous customers to the business units of Green and – individually – these do not constitute large shares of sale of the Green Division

To meet customers' expectations with customised solutions and products, Danfoss has gathered deep knowledge about industries and business areas and reflected this in its organisation. Motion Controls provide solutions wherever controlled motion is required - mechanically as well as electronically. Customers benefit from the synergy created - and from Motion Controls business specific solutions for areas like heating, ventilating, and cooling (HVAC), water, food and beverage, and the automotive sector.

The business units are autonomous, but have some interplay in order to offer solutions for customers. As such, the division has joint global sales and production facilities in China, Denmark, Slovakia, and the United States.

Exhibit 6—Organisational Chart for Green Division



Sales in 2004 amounted to DKK 3.2 billion. The goal is to have sales of DKK 4.5 billion, an EBIT margin of 13 pct., and a RONA of 43 pct. by 2008.

Drives is a result of the innovative spirit of the company – the product, frequency converters, was developed at Danfoss, which holds all the fundamental and underlying patents. “If Danfoss Drives were an independent, traded stock, everyone in Denmark would know of it,” said Mr. Christiansen.

The industries served, such as HVAC, food, beverage, and automotive industries, are not overly price-sensitive with respect to the products of Drives, inasmuch as frequency converters are specific to the individual customer. Danfoss attends to this by having a highly-automated, yet completely customisable production, which is capable of producing highly specialised at high speeds. "Drives is a wonderful example of mass-customisation," said Mr. Christiansen.

Sales of Drives are world-wide through the existing sales organisation in Danfoss, and, in the past three years, the business unit has constantly captured market shares due to its superior products.

The second business unit in Green is Gearmotors. This business unit produces gear motors for, among others, the automotive, material handling, and steel industries. Sales are mainly concentrated in Europe. In general, for both Drives and Gearmotors, sales are scattered across a relatively large number of buyers.

Customers to the business units of Green division are, similar to those of Red division, generally smaller and possess less bargaining power compared to those of Blue division. Examples of customers include Trane, Tetra Pak, Kronos, and Johnson Controls.

Competitors to the business units of Green division include ABB, Siemens, Vacon, Yakasawa, Sew, and Lenze.

Innovation

"Innovation is a superior understanding of the customer's needs," said Mr. Christiansen.

Historically, Danfoss has had the reputation of being an innovative company. In its lifetime, it has filed applications for more than 14,000 patents, or the equivalent of one application every second day in the entire lifetime of Danfoss. Danfoss currently holds 872 active patents. This is a consequence and symptom of the entrepreneurial mentality of Danfoss and its employees at all levels. Danfoss has top class engineers, according to Danfoss "*best-in-class*", employed. A consequence of this is that the company naturally strives to be a leader in innovation and invention. Many of Danfoss's production sites are, when established, completed with state of the art production facilities. An example where the company has top-quality equipment is in its factory in Gråsten, Denmark, that produces drives for Green division. Here, Danfoss customers place an order in the morning and customised products are shipped out to its customers

within the same day. Even though the production site in Gråsten is unique, it is still worth noticing that Danfoss has had a tradition of wanting top quality equipment on all its production sites around the world.

Being innovative is a necessity to be able to compete in many of Danfoss's businesses. A challenge in the future is to ensure that conditions for innovations are present in the organisation. Innovation, however, comes at an expense. Research and development expenses have always been high at Danfoss. Annual expenses passed DKK 500 million in 2004. Capital expenditures have also been high and general amounts to about 7-8 pct. of revenues, which is far above direct competitors. Danfoss is now in a situation where a portion of the earlier inventions, thus current products, are facing mature markets. Annual expenses in Danfoss Ventures amounted to DKK 127 million in 2004. It is the goal of Danfoss Ventures to invest between DKK 100-150 million each year in venture activities such as development of new ideas and technologies that are characterized by being in the very early stage. Danfoss also has established cooperation with universities and thereby facilitating joint research.

Electronic Controls

Innovation is not restricted to laboratories and Danfoss Ventures. An example of an innovative initiative is found in Appliance Controls (Blue division).

A control is a device that reacts to changes in its environment—a thermostat is a control that reacts to changes in temperature. Thermostats are, for instance, used in radiators to control room temperature and in refrigerators to control cooling temperature. Historically, Danfoss has been a pioneer within controls—the first thermostats, for instance, was introduced in the 1930s. This, combined with the innovative spirit in Danfoss, was the main driver behind Danfoss developing and introducing electronic controls in the 1990s. Given the fact that controls traditionally were mechanical, the development effort put behind the development of electronic devices was a testimony to the belief in its success.

