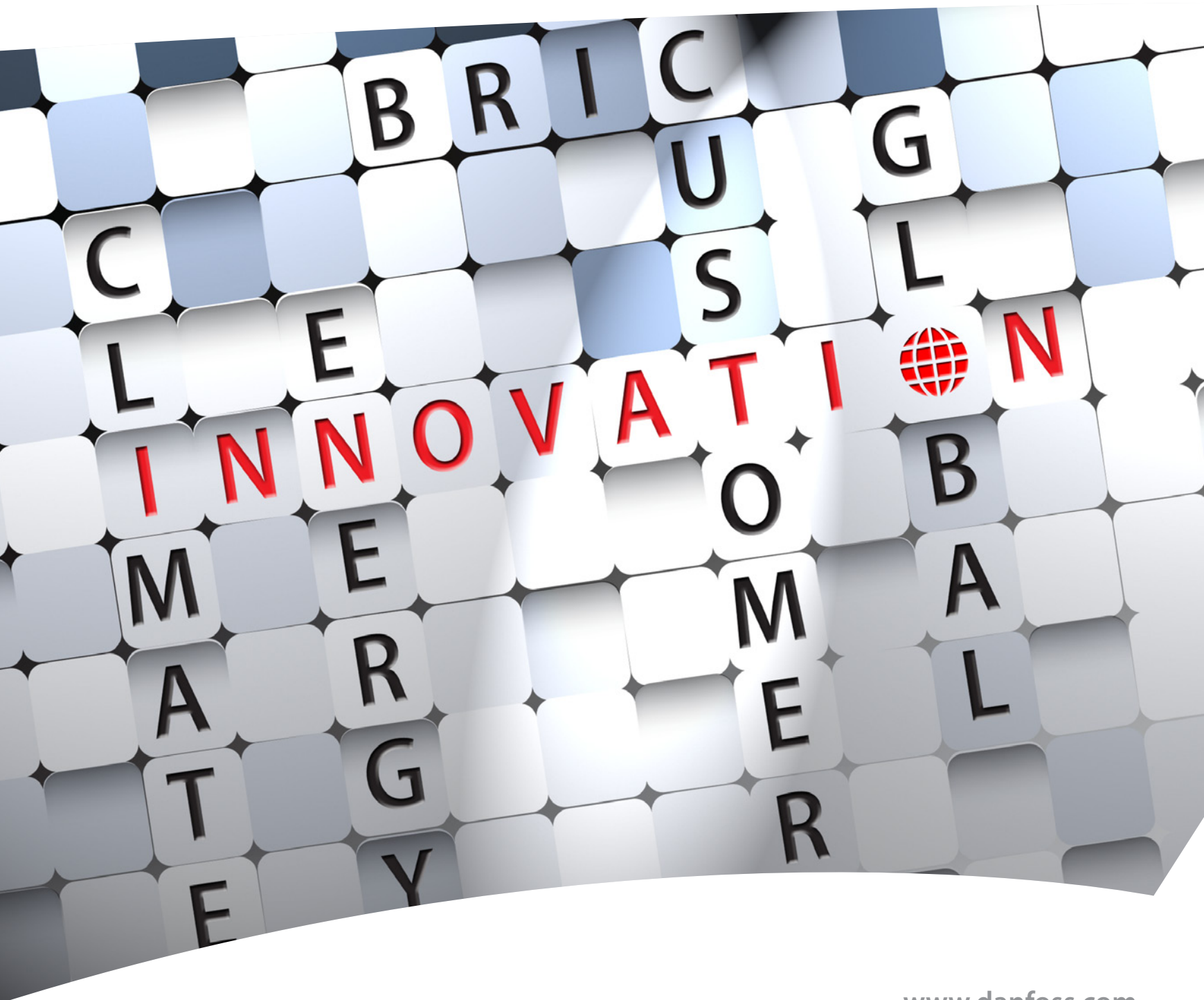


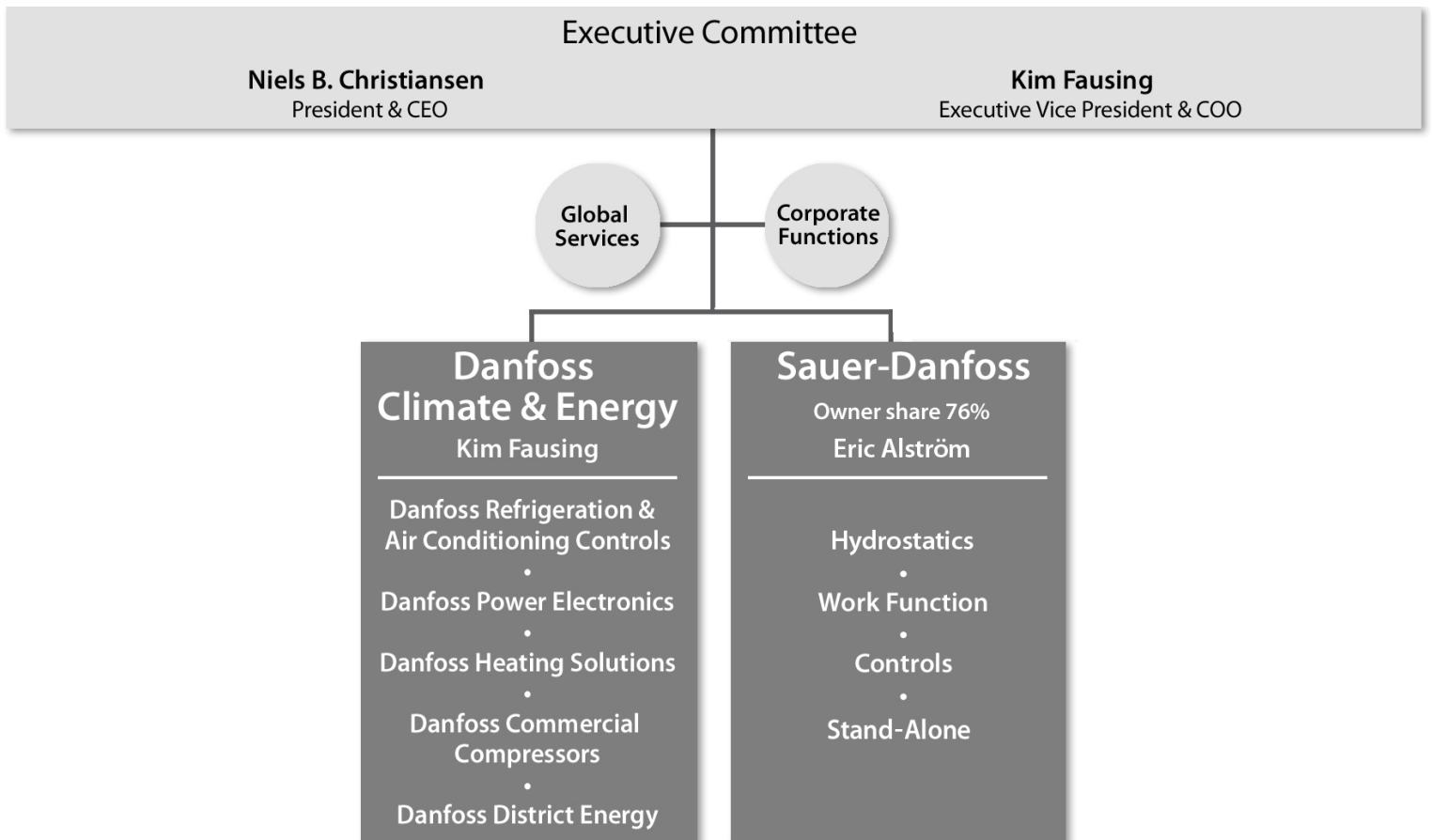


Annual Report 2012

Danfoss delivers new strong results



Organization



The Danfoss Group in brief

Danfoss is a global leader focused on energy-efficient solutions that save energy and costs, and reduce carbon emissions. The company's wide range of products and services are used in areas such as cooling food, air conditioning, heating buildings, controlling electric motors and powering mobile machinery. The company is also active in the field of solar and wind power as well as district heating and cooling infrastructure for cities and urban communities. Danfoss was founded in 1933 in Nordborg, Denmark. Today, the Group employs around 23,000 employees and sells its products in more than 100 countries around the world. Read more about Danfoss at www.danfoss.com. Learn about its energy-efficient solutions at: <http://www.danfoss.com/SolutionsReady/>

Date of publication: March 20, 2013

This report is available in Danish and English. In the event of any discrepancy between the two versions, the Danish version shall prevail.

Contents

Management report	
– CSR highlights	4
– Financial highlights of the Group (DKK)	5
– 2012 highlights	7
– Letter from the Management – Danfoss delivers new strong results	9
– Core & Clear status – Sustained focus on core deliveries and innovation in 2013	10
– Financial review	13
– Presentation of results	13
– Innovation	14
– Human capital	14
– Employees	15
– Changes to the Executive Committee	15
– Acquisitions, business expansions and establishments in 2012	15
– Sale and closure of companies and activities in 2012	15
– Tender offer on the remaining share of Sauer-Danfoss	15
– Accounting policies	15
– Corporate governance	17
– Board members	18
– Management members	19
– Shareholders	20
– Risk management & compliance	21
– Risk management	21
– Compliance	22
– Main risk areas for 2013	23
– Corporate citizenship	25
– Danfoss Climate & Energy	28
– Sauer-Danfoss	29
– Outlook for 2013	31
Management report for Danfoss A/S (parent company)	32
Management statement	34
Independent auditor's report	35
Financial highlights, quarterly	36
Accounts and notes	37
Group Companies	96

CSR highlights

	2008	2008	2010	2010	2012
ENERGY AND CLIMATE					
Energy consumption (TJ)	1,965	1,808	1,529	1,367	1,312
Total CO ₂ emission (ton)	171,001	153,371	133,545	127,524	126,873
Hereof emission from electricity	126,945	111,716	97,016	97,604	98,428
Hereof emission from heat	44,056	41,654	36,529	29,920	28,444
CO ₂ emission target (ton)	177,500	175,000	172,500	170,000	167,500
CO ₂ emission in % of target	96%	88%	77%	75%	76%
ENVIRONMENT					
Water consumption (m ³)	839,004	742,083	692,261	770,494	637,082
Group's total raw material volume	284,186	253,438	165,947	151,578	125,614
CRAN materials (ton)	1,219	904	1,213	1,302	1,122
Organic solvents (ton)	347	261	266	263	246
Discharged industrial waste water (m ³)	261,179	198,047	211,504	184,471	156,467
Waste (ton)	76,717	55,804	25,857	22,300	18,785
HR AND ACCIDENTS					
Total employee turnover (%)	19.5	20.2	16.9	15.7	17.2
Number of accidents (blue collar)	330	254	184	133	120
Frequency of accidents (blue collar)	16.8	15.5	12.8	9.4	9.2
Number of accidents (white collar)	21	22	14	13	16
Frequency of accidents (white collar)	2.3	2.7	1.3	1.3	1.5
Total number of days of absence	6,864	5,048	4,697	1,990	2,883
RESPONSIBLE SUPPLIER MANAGEMENT					
Suppliers in high-risk countries	376	665	533	905	702
Hereof suppliers having signed Code of Conduct	28%	29%	81%	53%	83%
Suppliers in medium-risk countries	564	350	442	358	284
Hereof suppliers having signed Code of Conduct	8%	28%	46%	56%	68%
Suppliers in low-risk countries	2,819	2,484	3,284	2,251	1,791
Hereof suppliers having signed Code of Conduct	17%	47%	46%	65%	81%
SOCIAL RESPONSIBILITY					
Dismissals due to unethical behavior	64	29	40	26	47

All figures are excluding Sauer-Danfoss

Financial highlights of the Group (DKK)

	2008	2009	2010	2011	2012
INCOME STATEMENT					
Net sales	27,535	24,165	31,550	33,904	34,007
Operating profit plus depreciation, amortization and impairment (EBITDA)	2,099	1,354	5,053	5,924	5,729
EBIT excl. other operating income, etc.	687	-40	3,400	3,653	3,705
Operating profit (EBIT)	410	-1,431	3,264	4,226	3,745
Share of profit from associates and joint ventures after tax	44	-37	14	16	-2
Financial items, net	-579	349	-334	-1,024	-371
Profit before tax from continuing operations	-125	-1,119	2,944	3,218	3,372
Profit from discontinued operations		-635	-829	-931	0
Net profit	-157	-1,402	1,378	1,314	2,357
BALANCE SHEET					
Total non-current assets	21,237	19,289	18,703	17,422	17,038
Total assets	32,928	28,642	29,868	28,124	27,768
Equity	11,867	10,055	11,700	12,597	14,193
Net interest-bearing debt	9,776	9,144	6,675	4,634	2,691
Net assets	21,326	18,995	18,167	17,037	16,775
Capital expenditure	12,614	1,009	973	1,335	2,053
CASH FLOW STATEMENT					
Cash flow from operating activities	1,428	2,858	3,387	3,359	4,245
Cash flow from investing activities	-4,543	-1,894	-741	-209	-1,321
acquisition of intangible assets and property, plant and equipment	-2,167	-895	-634	-1,220	-1,169
acquisition of subsidiaries and activities	-2,383	-893	-132	1,106	-191
Free cash flow	-3,115	964	2,646	3,150	2,924
Free cash flow before M&A	-639	1,906	2,792	2,078	3,019
Cash flow from financing activities	3,050	-733	-2,037	-2,530	-2,779
NUMBER OF EMPLOYEES					
Number of employees	31,717	25,740	23,392	23,430	23,092
FINANCIAL RATIOS					
Organic sales growth (%)	2	-12	25	10	-2
EBIT margin excl. other operating income, etc. (%)	2.5	-0.2	10.8	10.8	10.9
EBIT margin (%)	1.5	-5.9	10.3	12.5	11.0
EBITDA margin (%)	7.7	5.6	16.0	17.5	16.8
RONA (%)	2.4	-7.1	17.6	24.0	22.2
Return on equity (%)	-0.9	-13.0	12.3	9.0	18.0
Equity ratio (%)	36.0	35.1	39.2	44.8	51.1
Leverage ratio (%)	82.4	92.5	62.2	36.8	19.0
Net interest bearing debt to EBITDA ratio	4.7	6.8	1.3	0.8	0.5
Dividend pay-out ratio (%)	neg.	0.0	7.5	25.0	17.0
Dividend ratio per share (%)	20.0	0.0	10.0	31.5	39.2

The income statement and the statement of cash flows for 2009, 2010 and 2011 have been affected by the Group's reclassification of discontinued activities to separate lines in the financial statements.

In situations where the ratios have been defined according to "Recommendations & Key Figures 2010", as prepared by the Danish Association of Financial Analysts, the ratios are computed according to these definitions.



2012 highlights

Net sales were DKK 34,007m against DKK 33,904m in 2011, a change of 0% compared to the strong performance in 2011.

Operating profit excluding other operating income and expenses was DKK 3,705m against DKK 3,653m last year.

Operating profit (EBIT) was DKK 3,745m, an improvement of 3% over last year adjusted for exceptional income from divestitures of DKK 578m in 2011.

Net profit was DKK 2,357m compared to DKK 1,314m last year.

Free cash flow was DKK 2,924m against DKK 3,150m in 2011, which included an exceptional cash inflow of DKK 1,149m from divestments. Free cash flow before mergers and acquisitions (M&A) was DKK 3,019m compared to DKK 2,078m in 2011.

Net interest-bearing debt was DKK 2,691m against DKK 4,634m last year. The level of net interest-bearing debt was 0.5 times the previous four quarters' EBITDA.

The Solvency ratio was 51.1% against 44.8% in 2011.

Return on equity was 18% compared to 9% in 2011.

Dividend is proposed at 17% of the Group's net profit, corresponding to 39.2% per share.

Corporate citizenship (excluding Sauer-Danfoss)

CO₂ emissions dropped by 0.5% to 126,873 tons from 127,524 tons in 2011, mainly as a result of Danfoss' continued efforts to reduce energy consumption.

Employee engagement, understood as clear employee perception of targets, frequent management follow-up and a fair balance between performance and reward, increased to 74 from 71 in 2011.

Danfoss continued implementing its ethics training program with approximately 2,200 people managers attending ethics training. Furthermore, Danfoss developed a new anti-corruption program which will be attended by approximately 5,000 employees in 2013.

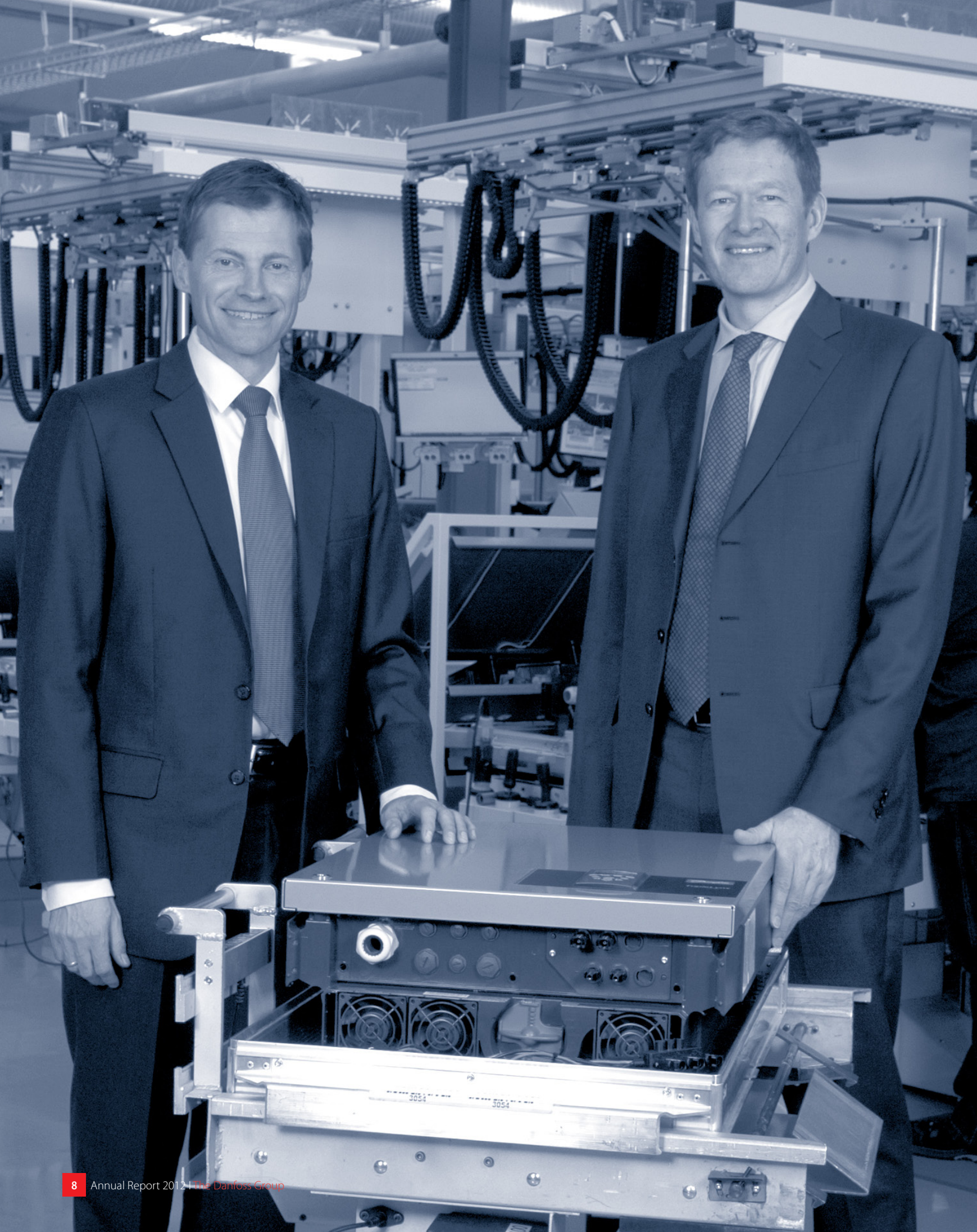
Outlook for 2013

Danfoss expects the global financial uncertainty prevailing in 2012 to continue throughout 2013, causing sustained low visibility. Danfoss' markets are expected to see modest growth with climate and energy solutions and globalization as the primary growth trends. At the same time, Danfoss expects to continue to retain profitability through continuous improvement of operations and the targeted strategic initiatives already launched.

Net sales for 2013 are thus expected to grow at a modest rate

Operating profit for 2013 is expected to grow in line with net sales

The impact of any divestitures, discontinued operations or company/activity acquisitions is not included in the outlook.



Letter from the Management – Danfoss delivers new strong results

Dear Reader,

For the third consecutive year, Danfoss delivered strong results despite very challenging financial conditions in the global markets.

Our success in a difficult global market was not least achieved because we adhered to our Core & Clear strategy plan launched in 2010. The strategy aims for strategic expansion of our business in the global growth economies and for sustained organic growth in our core businesses combined with a high level of innovation investment. Again in 2012, our long-term investments in product innovation translated into a number of new, customer-focused solutions.

The main driver of our sales in 2012 continued to be demand for climate & energy solutions as well as globalization that, among other things, has boosted the urbanization of the world's new populous growth areas. Not least the Russian market saw a breakthrough for energy-efficient solutions, and we reported double-digit growth rates in Russia throughout the year. Sales in the Group's largest market, North America, were also better than anticipated all year long, while the Chinese market fell back due to the Chinese government's efforts to avoid economic overheating by decelerating the building and construction sectors.

Danfoss thus succeeded in its goal to generate profitable global growth in 2012, and we intend to consolidate and expand that position in the years ahead through targeted investments in the BRIC countries and other growth economies.

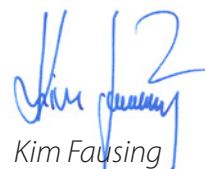
At the same time, we achieved satisfactory profitability. We continued to deploy best practices throughout the Group and further strengthened competence levels in key areas such as procurement and productivity. Regular follow-up on employee engagement showed sustained strong support for our strategic initiatives. We increased our free cash flow and again reduced our debt, which we have now cut by two-thirds in just three years. Due to the resulting greater financial versatility we were able to gain full ownership of the Danfoss Turbocor Compressors joint venture towards the end of the year, thereby strengthening our position in the global market for variable speed compressors. Likewise, we decided in November to seek full ownership of Sauer-Danfoss because we are confident that an even closer collaboration will strengthen the overall business and enable us to offer our customers even more benefits.

Danfoss also continues the efforts to remain at the vanguard of sustainability and social responsibility. Initiatives in 2012 included the launch of an extensive anti-corruption program.

Overall, 2012 further fortified the basis for our future development. There is every indication that the global financial uncertainty and low visibility will continue throughout 2013. We must leverage on the strong momentum built in recent years to maintain growth rates above the market average while continuing to improve our earnings and cash flow.



Niels B. Christiansen
President & CEO



Kim Fausing
Executive Vice President & COO

Core & Clear status

Sustained focus on core deliveries and innovation in 2013

In 2012, Danfoss kept up the strategic momentum created in the Group since 2010. In 2012, Danfoss succeeded in strengthening quality, increasing innovation, enhancing customer focus and reducing the company's complexity. This work will continue in 2013.

A key element of the Danfoss Core & Clear strategy is to position the product portfolio across core and growth businesses. Through targeted investment in a limited number of high-potential growth areas, Danfoss has developed new innovative technologies in areas such as solar inverters and heat exchangers.

Within innovation, Danfoss maintained the level of investment in product development at 3.9% of sales in 2012. Innovation in the core business has produced a number of new products which more significantly take into account both differentiated customer requirements and Danfoss' high quality standards.

To this effect, the Group expanded its innovation capacity and implemented a new structured approach to product launches. Danfoss' customers are now involved in the entire product development process, positioning the products within the field of what matters most to our customers.

The increased capacity also led to the launch of a large number of new products aligned with our strategic goals within climate & energy and globalization. Examples include a new ground heat pump with improved performance, more energy-efficient micro plate heat exchangers for use in heat pumps, and a brand new type of very user-friendly electronic thermostat for electric floor heating.

In 2012, Danfoss also expanded its product range adding new refrigeration controls and refrigeration valves specially designed for use with new climate-friendly refrigerants. In China, Danfoss developed new ranges of frequency converters, industrial compressors and other products tailored to the Chinese market and with reliability and energy-efficiency as the key parameters.

Danfoss intends for all business areas to comply with the ISO/TS16949 quality standard by the end of 2015. This is one of the world's strictest quality standards. Another three Danfoss factories achieved the goal in 2012 and are now fully compliant with the ISO/TS16949 requirements. At the same time, Danfoss continued to develop and implement shared systematic methods and tools across the Group. Danfoss fully retains its ambition of providing quality second to none.

Danfoss continued to cut the number of code numbers to reduce complexity in the business and thereby increase transparency. These efforts will continue in 2013 with improvements across product families and business areas. Complexity on the supplier side was also reduced in 2012 as Danfoss further concentrated its purchases with fewer, but larger suppliers. In order to reduce the number of direct suppliers, Danfoss made a concerted effort to increase the use of company credit cards when paying for travel and business expenses.

Concurrently, regular follow-up on employee engagement showed sustained strong support for the strategic initiatives. Employees respond that the strategic direction is clear, and that they can see how they contribute to the progress made. In 2012, Danfoss enhanced competence building by increasing the global use of employee performance reviews, among other initiatives.

The Core & Clear strategy

Danfoss has pursued its Core & Clear strategy since 2010. The ambition is for Danfoss to be a global trendsetter by 2015 with respect to performance and reputation. Climate & energy and globalization have been designated principal trends for Danfoss' business. In addition, the strategy contains four core elements:

Core & Clear is about sustained focus on the core activities in which Danfoss already holds or is close to having a leading global position. Danfoss must also constantly make sure that it clearly differentiates itself from the competition within its core business.

Free & Agile is about increasing the Group's flexibility and maneuverability and thus its ability to rapidly adapt to market developments. This will be achieved through sustained optimization of the supply chain and of administrative processes. Focus will be maintained on reducing debt and increasing cash flows.

Customer & Innovation focuses on innovation based on customer requirements. Danfoss invests in maintaining and enhancing the ability to create value for our customers through innovation and customer-differentiated products of the highest quality.

Passion & Performance is about the organization's commitment and ability to implement the strategy. Focus is on communicating a clear, shared direction, defining clear goals for employees and managers alike, and investing in competence building, commitment and the ability to meet ambitious goals.

INNOVATION FROM THE CORE 2012

Danfoss focuses on core functionality

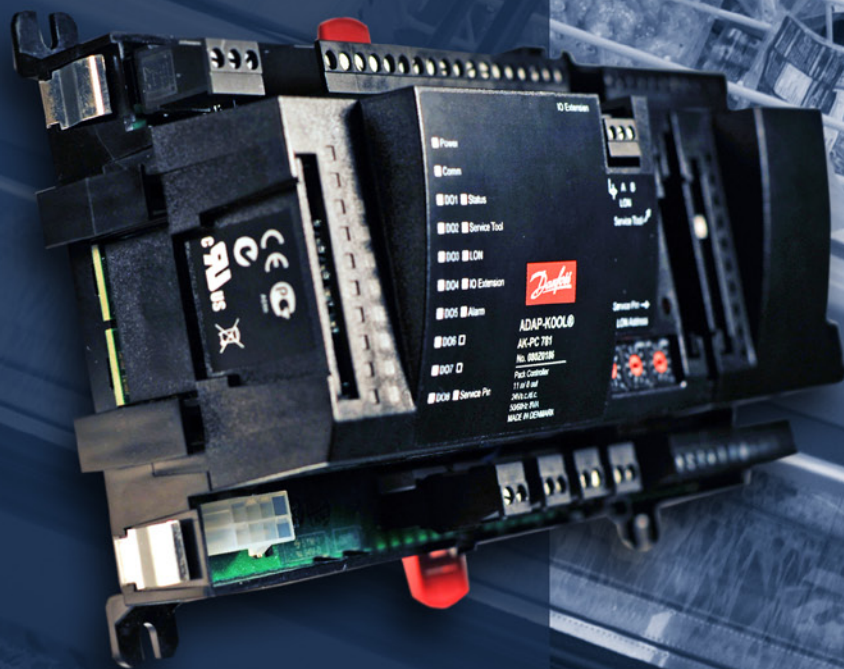
In 2012, Danfoss introduced a new frequency converter specifically aimed at new growth markets, in particular India and China. The model combines core functionality with **energy-efficiency, user-friendliness and reliability**, featuring for instance special coating of the electronic components for increased **robustness**. The result is a product that is **easy and quick to install** and requires **a minimum of maintenance**. The frequency converter, which helps control electric motors, is, for instance, used in the textile industry in the new Asian growth markets, where increasing industrialization and automation offer considerable potential for energy savings.



INNOVATION FROM THE CORE 2012

Danfoss links eco-friendly refrigerants and energy-efficiency even closer

In 2012, Danfoss introduced a new ADAP KOOL® controller unit specially designed to optimize refrigeration systems using natural refrigerants such as **CO₂**. Facilitating more **energy-efficient** interaction of the different elements of refrigeration systems, the controller is designed to handle the higher pressure used in CO₂-based refrigeration systems. The solutions is for instance used in **supermarkets** for energy-efficient and reliable refrigeration of food in refrigeration counters, thereby **reducing food loss** and **optimizing food safety**. The ADAP KOOL® range already comprises other components and solutions for refrigeration systems using natural refrigerants.



Financial review

Danfoss repeated the record results from 2011 and concurrently delivered an all-time high free cash flow from the underlying business. The reason was the company's execution of the Core & Clear strategy combined with high growth rates in Russia and the USA, which made up for Chinese decline at the beginning of the year.

Presentation of results

Net sales amounted to DKK 34,007m compared to DKK 33,904m in 2011 equaling a change of 0%. Adjusted for changes in exchange rates and divestitures, it corresponded to a decline of 2%. Net sales were thus in line with expectations, which was satisfactory.

Throughout the year, sales were driven by strong demand for climate and energy solutions, with the Russian market in particular reporting solid growth of 24%. Conversely, the Chinese market slowed down in the first half of the year due to the Chinese authorities' deliberate efforts to decelerate the building and construction sector. Conditions in the Chinese market stabilized in the second half of the year. Brazil and India maintained last year's performance, and all four BRIC markets remain among Danfoss' 15 largest markets. Also the US market, which is the Group's biggest market, reported sustained positive growth of 12%. The European market overall reported zero growth after a strong start to the year, mainly driven by strong sales figures in the German market for solar inverters due to deferred changes to the German solar energy subsidy schemes.

The Danfoss Climate & Energy segment saw rising growth rates in 2012 after a sluggish start to the year, reporting overall growth of 3%. Adjusted for changes in exchange rates impacted by the strong US dollar, growth was 0%. After a strong start to the year, the Sauer-Danfoss segment experienced a decline in the second half of the year, mainly due to a slowdown in the Chinese construction and real estate sectors together with general weakening in Europe. Consequently, the segment reported growth of 1%, which adjusted for currency translation, was a decline of 4%

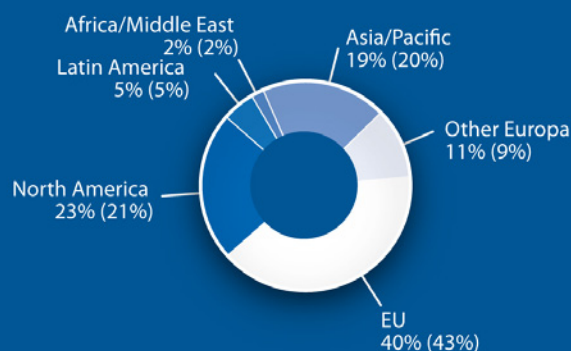
Operating profit excluding other operating income and expenses was DKK 3,705m against DKK 3,653m in 2011 corresponding to a growth rate of 1%, which was attributable to Danfoss' targeted strategic initiatives combined with strict cost control.

Operating profit (EBIT) was DKK 3,745m compared to DKK 4,226m. Adjusted for the exceptional income of DKK 578m from the divestitures of Danfoss Water Controls and Danfoss Geared Motors, operating profit increased by 3%. It was thus in line with the level expected at the beginning of the year, which was satisfactory.

Group net sales & EBIT millDKK



Sales distribution by regions 2012 (2011)



Financial items totaled an expense of DKK 371m against an expense of DKK 1,024m in 2011. This was mainly explained by a reduction in the Group's provisions for unexercised share option programs due to a lower price of Danfoss shares and lower interest expenses in connection with the reduced level of debt.

Net profit was DKK 2,357m against DKK 1,314m in 2011. The performance in 2012 was better than anticipated.

Balance sheet

Equity stood at DKK 14,193m compared to DKK 12,597m at the end of 2011. The increase was primarily attributable to recognition of the profit for the year, after deduction of dividends.

Total assets amounted to DKK 27,768m at December 31, 2012 against DKK 28,124m at the year-earlier date.

Net interest-bearing debt fell to DKK 2,691m from DKK 4,634m at the end of 2011. This reduction was mainly attributable to the improved free cash flow resulting from the higher operating profit and the lower amount of capital tied up in inventories. Interest-bearing debt included DKK 3,151m (84%) non-current debt maturing after more than 12 months. At December 31, 2012, the Group had unutilized and non-terminable long-term credit commitments of DKK 6,000m against DKK 5,700m at the year-earlier date in addition to cash and cash equivalents and ordinary operating credits.

Cash flow statement

Free cash flow comprising cash flow from operating activities of DKK 4,245m and cash flow from investing activities of DKK -1,321m totaled DKK 2,924m against DKK 3,150m at the end of 2011 when free cash flow was exceptionally

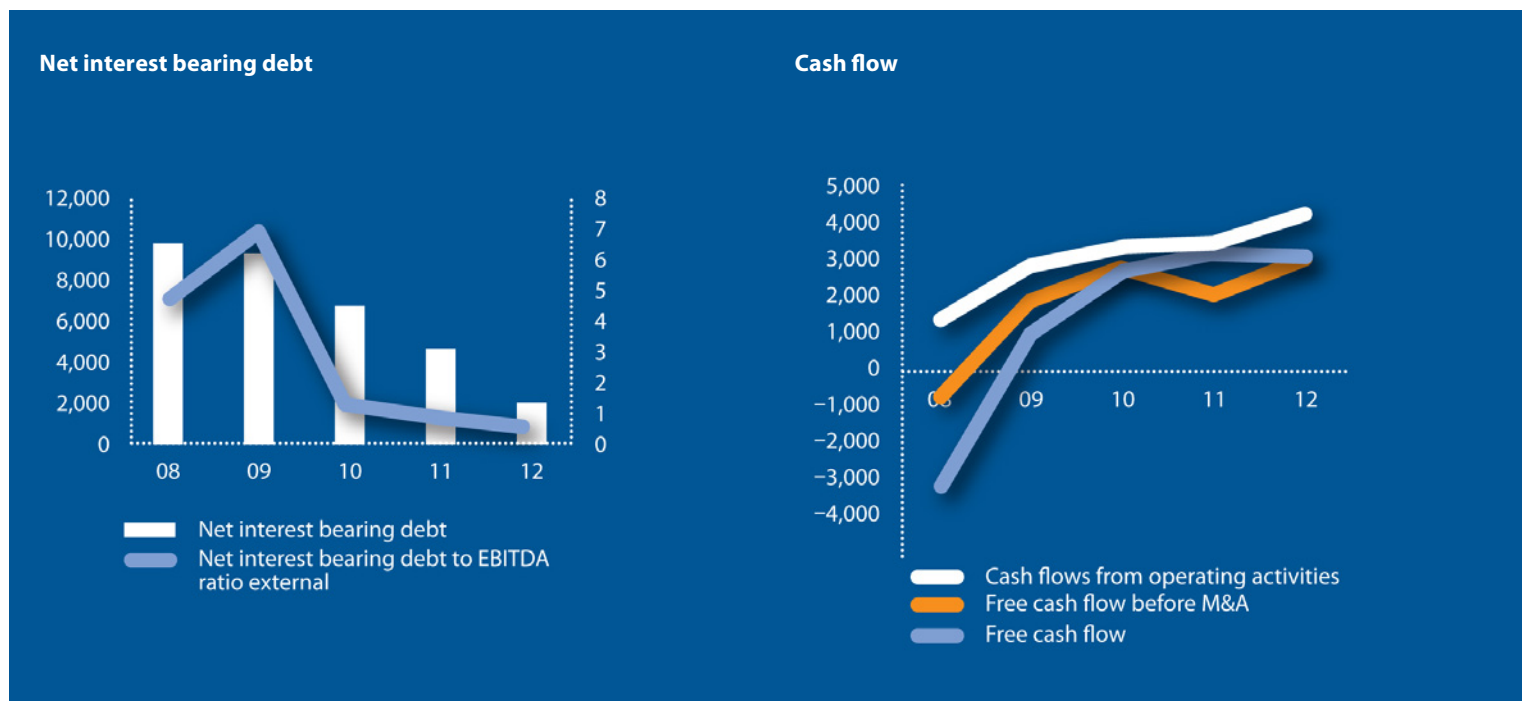
affected by an amount of DKK 1,106m from divestitures against a negative impact of DKK 191m in 2012. Free cash flow before mergers and acquisitions (M&A) amounted to DKK 3,019m compared to DKK 2,078m at December 31, 2011, an improvement of 45%.

Innovation

Innovation activities at Danfoss focus on developing energy-efficient and performance-enhancing products for the benefit of the Group's customers and the communities they live in. In 2012, Danfoss invested DKK 1,324m in product development compared to DKK 1,263m in 2011. Investments as a percentage of net sales rose to 3.9% against 3.7% the year before. Danfoss invested in strengthening its innovative capacity by extending its product development program as well as by launching a number of specific new products in 2012. During the year, Danfoss filed 152 new patent applications compared to 143 the year before, and 244 patents were granted to the Group compared to 223 patents in 2011. At the end of 2012, the Group thus had 2,101 patents against 1,784 the year before.

Human capital

In order for Danfoss to maintain and expand its market-leading position in its core business areas, it is vital that the company is able to attract and retain employees with the right knowledge and qualifications. Danfoss offers special incentive schemes to retain key staff and managers. Danfoss also makes an ongoing effort to build and develop employee qualification through work training, courses and other education. Initiatives in 2012 included a significant extension of the e-learning offer to employees through the Danfoss Business System. In addition, Danfoss performs employee development reviews at least once a year for the purpose of supporting the ongoing development of employee qualifications, ensuring that they remain attractive resources.



Employees

The Danfoss Group had 23,092 employees at December 31, 2012 against 23,430 at the year-earlier date. The drop was mainly attributable to a number of adjustments to global market conditions which Danfoss implemented in late 2011, effective from the first half of 2012. The Group's employees were distributed as follows by geography: 7,977 in Europe excluding Denmark (2011: 8,001), 3,988 in North America including Mexico (2011: 3,971), 451 in Latin America (2011: 458), 4,895 in Asia-Pacific including China (2011: 4,919) and 54 in Africa-Middle East (2011: 58). At December 31, 2012, Danfoss had 5,727 employees in Denmark compared to 6,023 last year.

Changes to the Executive Committee

Nis Storgaard, Executive Vice President & CDO, retired at the close of 2012. Following his retirement, the Executive Committee consists of Niels B. Christiansen, President & CEO, and Kim Fausing, Executive Vice President & COO.

Acquisitions, business expansions and establishments in 2012

On November 5, Danfoss took yet another step in its strategy to enhance the company's presence in the Indian market with the acquisition of a site near Chennai, where the Group intends to build substantial production and development facilities in the years ahead.

Effective as of December 31, Danfoss obtained full ownership of the Danfoss Turbocor Compressors joint venture in order to further enhance its position in the global market for commercial variable speed compressors.

Sale and closure of companies and activities in 2012

On May 14, Danfoss sold its energy services business Danfoss Solutions A/S with 22 employees to Scan Energi A/S.

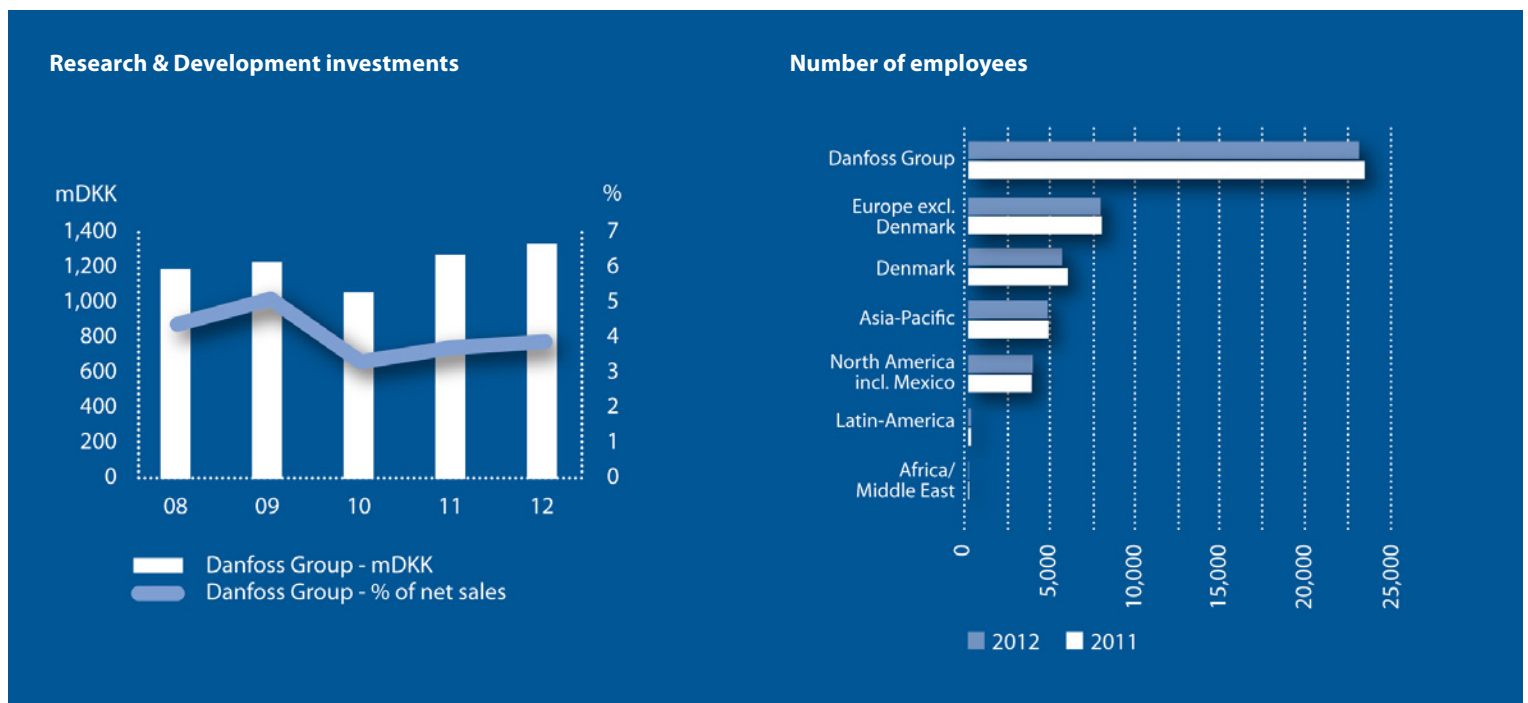
On November 1, 2012, Danfoss sold its Danfoss Sea Recovery business area specializing in seawater desalination with 61 employees to Parker Hannifin Corporation.

Tender offer on the remaining shares of Sauer-Danfoss

On November 28, 2012, Danfoss announced that it had made a proposal to the board of directors of Sauer-Danfoss to acquire the shares not already owned by Danfoss, for USD 49 per share in cash. Subsequently, the Sauer-Danfoss board of directors established a committee of independent directors to consider Danfoss' proposal. On March 1, 2013, Danfoss and Sauer-Danfoss jointly announced a definitive merger agreement for Danfoss to acquire the 24.4% of Sauer-Danfoss not already owned by Danfoss for USD 58.50 per share in cash. Under the terms of the agreement, Danfoss would commence a tender offer within ten business days from the signing of the agreement. At the time the annual report was released, the tender offer had not yet ended. There can be no assurance that the tender offer will lead to a final transaction.

Accounting policies

The Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) and Danish disclosure requirements for annual reports of companies in reporting class D. Changes have been made to the accounting policies in 2012 as a result of the implementation of new standards and interpretations. The changes have not had a material effect on recognition or measurement.



INNOVATION FROM THE CORE 2012

Danfoss first to integrate variable speed technology into commercial air-conditioning

In 2012, Danfoss was the first to market a new generation of commercial compressors with variable speed technology that provide significant **energy savings** in commercial air-conditioning. The compressors can be used in various applications and distinguish themselves by providing smoother and more **precise** temperature control. This is crucial in for instance **data centers** where it ensures **reliable** server operation while saving energy, because even small temperature deviations can lead to higher energy consumption. At the same time a new patented system to manifold compressors together also makes it possible to design air-conditioning systems that are more **flexible** in terms of cooling capacity while being very **cost effective**.



Corporate governance

Corporate governance is based on key concepts such as responsibility and integrity, and transparency about the Group's activities is essential. Corporate governance also concerns the way in which the company is managed and the overall principles and structures which determine the interaction between the company's management bodies, owners and other stakeholders. Danfoss has a two-tier management system consisting of the Board of Directors and the Executive Committee.

Furthermore, corporate governance in Danfoss is based on Danish law and the company's Articles of Association, corporate values and a large number of internal management and control procedures. Danfoss' corporate governance reporting does not include Sauer-Danfoss, which has its own rules for this area. Sauer-Danfoss is subject to the corporate governance rules set out in the Sarbanes-Oxley Act. For further information about corporate governance in Sauer-Danfoss, please see www.sauer-danfoss.com.

As directed by its rules of procedure, Danfoss' Board of Directors meets a minimum of five times a year. In addition, the Board will meet extraordinarily as and when required. The Danfoss Board consists of six members elected at the General Meeting and three employee-elected members. The Board regularly assesses the aggregate competencies of its members to ensure that they are consistent with the company's requirements at all times. The current Board has a broad composition with a global perspective that supports the future development of Danfoss. Of the six members elected at the General Meeting, three (Kasper Rørsted, William Ervin Hoover and Björn Rosengren) are independent.

Danfoss has had an audit committee since 2010. The rules provide that the tasks, responsibilities and authority of the audit committee may be organized

in an independent committee or performed by the entire Board of Directors. At Danfoss, the entire Board performs the function of audit committee. The activities and tasks of the audit committee are set out in the committee's terms of reference. The audit committee met four times in 2012.

Furthermore, Danfoss set up an internal audit function in 2011 with powers to present its conclusions directly to the Board's audit committee. The internal audit function is intended to provide independent and objective audit to ensure that:

- the Group follows good administrative practice
- the Group has comprehensive internal controls and business processes in place in all essential areas of activity
- Danfoss' IT systems have adequate segregation of functions

In 2012, the internal audit function visited a number of Group companies selected on the basis of the risks and companies that weigh most heavily in the Group's risk exposure. The audit resulted in controls and procedures being emphasized in various contexts, but no matters of material importance to the Group's overall risk management and control environment were detected.

Statutory report under section 107b of the Danish Financial Statements Act

Section 107b of the Danish Financial Statements Act requires listed companies to disclose whether they are covered by a code on corporate governance. Moreover, they are required to describe the main elements of their internal risk management and control systems when presenting their financial statements and describing their management bodies and committees and the composition thereof. Although Danfoss is not a listed company, the company voluntarily complies with the rules of section 107b of the Danish Financial Statements Act. The full corporate governance report is available at the Group's website www.danfoss.com/corporategovernance2012.

Composition of the Board of Directors ¹⁾

	Nationality	Independent	Audit Committee
Jørgen Mads Clausen (Chairman)	DK	No	●
Hans Michael Jebsen (Vice-Chairman)	DK	No	●
Peter Mads Clausen	DK	No	●
William Ervin Hoover	USA	Yes	●
Kasper Rørsted	DK	Yes	●
Björn Rosengren	SE	Yes	●
Svend Aage Hansen ²⁾	DK	-	●
Jens Peter Nielsen ²⁾	DK	-	●
Gunnar Jensen ²⁾	DK	-	●
Bitten Clausen (Honorary Member)	DK	-	-

¹⁾ As from the Annual General Meeting of April 2012 to the Annual General Meeting of April 2013

²⁾ Elected by the employees

● Chairman of the Audit Committee

Board of directors



From the left: Bitten Clausen, Hans Michael Jebsen, Kasper Rørsted, Jørgen M. Clausen, Gunnar Jensen, Peter M. Clausen (in front), Svend Aage Hansen, Jens Peter Nielsen, William Ervin Hoover and Björn Rosengren.

	Companies with considerable board activities	Qualifications
<p>Jørgen M. Clausen Chairman (born 1948) Member since 1985</p>	<p>Chairman of: Sauer-Danfoss Inc., Danfoss Universe A/S, Oplevelsesparken A/S, Danish Energy Industries Federation and The Danish National Advanced Technology Foundation</p> <p>Boardmember of Bitten and Mads Clausens Foundation</p>	<p>Bachelor of Science Engineering, MBA Professional experience managing a Danish based international company and from other board memberships</p>
<p>Hans Michael Jebsen Vice-Chairman (born 1956) Member since 2005</p>	<p>Chairman of: Jebsen & Co Ltd</p> <p>Vice-Chairman of: Bitten and Mads Clausens Foundation</p> <p>Boardmember of Hysan Development Co Ltd and Wharf (Holdings) Ltd</p>	<p>Professional experience managing companies in Hong Kong, China and Northern Asia in the fields of industrial supplies, chemicals, beverages, automotive and a wide range of consumer products as well as relations with government authorities in China</p>
<p>Peter M. Clausen Boardmember (born 1949) Member since 1993 (2,038 options)</p>	<p>Chairman of: Bitten and Mads Clausens Foundation, Fabrikant Mads Clausens Foundation, Danfoss Foundation for education, Project Zero Foundation, Forskerpark Syd and Sønderborg Havneselskab A/S</p> <p>Boardmember of The Mads Clausen Institute</p>	<p>Professional experience from other board memberships</p>
<p>William Ervin Hoover Director (born 1949) Member since 2007 (150 optioner)</p>	<p>Chairman of: ReD Associates Holding A/S</p> <p>Vice-Chairman of: GN Store Nord A/S (Great Nordic)</p> <p>Boardmember of Sauer-Danfoss Inc., Sanistål A/S and Lego Foundation</p>	<p>MBA from Harvard Professional experience with supply chain, performance transformation, organization changes and mergers & acquisitions</p>
<p>Kasper Rørsted CEO of Henkel AG & Co. (born 1962) Member since 2009</p>	<p>Boardmember of Bertelsmann AG</p>	<p>Professional experience in managing a major international company and international and cultural experience from stays and jobs in the USA, Switzerland, the UK and Germany</p>
<p>Björn Rosengren Chief Executive Officer and President i Wärtsilä Corporation (born 1959) Member since 2010</p>	<p>Boardmember of HTC Sweden AB and Höganäs AB</p>	<p>Head of a global company focusing on profitable growth, international and cultural experience from stays and jobs in China, North America, Switzerland, Netherlands, Finland and Sweden</p>
<p>Svend Aage Hansen Employee-elected Boardmember, HR consultant - Labour Relations Danfoss A/S (born 1959) Member since 2008</p>		<p>Cooperation courses and experience from other board memberships</p>
<p>Gunnar Jensen Employee-elected Boardmember, Senior Shop Steward at Danfoss Nordborg (born 1948) Member since 2010</p>	<p>Vice-Chairman of: Group Club Danfoss Denmark</p> <p>Boardmember of Bitten and Mads Clausens Foundation and Metal Sønderborg</p>	<p>Cooperation courses and experience from other board memberships</p>
<p>Jens Peter Nielsen Employee-elected Boardmember, Senior Shop Steward at Danfoss Kolding. (born 1957) Member since 2006</p>	<p>Chairman of: Group Club Danfoss Denmark and Danfoss Employee Foundation</p> <p>Boardmember of Bitten and Mads Clausens Foundation, Metal Kolding og LO-Kolding</p>	<p>Cooperation courses and experience from other board memberships</p>
<p>Bitten Clausen Honorary member</p>		

Executive Committee



Niels B. Christiansen
President and CEO of Danfoss A/S
(born 1966)
Member since 2004

Companies with considerable board activities

Chairman of:
Axcel

Vice-Chairman of
Danske Bank A/S, Dansk Industri and Sauer-Danfoss Inc.

Boardmember of:
William Demant Holding A/S



Kim Fausing
Executive Vice President and COO
(born 1964)
Member since 2008
(4,275 warrants)

Companies with considerable board activities

Vice-Chairman of
Velux A/S.

Boardmember of:
Sauer-Danfoss Inc., and Hilti AG

Group Committee



Per Have
Chief Financial Officer
CEO of Bitten and Mads Clausen Foundation
(born 1957)



Mogens Terp Paulsen
Divisional President
(born 1948)



Noel Ryan
Divisional President
(born 1961)



Ole Møller-Jensen
Divisional President
(born 1955)



Kim Christensen
Divisional President
(born 1965)



Lars Tveen
Divisional President
(born 1963)



Mette Refshaug
Senior Vice President, Corporate Communications
(born 1973)



Kjeld Stærk
Divisional President
(born 1959)

SHAREHOLDERS

Danfoss' share capital amounts to DKK 1,020m and is divided into two share classes: A-shares accounting for DKK 425m and B-shares accounting for DKK 595m. A-shares entitle holders to ten votes for every DKK 100 nominal value of shares held. A-shareholders also have a pre-emption right to A-shares in the event of share capital increases. Apart from this, no shares carry special rights. The Bitten and Mads Clausen Foundation and the Clausen family hold all issued A-shares and a number of B-shares corresponding to 98.75% of the votes. At the end of 2012, Danfoss had 3,400 registered employee shareholders. Approximately three in four shareholders were resident in Denmark.

Share price development

The Danfoss share price is set once a year, based on a valuation prepared by Danske Markets (a division of Danske Bank A/S) immediately before the

Annual General Meeting held in April. The price was first set in 2001 when Danfoss issued its first employee shares. The 2001 price was DKK 749 per share. The share price is calculated on the basis of the financial performance of Danfoss, the Group's expectations for the upcoming year, its ability to meet expectations, the financial development of a number of comparable companies and their expectations for the future, as well as general developments in the stock market. In 2012, the price was set at DKK 3,198 per share. The new price will be announced at the 2013 Danfoss Annual General Meeting in April.

Dividends and General Meeting

The Annual General Meeting will be held in Nordborg on April 19, 2013. The Board of Directors will recommend to the General Meeting that a dividend of 17% of the Group's net profit be paid in 2013, corresponding to 39.2% per share.

Shareholders with more than 5% of share capital

	Shares	Votes
Bitten and Mads Clausen Foundation, Nordborg, Denmark	46.51%	85.02%
Clausen Controls A/S, Sønderborg, Denmark	25.65%	5.40%
Henrik Mads Clausen, Lake Forrest, USA	10.78%	2.27%
Karin Clausen, Holte, Denmark	7.08%	1.49%

Risk management & compliance

RISK MANAGEMENT

Danfoss considers efficient risk management a prerequisite for running a business and responding rapidly and flexibly when assumptions change. Danfoss works systematically with identifying and controlling risk according to a model based on the enterprise risk management approach.

Throughout the Danfoss Group, all entities work according to shared risk management principles, irrespective of their geographical location. Being a listed company, Sauer-Danfoss complies with its own risk management policies, which in all essentials are consistent with those applied by the Group. This makes it possible to assess and prioritize risk across the Group, ensuring that management teams across Danfoss speak the same language and share a common mindset when managing risk.

Risk management is an integral part of Danfoss' strategic planning, and risk management is applied in a wide range of contexts, including the overall safeguarding of corporate governance, business management, compliance programs, projects, outsourcing, procurement, insurance, currencies, interest rates, raw materials, reputation, patents, IT systems, contracts and the environment.

Where possible, Danfoss strives to make the management of specific risks measurable, or, as a minimum, to make sure that the effect can be verified objectively. Danfoss defines 'risk' as a potential event or condition which, if it materializes, may affect the Group's ability to execute a strategy or reach defined business targets. The Group has committed to working with four overall, though not mutually exclusive, types of risk:

- Strategic risk, which is incorporated into strategic business planning and implementation, among other things
- Operational risk, mainly related to operations or efficiency
- Financial risk, including insurable risks
- Hazard risk, covering damage caused by or to Danfoss, also including, for example, compliance-related risks

Responsibility

The Group's risk management activities are based on the Board of Directors' rules of procedure, according to which the Executive Committee is responsible for risk management. Thus, the Executive Committee is responsible for ensuring that the necessary risk management policies and procedures are in place and that they are prepared in accordance with the Group's risk profile. The Executive Committee is also responsible for ensuring that effective risk management systems are established for the relevant areas and that focus

on improving these systems is maintained at all times. Responsibility for carrying out actual risk management lies with the respective managers and corporate functions as defined in Group policies.