Another feature of electronic controls was further extensions to the product. One example of this is the ability to couple a display to the electronic thermostat to show temperature. "This is handy for retailers for instance, to apply to their soft drink refrigerators," said Mogens Søholm. The drawback, then, was that electronic controls had a higher failure rate than the mechanical. This drawback is now, more than ten years later, finally disappeared.

In the early days of electronic controls, prices were higher than mechanical controls, however, today they can be produced at roughly the same price. The total

market for appliance controls is about 100 million units (including a service/replacement market of 2-4 million units).

Lamp Houses

A lamp house is the box in a refrigerator that has a lamp inside, which turns on when the door opens, and, often, a knob to control desired temperature. Danfoss produces the thermostat that controls the desired user temperature.

“We looked for ideas to ease production for our customers,” said Mr. S holm, “instead of our customers putting our thermostats into the lamp house, we could make the lamp house ready to plug into the refrigerator.”

Appliance Control, in close corporation with a major OEM customer, developed a complete lamp house containing the Danfoss thermostat, which OEMs previously had to build in themselves.

Integration

Although well-diversified, Danfoss has focus on both horizontal and vertical integration within each division, subsequently each business unit, exemplified by a strategy involving acquisitive growth, as well as organic growth. In essence, the two types of integration focus on two very different things. Regarding horizontal integration, Danfoss’s focus is on becoming an increasingly important supplier to their buyers. “We look at two things in relation to our customers. The share we constitute of our buyers’ wallet and our products’ strategic significance to them,” said Nicholai Tandrup. In general, a negative scenario for many of Danfoss’s activities is if products reach a commodity stage. Regarding vertical integration, Danfoss’s objectives are to expand its core business units. An example of strategic investments concerning vertical integration is found in District Heating.

Danfoss District Heating

Strategic thinking and implementation was at its highest, when District Heating, according to Mr. Christiansen, within a matter of five days, acquired several companies along the value chain, establishing a leading market share world-wide in the industry. This has resulted in a well-integrated business unit, which supplies products to all of the activities of district heating, i.e. district heating works, distribution stations, commercial substations, and single family substations.

Acquisitions

A well-defined and in place acquisition procedure governs the identification, analysis, further due diligence, and integration of potential targets. The overall responsibility for identification and integration lies with divisions, business units, and business development, depending on the nature of the project. Analysis and due diligence lies with Danfoss Corporate Mergers and Acquisitions, in practice, it is the divisions – and in particular the business units – that identify and analyse potential acquisition targets. Danfoss has a track record of being quite active in acquiring and divesting activities. One of the company's recent acquisitions is Turbocor Compressors in Montréal. Expectations are that the following years will bring further acquisitions in strategic important areas.



In spite of consistently delivering healthy profits, Danfoss was, evidently, underperforming other industrial conglomerates, based on key financial figures. Reviewing the present situation, Mr. Christiansen, of course, wanted to maintain Danfoss's long history as an acknowledged innovator and high-quality manufacturer, while at the same time ensuring profitable growth. Looking at Danfoss as a whole, he realised that corporate strategy, business development, and all supporting disciplines would be necessary in order to come up with a meaningful and prioritised plan.

The task was huge and obviously very demanding; therefore Mr. Christiansen wanted to have as many different inputs as possible. He set up a meeting with the Executive Committee of Danfoss on Friday, March 3, 2006, where he invited twelve of the most prominent case solving teams in the world to present a profound analysis, insights, and recommendations.

Appendix 1

Short biography of Jørgen Mads Clausen.

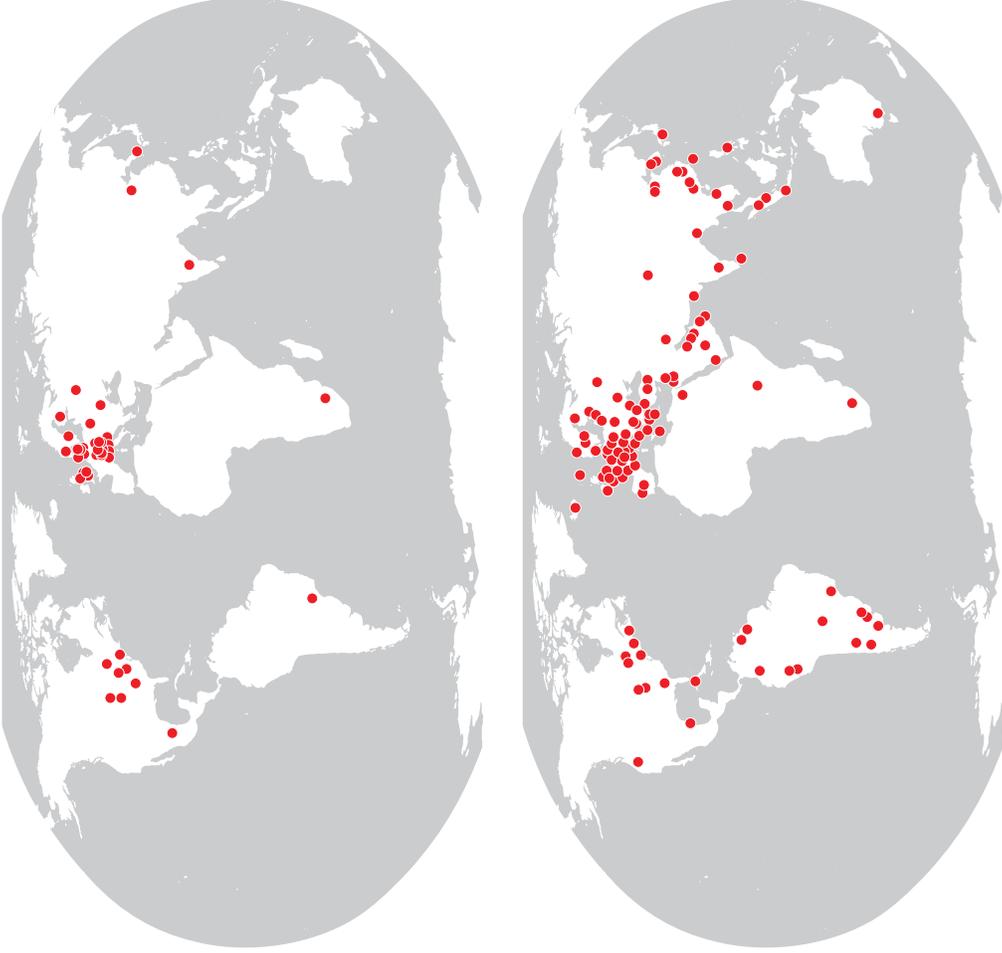
The current Chief Executive Officer of Danfoss, Jørgen Mads Clausen, is the oldest son of the company's founder, Mads Clausen. Jørgen Mads Clausen holds a degree in electronic engineering from Denmark's Engineering Academy and an MBA degree from the University of Wisconsin, USA.

Jørgen Mads Clausen started his career as marketing manager at Grundfos in Germany. In 1978, he decided to do what he had always wanted to, namely to start his own company. The company was named Elsmark Computer Automation Products and was situated in Copenhagen. After three years, Jørgen Mads Clausen was offered his first job at Danfoss as Manager of Corporate Technology and Research... Among other things, this job taught Jørgen Mads Clausen the difficulty in taking venture activities from the preliminary phases to success. In 1990, Jørgen Mads Clausen became member of the executive committee and was appointed as CEO in 1996. The executive committee under the leadership of Jørgen Mads Clausen has a mission to make Danfoss number one or two in the world in all the company's core business areas.

Apart from Danfoss, Jørgen Mads Clausen holds various Chairman of Board positions in other organisations. One of the places, where Jørgen Mads Clausen is active, is in Risø National Laboratory. Risø National Laboratory is a Government Research Institution. The objective of Risø is to conduct advanced research and thereby contributing to the continuous development of Denmark as an innovative, environmentally benign, high-technology society. Another organisation, where Jørgen Mads Clausen is Chairman of Board is in Junior Achievement Young Entreprise Europe. The objective of this organisation is among other things to teach entrepreneurship for people in the age between 5 and 22.

Appendix 2

Danfoss's world-wide presence: Production (top) and sales and distribution (bottom) sites.



Appendix 3

Financial information for Danfoss.