Danfoss has set up a risk management structure including, but not limited to, the following:

- The Danfoss Board including the Board's audit committee
- Internal Audit, which performs independent internal reviews and submits the outcome directly to the Board's audit committee
- The Risk & Compliance Committee set up by the Executive Committee which ensures effective risk management across the Group and preparation of centralized compliance programs
- Group Risk & Compliance, whose duties include responsibility for the Group's risk management policies, for preparing and implementing the Group's compliance programs and for the Group's whistleblower function
- Corporate Treasury, which centrally manages the Group's financial risks, including insurance risks
- Internal controlling, which covers management systems, business systems and controls, etc.
- Activities to safeguard assets and earnings, which are the responsibility of day-to-day management. This includes, for example, business risks, the monitoring and interpretation of legislation and standards, IT security, the global insurance program, patents and trademark rights, product quality, fire protection, environment and working environment, etc.

Risk reporting and control

Risks are reported on an ongoing basis between the managerial levels, for example in connection with quarterly business reviews. In addition, an annual consolidated report is prepared for the Board of Directors and the Board's audit committee including the most significant known risks, existing policies and processes used to manage them as well as evaluations of their implementation and effect.

The Risk & Compliance Committee supervises the risk management process generally and monitors selected corporate risks as well as potential new risks.

Risk profile

Danfoss believes that no single risk factor could threaten the survival of the Group. However, the aggregate risk profile consists of a number of external and internal risks where the ability to respond optimally is crucial to Danfoss' future potential.

Specific measurement criteria have been defined in order to best evaluate Danfoss' performance in relation to these risks. Risk identification and assessment is performed on a regular basis. Important risk factors relate to the following:

- Global market conditions and megatrends, including
 - sustained stronger focus on energy-efficient and socially sustainable solutions
 - fair and equal access to markets
 - competition from China and India, in particular
 - global economic growth
 - principal key markets are the USA, Germany, China, Russia, Brazil and India
 - the most important business areas are new construction, renovation, raw materials extraction and processing, production of consumer durables and retail trade
- Customer relations and reputation, including Danfoss' ability to maintain and build long-term trustful partnerships with customers and other key business partners
- Competitive strength and innovation, including the ability to support customers by providing efficient solutions, attractive cost levels and high product quality
- Financial sustainability, including the Group's ability to continuously reduce debt and fund new growth

COMPLIANCE

Danfoss wishes to maintain and continuously improve its reputation as a proper and respectable company. This means that all parts of the Group, in every detail, must and will do their utmost to live up to their legal and ethical responsibilities.

As a global enterprise, Danfoss continually faces stricter legal requirements in all parts of the world as well as increasing awareness among all stakeholders regarding corruption, fair competition and good business ethics. Consequently, any failure to meet and comply with legislation and rules poses an increasing risk in terms of reputation and financial performance. Likewise, Danfoss' continuing growth and globalization will pose a challenge to the Group's organizational structure. Ethical guidelines for Danfoss' business conduct as well as compliance programs and training which help managers and employees all over the world understand and comply with the guidelines are therefore becoming increasingly important.

Danfoss' compliance activities are based on prevention, detection and response. It is a management responsibility to ensure compliance with the rules supported by training and clear guidelines. Control and verification of the efficiency of existing guidelines is incorporated in the internal controls and audits. Moreover, compliance with the rules is subject to spot tests performed by Danfoss' internal audit function, which submits its findings to the Board's audit committee.

In 2012, the Group had active compliance programs regarding anti-corruption, competition law, export control, supplier code of conduct and ethics.

The Group strengthened its anti-corruption program in 2012, among other things to include a compliance manual updated with international legislation and training of employees who are in contact with the Group's business partners or public bodies. In December 2012, approximately 5,000 employees attended e-learning in the area. Going forward, new employees in the target group will receive training as part of their introduction. More than 2,200 people managers attended training on ethics in 2012. Ethics training will be part of the introductory program for future new managers. A compulsory test with a pass requirement concludes the anti-corruption and ethics e-learning programs.

In addition to and in support of the compliance programs, Danfoss has a whistleblower function, the Ethics Hotline, where individual employees can report suspected irregularities anonymously and without involving a manager. The Ethics Hotline received 78 cases in 2012, of which 66 were concluded by the end of the year, while 12 were still being investigated. 12 cases resulted in dismissal, while in 9 cases, employees received a written or oral warning.

In order to address questions and doubt among the Group's employees about ethics and compliance, the AskUs enquiry function was opened in October 2012. This function offers employees specific advice on how best to observe ethics guidelines and compliance requirements, aiming to minimize uncertainty among the Group's employees and prevent unintended non-compliance.

In 2013, Danfoss will continue its sharp focus on compliance with legislation and internal rules, including extension of existing compliance programs.

MAIN RISK AREAS FOR 2013

Danfoss has identified five important strategic and operational risk areas for the Group in 2013. The review does not include financial risk, which is described in note 18. Financial risks and instruments.

Macroeconomic fluctuations

Description of risk

The global economy has been characterized by general financial uncertainty since 2008, nurtured by failing confidence in the economies of Europe and the USA and by signs of overheating in the Chinese economy.

Regional recessions and declining demand could have a negative effect on Danfoss' net sales and earnings. Sudden increases in demand could also have a negative impact through increased pressure on production capacity and higher cost levels.

Risk mitigation measures

Danfoss minimizes risk through a balanced global presence with strong positions in several regional markets. At the same time, Danfoss continuously seeks to make its business more versatile and adaptable by increasing the use of sub-suppliers, minimizing inventories, reducing lead times for individual products, among other initiatives.

Availability of raw materials

Description of risk

Industrial metals and rare earth elements are used in almost all high-tech production. Price and availability depend on demand, which is in turn impacted by factors such as raw materials speculation and hoarding. Price increases or scarce supply could affect Danfoss indirectly by dampening global economic growth and directly by increasing production costs and compromising Danfoss' ability to provide the products demanded by customers.

Risk mitigation measures

Danfoss uses financial instruments and active adjustment of prices to hedge significant raw materials risk. In addition, Danfoss seeks to increase the reliability of its supplies by concentrating its purchasing volume with fewer, strategic suppliers. In the context of product development projects, Danfoss is also looking for alternatives to scarce materials in order to increase reliability of supply and reduce cyclicity.

Regional differences in customer requirements

Description of risk

China and India, in particular, are fostering local businesses which in the start-up phase typically develop and manufacture products tailored to local market requirements in terms of price, quality and functionality. They generally benefit from in-depth knowledge of their local markets and low cost levels, and from this stage they may develop into global competitors. This could potentially result in Danfoss losing market share.

Risk mitigation measures

Danfoss continuously expands its product development capacity in new growth regions such as China and India, systematically involving customers in development projects in order to stay abreast of customer requirements. Furthermore, Danfoss makes an ongoing effort to maintain competitive cost levels by having production close to its markets and by continually implementing productivity enhancements.

Copyright infringement

Description of risk

Copying of products and trademarks and industrial espionage involving theft of business critical information are constant threats to well-established brands. Product copies and counterfeit products could result in Danfoss losing sales and could damage the brand. Theft of confidential product and business concepts could also result in Danfoss losing sales and competitive advantages.

Risk mitigation measures

Danfoss works systematically to register and defend patents and trademarks, and the Group has a number of security and control procedures in place to prevent industrial espionage. In addition, Danfoss continually improves the labeling of its products to make it difficult and expensive to copy them.

Ethical behavior

Description of risk

The ethical behavior of companies and their employees is an object of general growing attention. Globally, legislation and possible sanctions are increasingly rigorous in areas such as anti-corruption, data protection law and competition law.

Unethical behavior or outright illegal conduct by Danfoss employees could materially damage Danfoss' reputation and result in considerable financial sanctions.

Risk mitigation measures

Danfoss has adopted ethical guidelines and compliance programs, including an ethics program and an anti-corruption program. Danfoss follows up on compliance with the ethical guidelines by conducting internal inspections and other measures. Danfoss also operates an Ethics Hotline, where employees can report suspected breaches of internal guidelines and legislation anonymously.

INNOVATION FROM THE CORE 2012

Danfoss develops the market's easiest-to-use thermostat together with the customers

In 2012, Danfoss introduced DEVIreg Touch, a new thermostat for electric floor heating. It was conceived in close interaction with customers, who in particular emphasized the importance of getting a thermostat that is more **user-friendly** than existing alternatives in the market. The result is a new electronic thermostat with touch screen and intuitive menu navigation that allows for **simple installation** and **ease of use** in everyday life. Other features include a range of automatic **energy savings** such as night mode and holiday mode. The thermostat is used for controlling **electric floor heating**, mainly in private homes.



Corporate citizenship

Danfoss has a long-standing tradition for reporting on corporate social responsibility. The Group introduced a CSR policy in 2003 and has since reported under the UN Global Compact principles. In this context, a Communication on Progress report to the UN is prepared, describing progress in the Group's work with the ten Global Compact principles. The report does not cover Sauer-Danfoss, which is listed on the New York Stock Exchange and as such presents its financial statements under US stock exchange rules. The Communication on Progress report constitutes Danfoss' statutory report on corporate social responsibility pursuant to section 99a of the Danish Financial Statements Act and is posted on Danfoss' website:

www.danfoss.com/corporatecitizenship2012.

Sustainability strategy

Danfoss set out to define a new sustainability strategy in 2012 intended to help clarify priorities for the Group's sustainability efforts based on corporate strategic priorities for climate and energy solutions and solutions to the challenges of globalization, including the growing urbanization of the new global growth centers. More specifically, the sustainability strategy is designed to enhance focus on the Group's sustainability targets and priorities in business processes. Concurrently with this work, Danfoss continued its efforts in 2012 to comply with the principles specified by the Global Compact for human rights, labor rights, the environment and anti-corruption.

Ethics and anti-corruption

In 2012, Danfoss thoroughly reviewed and updated the Danfoss Ethics Handbook which provides clear guidelines to employees with respect to social conventions, confidential information, gifts and anti-corruption. The update is intended to ensure that the ethics handbook reflects developments in legislative requirements and expectations on the part of the company's stakeholders, while also incorporating experience gained with respect to how employees perceive and use the ethical guidelines.

All people managers attended ethics training in 2012 and took the final test. All new people managers must complete ethics training within the first month of being appointed or promoted. In addition to ethics training, Danfoss developed and implemented an extensive anti-corruption compliance program in 2012. A total of approximately 5,000 managers and employees who are in contact with external business partners have been designated to attend the compulsory e-learning program by March 31, 2013. In 2013, the program will be extended to include a global due diligence process for handling of third parties.

A total of 47 employees left Danfoss in 2012 due to unethical behavior against 26 in 2011 and 40 in 2010. This figure comprises dismissals as well as voluntary resignations connected with ethical issues.

The 47 dismissals in 2012 were distributed on categories as follows: Theft and unethical handling of company resources (4), fraudulent travel expense settlements, forging of documents or attempted embezzlement (17), conflicts of interest (6), industrial espionage/theft of data (3), abuse of alcohol (3), violent behavior and discrimination (5), non-compliance with company policies (3), manipulation of time reporting (1) and other causes (5).

Climate and energy

Since 2008, Danfoss has adhered to the 3x25 climate strategy committing Danfoss to cut CO₂ emissions by 25% while increasing the share of renewable energy by 25% by 2025 relative to the 2007 level. Danfoss reduced CO₂ emissions to 126,873 ton against 127,524 ton in 2011. Electricity consumption fell by 3.4%, while consumption of energy for heating purposes declined by 5.5%.

Danfoss continued in 2012 the effort to reduce energy consumption in the 15 largest factories in order to reduce it by 20% before 2015. Danfoss conducted 7 analyses and initiated 2 new projects. Danfoss expects to launch analyses in the remaining 8 factories in 2013.

Electricity accounted for the major part of Danfoss' energy consumption in 2012, totaling 58%, with the remaining 42% used for heating. 18% of the electricity consumed was covered by renewable sources. Nuclear power accounted for 12%, and fossil sources made up the remaining 70%.

Environmental impact of products

Danfoss sees growing interest and requirements from customers and authorities for statements on the overall environmental footprint of individual products. In 2012, Danfoss therefore designed a uniform approach to presenting Environmental Product Declarations (EPD) documenting the environmental impact over a product's lifetime, including energy and materials consumption. Beginning in 2013, Danfoss intends to further develop and roll out this approach as an integral part of the Group's product development.

Working environment

Danfoss is committed to creating a safe working environment and limiting the number of work-related accidents, which has been declining since 1999. In 2012, the accident rate was 9.2 among production staff and 1.5 among white-collar employees compared to 9.4 and 1.3, respectively, in 2011. The accident rate is defined as the number of accidents per 1 million work hours.

Danfoss recorded 136 accidents resulting in at least one day's absence in 2012 against 146 in 2011. The injured employees were absent for a total of 2,883 days, corresponding to an average of 21 days weeks per accident.

Responsible supplier management

Danfoss works systematically to enhance standards in its supplier chain and in 2012 maintained the particular focus on suppliers of goods used in Danfoss' production processes or directly in the products. At December 31, 2012, Danfoss had approximately 2,800 suppliers of such goods against approximately 3,500 at December 31, 2011.

All suppliers are required to sign the Danfoss Code of Conduct, which defines environmental and social requirements. Signatures to the Danfoss Code of Conduct were obtained from 721 suppliers in 2012. Danfoss prioritizes this

effort based on a risk assessment which includes the supplier's place of production, meaning that suppliers in areas posing the greatest risk of non-compliance are given the highest priority. In addition, all new suppliers of goods used in Danfoss' production processes or in its products are subject to a qualification and approval process which assesses their ability to comply with the Danfoss guidelines before they become part of Danfoss' supply chain.

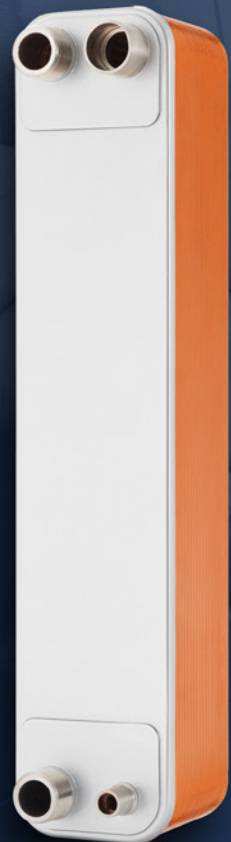
A total of 2,234 suppliers of goods used in production or in products have signed the Danfoss Code of Conduct against 2,151 in 2011. The proportion of suppliers having signed the Code of Conduct increased to 80% from 61% in 2011.

In 2012, Danfoss performed 201 audits at suppliers, including 106 initial audits and 95 follow-up audits to verify compliance with the Danfoss guidelines. As an audit as such does not ensure rectification of any non-compliance, Danfoss also performed a number of other follow-up activities. These efforts will continue in 2013.

INNOVATION FROM THE CORE 2012

New heat exchanger saves energy, raw materials and refrigerant

In 2012, Danfoss introduced a new plate heat exchanger featuring an asymmetric design that provides great **energy efficiency** and **saves raw materials**. The new design requires less metal for production, reducing weight and minimizing the environmental impact. It also provides cost-savings because customers require **less refrigerant** in their systems. Used mainly in **heat pumps**, the heat exchanger supplements the Danfoss microchannel heat exchanger launched in 2011 that provides energy, raw materials and refrigerant savings in air conditioning systems.



Danfoss Climate & Energy

Segment description

Danfoss Climate & Energy consists of five divisions: Danfoss Refrigeration & Air Conditioning Controls, Danfoss Power Electronics, Danfoss Heating Solutions, Danfoss Commercial Compressors and Danfoss District Energy. They are all leading players within climate and energy. The segment focuses on providing energy-efficient and climate-friendly solutions for a range of selected business sectors. The divisions play leading roles within research, development, production, sales and service of mechanical and electronic products sold on the global market for cooling and air-conditioning, comfort and heating, control of electric motors and for a number of industries where energy efficiency is important.

Market trends

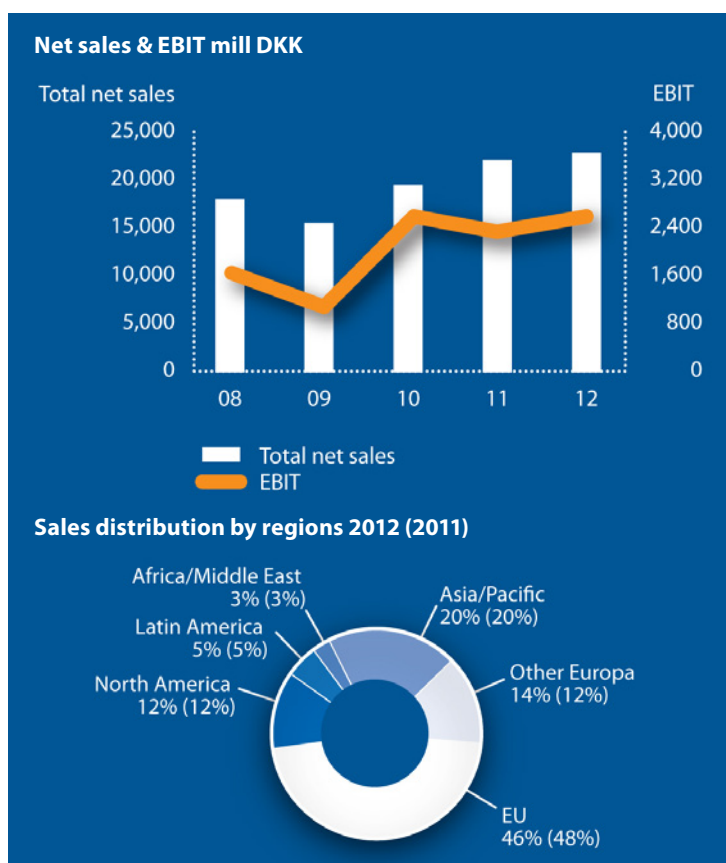
Overall, Danfoss Climate & Energy maintained the record level of net sales recorded in 2011. Sales developed as expected over the year with growth increasing in the second half. Sales in the Russian market were particularly impressive with double-digit growth rates, driven by strong demand for heating and district heating solutions and power electronics. Growth in North America was better than expected at 8%. Net sales in the European market were maintained even though the financial crisis continued to impact especially the southern European markets. The Chinese market showed an overall decrease.

Segment performance

In 2012, Danfoss continued the targeted development of the Danfoss Climate & Energy segment. Investments in product development were maintained at the level of 4.2% of net sales. In addition, Danfoss began expanding the position of the segment on the Indian market by acquiring a site near Chennai, which will house significant production and production development facilities. The segment was also strengthened by the acquisition of the Danfoss Turbocor Compressors joint venture.

Financial performance

The segment maintained net sales in 2012 while also improving earnings due to early capacity adjustments to the more modest growth rates. At the same time, the implementation of improvement activities continued as part of the Core & Clear strategy. Net sales amounted to DKK 22,411m compared to DKK 21,791m in 2011, equivalent to an increase of 3%. Adjusted for the effect of changes in exchange rates, acquisitions and divestitures, growth was 0%. Operating profit (EBIT) was DKK 2,541m compared to DKK 2,289m last year, increasing the EBIT margin to 11.3% from 10.5% in 2011.



Financial highlights for Danfoss Climate & Energy

DKKm

	2011	2012
INCOME STATEMENT		
Net sales	21,791	22,411
Operating profit (EBIT)	2,289	2,541
BALANCE SHEET		
Intangible assets	3,789	4,176
Property, plant and equipment	4,219	4,264
Total assets	14,700	14,805
OTHER INFORMATION		
Capital expenditure	935	1,623
Depreciation/amortization	835	885
NUMBER OF EMPLOYEES		
Number of employees	14,747	14,319
KEY FIGURES		
EBIT margin	10.5%	11.3%

Sauer-Danfoss

Segment description

Sauer-Danfoss is a global leader in the design, manufacture and sale of energy-efficient and performance-enhancing hydraulic and electronic systems and components, primarily for mobile applications. The company operates within the following segments: Agriculture, Construction, Material Handling, Turf Care and Specialty Equipment. Danfoss holds 76% of the Sauer-Danfoss shares, which are listed on the New York Stock Exchange. The share price can be monitored under the securities identification code SHS.

This section reflects official Sauer-Danfoss data prepared in accordance with US GAAP. In the Danfoss consolidated financial statements, Sauer-Danfoss is recognized in accordance with IFRS.

Market trends

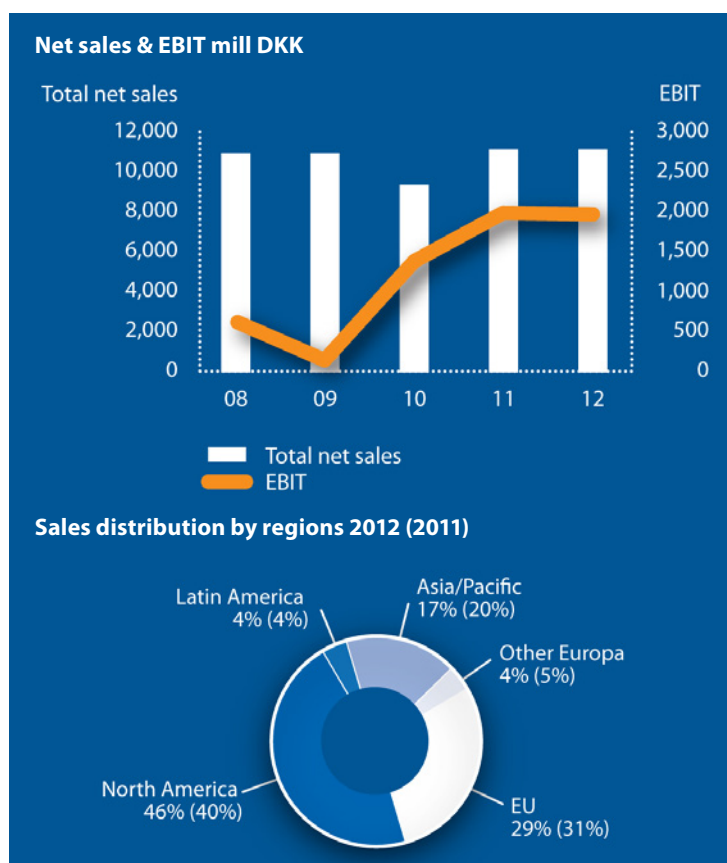
Sauer-Danfoss experienced a general slowdown in the market throughout 2012. The North and South American markets recorded growth of 7%. Sales in the Asia/Pacific region and Europe dropped by 19% and 10%, respectively, primarily attributable to deceleration of the Chinese building and construction sector and the general economic downturn in Europe.

Segment performance

Sauer-Danfoss continued to invest in product development in 2012, which was 3.4% of net sales against 3.1% in 2011. Sauer-Danfoss also maintained its long-term investment in developing the Chinese market. In this context, the company started building a new factory at Haiyan, which will manufacture products tailored to the Chinese market.

Financial performance

The segment reported declining net sales and earnings over the year. Net sales amounted to DKK 11,097m compared to DKK 11,022m in 2011, which was an increase of 1%. However, adjusted for the effect of changes in exchange rates, and merger and acquisitions, the performance was a fall of 4%. Operating profit (EBIT) was DKK 1,858m compared to DKK 1,963m last year, and the EBIT margin fell to 16.7% from 17.8% in 2011.



Financial highlights for Sauer-Danfoss Inc.

DKKm (US GAAP)

	2011	2012
INCOME STATEMENT		
Net sales	11,022	11,097
Operating profit (EBIT)	1,963	1,858
BALANCE SHEET		
Intangible assets	296	288
Property, plant and equipment	2,121	1,974
Total assets	7,304	7,892
OTHER INFORMATION		
Capital expenditure	277	284
Depreciation/amortization	472	466
NUMBER OF EMPLOYEES		
Number of employees	6,481	6,363
KEY FIGURES		
EBIT margin	17.8%	16.7%



Outlook for 2013

Danfoss expects the global financial uncertainty prevailing in 2012 to continue throughout 2013 causing sustained low visibility. Danfoss' markets are expected to see modest growth with climate and energy solutions and globalization as the primary growth trends. At the same time, Danfoss expects to retain profitability through continuous improvement of operations and the targeted strategic initiatives already launched.

Net sales for 2013 are thus expected to grow at a modest rate.

Operating profit for 2013 is expected to grow in line with net sales.

The impact of any divestitures, discontinued operations or company/activity acquisitions is not included in the outlook.

Management report for Danfoss A/S (Parent Company)

Danfoss A/S is the parent company of the Danfoss Group. In addition to holding the shares of most of the other Danfoss Group companies, an important function of the company is to fund the Group's activities. The company also constitutes the corporate framework for some of Danfoss' Danish activities and therefore includes a number of Danfoss' Danish factories and Group functions. Danfoss A/S had 2,864 employees at December 31, 2012.

Net sales increased to DKK 7,906m in 2012 from DKK 7,825m in 2011, an improvement of 1%.

Profit before other operating income and expenses was DKK 500m against DKK 586m in 2011. The company's operating profit was DKK 467m against DKK 92m the previous year.

Financial income and expenses amounted to a net income of DKK 635m against a net loss of DKK 234m last year. This was mainly attributable to lower impairment write-downs on loans to subsidiaries and lower fair value adjustments of share option programs.

Accordingly, the company reported a **profit after tax** of DKK 578m for 2012 against a loss after tax of DKK 294m last year.

Equity stood at DKK 5,421m at December 31, 2012 compared to DKK 5,290m at the year-earlier date. The increase was mainly attributable to recognition of the profit for the year less dividends paid to the owners.

In 2012, the subsidiary Danfoss Murmann Holding A/S with related assets was merged into Danfoss A/S. In compliance with the IFRS accounting rules, the merger was recognized in 2011 and the comparative figures for 2011 have been restated accordingly.

For a description of other significant events that affected the parent company's performance in 2012 or that may affect its results in 2013, see the Management report for the Danfoss Group.

Danfoss A/S expects net sales for 2013 to be on a level with the 2012 figures, and the company expects to report a profit again in 2013.



Management Statement

The Board of Directors and Executive Committee have today discussed and approved the Danfoss A/S Annual Report for the financial year January 1-December 31, 2012.

The Annual Report has been presented in accordance with the International Financial Reporting Standards and additional Danish disclosure requirements in the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the Parent Company's assets, liabilities and financial position at December 31, 2012, and of the results of the group's and the Parent Company's operations and cash flows of the financial year January 1-December 31, 2012.

We also consider the Management's review to give a true and fair view in the development of the group's and Parent Company's operations and financial matters, of the results for the year and the overall financial position of the Parent Company related to the companies included in the group accounts and describes the significant risks and uncertainties of the group's and the Parent Company.

We recommend that the Annual General Meeting approves the Annual Report.

Nordborg, March 12, 2013

Executive Committee

Niels B. Christiansen

Kim Fausing

Board of Directors

Jørgen M. Clausen
Formand

Hans Michael Jebsen
Næstformand

Peter J.M. Clausen

Svend Aage Hansen

William Ervin Hoover

Gunnar Jensen

Jens Peter Nielsen

Björn Rosengren

Kasper Rørsted

Independent auditor's report

To the shareholders of Danfoss A/S

Independent auditors' report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and the parent company financial statements of Danfoss A/S for the financial year 1 January-31 December 2012. The consolidated financial statements and the parent company financial statements comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies for the group as well as for the parent company (pp. 38-99). The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards, which have been adopted by the EU, and additional disclosure requirements in the Danish Financial Statements Act.

Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies and for such internal control that Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our audit has not resulted in any qualification.