Profit and Loss Account - Danfoss Group

January 1 to December 31
in million DKK

	2002	2003	2004
Net sales	14,923.0	15,434.0	16,345.0
Sales Danfoss Services etc.	280.0	325.0	398.0
Cost of sales	-10,475.0	-11,051.0	-11,643.0
Gross profit	4,728.0	4,708.0	5,100.0
Distribution expenses	-3,483.0	-3,353.0	-3,492.0
Administration expenses	-598.0	-587.0	-690.0
Other net income	74.0	341.0	165.0
Operating profit	721.0	1,109.0	1,083.0
Income from Associates and Joint Ventures	107.0	58.0	138.0
Net financial income	-78.0	-138.0	-121.0
Profit before tax	750.0	1,029.0	1,100.0
Corporate tax expenses	-234.0	-272.0	-310.0
Profit after tax	516.0	757.0	790.0
Minority interests	-3.0	-13.0	-15.0
Net profit	513.0	744.0	775.0

Balance Sheet - Danfoss Group

As of December 31

in million DKK

Assets	2002	2003	2004
Intangible fixed assets	329.0	1,038.0	1,090.0
Tangible fixed assets	3,672.0	3,554.0	4,020.0
Financial assets	1,227.0	1,370.0	1,443.0
Total non-current assets	5,228.0	5,962.0	6,553.0
Inventories	2,285.0	2,279.0	2,411.0
Accounts receivable	3,065.0	3,451.0	3,236.0
Cash and cash equivalents	1,694.0	1,389.0	958.0
Total current assets	7,044.0	7,119.0	6,605.0
Total Assets	12,272.0	13,081.0	13,158.0
Liabilities and shareholders equity	2002	2003	2004
Total shareholders equity	6,842.0	7,267.0	7,935.0
Minority interests	17.0	28.0	13.0
Total provisions	1,073.0	1,327.0	1,476.0
Non-current debt	1,248.0	739.0	506.0
Current debt	3,092.0	3,720.0	3,228.0
Total debt	4,340.0	4,459.0	3,734.0
Total liabilities and shareholders equity	12,272.0	13,081.0	13,158.0

Financial Highlights and Key Figures by Division

January 1 to December 31
in million DKK

	2002	2003	2004
Refrigeration and Air Conditioning Division			
Net sales	8,361.0	8,133.0	8,583.0
Sales Danfoss Services etc.	0.0	120.0	161.0
Operating profit	586.0	393.0	620.0
Intangible assets	177.0	148.0	151.0
Fixed assets	1,461.0	1,348.0	1,702.0
Total assets	4,775.0	4,794.0	5,189.0
Non-interest bearing debt	1,323.0	1,488.0	1,678.0
Net investments (not incl. goodwill)	352.0	411.0	647.0
Net investments in goodwill	17.0	10.0	15.0
Number of employees	8,989	9,021	9,006
Heating Division (incl. Water Controls)			
Net sales	2,831.0	3,672.0	4,192.0
Sales Danfoss Services etc.	0.0	55.0	85.0
Operating profit	360.0	472.0	452.0
Intangible assets	35.0	732.0	796.0
Fixed assets	644.0	706.0	765.0
Total assets	1,583.0	2,710.0	2,884.0
Non-interest bearing debt	384.0	804.0	776.0
Net investments (not incl. goodwill)	177.0	237.0	197.0
Net investments in goodwill	1.0	722.0	95.0
Number of employees	2,915	3,864	4,143

Motion Controls Division	2002	2003	2004
Net sales	3,549.0	3,372.0	3,208.0
Sales Danfoss Services etc.	0.0	77.0	98.0
Operating profit	85.0	193.0	357.0
Intangible assets	73.0	77.0	52.0
Fixed assets	930.0	883.0	796.0
Total assets	2,051.0	1,855.0	1,572.0
Non-interest bearing debt	825.0	814.0	703.0
Net investments (not incl. goodwill)	177.0	131.0	74.0
Net investments in goodwill	29.0	3.0	-32.0
Number of employees	3,419	3,071	2,816
Danfoss Ventures	2002	2003	2004
Net sales	31.0	84.0	133.0
Sales Danfoss Services etc.	0.0	0.0	3.0
Operating profit	-137.0	-129.0	-127.0
Intangible assets	10.0	2.0	0.0
Fixed assets	47.0	39.0	40.0
Total assets	98.0	108.0	147.0
Non-interest bearing debt	33.0	36.0	34.0
Net investments (not incl. goodwill)	-1.0	4.0	22.0
Net investments in goodwill	0.0	0.0	0.0
Number of employees	141	181	232
Danfoss Services	2002	2003	2004
Net sales	0.0	0.0	0.0
Sales Danfoss Services etc.	913.0	781.0	996.0
Operating profit	15.0	12.0	11.0
Intangible assets	39.0	79.0	30.0
Fixed assets	528.0	586.0	705.0
Total assets	699.0	745.0	835.0
Non-interest bearing debt	120.0	132.0	178.0
Net investments (not incl. goodwill)	-7.0	194.0	208.0
Net investments in goodwill	0.0	0.0	0.0
Number of employees	1,277	1,037	1,073