Opinion

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the group's and the parent company's financial position at 31 December 2012 and of the results of the group's and the parent company's operations and cash flows for the financial year 1 January-31 December 2012 in accordance with International Financial Reporting Standards, which have been adopted by the EU, and additional disclosure requirements in the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Nordborg, March 12, 2013

KPMG

Statsautoriseret Revisionspartnerselskab

Jesper Koefoed
State Authorised Public Accountant

Thorbjørn Bruhn
State Authorised Public Accountant

Financial highlights, quarterly

Mill. DKK

(unless otherwise stated)

	Q1 2011	Q2 2011	Q3 2011	Q4 2011	2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012
Profit and loss accounts										
Net sales	8,519	8,932	8,380	8,074	33,904	8,357	8,865	8,763	8,022	34,007
Operating profit added depreciations, amortisations and impairments (EBITDA)	1,380	1,953	1,493	1,098	5,924	1,217	1,451	1,565	1,496	5,729
Operating profit excl. other income and expenses	958	1,004	1,077	614	3,653	823	1,009	1,119	753	3,705
Operating profit (EBIT)	956	1,534	1,081	655	4,226	796	1,016	1,130	803	3,745
Financial income/expenses	-125	-660	-127	-112	-1,024	-103	-85	-55	-128	-371
Profit before tax on continuing operations	834	880	953	551	3,218	693	935	1,076	667	3,372
Profit from discontinued operations	0	-720	-24	-188	-931	0	0	0	0	0
Net profit	595	-77	708	87	1,314	486	696	804	371	2,357

Balance sheet

Total non-current assets	17,830	17,310	17,449	17,422	17,422	17,297	17,581	17,101	17,038	17,038
Assets	30,207	30,118	29,663	28,124	28,124	29,057	29,723	28,857	27,768	27,768
Total shareholders' equity	12,096	11,766	12,532	12,597	12,597	12,997	13,398	14,153	14,193	14,193
Net interest-bearing debt	6,815	5,883	4,912	4,634	4,634	4,493	4,778	3,396	2,691	2,691
Net assets	18,715	17,447	17,254	17,037	17,037	17,304	17,979	17,353	16,775	16,775
Capital expenditure	220	380	255	481	1,335	187	402	234	1,230	2,053

Cash flow statement

Cash flow from operating activities	-6	331	1,586	3,359	3,359	317	1,225	2,770	4,245	4,245
Cash flow from investing activities	-259	420	264	-209	-209	-195	-561	-694	-1,321	-1,321
acquisition of intangible assets and property, plant and equipment	-209	-539	-788	-1,220	-1,220	-183	-560	-772	-1,169	-1,169
acquisition of subsidiaries and activities	-35	992	1,106	1,106	1,106	0	6	6	-191	-191
Free Cash flow	-265	751	1,850	3,150	3,150	122	664	2,076	2,924	2,924
Free cash flow before M&A	-231	-216	781	2,078	2,078	121	659	2,078	3,019	3,019
Cash flow from financing activities	200	-614	-1,763	-2,530	-2,530	-5	-604	-1,898	-2,779	-2,779

Key figures

Organic net sales growth (%)	23	15	4	0	10	0	-2	0	-3	-2
EBIT margin excl. other operating income etc. (%)	11.2	11.2	12.8	7.6	10.8	9.9	11.4	12.8	8.4	10.9
EBIT margin (%)	11.2	17.2	12.9	8.1	12.5	9.5	11.5	12.9	8.5	11.0
EBITDA margin (%)	16.2	21.9	17.8	13.6	17.5	14.6	16.4	17.9	15.0	16.8
Equity ratio (%)	40.0	39.1	42.2	44.8	44.8	44.7	45.1	49.0	51.1	51.1
Leverage ratio (%)	56.4	49.5	39.2	36.8	36.8	34.6	35.7	24.0	19.0	19.0
Net interest bearing debt to EBITDA ratio	1.2	0.9	0.8	0.8	0.8	0.8	0.9	0.6	0.5	0.5

Geographical segments

Total net sales

EU	3,667	3,869	3,588	3,340	14,462	3,511	3,621	3,518	3,086	13,735
Rest of Europe	663	827	899	956	3,344	674	867	1,082	1,040	3,663
Asia	1,542	1,578	1,499	1,422	6,041	1,332	1,434	1,605	1,529	5,899
North America	1,924	1,932	1,646	1,613	7,116	2,159	2,260	1,855	1,671	7,945
Africa	72	83	79	53	286	53	84	75	61	274
Pacific	148	150	162	207	667	143	138	129	141	551
Latin America	378	383	407	410	1,579	400	352	407	397	1,556
Middle East	125	110	100	73	409	85	109	92	97	384
Total	8,519	8,932	8,380	8,074	33,904	8,357	8,865	8,763	8,022	34,007

Number of employees

Europe excl. Denmark	8,993	8,146	8,178	8,001	8,001	8,146	8,243	8,139	7,977	7,977
North America incl. Mexico	3,870	4,137	4,141	3,971	3,971	3,718	3,813	3,877	3,988	3,988
Latin America	461	466	465	458	458	448	455	454	451	451
Asia-Pacific incl. China	4,516	4,786	4,940	4,919	4,919	4,807	4,866	4,904	4,895	4,895
Africa - Middle East	60	59	72	58	58	56	60	60	54	54
Denmark	6,126	6,075	6,093	6,023	6,023	6,051	5,939	5,767	5,727	5,727
Total	24,026	23,669	23,889	23,430	23,430	23,226	23,376	23,201	23,092	23,092
Total exclusive sold companies/activities	22,840	23,646	23,865	23,406	23,406	23,120	23,310	23,135	23,092	23,092

ACCOUNTS AND NOTES



INCOME STATEMENT

1 January to 31 December

DKKm	Note	Parent Company		Group	
		2011	2012	2011	2012
Net sales	1	7,825	7,906	33,904	34,007
Cost of sales	2	-6,142	-6,325	-24,048	-23,803
Gross profit		1,683	1,581	9,856	10,204
Selling and distribution costs	2	-638	-657	-4,821	-5,021
Administrative expenses	2	-459	-424	-1,382	-1,478
Operating profit excl. other operating income and expenses		586	500	3,653	3,705
Other operating income	2	14	47	769	425
Other operating expenses	2	-508	-80	-196	-385
Operating profit (EBIT)	1	92	467	4,226	3,745
Share of profit from associates and joint ventures after tax	3			16	-2
Financial income	4	1,128	987	43	88
Financial expenses	5	-1,362	-352	-1,067	-459
Profit before tax from continuing operations		-142	1,102	3,218	3,372
Tax on profit from continuing operations	6	-152	-524	-973	-1,015
Profit from continuing operations		-294	578	2,245	2,357
Profit from discontinued operations	23			-931	
Net profit		-294	578	1,314	2,357
Attributable to:					
Proposed dividends reserve		329	400		
Other reserves		-623	178		
		-294	578		
Attributable to:					
Shareholders in Danfoss A/S				940	1,998
Minority interests				374	359
				1,314	2,357
Basic earning per share of continuing operations (share of nominal 100 DKK)	7			183.8	197.3
Diluted earnings per share of continuing operations (share of nominal 100 DKK)	7			176.6	195.0
Basic earnings per share (share of nominal 100 DKK)	7			92.3	197.3
Diluted earnings per share (share of nominal 100 DKK)	7			88.7	195.0

STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

DKKm

	Note	Parent Company		Group	
		2011	2012	2011	2012
Net profit		-294	578	1,314	2,357
Other comprehensive income:					
Foreign exchange adjustments on translation of foreign currency into DKK etc.....				115	-36
Fair value adjustment of hedging instruments:					
Fair value adjustment re. hedging of net investments in subsidiaries				-50	35
Fair value adjustment re. hedging of future cash flows		36	33	-50	41
Fair value adjustment transferred to net sales in the income statement.....				37	92
Tax on value adjustment of hedging instruments		-9	-8	18	-39
Actuarial gain/loss (-) on pension and health care plans	17			-203	-202
Tax on actuarial gain/loss on pension and health care plans	16			58	57
Other comprehensive income after tax		27	25	-75	-52
Total comprehensive income		-267	603	1,239	2,305
Attributable to:					
Shareholders of Danfoss A/S				845	1,987
Minority interests				394	318
				1,239	2,305

BALANCE SHEET

As of 31 December

DKKm

ASSETS

Non-current assets

Goodwill		462	462	3,828	4,301
Other intangible fixed assets		251	219	4,846	4,348

Intangible assets

Note 8 **713** **681** **8,674** **8,649**

Land and buildings		33	36	2,702	2,883
Machinery		369	316	3,227	2,837
Plant and equipment		158	443	274	693
Buildings and machinery under construction		242	46	798	527

Property, plant and equipment

Note 9 **802** **841** **7,001** **6,940**

Investments in subsidiaries	3	8,488	9,165		
Receivables from subsidiaries	3	1,132	1,003		
Investments in associates and joint ventures	3	307	66	164	80
Other investments	3	2	2	43	28
Pension benefit plan assets	17				17
Non-current receivables		1	8	286	35
Deferred tax assets	16			1,254	1,289

Other non-current assets

9,930 **10,244** **1,747** **1,449**

Total non-current assets

11,445 **11,766** **17,422** **17,038**

Current assets

Raw materials and consumables		156	139	2,005	1,641
Work in progress		120	99	551	463
Finished goods and goods for resale		462	481	2,029	1,946

Inventories

Note 10 **738** **719** **4,585** **4,050**

Trade receivables	11	220	209	4,246	4,404
Receivables from subsidiaries	11	5,138	2,561		
Receivables from associates and joint ventures		2	2	17	20
Receivable corporation tax	19			176	507
Derivative financial instruments (positive fair value)	18		89	3	98
Other receivables		113	89	846	763

Receivables

5,473 **2,950** **5,288** **5,792**

Securities

Note 12 **85**

Cash and cash equivalents

Note 18 **2** **9** **744** **888**

Total current assets

6,213 **3,678** **10,702** **10,730**

Total assets

17,658 **15,444** **28,124** **27,768**

BALANCE SHEET

As of 31 December

DKKm

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Parent Company		Group	
		2011	2012	2011	2012
Shareholders' equity					
Share capital	13	1,043	1,020	1,043	1,020
Share premium		685	370	685	370
Other reserves		3,233	3,631	8,283	10,065
Proposed dividends		329	400	329	400
Danfoss A/S' share of equity		5,290	5,421	10,340	11,855
Minority interests				2,257	2,338
Total shareholders' equity		5,290	5,421	12,597	14,193
Liabilities					
Provisions	14	35	41	450	466
Deferred tax liabilities	16	38	235	1,558	1,838
Pension and healthcare benefit plan obligations	17	28	27	1,090	1,204
Debt, unsecured	18	2,430	1,761	2,530	1,917
Debt, secured	18	278	272	1,249	1,234
Derivative financial instruments (negative fair value)	18	92	51	92	51
Other non-current debt		67	125	82	169
Non-current liabilities		2,968	2,512	7,051	6,879
Provisions	14	28	72	332	391
Liabilities under share incentive programs	15	503	133	503	133
Debt, unsecured	18	1,706	327	2,051	517
Debt, secured	18	16	19	31	78
Trade payables	18	394	463	2,581	2,576
Debt to subsidiaries	18	5,913	5,694		
Debt to associates and joint ventures	18	3	1	23	34
Corporation taxes	19	80	237	196	392
Derivative financial instruments (negative fair value)	18	203	25	226	28
Other debt		554	540	2,533	2,547
Current liabilities		9,400	7,511	8,476	6,696
Total liabilities		12,368	10,023	15,527	13,575
Total liabilities and shareholders' equity		17,658	15,444	28,124	27,768

STATEMENT OF CASH FLOWS

1 January to 31 December

DKKm

	Note	Parent Company		Group	
		2011	2012	2011	2012
Profit before tax from continuing operations.....		-142	1,102	3,218	3,372
Adjustments for non-cash transactions	20	483	-608	1,981	1,738
Change in working capital	21	-213	956	-414	538
Cash flow generated from operations		128	1,450	4,785	5,648
Financial income		308	255	37	39
Financial expenses		-481	-390	-608	-532
Dividends received		816	572	12	15
Cash flow from operations before tax		771	1,887	4,226	5,170
Paid tax	19	-120	-179	-867	-925
Cash flow from operating activities		651	1,708	3,359	4,245
Acquisition of intangible assets		-109	-53	-101	-101
Acquisition of property, plant and equipment.....		-192	-219	-1,182	-1,122
Proceeds from sale of property, plant and equipment		7	10	63	54
Acquisition of subsidiaries etc.	22	-49	-489	-43	-415
Proceeds from disposal of subsidiaries etc.	22	12	66	1,149	224
Acquisition (-)/ sale of other investments etc.	24	-774	1,538	-95	39
Cash flow from investing activities		-1,105	853	-209	-1,321
Free cash flow		-454	2,561	3,150	2,924
Financing by non-shareholders:					
Cash repayment of (-)/cash proceeds from interest-bearing debt		591	-2,035	-2,190	-2,045
Financing by shareholders:					
Repurchase (-)/sale of treasury shares		-139	-199	-139	-199
Addition/disposal of minority interests				3	
Dividends paid to shareholders in the Parent Company.....		-102	-320	-102	-320
Dividends paid to minority shareholders.....				-102	-215
Cash flow from financing activities		350	-2,554	-2,530	-2,779
Cash flow from discontinued operations	23			-714	
Net change in cash and cash equivalents		-104	7	-94	145
Cash and cash equivalents as of 1 January		106	2	853	744
Foreign exchange adjustment of cash and cash equivalents				-15	-1
Cash and cash equivalents as of 31 December		2	9	744	888
Statement of free cash flow adj. for acquisition and disposal of subsidiaries etc. (M&A)					
Free cash flow		-454	2,561	3,150	2,924
Acquisition of subsidiaries etc.	22	49	489	43	415
Proceeds from disposal of subsidiaries etc.	22	-12	-66	-1,149	-224
Purchase and sale of shares and other investments	24	-17	-7	34	-96
Free cash flow before M&A		-434	2,977	2,078	3,019

The cash flow statement cannot be derived on the basis of the published financial statements alone.

STATEMENT OF CHANGES IN EQUITY

DKK m

	Group										
	Share capital	Share premium	Hedging reserves	Currency translation	Reserve own shares	Other reserves	Reserves	Proposed dividends	Danfoss A/S' share of equity	Minority interest	Total equity
Balance as of 1 January 2011	1,027	136	-130	-310	-113	9,026	8,473	102	9,738	1,962	11,700
Comprehensive income in 2011											
Net profit						611	611	329	940	374	1,314
Other comprehensive income											
Foreign exchange adjustments on translation of foreign currencies				67			67		67	48	115
Fair value adjustment of hedging instruments:											
Fair value adjustment regarding hedging of net investments in subsidiaries				-50			-50		-50		-50
Fair value adjustment regarding hedging of future cash flows				-46			-46		-46	-4	-50
Fair value adjustment transferred to net sales				37			37		37		37
Actuarial gain/loss (-) on pension and healthcare plans						-166	-166		-166	-37	-203
Tax on other comprehensive income				2	16	45	63		63	13	76
Total other comprehensive income				-7	33	-121	-95		-95	20	-75
Total comprehensive income for the period				-7	33	490	516	329	845	394	1,239
Transactions with owners											
Dividends to shareholders								-102	-102	-102	-204
Purchase of minority interest						-5	-5		-5	-3	-8
Capital increase/purchase of treasury shares	16	549			-701		-701		-136	6	-130
Total transactions with owners	16	549			-701	-5	-706	-102	-243	-99	-342
Balance as of 31 December 2011	1,043	685	-137	-277	-814	9,511	8,283	329	10,340	2,257	12,597
Comprehensive income in 2012											
Net profit						1,598	1,598	400	1,998	359	2,357
Other comprehensive income											
Foreign exchange adjustments on translation of foreign currencies				-6			-6		-6	-30	-36
Fair value adjustment of hedging instruments:											
Fair value adjustment regarding hedging of net investments in subsidiaries				35			35		35		35
Fair value adjustment regarding hedging of future cash flows				39			39		39	2	41
Fair value adjustment transferred to net sales				87			87		87	5	92
Actuarial gain/loss (-) on pension and healthcare plans						-176	-176		-176	-26	-202
Tax on other comprehensive income				-30	-9	49	10		10	8	18
Total other comprehensive income				96	20	-127	-11		-11	-41	-52
Total comprehensive income for the period				96	20	1,471	1,587	400	1,987	318	2,305
Transactions with owners											
Dividends to shareholders						9	9	-329	-320	-237	-557
Capital increase/purchase of treasury shares	7	228			-387		-387		-152		-152
Capital reduction	-30	-543			926	-353	573				
Total transactions with owners	-23	-315			539	-344	195	-329	-472	-237	-709
Balance as of 31 December 2012	1,020	370	-41	-257	-275	10,638	10,065	400	11,855	2,338	14,193

STATEMENT OF CHANGES IN EQUITY (continued)

DKKm

Parent Company

	Share capital	Share premium	Hedging reserves	Reserve own shares	Other reserves	Reserves	Proposed dividends	Total equity
Balance as of 1 January 2011	1,027	136	-103	-113	4,648	4,432	102	5,697
Merger with subsidiary					98	98		98
Comprehensive income in 2011								
Net profit					-623	-623	329	-294
Other comprehensive income								
Fair value adjustment of hedging instruments:								
Fair value adjustment for the year			36			36		36
Tax on other comprehensive Income			-9			-9		-9
Total other comprehensive Income			27			27		27
Total comprehensive income for the period			27		-623	-596	329	-267
Transactions with owners								
Dividends to shareholders							-102	-102
Capital increase/purchase of treasury shares	16	549		-701		-701		-136
Total transactions with owners	16	549		-701		-701	-102	-238
Balance as of 31 December 2011	1,043	685	-76	-814	4,123	3,233	329	5,290
Comprehensive income in 2012								
Net profit					178	178	400	578
Other comprehensive income								
Fair value adjustment of hedging instruments:								
Fair value adjustment for the year			33			33		33
Tax on other comprehensive income			-8			-8		-8
Total other comprehensive income			25			25		25
Total comprehensive income for the period			25		178	203	400	603
Transactions with owners								
Dividends to shareholders					9	9	-329	-320
Capital increase/purchase of treasury shares	7	228		-387		-387		-152
Capital reduction	-30	-543		926	-353	573		
Total transactions with owners	-23	-315		539	-344	195	-329	-472
Balance as of 31 December 2012	1,020	370	-51	-275	3,957	3,631	400	5,421

Notes

1. Segment reporting
2. Expenses and other operating income
3. Non-current financial assets
4. Financial income
5. Financial expenses
6. Tax on profit from continuing operations
7. Earnings per share
8. Intangible assets
9. Property, plant and equipment
10. Inventories
11. Trade receivables and receivables from subsidiaries
12. Securities
13. Share capital
14. Provisions
15. Share incentive programs
16. Deferred tax, etc.
17. Pension and healthcare obligations
18. Financial risks and instruments
19. Corporation tax payable
20. Adjustment for non-cash transactions
21. Change in working capital
22. Acquisition and sale of subsidiaries and activities
23. Discontinued operations
24. Acquisition(-)/disposal of shares, other securities and lending
25. Contingent liabilities, assets and security
26. Related parties
27. Events after the balance sheet date
28. New accounting regulations
29. Basis of preparation
30. Critical accounting estimates and judgements
31. Accounting policies

1. Segment reporting

DKKm

Main business segments

INCOME STATEMENT

	2011				2012			
	Danfoss Climate & Energy	Sauer-Danfoss Inc. (US GAAP)	Other areas	Group	Danfoss Climate & Energy	Sauer-Danfoss Inc. (US GAAP)	Other areas	Group
Net sales	21,791	11,022	1,091	33,904	22,411	11,097	499	34,007
internal net sales	51	48	-99		39	45	-84	
Net sales, external	21,740	10,974	1,190	33,904	22,372	11,053	582	34,007
Depreciation/amortization	835	472	367	1,674	885	466	375	1,726
Net gain upon disposal of activities			578	578		1	11	12
Impairment/reversal of impairment losses previous years (-)	2		22	24	270		-12	258
Operating profit (EBIT)	2,289	1,963	-26	4,226	2,541	1,858	-654	3,745
Share of profit from associates and joint ventures after tax	16			16	-4		2	-2
Profit before financial items	2,305	1,963	-26	4,242	2,537	1,858	-652	3,743

BALANCE SHEET

Total assets *)	14,700	7,304	6,120	28,124	14,805	7,892	5,071	27,768
Capital expenditure for the year	935	277	123	1,335	1,623	284	146	2,053
Impairment losses for the year	2		22	24	270			270
Investment in associates and joint ventures	154		10	164	68		12	80
Total liabilities	3,863	3,972	7,692	15,527	3,991	3,945	5,639	13,575

OTHER INFORMATION

Number of employees	14,747	6,481	2,202	23,430	14,319	6,363	2,410	23,092
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The two segments, "Danfoss Climate & Energy" and "Sauer-Danfoss Inc." are further described in separate reports. As described in "Accounting policies" for segment information, the items cash and cash equivalents, interest-bearing debt and tax liabilities/assets are not allocated to the segments.

*) Cash and cash equivalents, interest-bearing debt, deferred tax liabilities/assets and adjustments from US GAAP to IFRS have been recorded in the column "Other areas".

1. Segment reporting (continued)

DKKm

Products and services

	Group	
	2011	2012
Heating, Ventilation and Air conditioning (HVAC)	21,588	22,194
Hydraulics	11,223	11,337
Other	1,093	476
	33,904	34,007

Geographical segments

	Group									
	2011									
	Denmark	Other EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales	1,172	13,290	3,344	6,041	7,116	286	667	1,579	409	33,904
Total non-current assets *)	5,887	3,618	284	1,878	4,171		86	244		16,168

	Group									
	2012									
	Denmark	Other EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales	1,272	12,463	3,663	5,899	7,945	274	551	1,556	384	34,007
Total non-current assets *)	4,548	4,164	245	1,197	5,520		14	61		15,749

*) Deferred tax assets are not included.

The geographical distribution of "Net sales" is based on the external customers' country of residence. The distribution of "Total non-current assets" is based on the actual geographical location of the assets.

1. Segment reporting (continued)

DKKm

Specification of other areas - External net sales

	Group	
	2011	2012
Non-reportable segments	1,191	583
Sauer-Danfoss Inc. IFRS adjustments	-1	-1
Total net sales	1,190	582

Specification of other areas - Profit before financial items

	Group	
	2011	2012
Net gain upon disposal of activities	578	12
Non-reportable segments	-86	-3
Central functions, not allocated	-311	-274
Sauer-Danfoss Inc. - IFRS adjustments *)	-182	-297
Eliminations of intra-group profits etc.	-25	-90
Profit before financial items	-26	-652

*) The Sauer-Danfoss segment IFRS adjustments relate to the conversion of the results from US GAAP to IFRS, incl. PPA amortization and impairment.

Specification of other areas - Assets

	Group	
	2011	2012
Non-reportable segments	405	238
Central functions not allocated *)	2,039	2,150
Sauer-Danfoss Inc. - IFRS and PPA adjustments	4,656	4,592
Eliminations of intra-group accounts etc. **)	-980	-1,909
Total assets	6,120	5,071

Specification of other areas - Liabilities

	Group	
	2011	2012
Non-reportable segments	339	348
Central functions not allocated ***)	1,704	2,301
Net interest bearing debt	5,833	3,703
Sauer-Danfoss Inc. - IFRS and PPA adjustments	998	1,193
Eliminations of intra-group accounts etc. **)	-1,182	-1,906
Total Liabilities	7,692	5,639

*) Central functions, not allocated, are primarily deferred tax and cash and cash equivalents.

**) Primarily intra-group interest-bearing debt/receivables in the Sauer-Danfoss Segment. Interest-bearing debt is not included in "Danfoss Climate & Energy".

***) Central functions not allocated are primarily deferred tax and central function liabilities.

2. Expenses and other operating income

DKKm

A. Personnel expenses

	Parent Company		Group	
	2011	2012	2011	2012
Salaries and wages	1,568	1,561	7,184	7,777
Termination benefits	19	12	100	66
Share-based remuneration *)	15	5	23	9
Social security	14	15	594	649
Defined contribution plans	125	129	428	432
Defined benefit plans excluding gains from reductions and redemptions **)			64	57
Gains from reductions and redemptions			-136	
	<u>1,741</u>	<u>1,722</u>	<u>8,257</u>	<u>8,990</u>
Average number of employees	3,155	2,941	24,133	23,173
Total number of employees as of end of the year	3,036	2,864	23,430	23,092

*) Benefits cf. further information in note 15. Share incentive programs.

***) Expenses for defined benefit plans are described in note 17. Pension and healthcare obligations.

	Parent Company		Group	
	2011	2012	2011	2012
Personnel expenses distribution on functions:				
Cost of sales	1,195	1,163	4,586	4,645
Selling and distribution costs	230	247	2,762	3,220
Administrative expenses	297	300	945	1,059
Other operating income and expenses	19	12	-36	66
	<u>1,741</u>	<u>1,722</u>	<u>8,257</u>	<u>8,990</u>

	Parent Company		Group	
	2011	2012	2011	2012
Board of Directors:				
Directors' fees	3	3	4	4
	<u>3</u>	<u>3</u>	<u>4</u>	<u>4</u>
Executive Committee:				
Salaries	20	22	21	23
Pension costs re. defined contribution plans		2		2
Bonuses	29	33	29	33
Share-based remuneration *)	6	2	6	2
	<u>55</u>	<u>59</u>	<u>56</u>	<u>60</u>
Executives:				
Salaries	15	14	23	25
Pension costs re. defined contribution plans	1	1	3	3
Bonuses	10	13	22	29
Share-based remuneration *)	3	1	5	1
	<u>29</u>	<u>29</u>	<u>53</u>	<u>58</u>
Termination benefits:				
Executives	4	2	4	10
Total compensation	<u>91</u>	<u>93</u>	<u>117</u>	<u>132</u>

*) Costs recorded according to the Black and Scholes model at the option grant date.

2. Expenses and other operating income (continued)

DKKm

B. Depreciation/amortization and impairment losses

	Parent Company		Group	
	2011	2012	2011	2012
Classified by nature:				
Amortization of intangible assets	84	85	505	503
Impairment on intangible assets				270
	84	85	505	773
Depreciation of property, plant and equipment	171	174	1,172	1,222
Impairment on property, plant and equipment	2		24	
Reversal of impairment losses on property, plant and equipment				-12
	173	174	1,196	1,210
Depreciation and impairment for the year	257	259	1,701	1,983
Classified by functions:				
Intangible assets:				
Cost of sales	61	68	317	313
Selling and distribution costs	12	7	139	143
Administrative expenses	11	10	49	47
Other operating expenses				270
	84	85	505	773
Property, plant and equipment:				
Cost of sales	156	146	1,086	1,120
Selling and distribution costs	2	2	57	63
Administrative expenses	13	26	29	39
Other operating income				-12
Other operating expenses	2		24	
	173	174	1,196	1,210
	257	259	1,701	1,983

C. Research and development costs

	Parent Company		Group	
	2011	2012	2011	2012
Research and development costs	248	275	1,263	1,324
Capitalized development costs	-1	-5	-26	-48
Amortization and impairment of development assets	25	28	74	75
	272	298	1,311	1,351

Research and development costs are included in "Cost of sales".

D. Other operating income

	Parent Company		Group	
	2011	2012	2011	2012
Gain on disposal of activities	1	26	578	12
Gain on value adjustment on step acquisition of company				275
Gain on disposal of property, plant and equipment	6	6	19	32
Reversal of impairment losses on property, plant and equipment				12
Other	7	15	172	94
	14	47	769	425

In 2012, the Group obtained control of Danfoss Turbocor Inc. through a step acquisition. In connection with this, the original investment was revalued at fair value at the date of acquisition and the value adjustment recognised above under Value adjustment on step acquisition of company. In 2011, the item primarily consisted of a profit from the sale of activities relating to the Group's sale of Danfoss Water Controls and Danfoss Geared Motors, further detailed in note 22. Acquisition and sale of subsidiaries and activities.

In 2011, the most significant amount under the item "Other" was income recognition of pension obligations in The Netherlands and income recognition of health obligations in the USA caused by a transfer to an external cooperation partner (as a result of a shift from defined benefit plans to defined contribution plans).

2. Expenses and other operating income (continued)

DKKm

E. Other operating expenses

	Parent Company		Group	
	2011	2012	2011	2012
Loss on disposal of property, plant and equipment	-4	-3	-12	-24
Impairment	-2		-24	-270
Other	-502	-77	-160	-91
	<u>-508</u>	<u>-80</u>	<u>-196</u>	<u>-385</u>

Impairment for the year is based on expected value in use.

Impairment for the year relates to impairment losses on technology and customer relations in Scroll Technologies, USA. In recent years, Scroll Technologies has been impacted by the financial crisis and by the competitive situation in the North American market. Technology and customer relations have therefore been written down to the lower recoverable amount. The item "Other" includes DKK 66m in severance payments, primarily related to terminations in Denmark and Sweden. In 2011, the item included DKK 100m in severance payments, mainly related to terminations in Germany, France and the USA.

F. Fees to the auditors appointed at the Annual General Meeting

	Parent Company		Group	
	2011	2012	2011	2012
KPMG:				
Audit fee	6	5	28	25
Fees for assurance engagements				
Tax and VAT advice	1	2	4	6
Other fees	3	2	5	6
Total	<u>10</u>	<u>9</u>	<u>37</u>	<u>37</u>

3. Non-current financial assets

DKKm

	Parent Company				Group	
	2011				2011	
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Investments in associates and joint ventures	Other investments
Cost as of 1 January	9,542	1,135	385	2	400	132
Merger with subsidiary	104					
Foreign exchange adjustments etc.					10	
Additions	49					13
Disposals		-3	-18		-17	
Costs as of 31 December	9,695	1,132	367	2	393	145
Adjustments as of 1 January	-1,182		-60		-224	-100
Foreign exchange adjustments etc.					-9	
Net profit/value adjustment					16	-2
Impairment	-25					
Dividends					-12	
Adjustments as of 31 December	-1,207		-60		-229	-102
Carrying amount as of 31 December	8,488	1,132	307	2	164	43

Impairment of "Investments in subsidiaries" mainly concerns Avenir Energie, ECO Heat Pumps Ltd., Danfoss S.A. de C.V., which were written down to value in use and reversal of previous years' impairment relating to Sauer-Danfoss Inc.

	Parent Company				Group	
	2012				2012	
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Investments in associates and joint ventures	Other investments
Costs as of 1 January	9,695	1,132	367	2	393	145
Foreign exchange adjustments etc.					5	
Additions	489					44
Transfer relating to step acquisition of company	222		-222		-245	
Disposals	-40	-129	-7			-55
Costs as of 31 December	10,366	1,003	138	2	153	134
Adjustments as of 1 January	-1,207		-60		-229	-102
Foreign exchange adjustments etc.					-4	
Transfer relating to step acquisition of company					177	
Net profit/value adjustment					-2	-4
Reversed impairment/impairment for the year	6		-12			
Dividends					-15	
Adjustments as of 31 December	-1,201		-72		-73	-106
Carrying amount as of 31 December	9,165	1,003	66	2	80	28

At the end of 2012, impairment tests were performed on the carrying amount of "Investments in subsidiaries". When performing the impairment test, the present value of cash flow from subsidiaries is compared with their carrying amount. Where possible, "Other investments" are recognized at fair value. Alternatively, they are recognized at cost less accumulated impairment losses.

Transfer for the year of "Investments in associates/joint ventures" relates to Danfoss Turbocon Compressors. For further information, see note 22 Acquisition and sale of subsidiaries and activities.

Impairment of "Investments in subsidiaries" mainly concerns Danfoss-Semco A/S, which were written down to value in use and reversal of previous years' impairment relating to Danfoss FZCO.

Further information on associates and joint ventures is provided in the notes 4. Financial income, 5. Financial expenses, 18. Financial risks and instruments and 26. Related parties.

4. Financial income

DKKm

	Parent Company		Group	
	2011	2012	2011	2012
Interest from subsidiaries	289	245		
Interest from associates and joint ventures	3	3	4	6
Interest from banks etc.	16	8	33	33
Foreign exchange gains, net		51		
Unrealized/realized gains on loans, bonds and shares	5		6	
Fair value adjustment for stock options and warrants *)		33		49
Dividend from subsidiaries	802	639		
Dividend from associates and joint ventures	13	8		
	<u>1,128</u>	<u>987</u>	<u>43</u>	<u>88</u>

*) Cf. note 15. Share incentive programs.

5. Financial expenses

DKKm

	Parent Company		Group	
	2011	2012	2011	2012
Interest to subsidiaries	-43	-24		
Interest to banks etc.	-235	-197	-324	-277
Interest element on discounted liabilities	-1	-2	-1	-3
Foreign exchange losses, net	-138		-101	-37
Fair value adjustment of share options and warrants *)	-425		-644	
Impairment/loss on loans	-499	-126	-2	-141
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-25	-6		
Loss on other investments				-4
Borrowing costs recognised in the cost of assets	4	3	5	3
	<u>-1,362</u>	<u>-352</u>	<u>-1,067</u>	<u>-459</u>

*) Cf. note 15. Share incentive programs.

Impairment writedown on loans to subsidiaries in 2012 and 2011 was primarily made as a consequence of the 2010 sale of the compressor business.

An effective interest rate equal to the Group's weighted average general borrowing costs was used for the calculation of borrowing costs pertaining to the cost of assets.

No specific loans have been raised for the construction or development of assets.

6. Tax on profit from continuing operations

DKKm	Parent Company		Group	
	2011	2012	2011	2012
Current tax expense	-197	-89	-806	-812
Change in deferred tax	38	-206	-173	-216
Adjustments concerning previous years	7	-229	6	13
	-152	-524	-973	-1,015
Tax on profit from continuing operations is defined as:				
Tax on profit before tax on continuing operations	25.0%	25.0%	25.0%	25.0%
Share of profit from associates and joint ventures after tax			-0.1%	
Adjustment of tax in foreign subsidiaries calculated at 25%			3.1%	2.4%
Tax exempt income/non-deductible expenses	-272.5%	7.4%	2.7%	1.9%
Adjustment of net tax assets				0.7%
Dividends exempt of tax	143.5%	-14.7%		
Adjustments concerning previous years	5.6%	20.8%	-0.5%	-0.4%
Other adjustments	-8.6%	9.0%		0.5%
Effective tax rate	-107.0%	47.5%	30.2%	30.1%
	Parent Company		Group	
	2011	2012	2011	2012
Tax on profit from continuing operations (income statement)	-152	-524	-973	-1,015
Tax on fair value adjustment of hedging instruments (other comprehensive income)	-9	-8	18	-39
Tax on actuarial gain/loss on pension and health care plans (other comprehensive income)			58	57
Total taxes	-161	-532	-897	-997

7. Earnings per share

DKKm	Group	
	2011	2012
Net profit from continuing operations	2,245	2,357
Minority interests	-374	-359
The Group's share of net profit from continuing operations	1,871	1,998
Profit from discontinued operations	-931	
The Group's share of net profit	940	1,998
Nominal value (DKKm)		
Average number of shares	1,039.1	1,033.6
Average number of treasury shares	-21.2	-21.1
Average number of shares issued	1,017.9	1,012.5
Average dilutive effect of share options/warrants	41.7	12.0
Diluted average number of shares issued	1,059.6	1,024.5
Basic earnings per share (share of nominal 100 DKK) from continuing operations	183.8	197.3
Diluted earnings per share (share of nominal 100 DKK) from continuing operations	176.6	195.0
Basic earnings per share (share of nominal 100 DKK)	92.3	197.3
Diluted earnings per share (share of nominal 100 DKK)	88.7	195.0

8. Intangible assets

DKKm	Group							
	2011							
	Goodwill	Software	Brand	Technology	Customer relations	Patents, trademarks etc.	Development costs	Total
Cost as of 1 January	4,881	653	897	2,981	1,693	443	506	7,173
Foreign exchange adjustments in foreign companies	169	3	13	40	27	3	6	92
Additions through acquisition of subsidiaries	1							
Transfers					51	-51		
Additions		76					26	102
Disposals	-146	-73		-26	-12			-111
Cost as of 31 December	4,905	659	910	2,995	1,759	395	538	7,256
Amortization and impairment losses as of 1 January	962	510		567	380	311	185	1,953
Foreign exchange adjustments in foreign companies	126	2		14	12	4	4	36
Transfers					17	-17		
Amortization		70		198	140	23	74	505
Disposals	-11	-69		-10	-5			-84
Amortization and impairment losses as of 31 December	1,077	513		769	544	321	263	2,410
Carrying amount as of 31 December	3,828	146	910	2,226	1,215	74	275	4,846
	Group							
	2012							
	Goodwill	Software	Brand	Technology	Customer relations	Patents, trademarks etc.	Development costs	Total
Cost as of 1 January	4,905	659	910	2,995	1,759	395	538	7,256
Foreign exchange adjustments in foreign companies	-10	-1	-8	-29	-16	-5	-3	-62
Addition through acquisition of subsidiaries	562			187	38			225
Additions		57				2	48	107
Disposals	-67	-43		-17	-11	-1	-11	-83
Cost as of 31 December	5,390	672	902	3,136	1,770	391	572	7,443
Amortization and impairment losses as of 1 January	1,077	513		769	544	321	263	2,410
Foreign exchange adjustments in foreign companies	12	-2		-12	-8	-5	-2	-29
Amortization		60		204	145	19	75	503
Impairments				210	60			270
Disposals		-37		-10	-6	-1	-5	-59
Amortization and impairment losses as of 31 December	1,089	534		1,161	735	334	331	3,095
Carrying amount as of 31 December	4,301	138	902	1,975	1,035	57	241	4,348

Addition through acquisition of subsidiaries relates to Danfoss Turbocor Compressors. For further information, see note 22 Acquisition and sale of subsidiaries and activities.

Impairment tests

At the end of 2012, impairment tests have been performed on the carrying amount of goodwill and brand (assets with indefinite useful lives). The impairment tests were performed on divisions representing the base level of cash generating units (CGUs) to which the carrying amount of goodwill and brand can be allocated with reasonable accuracy.

Acquired activities and companies are integrated as quickly as possible into the division for optimum synergy. One of the consequences is that soon after it will not be possible to allocate the carrying amount of goodwill to the acquired companies and activities with reasonable accuracy, and thus it will no longer be possible to perform impairment tests on these individual acquisitions. At the impairment test, the net present value of the estimated net cash flow from the CGUs are compared with the carrying amounts of the assets. The expected cash flow is based on budgets and forecasts for the years 2013-2022 prepared and approved by management in the respective CGUs and Group management. The forecasts were elaborated for a 10 year period in accordance with the fact that decisions on acquisitions are made on the basis of 10-year forecasts. The primary variables are sales, EBIT, working capital and investments. The discount rates are set under consideration of the individual CGU's size, main geographical markets, risks and the coherence with Danfoss' core business areas.

8. Intangible assets (continued)

The most significant goodwill allocations as well as the most significant assumptions for the performed impairment tests have been described below.

Group 2011					
	Danfoss Heating Solutions	Sauer- Danfoss Inc.	Danfoss Refriger- ation & A/C Controls	Danfoss Commercial Com- pressors	Other
Share of the Group's goodwill at the end of 2011	32%	24%	14%	14%	16%
Share of the Group's brand at the end of 2011		100%			
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	2%
Discount rate before tax in % as of 31 December	12%	12%	12%	12%	12%
Sensitivity analysis of the impairment test:					
Possible growth reduction in the terminal period (percentage points)	*)	*)	*)	*)	
Possible increase in the discount rate (percentage points)	<20	<16	<44	<6	
Group 2012					
	Danfoss Heating Solutions	Sauer- Danfoss Inc.	Danfoss Refriger- ation & A/C Controls	Danfoss Commercial Com- pressors	Other
Share of the Group's goodwill at the end of 2012	29%	21%	13%	25%	12%
Share of the Group's brand at the end of 2012		100%			
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	2%
Discount rate before tax in % as of 31 December	12%	12%	12%	12%	12%
Sensitivity analysis of the impairment test:					
Possible growth reduction in the terminal period (percentage points)	*)	**)	*)	*)	
Possible increase in the discount rate (percentage points)	<15	**)	<40	<9	

*) The expected growth in the terminal period can be reduced to zero without resulting in a need for impairment writedown.

***) Please see comments below in section concerning Sauer-Danfoss Inc.

Danfoss Heating Solutions

The goodwill allocated to Danfoss Heating Solutions (HS) derives primarily from the acquisition of the Devi Group in 2003 and Thermia Wärme AB in Sweden in 2005. Earnings were at a satisfactory level in 2012 and are expected to exceed the general development share until 2022. The net cash flow during the terminal period from 2023 and onwards is estimated at a 2% annual growth level, which is assumed to be at or below the market development. EBIT margin is expected to remain unchanged during the terminal period, and so is the working capital as a percentage of sales. Investments are assumed to be at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2011: 0%), or the discount cash flow rate can be increased by up to 15% (2011: 20%), without causing a need for impairment.

Sauer-Danfoss Inc.

The intangible fixed assets with indefinable useful lifetime, assigned to Sauer-Danfoss Inc., comprise of goodwill and brand and derive from Danfoss' financial recognition of the purchase of an additional 38.2% of the share capital in Sauer-Danfoss Inc. in 2008.

The impairment test has, due to the ongoing Tender Offer Process concerning Sauer-Danfoss Inc, not been updated. The underlying assets and liabilities have not changed significantly since last year. The impairment test showed in 2011 a recoverable amount significantly exceeding book values of Sauer-Danfoss Inc. Management has therefore, based on last years impairment test, no indications of impairment on goodwill or brand concerning Sauer-Danfoss Inc.

Danfoss Refrigeration & A/C Controls

The goodwill allocated to Danfoss Refrigeration & A/C Controls (RC) derives primarily from the acquisition of Aztec Energy Partners in the USA in 2006 and Chatleff LLC in the USA in 2007. The result in RC has been satisfactory in 2012 and it is also assumed that future growth will be significant. The result is expected to remain unchanged. The weighted average growth rate until 2022 is estimated at a higher level compared to the general market development and therefore assuming a higher market share. The net cash flow during the terminal period from 2023 and onwards is estimated at a 2% annual growth level and is assumed to be at or below the market development level. EBIT margin is estimated to remain unchanged during the terminal period and so is the working capital in % of sales. Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2012: 0% point) or that the discounted cash flow rate can be increased by up to 40% (2011: 44%) without causing a need for impairment.

8. Intangible assets (continued)

Danfoss Commercial Compressors

The goodwill attributable to Danfoss Commercial Compressors (CC) derives primarily from the acquisitions of Scroll Technologies, USA in 2006 and of Danfoss Turboacor Compressors, USA in 2012.

The result in CC has been satisfactory in 2012 and the weighted average growth rate until 2022 is estimated at a higher level than the general market development and therefore assuming a higher market share. The net cash flow during the terminal period from 2023 and onwards is estimated at a 2% annual growth level and is assumed to be at or below the market development level. EBIT margin is estimated to remain unchanged during the terminal period and so is the working capital in % of sales.

Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2012: 0% point) or that the discounted cash flow rate can be increased by up to 9% (2011: 6%) without causing a need for impairment.

Other intangible assets

Software in progress amounts to DKK 37m (2011: 54m). Of the entire Group's development activities capitalised development expenditure in progress amounts to DKK 52m (2011: 55m). Development activities in progress are related to a larger amount of development projects in several segments. Software and capitalised development expenditure was mainly built up internally.

In 2012, the Group performed impairment tests for the carrying amount of software and development in progress. The project development process related to the actual expenses and achieved milestones has been evaluated according to the approved project and business plans. This has not led to a impairment of current development assets (2011: 0 DKK).

In 2012, in Danfoss Commercial Compressors evidence was found of permanent impairment of technology and customer relations acquired in connection with the acquisition of Scroll Technologies, USA. In recent years, Scroll Technologies has been impacted by the financial crisis and by the competitive situation in the North American market. Technology and customer relations have therefore been written down by a total of DKK 270m to the lower recoverable amount. The recoverable amount has been calculated at a value in use of DKK 0, constituting the value of the obsolete technology and loss of customer relations. The expense is recognized in the income statement under other operating expenses. For the remaining intangible assets, their recoverable amounts are assessed to exceed their carrying amounts.

DKKm

Parent Company					
2011					
	Goodwill	Software	Trademarks, patents etc.*)	Develop- ment costs	Total
Cost as of 1 January	462	422	171	141	734
Additions		59	49	1	109
Disposals		-52			-52
Cost as of 31 December	462	429	220	142	791
Amortization and impairment losses as of 1 January		337	132	39	508
Amortization		44	15	25	84
Disposals		-52			-52
Amortization and impairment losses as of 31 December		329	147	64	540
Carrying amount as of 31 December	462	100	73	78	251
Parent Company					
2012					
	Goodwill	Software	Trademarks, patents etc.*)	Develop- ment costs	Total
Cost as of 1 January	462	429	220	142	791
Additions		37	11	5	53
Disposals		-22			-22
Cost as of 31 December	462	444	231	147	822
Amortization and impairment losses as of 1 January		329	147	64	540
Amortization		44	13	28	85
Disposals		-22			-22
Amortization and impairment losses as of 31 December		351	160	92	603
Carrying amount as of 31 December	462	93	71	55	219

*) The amounts under Patents, trademarks etc. are mainly related to patents.

In relation to the Parent Company's intangible assets, impairment tests of the carrying amounts were carried out at the end of 2012. For more information, please refer to the section "Impairment tests" for the Group. The impairment tests indicates that there is no need for impairment writedowns in 2012.

9. Property, plant and equipment

DKKm

	Group			
	2011			
	Land and buildings	Plant and machinery	Equipment	Assets under construction
Cost as of 1 January	4,928	8,402	903	505
Foreign exchange adjustments in foreign companies	19	49	-7	8
Additions through acquisition of subsidiaries			1	
Transfers	102	493	-13	-582
Additions	51	189	110	882
Disposals	-245	-734	-78	-15
Cost as of 31 December	4,855	8,399	916	798
Depreciation and impairment losses as of 1 January	2,075	4,867	657	
Foreign exchange adjustments in foreign companies	-3	4	-3	
Transfers	9	4	-16	
Depreciation	162	934	76	
Impairments	22	2		
Disposals	-112	-639	-72	
Depreciation and impairment losses as of 31 December	2,153	5,172	642	
Carrying amount as of 31 December	2,702	3,227	274	798
Hereof assets held under finance leases		17	72	

	Group			
	2012			
	Land and buildings	Plant and machinery	Equipment	Assets under construction
Cost as of 1 January	4,855	8,399	916	798
Foreign exchange adjustments in foreign companies	100	68	-4	-3
Addition through acquisition of subsidiaries	12	23	3	2
Transfers	255	-352	1,090	-993
Additions	85	228	71	734
Disposals	-59	-504	-64	-11
Cost as of 31 December	5,248	7,862	2,012	527
Depreciation and impairment losses as of 1 January	2,153	5,172	642	
Foreign exchange adjustments in foreign companies	43	80	-3	
Transfers	24	-612	588	
Depreciation	180	890	152	
Reversal of previous years' impairment	-12			
Disposals	-23	-505	-60	
Depreciation and impairment losses as of 31 December	2,365	5,025	1,319	
Carrying amount as of 31 December	2,883	2,837	693	527
Hereof assets held under finance leases	1	11	61	

The Group's finance leases mainly concern machinery and IT equipment. The Group has an option to acquire the leased machinery at favourable prices at the expiry of the leases. The leased assets are pledged as collateral for the lease liabilities.

9. Property, plant and equipment (continued)

DKKm

	Parent Company			
	2011			
	Land and buildings	Plant and machinery	Equipment	Assets under construction
Cost as of 1 January	258	2,268	389	135
Transfers	1	59	8	-68
Additions		6	71	175
Disposals		-58	-14	
Cost as of 31 December	259	2,275	454	242
Depreciation and impairment losses as of 1 January	223	1,823	274	
Depreciation	3	133	35	
Impairments		2		
Disposals		-52	-13	
Depreciation and impairment losses as of 31 December	226	1,906	296	
Carrying amount as of 31 December	33	369	158	242
Hereof assets held under finance leases			59	

	Parent Company			
	2012			
	Land and buildings	Plant and machinery	Equipment	Assets under construction
Cost as of 1 January	259	2,275	454	242
Transfers	6	69	319	-394
Additions		1	18	199
Disposals		-92	-5	-1
Cost as of 31 December	265	2,253	786	46
Depreciation and impairment losses as of 1 January	226	1,906	296	
Depreciation	3	119	52	
Disposals		-88	-5	
Depreciation and impairment losses as of 31 December	229	1,937	343	
Carrying amount as of 31 December	36	316	443	46
Hereof assets held under finance leases			59	

The Parent Company's financial leases mainly concern IT equipment. The leased assets are pledged as collateral for the lease liabilities.

10. Inventories

DKKm	Parent Company		Group	
	2011	2012	2011	2012
Inventories before provision for obsolescence	799	789	5,041	4,481
Provision for obsolescence	-61	-70	-456	-431
Inventories	738	719	4,585	4,050
Carrying amount of inventories stated at net realizable value	50	50	347	376
Expensed adjustment of inventories to net realizable value included in cost of sales	4	5	113	42
Cost of goods sold included in cost of sales	4,008	4,024	16,625	16,741

11. Trade receivables and receivables from subsidiaries

DKKm	Parent Company		Group	
	2011	2012	2011	2012
Trade receivables before provision for bad debts	231	219	4,411	4,555
Provision for bad debts	-11	-10	-165	-151
Trade receivables	220	209	4,246	4,404
Trade receivables due after 1 year			2	3
Provision for bad debts as of 1 January	-11	-11	-171	-165
Foreign exchange adjustments			3	-1
Change in provisions during the year	-1	-1	-31	-30
Realized loss during the year	1	2	34	45
Provision for bad debts as of 31 December	-11	-10	-165	-151
Trade receivables from subsidiaries	1,647	697		
Short-term borrowings to subsidiaries	3,491	1,864		
Receivables from subsidiaries	5,138	2,561		

12. Securities

DKKm	Parent Company		Group	
	2011	2012	2011	2012
Listed bonds			85	

The Group's own reinsurance company was wound up during 2012 and its portfolio of securities accordingly sold.

13. Share capital

Shareholders holding more than 5% of the shares or 5% of the votes

	Shares	Votes
Bitten & Mads Clausen Foundation, Nordborg, Denmark	46.51%	85.02%
Clausen Controls A/S, Sonderborg, Denmark	25.65%	5.40%
Henrik Mads Clausen, Lake Forrest, USA	10.78%	2.27%
Karin Clausen, Holte, Denmark	7.08%	1.49%

Distribution of shares

2011									
A shares			B shares			Total shares			
No.	Nominal value	DKKm	No.	Nominal value	DKKm	No.	DKKm		
4,250,000	100 DKK	425.0	6,181,028	100 DKK	618.1	10,431,028	1,043.1		

2012									
A shares			B shares			Total shares			
No.	Nominal value	DKKm	No.	Nominal value	DKKm	No.	DKKm		
4,250,000	100 DKK	425.0	5,954,554	100 DKK	595.4	10,204,554	1,020.4		

Class A shares entitle the holder to ten votes for each share while Class B shares entitle the holder to one vote for each share. The holders of class A shares also have pre-emptive class A shares in the event of any increases in share capital. Otherwise no shares have special rights.

Resolutions regarding amendments to the Articles of Association or Danfoss A/S' dissolution require at least two-thirds of the votes cast as well as two-thirds of the voting share at the general meeting to be adopted.

Capital increase and reduction

DKKm	2008	2009	2010	2011	2012
Capital increase	3			16	7
Capital reduction					-30
	3			16	-23

Dividend per share (DKK)

	2011	2012
Proposed dividend per 100 DKK share	31.5	39.2
Dividend paid per 100 DKK share	10.0	31.5

Dividend payment to shareholders has no tax consequences for Danfoss A/S.

The development in the Group's holding of treasury shares (No.) is as follows (B-shares of 100 DKK)

	2011	2012
Holding as of 1 January	67,574	269,379
Acquired in the year from employees and the board	207,272	120,362
Sold in the year to the board	-5,467	-599
Capital reduction		-300,000
Holding as of 31 December	269,379	89,142

The primary purpose of holding treasury shares is to secure the share option programme in Danfoss A/S. The total cost in 2012 for own shares amounts to DKK 389m. (2011: 710m). The total selling price relating to treasury shares amounted to DKK 2m in 2012 (2011: 9m). The Group's holding of treasury shares represents 0.87% (2011: 2.58%) of Group's share capital. The value of treasury shares held amounts to DKK 285m (2011: 924m).

Capital management

It is the policy of the Group always to qualify for a comfortable "BBB credit rating".

14. Provisions

DKKm

Provisions as of 1 January
Foreign exchange adjustments etc.
Additions through acquisition of subsidiaries
Provisions used
Reversal of unused provisions
Additional provisions recognized
Disposals through sale of subsidiaries
Provisions as of 31 December

Estimated maturity of above provisions:

Within 1 year
Between 1 and 5 years
After more than 5 years

Group					
2012					
	Warranty	Restruc- turing	Contingent consideration	Other	Total
Provisions as of 1 January	476	32	5	269	782
Foreign exchange adjustments etc.	-22			-1	-23
Additions through acquisition of subsidiaries	21			4	25
Provisions used	-164	-19	-1	-39	-223
Reversal of unused provisions	-76	-10		-22	-108
Additional provisions recognized	303	35		67	405
Disposals through sale of subsidiaries	-1				-1
Provisions as of 31 December	537	38	4	278	857

Group		
	2011	2012
Within 1 year	332	391
Between 1 and 5 years	312	298
After more than 5 years	138	168
	782	857

Parent Company					
2012					
	Warranty	Restruc- turing	Contingent consideration	Other	Total
Provisions as of 1 January	28	3		32	63
Provisions used	-12	-1		-2	-15
Reversal of unused provisions	-8	-2			-10
Additional provisions recognized	63	2		10	75
Provisions as of 31 December	71	2		40	113

Estimated maturity of above provisions:

Within 1 year
Between 1 and 5 years
After 5 years

Parent Company		
	2011	2012
Within 1 year	28	72
Between 1 and 5 years	23	22
After 5 years	12	19
	63	113

Provisions for warranty comprise expected costs arising during the warranty period of the Group's products. As of 31 December receivables of DKK 60m related to provisions for warranty were recognized (2011: 0m).

The Group's provision for restructuring mainly relates to expected costs for termination benefits. Contingent consideration consists of earn out clauses in connection with acquisitions. The Group's other provisions mainly consist of certain employee expenses, including jubilee costs.

Provisions have been discounted to net present value if the values are significant.

15. Share incentive programs

In the Danfoss Group, share incentive programs in Danfoss A/S and the subsidiary Sauer-Danfoss Inc. are included. The general programs are described in individual sections.

Share incentive program Sauer-Danfoss Inc.

In 2006 a programme was established for certain members of the board of directors of Sauer-Danfoss Inc. The program permits the granting of share options and shares in Sauer-Danfoss Inc. to non-employee directors of Sauer-Danfoss Inc.

The right to shares is forfeited in case of non-fulfilment of certain conditions. In 2012, 13,500 (2011: 13,500) shares were issued under this programme. Outstanding, restricted shares amount to 40,500 shares. The total number of shares to be allotted and issued under this plan must not exceed 250,000. The Danfoss Group Board and Executive Committee have up until 2012 been granted 18,000 shares which remain subject to restrictions.

The fair value of performance units is determined at the share price for the Sauer-Danfoss Inc. share at the given dates.

Danfoss A/S share schemes

The calculation of fair values for the balance sheet as of the balance sheet dates and for stating the values as per the grant dates is based on the Black & Scholes model. The assumptions for the calculation of outstanding options and warrants are:

	2011	2012
Share price	3,431	3,198
Expected volatility	35.0%	36.0%
Expected dividends	1.0%	1.0%
Risk-free interest rate	1.4-3.6%	1.2-1.6%
Exercise prices and terms of maturity for the programs	See below	

Since Danfoss is not a listed company, the above share price calculation, which has been made by an independent third party, has been based on a comparison with a number of comparable domestic and international listed companies. The share price for 2012 of 3,198 was most recently adjusted at the Annual General Meeting in 2012 and will next be fixed at the Annual General Meeting in 2013.

Share incentive programs established in 2004 and subsequent programs

In 2004 and 2007 Danfoss A/S established share incentive programs for the Board and a warrant program for executive committee members and senior managers. The condition for participation in the programme was for the executive committee members and the senior managers to purchase compulsory shares.

The main condition for achieving the right to be granted options/warrants was for RONA to exceed a certain minimum level for the respective financial years. The granted options and warrants give the right to purchase/subscribe for class B shares (at 100 DKK each) at fixed exercise prices 3 years after the allotment date at the earliest.

In 2009, Danfoss A/S set up a new warrant program for executive committee members and senior managers. As opposed to previous programmes, participation in the 2009 program was not conditional on the purchase of shares. Likewise, a RONA minimum level was not defined for the program. Since Danfoss A/S has an obligation to buy back shares under the share option programs, provision is made in the balance sheet for this obligation.

Information on the 2004 and subsequent programmes

	Granted (year)	Granted (number)	Fair value at grant date (DKK each)	Earliest exercise	Latest exercise
Options/warrants - exercise price at 1,222	2005	86,459	564	May 2008	May 2015
Options/warrants - exercise price at 1,522	2006	84,895	762	May 2009	May 2016
Options/warrants - exercise price at 1,932	2007	97,121	983	May 2010	May 2017
Options/warrants - exercise price at 1,808	2008	59,053	895	May 2011	May 2014
Warrants - exercise price at 1,100	2009	139,050	365	May 2012	May 2015
		<u>466,578</u>			

15. Share incentive programs (continued)

Holdings and grants/disposals of options and warrants in relation to the 2004 and subsequent programmes are specified below:

	The Board (number)	Executive Committee (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (DKKm)
Granted options/warrants 1 January:						
Options/warrants - exercise price at 1,222	8,467		1,333	7,647	2,255	39
Options/warrants - exercise price at 1,522	8,467		2,666	18,055	2,068	60
Options/warrants - exercise price at 1,932	8,466	2,400	4,302	32,951	1,876	90
Options/warrants - exercise price at 1,808	6,038	1,875	638	15,207	1,766	42
Warrants - exercise price at 1,100		29,550	19,850	81,350	2,352	308
	31,438	33,825	28,789	155,210		539
Changes in the share price/fair value:						
Options/warrants - exercise price at 1,222					-296	-4
Options/warrants - exercise price at 1,522					-317	-10
Options/warrants - exercise price at 1,932					-333	-21
Options/warrants - exercise price at 1,808					-313	-9
Warrants - exercise price at 1,100					-287	-34
						-78
Disposal due to subscription of shares:						
Options/warrants - exercise price at 1,222	-8,000			-3,034	1,976	-22
Options/warrants - exercise price at 1,522	-8,000		-1,333	-9,068	1,676	-31
Options/warrants - exercise price at 1,932	-8,000		-1,634	-7,331	1,266	-21
Options/warrants - exercise price at 1,808	-5,250		-638	-7,841	1,390	-19
Warrants - exercise price at 1,100		-29,550	-18,300	-63,510	2,098	-234
	-29,250	-29,550	-21,905	-90,784		-327
Exercise/transfer due to retirements:						
Options/warrants - exercise price at 1,808				-90		
Warrants - exercise price at 1,100				-390		-1
				-480		-1
Granted options/warrants 31 December:						
Options/warrants - exercise price at 1,222	467		1,333	4,613	1,959	13
Options/warrants - exercise price at 1,522	467		1,333	8,987	1,751	19
Options/warrants - exercise price at 1,932	466	2,400	2,668	25,620	1,543	48
Options/warrants - exercise price at 1,808	788	1,875		7,276	1,453	14
Warrants - exercise price at 1,100			1,550	17,450	2,065	39
	2,188	4,275	6,884	63,946		133

The total provision as of 31 December 2012 for 2004 and subsequent share incentive programs has been calculated at DKK 133m (2011: 503m) and is recognized under current liabilities.

DKKm

Recognition of programs in the income statement

	2011	2012	2011	2012
	Financial items		Fixed expenses	
Subsidiaries	219	-16	8	4
Parent company	425	-33	15	5
The Danfoss Group	644	-49	23	9

16. Deferred tax, etc.

DKKm

Changes in deferred taxes

	Parent Company		Group	
	2011	2012	2011	2012
Deferred taxes as of 1 January, (net) *)	-76	-38	-182	-304
Foreign exchange adjustment in foreign companies			48	-52
Additions through acquisition of subsidiaries				-25
Adjustments concerning previous years		9		-9
Deferred tax recognized in the income statement	38	-206	-173	-216
Deferred tax recognized in other comprehensive income			58	57
Impairment related to sale of subsidiaries			-55	
Deferred taxes as of 31 December, (net) *)	-38	-235	-304	-549

*) Liability (-)

Specification of deferred tax

	Parent Company		Group	
	2011	2012	2011	2012
	Deferred tax asset	Deferred tax asset	Deferred tax asset	Deferred tax asset
Intangible assets			39	116
Property, plant and equipment and financial assets	50	2	327	196
Current assets	18		329	233
Liabilities	79	52	677	656
Tax loss carry-forwards			730	685
Non-capitalised tax assets re. tax losses			-166	-187
	147	54	1,936	1,699
Set-off within the same legal entities and jurisdiction	-147	-54	-682	-410
Deferred tax assets	0	0	1,254	1,289

	Parent Company		Group	
	2011	2012	2011	2012
	Deferred tax liability	Deferred tax liability	Deferred tax liability	Deferred tax liability
Intangible assets	58	54	1,447	1,409
Property, plant and equipment and financial assets	15	18	377	349
Current assets	15	17	180	101
Liabilities	19	122	158	311
Deferred tax regarding Danish joint taxation	78	78	78	78
	185	289	2,240	2,248
Set-off within the same legal entities and jurisdiction	-147	-54	-682	-410
Deferred tax liabilities	38	235	1,558	1,838

The tax asset related to tax loss carry-forwards of DKK 498m net (2011: 564m) is largely related to companies that have suffered tax losses in the last three financial years. This tax asset is expected to be utilized primarily through higher future taxable income in the respective companies.

The tax value of unrecognized tax assets related to tax loss carry-forwards amounts to DKK 187m (2011: 166m). The amount is not recognized as an asset, as the tax losses carried forward are not expected to be utilized.

Of the parent company's deferred tax liability of DKK 235m (2011: 38m), DKK 78m (2011: 78m) can be attributed to taxes relating to joint taxation with foreign subsidiaries in previous years. The parent company has deferred tax liabilities concerning temporary differences in foreign subsidiaries and associates/joint ventures of DKK 266m (2011: 316m). The liabilities are not recognized because the Group decides on their utilization and it is likely that the liabilities will not be recognized in the foreseeable future.

17. Pension and healthcare obligations

The major part of the Group's pension plans are defined contribution plans funded by pension and insurance companies. However, a number of foreign subsidiaries have obligations concerning defined benefit plans which are unfunded or only partly funded.

It is the Group's policy that pension and health care plans within the Group should generally be arranged as defined contribution plans. However, in countries like the USA, the UK, Germany and Norway there is a tradition for defined benefit plans. Defined benefit plans that are unfunded are mainly located in the subsidiaries Sauer-Danfoss Inc., Danfoss Bauer GmbH and Danfoss Compressors GmbH. In these companies unfunded plans amount to approximately DKK 585m (2011: 521m). The obligations in these plans are slowly being reduced, as benefits are only indexed and not offered to new employees.

Funded and partly funded plans are mainly located in the USA, the UK, Germany and Norway. All significant defined benefit plans are calculated by independent actuaries.

DKKm

The Group's defined benefit plan obligations

	Group	
	2011	2012
Present value of provisions	2,794	3,128
Fair value of plan assets	-1,704	-1,941
	1,090	1,187
The above obligations are recorded as follows in the balance sheet:		
Pension benefit plan assets		17
Pension and healthcare plan obligations	1,090	1,204

Development in the present value of defined benefit plan obligations

	Group	
	2011	2012
Provision as of 1 January	2,758	2,794
Foreign exchange adjustments	58	11
Pension costs for the year	35	34
Interest element	140	127
Actuarial gains(-)/losses	172	287
Gains from reductions and redemptions	-136	
Plan participants' contribution liabilities		10
Disbursed benefits from the Group	-44	-35
Disbursed benefits from plan assets	-93	-97
Transfer from other long term debt	1	1
Disposals through sale of subsidiaries	-16	
Disposals through transition to defined contribution plans etc.	-81	-4
Provision as of 31 December	2,794	3,128

Development in the fair value of plan assets

	Group	
	2011	2012
Plan assets as of 1 January	1,625	1,704
Foreign exchange adjustments	38	16
Estimated return on pension plan assets	111	104
Plan participants' contribution asset		10
Actuarial gains/losses(-)	-31	85
Payments by the Group	120	122
Disbursed benefits	-81	-97
Adjustments	3	1
Disposals through transition to defined contribution plans etc.	-81	-4
Plan assets as of 31 December	1,704	1,941

Actual return on plan assets

	Group	
	2011	2012
Estimated return on pension plan assets	111	104
Actuarial gains/losses(-)	-31	85
Actuarial return on plan assets	80	189

17. Pension and healthcare obligations (continued)

DKKm

Expenses relating to pension and healthcare obligations

	Group	
	2011	2012
Pension costs for the year	35	34
Interest element	140	127
Estimated return on pension plan assets	-111	-104
Gains from reductions and redemptions	-136	
Expensed in the income statement as personnel expenses	-72	57
Pension costs distributed by function:		
Pension cost stated under cost of sales	29	23
Pension cost stated under selling and distribution costs	9	8
Pension cost stated under administrative expenses	26	26
Other operating income and expenses	-136	
	-72	57

	Group	
	2011	2012
Accumulated actuarial gains/losses(-) since 1 January 2005 recorded directly in other comprehensive income	-510	-712

Pension plan assets are specified as follows:

	Group		Group	
	2011	2011	2012	2012
Shares and similar securities	834	49%	848	44%
Bonds	685	40%	993	51%
Sundry financial instruments	126	7%	76	4%
Other	59	4%	24	1%
	1,704	100%	1,941	100%

Significant assumptions for calculation of pension and healthcare obligations and related costs

	Group		Group	
	2011	2011	2012	2012
	Range	Weighted average	Range	Weighted average
Discount rate	3.3-5.0%	4.7%	1.8-8.0%	4.4%
Estimated future salary increase	1.5-4.2%	3.4%	1.5-6.0%	3.2%
Estimated return on plan assets	3.3-7.0%	6.6%	1.8-6.0%	4.1%

The estimated return on the plan assets is based on external actuarial calculations and determined based on the composition of the assets and considering the general expectations with regard to economic developments.

The Group expects to pay in DKK 121m to defined benefit plans in 2013. In 2012, DKK 122m was paid in.

The Group's pension obligations for the present year and for the previous 4 years amount to:

	Group				
	2008	2009	2010	2011	2012
Present value of pension and healthcare obligations	-2,250	-2,489	-2,758	-2,794	-3,128
Present value of pension plan assets	1,153	1,357	1,625	1,704	1,941
Over-/underfunding(-)	-1,097	-1,132	-1,133	-1,090	-1,187
Experience adjustments to pension plan obligations	-47	82	126	9	31
Experience adjustments to pension plan assets	-301	83	54	-34	-51

18. Financial risks and instruments

Financial risks

Danfoss Group's rate of profitability and cash flow are exposed to financial risks, among other factors as a consequence of Danfoss' international business profile. These risks include currency, commodity, credit, interest rate and liquidity risks. Risk management activities focus on risk coverage and mitigation, with a particular emphasis on reducing fluctuations in the company's cash flows and profitability in local currency within a 12-18 month horizon.

It is the Group's policy not to undertake active speculation regarding financial risks. The Group's financial control is therefore solely aimed at controlling and reducing the financial risks that are a direct result of the Group's operations, investments and financing.

For a description of accounting policies and procedures such as applied recognition criteria and basis of measurement, please see the disclosure under note 31. Accounting policies.

Currency exposure

Currency exposure consists of three elements:

- Transaction risk:* Major consolidated risks and 12 months' expected cash flows in foreign currency (excluding cash flow from certain countries with inconvertible currencies) are covered on an ongoing basis.
- Translation risk:* Danfoss does not generally cover translation risks, as these do not directly affect the underlying cash flows. Danfoss does however try to reduce translation risks through obtaining loan financing in local currencies in so far as possible.
- Economic/structural risk (strategic risk):* Economic/structural currency exposure cannot be covered effectively using financial instruments and is therefore not part of Danfoss' financial risk management strategy. However, it is controlled in so far as possible at a strategic level, as Danfoss aims for products to be produced as close as possible to the customer.

DKKm	Isolated decline	Expected effect on cash flow in 2012	Expected effect on cash flow in 2013
DKK/EUR	10%	68	103
DKK/USD	10%	17	24
DKK/GBP	10%	10	10

The amounts are based on the exchange rate of 31 December 2012 and expected net cash flow in 2013 in foreign currency. In this context, financial instruments recognized as of 31 December 2012 have been taken into consideration.

Commodity risk

Movements in global commodity prices can affect the Group's earnings. In addition to fixed price agreements with suppliers, Danfoss uses financial instruments to hedge part of the Group's purchases of power and natural gas. It is Danfoss' policy to ensure that significant risks related to raw materials are reduced through the combination of hedging and active price adjustment. The raw material consumption is hedged for a minimum of six months and a maximum of 18 months, if they are considered essential.

Credit risk

The Group's credit risks primarily apply to trade receivables and bank deposits (the so-called counterpart risk). It is Danfoss' policy to minimize the risk of one or several of Danfoss' financial partners not being able to fulfill a commitment. The counterparty risk is prevented, in so far as possible, by only using solid regional and global financial partners with a minimum credit rating of "A-" according to Standard & Poors credit rating terminology.

Trade receivables are distributed on a number of customers and geographical areas. The geographical distribution is not significantly different from the allocation of Net sales according to note 1. Segment reporting. A systematic credit rating is carried out of customers and any provision for bad debts is made on the basis of this credit rating. The rating also serves as the basis for the terms of payment offered to the customers. Historically the Group has only had limited losses on bad debts.

Allocation of trade receivables overdue but not impaired as of 31 December:

Overdue by:	Parent Company		Group	
	2011	2012	2011	2012
Up to 30 days	1	4	107	91
From 30 to 90 days	6	6	115	101
More than 90 days	5		16	15
	12	10	238	207

The carrying amount of trade receivables is estimated to represent their fair value.

18. Financial risks and instruments (continued)

Interest rate risk

The Group's interest rate risk derives primarily from interest-bearing debt and cash funds. The Group makes use of both fixed and floating-rate loans, as well as derivative interest rate products.

All things being equal, a reasonably likely increase in the interest rate amounting to one percentage point compared to the interest rate level on the balance sheet date, would have had the following hypothetical impact on the profit for the year and equity at the end of the year:

DKKm	Parent Company				Group			
	2011		2012		2011		2012	
	Income Statement	Equity	Income Statement	Equity	Income Statement	Equity	Income Statement	Equity
Bonds					-1	-1		
Cash and debt with floating interest rates	-8	-8	-4	-4	-12	-12	-12	-12
Hedge instruments (interest swaps)	2	44		24		44		24
	-6	36	-4	20	-13	31	-12	12

A reasonable decrease in the interest rate level amounting to one percentage point, compared to the interest rate level as of the balance sheet date, would have had the opposite effect on the profit and the equity.

The stated sensitivities are based on the recognized financial assets and liabilities at December 31 2012. In 2012, adjustments have not been made for instalments, borrowing, etc. All hedging of floating-rate loans is deemed 100% effective. Furthermore the calculated expected fluctuations are based on the current market situation and expectations for the market development in interest rate levels.

Liquidity risk

Danfoss' policy is to ensure at all times that the Group has the liquidity necessary to meet its obligations and to finance its planned strategic action. The Group minimizes its liquidity risk through a combination of effective liquidity management and planning, by establishing non-terminable credit facilities and by ensuring that cash funds are liquid and accessible. It is Danfoss' policy to have a qualified "BBB credit rating" and to have a significant liquidity reserve in the form of unused non-terminable credit facilities without any financial covenants.

At the end of 2012, Danfoss' liquidity reserve in the form of unused non-terminable long-term credit facilities was recorded at 6.0 bn DKK (2011: 5.7bn). In addition to this, Danfoss had cash and significant amounts of short-term credit lines. The Group considers the liquidity reserve to be sufficient in relation to the current plans and the market situation in general.

The major part of the Group's cash and cash equivalents of DKK 888m (2011: 744m) is placed on short-term deposit with an interest rate below 1% p.a.

The Group's debt categories and maturities

	Group 2011					Group 2012				
	Carrying amount	Contractual cashflow	Maturity			Carrying amount	Contractual cashflow	Maturity		
			0-1 year	1-5 years*)	Over 5 years			0-1 year	1-5 years*)	Over 5 years
Non-derivative financial liabilities:										
Bank debt	4,520	4,670	2,086	1,596	988	2,351	2,432	554	660	1,218
Mortgage debt	1,195	1,835	41	192	1,602	1,236	1,756	84	126	1,546
Employee bonds	61	67	3	64		83	86	13	62	11
Finance lease liabilities	85	92	30	59	3	76	81	30	50	1
Trade payables	2,581	2,581	2,581			2,576	2,576	2,576		
Debt to associates and joint ventures	23	23	23			34	34	34		
Derivative financial liabilities:										
Derivative interest rate products	144	112	59	53		79	68	47	21	
Forward exchange contracts	174	174	174							
	8,783	9,554	4,997	1,964	2,593	6,435	7,033	3,338	919	2,776

*) Maturity is evenly spread over the period.

The maturity analysis is based on all non-discounted cash flows including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flows from derivative financial instruments are presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements. Operating lease liabilities and liabilities relating to the purchase of property, plant and equipment are not included in this specification, but are included in note 25. Contingent liabilities assets and security.

The above debt is recorded as follows:

	Group	
	2011	2012
Non-current liabilities	3,871	3,202
Current liabilities	4,912	3,233
	8,783	6,435

18. Financial risks and instruments (continued)

DKKm

Financial instruments by category

	Group		Group	
	2011	2011	2012	2012
	Carrying amount	Fair value	Carrying amount	Fair value
Other investments	43	43	28	28
Financial assets available-for-sale	43	43	28	28
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	3	3	53	53
Derivative financial instruments for the hedging of future cash flows			45	45
Financial assets used as hedging instruments	3	3	98	98
Trade receivables	4,246	4,246	4,404	4,404
Other receivables	860	860	685	685
Cash and cash equivalents	744	744	888	888
Loans and receivables	5,850	5,850	5,977	5,977
Securities	85	85		
Financial assets measured at fair value via the income statement	85	85		
Interest-bearing debt	5,861	5,800	3,746	3,673
Trade payables and other debt	5,219	5,219	5,326	5,326
Financial liabilities measured at amortized cost	11,080	11,019	9,072	8,999
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	124	124	1	1
Derivative financial instruments for the hedging of future cash flows	186	186	75	75
Financial liabilities used as hedging instruments	310	310	76	76
Derivative financial instruments for financial hedging	8	8	3	3
Financial liabilities measured at fair value via the income statement	8	8	3	3

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap prices and exchange rates. The market value of the interest-bearing debt is recognized as the present value of expected future instalment and interest payments. The discount rate applied was the Group's current borrowing rate on loans for corresponding terms. The short-term, floating-rate debt at banks is stated at the price of 100. The fair value of trade receivables and trade payables with short credit terms are estimated to be equal the carrying amount. The methods applied remain unchanged compared to 2011.

18. Financial risks and instruments (continued)

Fair value hierarchy as of 31 December for the Group

	Group 2011				Group 2012			
	Quoted prices Level 1	Observ- able input Level 2	Non- observ- able input Level 3	In total	Quoted prices Level 1	Observ- able input Level 2	Non- observ- able input Level 3	In total
Financial assets:								
Securities	85			85				
Other investments	13		30	43			28	28
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		3		3		53		53
Derivative financial instruments for the hedging of future cash flows						45		45
Total financial assets	98	3	30	131		98	28	126
Financial liabilities:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		124		124		1		1
Derivative financial instruments for the hedging of future cash flows	22	164		186		75		75
Derivative financial instruments for financial hedging	6	2		8	3			3
Total financial liabilities	28	290		318	3	76		79

Financial instruments measured at fair value based on Level 3

	Group	
	2011	2012
Carrying amount as of 1 January	32	30
Gain/loss (-) in the income statement	-2	-4
Purchase		2
Carrying amount as of 31 December	30	28
Gain/loss (-) in the income statement for assets owned as of 31 December	-2	-4

Gain/loss (-) in the income statement is recognized under financial income and expenses

18. Financial risks and instruments (continued)

Derivatives as of 31 December for the Group

	Group						Group					
	2011						2012					
	Amount at contract price	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
Forward exchange contracts, sale/buy:												
USD sale	2,948	-160	-101	-59			2,459	27	18	8	1	
USD buy	393	16	5	11			677	-7	1	-8		
CHF sale	147	2	1	1			93					
CHF buy	39						12					
GBP sale	229	-9	1	-10			259	4	-1	5		
GBP buy	35						9					
MXN sale	282	-3	-3				33	1	1			
MXN buy	332	-11	2	-13			247	-1	3	-4		
AUD sale	357	-13	-6	-7			122		-2	2		
AUD buy							24					
NOK sale	115	-1	-1				123	-3	-1	-2		
NOK buy	25						28					
RUB sale	83	-1	-1									
EUR sale	3,388	-6	-1	-5			2,737		-2		2	
EUR buy	4,049	-2	-2				1,038	6	6			
Other currencies sale	650	6	7	-1			797	11	2	9		
Other currencies buy	534	-8	-12	4			438	-4	-4			
		-190	-111	-79				34	21	10	3	
Interest swaps		-123	-15	-18	-90			-67		-18	-49	
Other derivatives		-5	-5					-4	-3	-1		
Derivatives end of year		-318	-131	-97	-90			-37	18	-9	-46	

At the end of 2012, unrealized gain/loss(-) on derivatives recognized in equity amounted to DKK -55m (2011: -187m).

Forward exchange contracts are primarily used for hedging future sales and hedging of future procurement of selected raw materials in foreign currencies. Interest rate products are used to convert floating-rate liabilities to fixed rates.

DKK 0m was expensed in 2012 (2011: 5m) as a consequence of testing for effectiveness.

18. Financial risks and instruments (continued)

DKKm

Parent Company's financial instruments

Relevant financial instrument specifications have been made below regarding the Parent Company. A description of financial risks can be found in the Group section of this note, to which reference is made.

Parent Company's cash and cash equivalents

The major part of the Parent Company's cash and cash equivalents of DKK 9m (2011: 2m) is placed on short term deposits, with an interest rate below 1% p.a.

Contractual payments on the parent company's financial liabilities

	Parent Company 2011					Parent Company 2012				
	Carrying amount	Contractual cash flow	Maturity			Carrying amount	Contractual cash flow	Maturity		
0-1 year			1-5 years *)	Over 5 years	0-1 year			1-5 years *)	Over 5 years	
Non-derivative financial liabilities:										
Bank debt	4,075	4,224	1,740	1,499	985	2,026	2,070	337	518	1,215
Mortgage debt	236	364	8	29	327	236	340	7	25	308
Employee bonds	61	67	3	64		61	64	2	62	
Interest-bearing debt, subsidiaries **)	5,699	5,699	5,699			5,617	5,617	5,617		
Finance lease liabilities	58	62	18	44		56	59	21	38	
Trade payables **)	608	608	608			540	540	540		
Debt to associates and joint ventures	3	3	3			1	1	1		
Derivative financial liabilities:										
Derivative interest rate products	121	112	59	53		76	68	47	21	
Forward exchange contracts	174	174	174							
	11,035	11,313	8,312	1,689	1,312	8,613	8,759	6,572	664	1,523

*) Maturity is evenly spread over the period.

**) Besides interest-bearing debt of DKK 5,617m (2011: 5,699m) the line "Debt to subsidiaries" in the balance sheet contains accounts payables etc. of DKK 77m (2011: 214m), in total DKK 5,694m (2011: 5,913m).

The maturity analysis is based on all non-discounted cash flows including estimated interest payments. Interest payments are estimated according to existing market conditions. The non-discounted cash flows from derivative financial instruments are presented in gross amounts, unless the parties have a contractual right or obligation to make net settlements. Operating lease liabilities and liabilities relating to the purchase of property, plant and equipment are not included in this specification, but are included in note 25. Contingent liabilities assets and security

The above debt is recorded as follows:

	Parent Company	
	2011	2012
Non-current liabilities	2,800	2,084
Current liabilities	8,235	6,529
	11,035	8,613

18. Financial risks and instruments (continued)

DKKm

Financial instruments by category

	Parent Company		Parent Company	
	2011	2011	2012	2012
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	2	2	2	2
Financial assets available-for-sale	2	2	2	2
Derivative financial instruments for the hedging of future cash flows			25	25
Financial assets used as hedging instruments			25	25
Trade receivables	220	220	209	209
Trade receivables from subsidiaries	5,144	5,144	2,561	2,561
Other receivables	115	115	91	91
Cash and cash equivalents	2	2	9	9
Loans and receivables	5,481	5,481	2,870	2,870
Derivative financial instruments for financial hedging			64	64
Financial assets, measured at fair value in the income statement			64	64
Interest-bearing debt	4,430	4,368	2,379	2,317
Debt to subsidiaries	5,913	5,913	5,694	5,694
Trade payables and other debt	1,018	1,018	1,129	1,129
Financial liabilities measured at amortized cost	11,361	11,299	9,202	9,140
Derivative financial instruments for the hedging of future cash flows			73	73
Financial liabilities used as hedging instruments			73	73
Derivative financial instruments for financial hedging	295	295	3	3
Financial liabilities measured at fair value in the income statement	295	295	3	3

The value of derivative financial instruments is measured according to generally accepted valuation techniques based on relevant observable swap prices and exchange rates. The market value of the interest-bearing debt is recognized of the present value of expected future instalment and interest payments. The discount rate applied was the Group's current borrowing rate on loans for corresponding terms. The short-term floating-rate bank debt is stated at the price of 100. The fair value of trade receivables and trade payables with short credit terms is estimated to be equal to the carrying amount. The methods applied remain unchanged compared to 2011.

Fair value hierarchy as of 31 December for the Parent Company

	Parent Company				Parent Company			
	2011				2012			
	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	In total	Registered prices Level 1	Observable input Level 2	Non-observable input Level 3	In total
Financial assets:								
Other investments			2	2			2	2
Derivative financial instruments for the hedging of future cash flows						25		25
Derivative financial instruments for financial hedging						64		64
Total financial assets			2	2		89	2	91
Financial liabilities:								
Derivative financial instruments for the hedging of future cash flows						73		73
Derivative financial instruments for financial hedging	6	289		295	3			3
Total financial liabilities	6	289		295	3	73		76

There has been no change to other investments categorized on Level 3.

18. Financial risks and instruments (continued)

Derivative financial instruments as of 31 December for the parent company

	Parent Company						Parent Company					
	2011						2012					
	Amount at contract price	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years	Amount at contract price	Gain/loss (-) on market value adjustment	Gain/loss (-) recognized in income statement	Due less than 1 year	Due between 1 and 5 years	Due after 5 years
Forward exchange contracts, sale/buy:												
USD sale	2,624	-146	-146				2,039	26	29	-3		
USD buy	326	15	15				624	-7	-7			
CHF sale	147	2	2				93					
CHF buy	39						12					
GBP sale	229	-9	-9				259	4	4			
GBP buy	35						9					
MXN sale	282	-3	-3				33	1	1			
MXN buy	332	-11	-11				247	-1	-1			
AUD sale	357	-13	-13				122					
AUD buy							24					
NOK sale	115	-1	-1				123	-3	-3			
NOK buy	25						28					
RUB sale	83	-1	-1									
EUR sale	3,344						2,624	-6	-6			
EUR buy	4,049	-2	-2				1,038	6	6			
Other currencies sale	650	6	6				797	9	9			
Other currencies buy	534	-8	-8				438	-2	-2			
		-171	-171					27	30	-3		
Interest swaps		-123	-10	-23	-90			-67		-18	-49	
Other derivatives		-5	-5					-5	-5			
Derivatives end of year		-299	-186	-23	-90			-45	25	-21	-49	

At the end of 2012, total deferred gains and losses on derivatives recognized in equity amounted to DKK -70m (2011: -113m).

19. Corporation tax payable

DKKm

	Parent Company		Group	
	2011	2012	2011	2012
Corporation tax payable/receivable (-) as of 1 January	1	80	166	20
Foreign exchange adjustment in foreign companies			6	-39
Paid during the year	-120	-179	-867	-925
Adjustments concerning previous years	-7	239	-6	-23
Disposals through sale of subsidiaries			-6	1
Current tax expenses in income statement	197	89	806	812
Current tax expenses in other comprehensive income	9	8	-18	39
Tax expense on discontinued operations			-61	
Corporation tax payable/receivable (-) as of 31 December	80	237	20	-115
The above corporation tax is recorded as follows:				
Assets			176	507
Liabilities	80	237	196	392
	80	237	20	-115

20. Adjustment for non-cash transactions

DKKm

	Parent Company		Group	
	2011	2012	2011	2012
Depreciation/amortization and impairment on continuing operations	257	259	1,701	1,983
Gain(-)/loss on disposal of tangible assets and business activities	-3	-29	-585	-295
Share of profit from associates and joint ventures after tax			-16	2
Financial income	-1,128	-987	-43	-88
Financial expenses	1,362	352	1,067	459
Other, including provisions	-5	-203	-143	-323
	483	-608	1,981	1,738

21. Change in working capital

DKKm

	Parent Company		Group	
	2011	2012	2011	2012
Change in inventories	-36	13	-228	592
Change in receivables	-153	1,000	126	-115
Change in trade payables and other debt	-24	-57	-312	61
	-213	956	-414	538

22. Acquisition and sale of subsidiaries and activities

DKKm

	Group		Group	
	2011	2012	2011	2012
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible assets, except goodwill		-225	161	91
Property, plant and equipment		-40	191	5
Other non-current assets, including deferred tax assets		-17		8
Inventories	-1	6	202	24
Receivables	-1	-45	270	27
Cash and cash equivalents	-1	-34	50	11
Interest-bearing debts			-69	-12
Provisions, including deferred tax liabilities	-1	67	-24	-2
Trade and other payables	-1	58	-169	-30
Net assets acquired	-5	-230	612	122
Goodwill(-)/profit on disposal	-1	-562	578	12
Consideration paid(-)/received	-6	-792	1,190	134
Fair value of previous ownership interests		343		
Fair value of acquired ownership interests	-6	-449		
Cash and cash equivalents	1	34	-50	-11
Net consideration paid(-)/received	-5	-415	1,140	123
Net consideration paid(-)/received is composed of the following:				
Cash and cash equivalents	-43	-415	1,149	224
Payable/receivable, 1 January	38		-444	-213
Receivable, adjustment			222	110
Payable/receivable, 31 December			213	2
	-5	-415	1,140	123

In 2012, the Group acquired Danfoss Turbocor Compressors Inc. in a step acquisition. Prior to the acquisition, the 50% ownership interest was recognized at equity value and classified as a joint venture. With the Group's goal of further strengthening its position in the global market for commercial variable speed compressors, acquiring the remaining 50% - and thus gaining full control of the company - was a logical next step. The acquisition has been accounted for in a preliminary manner, which in accordance with IFRS 3 will be finalized within 12 months.

The fair value of Turbocor Compressors Inc. was calculated as follows:

Carrying amount of identifiable assets and liabilities recognized before step acquisition	68
Value adjustment of identifiable assets and liabilities recognized before step acquisition	47
Fair value of acquired identifiable assets, liabilities and contingent liabilities	115
Goodwill	562
Total fair value of company acquired in step acquisition	792

Gain on revaluation of previous ownership interest in Danfoss Turbocor Compressors Inc.:

Carrying amount of previous ownership interest	-68
Fair value of previous ownership interest	343
Total gain recognized in other operating income	275

Furthermore, the Group sold two companies in 2012. Other adjustments solely comprise the payment of earn-outs relating to prior acquisitions. In 2011, the Group acquired one company, sold two activities and also during the year paid earn-outs relating to prior acquisitions. Acquisitions and sales in 2012 and 2011 are specified below.

22. Acquisition and sale of subsidiaries and activities (continued)

Acquisition and sale of subsidiaries and activities:

2012							
Company/activity		Country	Income statement consolidated from/until	Holding acquired/sold	Net sales per year (DKK m *)	No. of employees	Consideration paid (DKKm)
Danfoss Turbocor Compressors	Acquisition	USA	December**)	50%	407	200	449
Danfoss Sea Recovery Corporation	Sale	USA	November	100%	113	61	
Danfoss Solutions A/S	Sale	Denmark	May	100%	36	23	

*) Unaudited net sales in the financial year prior to the acquisition or sale.

***) The enterprise was taken over at the end of December 2012 and, accordingly, no revenue or profit has been recognized for 2012.

Acquisition and sale of subsidiaries and activities:

2011							
Company/activity		Country	Income statement consolidated from/until	Holding acquired/sold	Net sales per year (DKK m *)	No. of employees	Consideration paid (DKKm)
Danfoss IXA A/S	Acquisition	Denmark	September	59%	0	8	5
Danfoss Water Controls activities	Sale	France	April	100%	780	554	
Danfoss Geared Motors activities	Sale	Germany	May	100%	546	520	

*) Unaudited net sales in the financial year prior to the acquisition or sale.

Goodwill resulting from the acquisition of companies primarily concerns the value of staff, know-how and synergies.

For more information about the connection to cash generating units, please refer to note 8. Intangible assets.

Parent Company

DKKm	Parent Company		Parent Company	
	2011	2012	2011	2012
	Acquisitions	Acquisitions	Disposals	Disposals
Investments in subsidiaries	-49	-489		40
Net assets acquired	-49	-489		40
Goodwill(-)/profit on disposal			1	26
Net consideration paid(-)/received	-49	-489	1	66
Net consideration paid(-)/received is composed of the following:				
Cash and cash equivalents	-49	-489	12	66
Receivable as of 1 January			3	-10
Receivable, adjustment			-4	2
Receivable as of 31 December			-10	8
	-49	-489	1	66

The parent company's capital increase and acquisition of undertakings and activities amounting to DKK -489m (2011: -49m) primarily concerns the acquisition of the remaining 50% of Danfoss Turbocor Inc. and capital increases.

The parent company's disposal of enterprises and activities of DKK 66m (2011: DKK 1m) relates to the dissolution of Danfoss Captive Reinsurance A/S.

23. Discontinued operations

In order to ensure increased focus on the core business, Danfoss decided that some operations should undergo strategic reassessment for possible sale, entrance into joint ventures or other forms of alliances. This included Danfoss Household Compressors, where an agreement was made for the sale of the business to the German company AURELIUS Commercial Beteiligungs GmbH. The deal was concluded on November 5, 2010.

When the deal was announced, the assets in Danfoss Household Compressors were written down to fair value less costs to sell.

Costs occurred in 2011 are related to the settlements and accompanying legal expenses in the competition case and an accounting adjustment of the purchase price concerning the sale of Danfoss Household Compressors to AURELIUS Commercial Beteiligungs GmbH.

The result and cash flows originating from the divested activities are in all periods recognized as separate items in the income statement and the Statement of Cash Flow.

Financial highlights, discontinued operations

DKKm

	Group	
	2011	2012
Income statement		
Expenses	-937	
Profit/loss before tax	-937	
Corporation tax expenses	6	
Profit/loss from discontinued operations	-931	
Cash flows		
Cash flows from operating activities	-714	
Total cash flows from discontinued operations	-714	
Basic earnings per share of discontinued operations (share of nominal 100 DKK)	-91.5	
Diluted earnings per share of discontinued operations (share of nominal 100 DKK)	-87.9	

24. Acquisition(-)/disposal of shares, other securities and lending

DKKm

	Parent Company		Group	
	2011	2012	2011	2012
Sale of shares and other securities	17	7	-11	11
Purchase of shares and other securities			-23	85
	17	7	-34	96
Increase/decrease of lending	-791	1,531	-61	-57
	-774	1,538	-95	39

25. Contingent liabilities, assets and security

DKK m

Security

	Parent Company		Group	
	2011	2012	2011	2012
Carrying amount of land and buildings pledged as security for bank loans and mortgages	22	20	752	727
Leasing assets pledged as security for leasing commitments	59	59	89	72
Secured loans from financial institutions	294	292	1,302	1,337

In connection with disposal of subsidiaries, ordinary guarantees and warranties have been issued. These guarantees and warranties are considered to have no impact on the Group's financial position beyond what has been stated in the annual report.

Contingent liabilities

At the beginning of 2009 the European Commission's Directorate General for Competition along with a number of other competition authorities initiated investigations of, among others, Danfoss Household Compressors on suspicion of breach of competition regulations.

Investigations remain under way by the authorities in South Africa and Mexico, and the outcomes of these are not yet known. Similar investigations have been completed in Chile, which did not result in any claims against Danfoss, and in Brazil the authorities have also recommended that no claim shall be made against Danfoss.

Civil lawsuits against Danfoss are still pending in North America and Canada, the outcomes of which are not yet known.

In addition, the Group is party to a small number of disputes, lawsuits and legal actions, including tax disputes. It is the view of the Management that the outcome of the legal actions will have no other significant impact on the Group's financial position beyond what has been recognized and stated in the Annual Report.

Operating leases (lease expenses)

	Parent Company		Group	
	2011	2012	2011	2012
Operating lease payments fall due as follows:				
Buildings:				
Less than 1 year	63	67	130	145
Between 1 and 5 years	233	230	434	407
More than 5 years	84	83	436	421
Machinery etc.:				
Less than 1 year	26	29	176	290
Between 1 and 5 years	35	32	250	560
More than 5 years			21	218

The Group expensed DKK 366m in operating lease payments in 2012 (2011: 336m) and they relate mainly to buildings and machinery. There were no significant contingent lease payments in 2012 or 2011.

Operating leases (lease income)

	Parent Company		Group	
	2011	2012	2011	2012
Operating lease receivables fall due as follows:				
Less than 1 year	60	60	11	16
Between 1 and 5 years	185	182	5	9
More than 5 years	18	18		

The Group recognized operating lease income of DKK 42m in 2012 (2011: 27m). The above rentals relate mainly to buildings. The operating lease income in the parent company primarily relates to the letting of buildings to the subsidiaries.

Contractual obligations

	Parent Company		Group	
	2011	2012	2011	2012
Service contract commitment other than leases	351	186	685	300
Inventories	116	184	875	375
Property, plant and equipment	136		259	107
Hereof commitments relating to 2013	415	281	1,533	638

26. Related parties

Danfoss A/S' related parties comprise Bitten & Mads Clausen Foundation and other shareholders with significant ownership interests, cf. note 13. Share capital, subsidiaries, associates, joint ventures, the Board of Directors, the Executive Committee and senior managers.

Further, related parties comprise companies in which the above-mentioned persons have significant interests.

Bitten & Mads Clausen Foundation, other shareholders and other related companies

The Bitten and Mads Clausen Foundation, which holds 46.51% of the shares in Danfoss A/S and controls 85.02% of the voting power, has the controlling influence.

In the financial year a limited number of transactions have taken place between Bitten & Mads Clausen Foundation, its other subsidiaries including Danfoss Universe and certain shareholders of the Clausen Family. The transactions comprise of service and financial transactions and they have been made according to the arm's length principle or on a cost covering basis. The total payment does not exceed DKK 25m (2011: 25m). Around 94% of Danfoss A/S' dividend payments is related to Bitten & Mads Clausen Foundation and shareholders of the Clausen Family.

Board of Directors, Executive Committee and senior managers

In the financial year, no transactions took place with the Board of Directors or the Executive Committee other than the transactions as a result of conditions of employment, except for the following:

The Group has a rental agreement for a property in Italy with Chairman of the Board Jørgen M. Clausen. The rental agreement runs until and including 2017. The rent payment amounted to DKK 2m in 2012 (2011: 4m). Besides that, companies in which Peter M. Clausen and Jørgen M. Clausen have significant influence have sold goods and services below DKK 5m (2011: 5m) to the Danfoss Group. All transactions were performed on an arm's length basis

For further information about the salaries of the board and the Executive Committee see the notes 2. Expenses and other operating income, section A. Personnel expenses and 15. Share incentive programs.

Joint ventures and associates

Danfoss has ownership interests in joint ventures and associates. The main items relating to them are stated below at their full values, not Danfoss' proportionate ownership interests.

DKKm

Joint ventures:

	Parent Company		Group	
	2011	2012	2011	2012
Non-current assets	320	169	322	169
Current assets	342	281	342	281
Total assets	662	450	664	450
Non-current liabilities	106	23	106	23
Current liabilities	234	277	234	277
Total liabilities	340	300	340	300
Equity	322	150	324	150
Net sales	918	987	918	987
Expenses	880	996	880	996
Net profit	38	-9	38	-9

Associates:

	Group	
	2011	2012
Total assets	18	22
Total liabilities	14	15
Equity	4	7
Net sales	26	44
Expenses	29	36
Net profit	-3	8

For further information on joint ventures and associates please see the list of "Danfoss Group Companies".

26. Related parties (continued)

DKKm

Transactions with joint ventures and associates:

	Parent Company		Group	
	2011	2012	2011	2012
Sales of goods and services	5	5	27	21
Purchases of goods and services	11	10	210	247

Loans, trade receivables and liabilities in relation to joint ventures and associates are stated separately in the balance sheet of the parent company and the Group.

Transactions besides the above transactions with joint ventures and associates are described in notes 3. Non-current financial assets, 4. Financial income, 5. Financial expenses and 18. Financial risks and instruments.

Transactions between the Parent Company and the subsidiaries:

	Parent Company	
	2011	2012
Sales of goods and services	6,439	6,592
Purchases of goods and services	2,510	2,777
Purchases of intangible assets and property, plant and equipment	49	12
Disposal of intangible assets and property, plant and equipment	5	6

Transactions besides the above transactions between the Parent Company and subsidiaries are described in notes 3. Non-current financial assets, 4. Financial income, 5. Financial expenses and 18. Financial risks and instruments.

27. Events after the balance sheet date

On November 28, 2012, Danfoss announced that it had made a proposal to the board of directors of Sauer-Danfoss to acquire the shares not already owned by Danfoss, for USD 49 per share in cash. Subsequently, the Sauer-Danfoss board of directors established a committee of independent directors to consider Danfoss' proposal.

On March 1, 2013, Danfoss and Sauer-Danfoss jointly announced a definitive merger agreement for Danfoss to acquire the 24.4% of Sauer-Danfoss not already owned by Danfoss for USD 58.50 per share in cash. Under the terms of the agreement, Danfoss would commence a tender offer within ten business days from the signing of the agreement.

At the time the annual report was released, the tender offer had not yet ended. There can be no assurance that the tender offer will lead to a final transaction.

Subsequent to 31 December 2012 there have been no further events with any significant effect on the financial statements beyond what has been recognized and disclosed in the annual report.

28. New accounting regulations

IASB has prepared new accounting standards (IAS and IFRS) and interpretation contributions (IFRIC) which Danfoss A/S is not required to include in the 2012 Annual Report:

IFRIC 20; IFRS 9-13; further amendments to IFRS 10, 11 and 12, IAS 19 (2011), 27 (2011), 28 (2011); amendments to IFRS 1 and 7; amendments to IAS 1, 27 and 32 and improvements to IFRS' (2009-2011).

IFRS 9; amendments to IFRS 1, 10, 11, 12 and IAS 27 and improvements to IFRS' (2009-2011) have yet to be adopted by the EU.

Adopted standards and improvements that have not yet come into force are implemented as and when they become mandatory to Danfoss A/S. Other than as set out below, none of the new standards or interpretations are expected to materially affect the financial reporting of Danfoss A/S.

One of the effects of the amendments made to Employee Benefits in IAS 19 is, that whereas the statement of the expected return on pension assets as in accordance with the current IAS 19 is calculated on the basis of the expected development of the value of each asset type included in the pension plan, the amended IAS 19 prescribes that calculation is made of all of the pension assets as a whole, disregarding the pension asset types and using the same interest rate as used to calculate the year's expected development of pension obligations. The calculation of the closing value of pension assets will remain the same, whereby the change alone will result in varying returns from the year as recognized in the income statement and in other comprehensive income, respectively. Had the amendment applied to the 2012 financial year, the result for the year would have been DKK 26m lower, and the change in pension obligations for the year recognized in other comprehensive income, would have been DKK 26m higher. Equity, assets and liabilities would not have been affected.

29. Basis of preparation

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1-December 31 2012 comprises both the consolidated financial statements of Danfoss A/S and its subsidiaries (the group) and parent company financial statements, according to the requirements of the Danish Financial Statements Act.

The consolidated financial statements and the financial statements of Danfoss A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements pursuant to the Danish Financial Statements Act. In addition, the Annual Report has been prepared in compliance with IFRS issued by the International Accounting Standards Board (IASB).

The Danfoss Board and Executive Committee reviewed and approved the Annual Report 2012 on March 12, 2013, and it will be presented for approval at the Annual General Meeting to be held at April 19, 2013.

Unless otherwise specified, the Annual Report is presented in DKK, rounded to the nearest million.

The Annual Report has been prepared on the historical cost basis except for the following assets and liabilities, which are measured at fair value: derivative financial instruments, financial instruments as part of a trading portfolio, financial instruments classified as available for sale, liabilities related to share options and warrants and pension obligations. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount before the changed classification and fair value less costs to sell.

The accounting policies set out in note 31 "Accounting policies" have been used consistently in respect of the financial year and comparative figures.

The accounting policies applied are consistent with those of last year, except for the changes described.

Changes in accounting policies

Danfoss A/S has implemented the standards and interpretations which have become effective for 2012. None of these have had any effect on recognition or measurement in 2012, nor are they expected to have a material future impact on Danfoss A/S.

30. Critical accounting estimates and judgements

As a consequence of the accounting policies, determining the carrying amount of certain assets and liabilities requires estimates of how future events will affect the value of these assets and liabilities at the balance sheet date. The volatility of the global economy and the financial markets has made it more difficult to forecast the development of some future key assumptions – such as liquidity risk, credit risk, interest level and capital management, etc. Therefore, Danfoss provides additional information about items in the consolidated financial statements and the parent company financial statements whose carrying amount is at risk of being adjusted considerably over the next few years. Estimates which are significant for the preparation of the financial statements include goodwill, assessment of depreciation, amortization and impairment of non-current assets, measurement of deferred tax assets and measurement of inventories, trade receivables, warranty obligations and other provisions, liabilities related to share options and warrants and pension and healthcare obligations. The estimates used are based on Management assumptions which are assessed to be reliable, but which are inherently subject to uncertainty. Accordingly, the Company is subject to risks and uncertainties which may cause actual results to differ from these estimates. For the group, the measurement of intangible assets could be materially affected by significant changes in estimates and assumptions on which the measurement is based.

Impairment of goodwill

In performing the annual impairment test of goodwill, an assessment is made of whether the individual units of the enterprise (cash generating units) to which goodwill relates will be able to generate sufficient positive net cash flows to support the value of goodwill and other net assets of the unit.

Due to the nature of the Company's operations, estimates have to be made of expected cash flows many years into the future, which will be subject to some degree of uncertainty. This uncertainty is reflected in the chosen discount rate. The impairment test and the particularly sensitive parts of the test, including the allocation of goodwill on cash generating units, are described in detail in note 8. Intangible assets

Useful life and residual value of non-current assets

Non-current assets are measured at cost less accumulated amortization, depreciation and impairment. Amortization and depreciation is made on a straight-line basis over the useful lives of the assets, taking into account the asset's residual value. Expected useful lives and residual values are determined based on historical experience and expectations of the future use of the non-current assets. The expectations for future use and residual values may not be met, which may lead to a future reassessment of useful lives and residual values and a need for impairment write-downs or the incurrence of losses on the disposal of the non-current assets. The amortization and depreciation

periods used are described in the accounting policies in note 31, and the value of non-current assets is disclosed in notes 8, Intangible assets and 9, Property, plant and equipment.

Measurement of recognized tax assets

Deferred taxes, including the tax value of tax loss carryforwards, are recognized at their expected value. The assessment of deferred tax assets regarding tax loss carryforwards is based on the expected future taxable income of the respective units and the expiry date of the losses. Please see note 16, Deferred tax assets and liabilities for unrecognized deferred tax assets.

Measurement of inventories

Inventories are recognized at the lower of cost and net realizable value. The net realizable value of inventories is calculated based on the size of the inventory and decreases in the replacement cost of purchased raw materials, technical obsolescence (e.g. faulty products), physical obsolescence (e.g. damaged products) or financial obsolescence (e.g. reduced demand).

Write-downs of inventories are based on an individual assessment of a product or product group and expected future product sales. The value of inventories and write-downs of inventories are disclosed in note 10. Inventories.

Provisions for bad debts on trade receivables and other receivables

Receivables are measured at amortized cost less provision for bad debts. Provisions for bad debts are based on an individual assessment of each receivable.

If a customer's financial condition deteriorates, and thus the ability to meet the payment obligation to Danfoss A/S, further provisions may be required in future accounting periods.

Provisions for bad debts are disclosed in note 11. Trade receivables and receivables from subsidiaries.

Provisions

As part of its normal business policy, Danfoss A/S provides its products with ordinary and extended warranties. Warranty provisions are recognized based on actual historical warranty costs and expected changes in future warranty costs related to the group's products. Future warranty costs may differ from past experience.

The Company assesses other provisions, contingent assets and contingent liabilities and the likely outcome of pending or future lawsuits on an ongoing basis. The outcome depends on future events that are inherently uncertain.

30. Critical accounting estimates and judgements (cont.)

In assessing the likely outcome of lawsuits and tax disputes etc., Management bases its assessment on internal and external legal assistance and common practice. Further information is disclosed in note 14, Provisions and note 25, Contingent liabilities, assets and security.

Liabilities related to share options and warrants

For share options and warrants where employees upon exercise receive shares, the cost is measured at the fair value at the grant date. The fair value at the grant date is calculated using the Black & Scholes model. For share options and warrants where employees can select cash net settlement of the option or warrant, a liability is recognized in the balance sheet. The liability is recognized at fair value at the balance sheet date and calculated using the Black & Scholes model.

A significant parameter in the measurement of the fair value of the liability is the price of the Danfoss share, which is assessed annually by the Danske Bank at the Annual General Meeting after the end of a financial year. On the date where the Annual General Meeting approves the annual report for the previous

year, the share price for the coming year is published. As the Danfoss share is unlisted, the measurement of the fair value will be subject to some uncertainty. If the future price of the Danfoss share increases, this would also increase the liability related to share options and warrants. Further information on the assumptions made is provided in note 15. Share incentive programmes.

Defined benefit plans and health care obligations

The group has established defined benefit plans with certain employees at some of the group's foreign companies. The plans place the group under an obligation to pay a certain benefit in connection with retirement (e.g. in the form of a fixed amount at retirement or a share of the employee's exit salary). The pension obligations are determined by discounting the pension obligations at the present value. The present value is determined on the basis of assumptions about the future development in economic variables such as interest rates, inflation, mortality and disability probabilities, which are subject to some degree of uncertainty. External actuaries are used for the measurement of all significant defined benefit plans. The assumptions used are disclosed in note 17, Pension plans and health care obligations.

31. Accounting policies

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Danfoss A/S and subsidiaries in which Danfoss A/S directly or indirectly holds more than 50% of the voting rights or otherwise controls the company's financial and operating policies with a view to obtaining a yield or other benefits from its activities. Companies in which the group has between 20% and 50% of the voting rights and exercises a significant influence, but does not control, are considered associates or joint ventures when the joint venture conditions of IAS 31 are met. When assessing whether Danfoss A/S exercises control or significant influence or joint control, potential voting rights which can be utilized at the balance sheet date are taken into account.

The consolidated financial statements are prepared by aggregating the financial statements of the Parent Company and those of the individual subsidiaries, which have all been prepared in accordance with Danfoss A/S' accounting policies.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of the identifiable net assets and recognized contingent liabilities at the acquisition date. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends and realized and un-realized profits and losses on transactions between the consolidated companies are eliminated. Unrealized losses are eliminated in the same way as unrealized profits, provided that no impairment has occurred.

In the consolidated financial statements, the items of subsidiaries are recognized in full. The minority interests' proportionate share of the profit/loss for the year is recognized as part of the group's profit/loss for the year and as a separate share of the group's equity.

The companies included in the group are disclosed in the section "Danfoss Group Companies".

Business combinations

Newly acquired or established companies are recognized in the consolidated financial statements from the acquisition date, and divested companies are recognized in the consolidated income statement until the time of divestment. Comparative figures are not restated for newly acquired companies. Unless divested companies are classified as discontinued operations (see related section), comparative figures are not restated.

When the Danfoss Group takes over control of acquired companies, the purchase method is applied. This means that the identifiable assets and liabilities, including contingent liabilities, of the acquired companies are stated at fair value at the acquisition date. Identifiable intangible assets are recognized

if they can be separated or arise from a contractual right. The tax effect of revaluations is recognized. The time of takeover is the day when the Danfoss Group de facto obtains control of the acquired company.

The consideration for a business comprises the fair value of the consideration agreed upon, in the form of assets transferred, liabilities assumed and equity instruments issued. If part of the consideration is contingent on future events or compliance with agreed conditions, that part of the consideration is recognized at fair value at the acquisition date. Costs attributable to business combinations are recognized directly in the income statement when incurred.

When a business is taken over in more than one transaction (step acquisition), previously acquired investments are revalued at fair value at the acquisition date, and value adjustments are recognized in the income statement under other operating income or other operating expenses. Management estimates the fair value of the total investment acquired immediately on completion of the step acquisition. Fair value is measured at the cost of the total investment acquired.

If uncertainty exists at the acquisition date concerning the identification or measurement of acquired assets, liabilities or contingent liabilities, initial recognition is made at provisional fair values. If it subsequently becomes apparent that the fair value of identifiable assets and liabilities, including contingent liabilities, differs from the assumed fair value at the acquisition date, the calculation is adjusted retroactively, including goodwill, until 12 months following the acquisition. The effect of the adjustments is recognized in the opening equity and comparative figures are restated. Subsequently, goodwill is not adjusted. Changes in estimates of contingent consideration are recognized directly in the income statement.

Any excess of the cost over the fair value of the identifiable assets and liabilities, including contingent liabilities (goodwill), is recognized as goodwill under intangible assets. Goodwill is not amortized, but is subject to annual impairment tests. The initial impairment test is carried out before the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units, which form the basis for subsequent impairment tests. Identification of cash-generating units is based on the group's cash flows, on which the internal financial reporting subsequently follows up. Such cash flows do not always follow the legal structure of the group.

Goodwill and fair value adjustments related to the acquisition of a foreign unit with another functional currency than the Danfoss Group's presentation currency are treated as assets and liabilities belonging to the foreign unit and converted to the functional currency of the foreign unit at the exchange rate on the transaction day.

31. Accounting policies (cont.)

Gain or loss on disposal of subsidiaries, associates or joint ventures are stated as the difference between the sales amount or the disposal amount and the carrying amount of net assets, incl. goodwill at the date of disposal, less disposal costs.

Combinations of businesses under common control

Mergers of companies under common control, are accounted for using the pooling-of-interests method is used. Under this method, the merged companies are in the merger year recognized in the Parent Company's financial statement as if they had been merged throughout the entire financial year. Comparative figures are restated accordingly as if the companies had been merged during the comparative year.

Assets and liabilities in the merged company are recognized at carrying amount restated in accordance with the accounting policies of the Parent Company. Any difference between the amount of consideration paid in the form of shares or cash and the carrying amount of the merged company is recognized in equity. Inter-company transactions are eliminated, irrespective of whether they were performed before or after the merger.

Minority interests

On initial recognition, minority interests are measured either at fair value or at their proportionate share of the fair value of the acquired company's identifiable assets, liabilities and contingent liabilities. In the case of the former, goodwill is recognized in respect of the minority interests' ownership share in the acquired company, whereas in the latter case, goodwill is not recognized as a part of minority interests. The measurement of minority interests is determined for each transaction and stated in the notes under the description of acquired companies.

Foreign currency translation

For each of the reporting enterprises in the group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting enterprise operates. Transactions denominated in other currencies than the functional currency are considered transactions denominated in foreign currencies. On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Currency gains and losses arising on translation are recognized in the income statement under financial items. Non-monetary assets and liabilities denominated in foreign currencies are recognized at the foreign exchange rates at the transaction date.

On recognition in the consolidated financial statements of companies with another functional currency than DKK, the income statements are translated at the exchange rates at the transaction date, and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for each month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized directly in equity under a separate translation reserve. The foreign exchange adjustment is allocated between the equity of the Parent Company and of the minority shareholders.

Foreign exchange adjustments of balances which are considered part of the total net investment in companies with a different functional currency than DKK are recognized directly in the equity under a separate reserve for foreign exchange adjustments. Likewise, foreign exchange gains or losses are recognized in the consolidated financial statements (directly in the equity under a separate reserve for foreign exchange adjustments) concerning the part of loans and derivative financial instruments, which has been allocated for currency hedging of net investments made in these companies and which effectively protects against similar currency rate gains or losses on net investments in the company.

On disposal of wholly-owned foreign units, the foreign exchange adjustments which have been accumulated in equity via other comprehensive income and which can be ascribed to the unit, are reclassified from "Translation reserve" to the income statement, together with any gains or losses from the disposal.

On disposal of partially-owned foreign subsidiaries, the part of the translation reserve related to minority interests is not recognized in the income statement.

Repayments of balances, which are considered part of the net investment, are not considered a partial disposal of the subsidiary.

Income statement

Net sales

Net sales of goods for resale and finished goods are recognized in the income statement, provided that delivery and transfer of risk to the purchaser has taken place before the year end, and that the income can be reliably measured and

31. Accounting policies (cont.)

payment is expected to be received. Net sales are measured at the fair value of the consideration agreed, excluding VAT, duties and discounts in relation to the sale. Related service income is recognized in the income statement as the services are performed. Accordingly, the recognized sale corresponds to the sales value of the work performed during the year. The sale of services is recognized in the income statement when the aggregated income and expenses of the service contract can be reliably measured, and it is probable that the group will receive the financial benefits, including payments.

Cost of sales

Cost of sales comprises costs incurred in generating the year's net sales. Such costs include cost of sales or manufacturing costs, including direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases, and depreciation. Cost of sales also includes research and development costs that do not qualify for capitalization and amortization of capitalized development costs.

Selling and distribution costs

Distribution costs comprise costs related to distribution of products sold during the year and sales staff, advertising and exhibition costs etc., including depreciation. Furthermore, provisions for bad debt are included.

Administrative expenses

Administrative expenses comprise expenses in relation to administrative staff, management, office premises, office costs etc., including depreciation.

Other operating income and expenses

Other operating income and expenses comprise items secondary to the principal activities of the companies, including gains/losses on disposal of non-current assets and companies, impairment losses and employee termination costs.

Share of profit from investments in associates and joint ventures

The proportionate share of the results of associates and joint ventures after tax is recognized in the consolidated income statement after elimination of the proportionate share of intra-group profits/losses and less goodwill impairment.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, realized and unrealized gains and losses on securities, debt and transactions denominated in foreign currencies, amortization of financial assets and liabilities and surcharges and refunds under the Tax Prepayment Scheme etc. Also included is the interest element of finance leases and gains and losses on derivative financial instruments which are not designated as hedging arrangements.

Borrowing costs incurred in relation to general borrowing activities or loans

which relate directly to the purchase, construction or development of qualifying assets, are allocated to the cost of such assets.

Dividends from investments in subsidiaries, associates and joint ventures are recognized in the Parent Company's income statement in the year when the dividends are declared.

Balance sheet

Intangible assets

Goodwill

Goodwill is initially recognized in the balance sheet at cost and allocated to cash-generating units as described under "Business combinations". Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

Development projects, software, patents and licenses

Development projects that are clearly defined and identifiable, where the technical utilization degree, sufficient resources and a potential future market or development opportunities in the company is demonstrated, and where the company intends to produce, market or use the project, are recognized as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net selling price can cover cost of sales, selling and administrative expenses and development costs. Other development costs are recognized in the income statement when incurred.

Recognized development projects are measured at cost less accumulated amortization and impairment. Cost includes direct and indirect expenses, including salaries and borrowing costs incurred from specific and general borrowing directly pertaining to the development of development projects. Completed development projects, including software, are generally amortized on a straight-line basis over 4 to 5 years. Development projects in progress are not amortized, but are annually tested for impairment.

Patents and licenses are measured at cost less accumulated amortization and impairment. Patents are amortized on a straight-line basis over the patent period and licenses are amortized over the shorter of the contract period and the useful life. Patent and contract periods are normally 5-10 years.

Other intangible assets

Other intangible assets, including intangible assets acquired in a business combination, which typically comprise technology and customer relations, are amortized on a straight-line basis over the expected useful life, which is typi-

31. Accounting policies (cont.)

cally a period of 10 to 20 years. Intangible assets, including trademarks, with indefinite useful lives are not amortized, but are tested annually for impairment.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less costs to sell and the carrying amount at the selling date. Gains or losses are recognized in the income statement under Other operating income or Other operating expenses.

Property, plant and equipment

Land and buildings, plant and machinery and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price, expenses for materials, components, sub-suppliers, direct salary expenses, borrowing costs incurred from specific and general borrowing which directly pertains to the construction of the individual asset and for self-produced assets as well as indirect cost of sales. Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, and depreciated separately.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognized in the carrying amount of the asset, if it is probable that the costs will result in future economic benefits. All costs incurred for ordinary repairs and maintenance are recognized in the income statement as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives, which are as follows:

Buildings and building components.....	15-30 years
Plant and machinery	4-10 years
Equipment	2-6 years

The depreciable amount of an asset is determined based on the residual value of the asset less any impairment charges. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount of the asset, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates.

Depreciation is recognized in the income statement under Costs of sale, Distribution costs or Administrative expenses to the extent that depreciation is not included in the cost of assets produced by Danfoss A/S.

Gains and losses on disposal of property, plant and equipment are determined as the difference between the selling price less costs to sell and the carrying

amount at the selling date. Gains or losses are recognized in the income statement under Other operating income or Other operating expenses.

The cost of assets held under finance leases is recognized at the acquisition date at the lower of fair value of the assets and the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or the group's alternative interest rate is used as discount rate. Assets held under finance leases are depreciated and amortized like other property, plant and equipment.

Assets held under operating leases are systematically expensed over the lease period.

Impairment of non-current assets

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment, initially before the end of the acquisition year. Similarly, projects in progress are subject to an annual impairment test. Deferred tax assets are subject to annual impairment tests and are recognized only to the extent that it is probable that the assets will be utilized.

The carrying amount of other non-current assets is tested annually for evidence of impairment. When there is evidence that assets may be impaired, an impairment test is made. Impairment is tested by calculating the recoverable amount. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. The value in use is determined as the present value of expected future cash flows from the asset or the cash-generating unit (CGU). If the fair value or value in use cannot be determined on individual assets, the recoverable amount is determined as the fair value of expected future cash flows from activities or the cash-generating unit (CGU) to which the asset belongs.

Impairment losses are recognized in the income statement if the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount.

Impairment of assets is reversed to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after depreciation or amortization, had the asset not been impaired. However, impairment of goodwill is never reversed.

Financial assets

Investments in associates and joint ventures are measured in the consolidated financial statements according to the equity method at the proportionate share of the enterprises including additional value from purchases, including goodwill and deduction or addition of proportionate shares of unrealized intra-group profits and losses. Investments in associates and joint ventures are tested for impairment, when evidence of impairment exists.

31. Accounting policies (cont.)

In the parent company's financial statements, investments in subsidiaries, associates and joint ventures are measured at cost. In case of evidence of impairment, an impairment test is made. Where the recoverable amount is lower than cost, investments are written down to this lower value.

Securities classified as available-for-sale are recognized under non-current assets at fair value plus trade costs at the trade date and are subsequently measured at fair value, corresponding to market price or an estimated fair value, the calculation of which is based on current market data and generally accepted valuation methods pertaining to unlisted securities. If the fair value cannot be determined reliably, the security is measured at cost. Unrealized value adjustments are recognized directly in the statement of comprehensive income, except for impairment losses and reversals thereof. On realization, the accumulated value adjustment recognized in the statement of comprehensive income is transferred to financial items in the income statement.

Inventories

Inventories are measured at cost. Where the estimated selling price less any costs of completion and selling (net realizable value) is lower than cost, inventories are written down to this lower value. Cost is calculated on the basis of the weighted average method or the FIFO method. The cost of work in progress and finished goods comprises the cost of raw materials and consumables, conversion costs and other costs directly or indirectly attributable to the goods. Indirect production overheads comprise maintenance and depreciation of production facilities and plant as well as administration and management of factories.

Receivables

Receivables are measured at amortized cost. Receivables are written down for bad debt losses in case of evidence of impairment on the basis of customers' anticipated ability to pay and expectations of any changes to this ability, taking into account historical payment patterns, terms of payment, customer segment, creditworthiness and prevailing market conditions in the individual markets. Impairment losses are calculated as the difference between carrying amount and present value of expected cash flows, including the expected realizable value of any collateral provided. The discount rate is the effective interest rate used at the time of initial recognition of the receivable.

Securities

Bonds that are monitored, measured and reported at fair value on an ongoing basis as prescribed by the group's investment policy are recognized at fair value as current assets at the trade day and are subsequently measured at fair value. Changes in fair value and bond yields received are continuously recognized in the income statement as financial items.

Equity

Share capital

The share capital comprises the nominal portion of the amounts paid in accordance with the subscription for shares. Share capital can only be released according to the rules relating to capital reduction.

Share premium

Share premium comprises amounts not included in the nominal share capital which have been paid by the shareholders in connection with capital increases, and gains and losses from the sale of treasury shares. The reserve is part of the company's free reserves.

Reserve for proposed dividends

Dividends are recognized as a liability at the date when they are adopted at the Annual General Meeting. Proposed dividends for the financial year are included in equity under proposed dividends.

Hedging reserve

In connection with hedging of future sales and purchase transactions (cash flows), changes in the fair value of instruments qualifying for hedge accounting (documentation etc.) are recognized in the statement of comprehensive income under hedging reserve, until the hedged transaction is realized. The recognized changes in the fair value are recognized in the hedging reserve under equity.

Translation reserve

Foreign exchange differences arising on the translation of the opening balance of equity of foreign companies at the exchange rates at the balance sheet date, and on translation of income statements from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognized directly in a separate translation reserve in the statement of comprehensive income under the item Foreign exchange adjustments. Foreign exchange adjustments of non-current balances with foreign subsidiaries and associates which are considered additions to or deductions from the subsidiaries' equity as well as foreign exchange adjustments of hedging transactions for the purpose of hedging the group's net investments in subsidiaries are also recognized directly in the consolidated statement of comprehensive income. The translation reserve in the equity comprises the parent company shareholders' share of the foreign exchange adjustments.

Reserve for treasury shares

The reserve for treasury shares comprise the acquisition cost for the company's portfolio of treasury shares. The dividend from treasury shares is recognized directly in the retained earnings in equity. Gains and losses from the sale of treasury shares are recognized in share premium.

31. Accounting policies (cont.)

Provisions

A provision is recognized in the balance sheet when the group has a legal or constructive obligation as a result of a past event in the financial year or previous years, and it is probable that the settlement of the obligation may lead to an outflow of the group's financial resources which can be reliably measured at the balance sheet date. The amount recognized as a provision is Management's best estimate of the expenses required to settle the obligation. In measuring provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

For the measurement, a pre-tax discount factor is used which reflects the current market interest rate level and the specific risks related to the liability. Changes in present values for the financial year are recognized under financial expenses.

Warranty provisions are recognized as the underlying goods and services are sold based on warranty costs incurred in the financial year and in previous years.

Provisions for restructuring and employee termination costs are made when the group has agreed on a detailed and formal plan, and the group has started implementing the plan or has announced the plan to the persons affected. Restructuring provisions do not include costs for the ongoing operations during the restructuring phase.

Share-based remuneration

The Board, Executive Committee and several senior employees are covered by option and warrant schemes based on the Parent Company's shares.

The value of services received in exchange for granted options/warrants is measured at the fair value of the options/warrants.

For equity-settled schemes, the share options are measured at fair value at the grant date and recognized in the income statement as personnel costs over the vesting period. The counter entry is recognized directly in equity.

For share options and warrants where the option or warrant holder has the right to receive cash settlement of the option or warrant, fair value of the instruments is initially measured at the grant date and recognized in the income statement as personnel costs over the vesting period.

Subsequently, the fair value of the instruments is measured at the balance sheet date and changes in value are recognized in the income statement under financial items.

On initial recognition of the share options and warrants, the Company estimates the number of options and warrants expected to vest, cf. the service

condition described in note 15. Share incentive programmes. That estimate is subsequently revised for changes in the number of options expected to vest. Accordingly, recognition is based on the number of options ultimately vested.

The fair value of granted instruments is measured based on the Black & Scholes model (warrant and option pricing model) taking into account the terms and conditions upon which the instruments were granted.

Employee shares

On the granting of employee shares, any bonus element is recognized as an expense under personnel costs. The counter entry is recognized directly in equity. The bonus element is determined at the subscription date as the difference between the fair value and the subscription price of the shares.

Pension obligations and defined benefit health care plans

The group has entered into pension schemes and similar arrangements with the majority of the group's employees. In addition, the Group has health care plans contributing with payment for medical expenses for certain employee groups in the USA after their retirement.

Contributions to defined contribution plans, where the group currently pays fixed pension payments to independent pension funds, are recognized in the income statement in the period to which they relate, and any contributions outstanding are recognized in the balance sheet as other debt.

For defined benefit pension and health care plans, the group is under an obligation to pay a specific benefit upon retirement (e.g. a fixed amount or a percentage of the exit salary). For these plans, an annual actuarial calculation (Projected Unit Credit method) is made of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension and health care obligations.

Pension and health care costs for the year are recognized in the income statement based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in assets and liabilities and realized amounts determined at year end constitutes actuarial gains or losses and is recognized directly in other comprehensive income. If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognized as past service costs. Past service costs are recognized immediately, provided that the benefits have already vested. If the benefits have not vested, the past service costs are expensed in the income statement over the period in which the changed benefits vest.

31. Accounting policies (cont.)

If a pension or health care plan constitutes a net asset, the asset is only recognized if it offsets future refunds from the plan or will lead to reduced future payments to the plan.

Other long-term employee benefits

Similarly, other long-term employee benefits are recognized based on an actuarial calculation. However, actuarial gains and losses are recognized in the income statement immediately. Other long-term employee benefits include jubilee benefits.

Financial liabilities

Financial liabilities are initially recognized at fair value less transaction costs. Subsequently, they are measured at cost/amortized cost. Amortized cost implies the recognition of a constant effective interest rate to maturity. Amortized cost is calculated as initial cost less any principal repayments and plus or less the cumulative amortization of any difference between cost and nominal amount. Any capitalized residual obligation on finance leases is recognized in the balance sheet as a liability. The interest element of the lease payment is expensed in the income statement under financial items.

Corporation tax and deferred tax

Danfoss A/S' companies are generally liable to pay tax in the countries where they are domiciled. The current tax includes both Danish and foreign income taxes. Danfoss A/S is jointly taxed with its Danish subsidiaries and sister subsidiaries. Current tax and deferred tax is allocated between the jointly taxed companies. The jointly taxed companies are taxed under the tax prepayment scheme.

Income statement

The current and deferred taxes for the year are recognized in the income statement, except for tax related to transactions recognized in the statement of comprehensive income or directly in equity.

Surcharges, premiums and refunds relating to tax payments are recognized in financial income and expenses.

Balance sheet

Current tax payable and receivable is recognized in the balance sheet as tax computed on the taxable income for the year, adjusted for tax paid under the tax prepayment scheme. Deferred tax liabilities and deferred tax assets are measured according to the balance sheet liability method, which means that all temporary differences between the carrying amount and the tax base of assets and liabilities are recognized in the balance sheet as deferred tax liabilities and deferred tax assets, respectively. Exceptions are any tax incurred by selling shares in subsidiaries and which the group can identify as being a tax liability and tax relating to goodwill which is not deductible for tax purposes. Deferred tax assets are recognized at the expected value of their utilization; either as a

set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Adjustment is made for deferred tax resulting from elimination of unrealized intra-group profits and losses. Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallize as current tax. In Denmark, the tax rate was 25% in 2012 (2011: 25%).

Derivative financial instruments

Derivative financial instruments, such as forward exchange contracts or options and commodity contracts, are recognized and measured at fair value. Positive and negative fair values of derivative financial instruments are shown as separate items in the balance sheet. Set-off of positive and negative values is only made when the Company has the right and the intention to settle several financial instruments net.

Provided that the documentation requirements etc. are met, hedge accounting is applied to the instruments. In connection with hedging of future sales and purchase transactions (cash flows), changes in the fair value of instruments qualifying for hedge accounting are recognized in the statement of comprehensive income under the hedging reserve until the hedged transaction is realized. At this point, gains or losses relating to such hedging transactions are transferred from the statement of comprehensive income and are recognized in the same item as the hedged transaction. If the instruments do not qualify for hedge accounting, changes in market value are recognized directly in the income statement under financial items.

Discontinued operations

Discontinued operations comprise a significant part of the business if activities and cash flows operationally and for accounting purposes can be clearly distinguished from the remaining parts of the business and where the unit has either been divested or is held for sale and the sale is expected to be completed within 12 months in accordance with a formal plan. Discontinued operations also include companies which have been classified as "held for sale" in connection with an acquisition.

The profit/loss after tax from discontinued operations and value adjustments after tax of related assets and liabilities as well as profit/loss from disposal are presented separately in the income statement with restatement of comparative figures. Net sales, costs, value adjustments and tax pertaining to the discontinued operations are disclosed in the notes. Assets and related liabilities pertaining to discontinued operations are recognized separately in the balance sheet without restatement of comparative figures, cf. the section Assets held for sale, and the main items are specified in the notes.

Assets held for sale

Assets held for sale comprise non-current assets and disposal groups held for

31. Accounting policies (cont.)

sale. Disposal groups are defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction. Liabilities associated with assets held for sale are those liabilities directly associated with the assets that will be transferred in the transaction. Assets are classified as held for sale if the carrying amount will be recovered principally through a sale within 12 months in accordance with a formal plan rather than through continuing use.

Assets or disposal groups held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are not depreciated from the date when they are reclassified as held for sale. Impairment losses on initial recognition as held for sale and gains and losses on subsequent remeasurement at the lower of carrying amount and fair value less costs to sell are recognized in the income statement in the items to which they relate. Gains and losses are disclosed in the notes. Significant assets and related liabilities are recognized separately in the balance sheet, and main items are specified in the notes. Comparative figures in the balance sheet are not restated.

Statement of Cash flows

The statement of cash flows shows the cash flows from operating, investing and financing activities for the year, and cash equivalents at the beginning and the end of the year. The cash flow effect of acquisitions and disposals of companies is shown separately under cash flows from investing activities. Cash flows relating to acquired companies are recognized in the statement of cash flows at the acquisition date, and cash flows relating to divested companies are included until the disposal date.

Cash flows from operating activities

Cash flows from operating activities are calculated according to the indirect method on the basis of profit before tax/profit before tax from continuing operations and adjusted for non-cash operating items, changes in working capital, paid financial items, received dividends and paid corporation taxes.

Cash flows from investing activities

Cash flows from investing activities comprise payment in connection with the acquisition and disposal of companies and activities, intangible assets and property, plant and equipment as well as securities classified as investing activities. Acquisitions of assets under finance leases are treated as non-cash transactions.

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the share capital, the raising and repayment of long-term and short-term bank debt, acquisition of minority interests, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise bank account deposits and cash balances.

Segment information

The segment information applies to the internal management reporting and is prepared according to the group's accounting policies, except for Sauer-Danfoss which is subject to the US GAAP accounting policies. Please see 10K at www.Sauer-Danfoss.com for further information.

Segment income, expenses, assets and liabilities comprise those items which can be allocated on a reliable basis. Items which are not allocated primarily include income and expenses incurred by corporate functions, deferred tax (assets and liabilities), receivable and payable tax, cash and interest-bearing liabilities.

Non-current segment assets are those non-current assets which are used directly for segment operations, including intangible assets and property, plant and equipment as well as investments in associates and joint ventures. Current assets are those non-current assets which are used directly for segment operations, including inventories, trade receivables and other receivables.

Segment liabilities comprise both non-current and current liabilities derived from segment operations, including trade payables, other debt and warranty obligations as well as other provisions.

Trade between segments takes place on market terms or on a cost recovery basis.

31. Accounting policies (cont.)

Financial ratios

Earnings per share (EPS) and diluted earnings per share (DEPS) are calculated in accordance with IAS 33.

Where defined, other financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios 2010".

The financial ratios in the annual report are calculated in the following manner:

Organic net sales growth

Sales growth adjusted for additions and disposals of companies and exchange rate effects.

EBIT margin excluding other operating income, etc.

Profit before other operating income and expenses/Net sales

EBIT margin

Operating profit (EBIT)/Net sales

EBITDA margin

EBITDA/Net sales

RONA (Return on net assets)

Operating profit (EBIT)/average net assets (non-interest bearing)

Return on equity

Net profit after minority interests' share/Average equity excluding minority interests

Equity ratio

Equity/total assets

Leverage ratio

Interest bearing debt/equity at year end

Net interest bearing debt to EBITDA ratio

(Interest bearing debt less interest bearing assets)/EBITDA

EBITDA

Operating profit (EBIT) plus depreciation, amortization and impairment

Dividend pay-out ratio

Total dividends distributed to shareholders/Net profit

GROUP COMPANIES



Group Companies

Unless otherwise specified after the company name, the companies are 100% owned by Danfoss.

Sauer-Danfoss companies are marked with blue and are 100% owned by Sauer-Danfoss, unless otherwise specified.

EUROPE

Austria

Danfoss Gesellschaft m.b.H., Guntramsdorf

Belgium

N.V. Danfoss S.A., Groot-Bijgaarden
[Sauer-Danfoss bvba, Bruxelles](#)

Bulgaria

Danfoss EOOD, Sofia

Croatia

Danfoss d.o.o., Zagreb

Czech Republic

Danfoss s.r.o., Prague

Denmark

AqSep A/S – 29.17% (associated company)
Danfoss A/S, Nordborg (Parent Company)
Danfoss Compressor Holding A/S, Nordborg
Danfoss Development A/S, Nordborg
Danfoss Distribution Services A/S, Rødekro
Danfoss Drives A/S, Gråsten
Danfoss Ejendomsselskab A/S, Nordborg
Danfoss International A/S, Nordborg
Danfoss IXA A/S, Vejle – 60%
Danfoss Polypower A/S, Nordborg
Danfoss Redan A/S, Hinnerup
Danfoss Semco A/S, Odense – 60%
Flexucell ApS, Østervrå – 50% (joint venture)
Gemina Ejendomsselskab A/S, Sunds
Gemina Termix Production A/S, Sunds
Issab Holding ApS, Nordborg
[Sauer-Danfoss ApS, Nordborg](#)
[Sauer-Danfoss Holding Aps, Nordborg](#)

Estonia

Danfoss AS, Tallinn
Proekspert AS, Tallinn – 75.20%

Finland

Oy Danfoss Ab, Leppävirta
Thermia Partners Oy, Masala
[Oy Sauer-Danfoss Ab, Espoo](#)

France

Avenir Energie, Valence
Danfoss Commercial Compressors S.A., Trévoux
Danfoss France Holding S.C., Trappes
Danfoss S.a.r.l., Trappes
[Sauer-Danfoss SAS, Dammarie-lès-Lys](#)

Germany

Danfoss Esslingen GmbH, Esslingen
Danfoss Flensburg GmbH, Flensburg
Danfoss GmbH, Offenbach/Main
Danfoss Silicon Power GmbH, Slesvig
Danfoss Werk Offenbach GmbH, Offenbach/Main
Promeos GmbH, Erlangen – 27% (associated company)
[Sauer-Danfoss GmbH & Co. OHG, Neumünster](#)
[Sauer-Danfoss Informativ GmbH, Neumünster](#)
[Sauer-Danfoss GmbH, Neumünster](#)

Great Britain

Danfoss Heat Pumps UK Ltd., South Yorkshire
Danfoss Holding UK Limited, Denham
Danfoss Limited, Denham
Danfoss Randall Limited, Bedford
Senstronics Holding Ltd., London – 50% (joint venture)
[Sauer-Danfoss Ltd., Swindon](#)

Hungary

Danfoss Kft., Budapest

Iceland

Danfoss hf., Reykjavik

Ireland

Danfoss Ireland Ltd., Dublin
DEVI-HEAT Limited, Dublin

Italy

Danfoss S.r.l., Torino
[Sauer-Danfoss S.r.l., Reggio Emilia](#)

Latvia

SIA Danfoss, Riga

Lithuania

Danfoss UAB, Vilnius

Netherlands

Danfoss B.V., Schiedam
Danfoss Holding B.V., Schiedam
Danfoss Turbocor Compressors B.V., Amsterdam
[Sauer-Danfoss B.V., Gouda](#)

Norway

Danfoss AS, Skui, Oslo
[Sauer-Danfoss AS, Skui, Oslo](#)

Poland

Danfoss Poland Sp.z.o.o., Grodzisk Mazowiecki
Danfoss Saginomiya Sp.z.o.o., Grodzisk Mazowiecki – 50% (joint venture)
Elektronika S.A., Gdynia – 50% (joint venture)
[Sauer-Danfoss Sp. z o.o., Wrocław](#)

Portugal

Danfoss (Portugal), Lda., Carnaxide

Romania

Danfoss s.r.l., Bukarest
Danfoss District Heating S.r.l., Bukarest

Russia

Danfoss Dzerzhinsk LLC, Nizhny Novgorod
OOO Danfoss, Istra
OOO Gruppa LPM, Skt. Petersburg
ZAO Danfoss, Moscow
ZAO Ridan, Nizhny Novgorod
[Sauer-Danfoss LLC, Moscow](#)

Serbia

Danfoss d.o.o., Belgrade

Slovakia

Danfoss spol. S.r.o., Zlaté Moravce
[Sauer-Danfoss a.s. Povazska Bystrica](#)

Slovenia

Danfoss d.o.o., Ljubljana
Danfoss Trata d.o.o., Ljubljana

Spain

Danfoss S.A., Madrid
[Sauer-Danfoss S.A., Madrid](#)

Sweden

Danfoss AB, Linköping
Danfoss Värmepumpar AB, Arvika
Danfoss East Investment AB
EP Technology AB, Malmö
[Sauer-Danfoss AB, Älmhult](#)

Switzerland

Danfoss AG, Frenkendorf

Tyrkey

Danfoss Otomasyon ve Urunleri Tic Ltd., Istanbul

Ukraine

Danfoss T.o.v., Kiev

NORTH AMERICA

Canada

Danfoss Inc., Mississauga, Ontario
Turbocor Inc., Dorval

Mexico

Danfoss Industries S.A. de C.V., Apodaca, Monterrey
Danfoss S.A. de C.V., Monterrey

USA

Danfoss Acquisitions, Inc., Vilmington
Danfoss LLC, Baltimore, Maryland
Danfoss Holding, Inc., Lawrenceville, Georgia
Danfoss Turbocor Compressors, Inc., Tallahassee, Florida
[Hydro-Gear Inc., Sullivan, Illinois – 60%](#)
[Hydro-Gear Limited Partnership, Sullivan, Illinois – 60%](#)
[Sauer-Danfoss \(US\) Company, Ames, Iowa](#)
[Sauer-Danfoss Inc., Lincolnshire, Illinois](#)

SOUTH AMERICA

Argentina

Danfoss S.A., Buenos Aires

Brazil

Danfoss do Brasil Indústria e Comércio Ltda., São Paulo
[Sauer-Danfoss Hidraulica Mobil Ltda, Caxias do Sul](#)
[Sauer-Danfoss Ltda., São Paulo](#)

Chile

Danfoss Industries Ltda., Santiago

Colombia

Danfoss S.A., Santiago de Cali

Venezuela

Danfoss S.A., Valencia

AFRICA

Namibia

Elsmark (Namibia) Commercial Wholesalers (Proprietary) Limited

South Africa

Danfoss (Pty) Ltd., Rivonia, Johannesburg

Elsmark Investment Holdings (Proprietary) Limited, Johannesburg

Elsmark South Africa (Proprietary) Limited, Johannesburg

ASIA

China

Danfoss Anshan Controls Co. Ltd., Anshan

Danfoss Energy Products (Guiyang) Co., Ltd., Guiyang

Danfoss (Shanghai) Automatic Controls Co. Ltd., Shanghai

Danfoss (Tianjin) Limited, Tianjin

Danfoss Industries Limited, Hong Kong

Tau Energy Holdings (HK) Limited, Hong Kong

Zhejiang Holip Electronic Technology Co. Ltd., Zhejiang

Danfoss Plate Heat Exchanger, Hangzhou

Danfoss Sanhua (Hangzhou) Micro Channel Heat Exchanger Co., Ltd.

– 50% (joint venture)

Danfoss-Semco (Tianjin) Fire Protection Equipment Co., Ltd., Tianjin – 60%

Sauer-Danfoss Hydrostatic Transmission Co. Ltd., Shanghai – 65%

Sauer-Danfoss (Shanghai) Co. Ltd., Shanghai

Sauer-Danfoss-Daikin Mobile Hydraulics (Shanghai) Co., Ltd., Shanghai – 65%

India

Danfoss Industries Pvt. Limited, Chennai

Sauer-Danfoss India Pvt. Ltd., Pune

Japan

Daikin-Sauer-Danfoss Manufacturing LTD, Osaka – 45%

Sauer-Danfoss-Daikin LTD, Kobe – 65%

Kazakhstan

Danfoss LLP, Almaty

Malaysia

Danfoss Industries Sdn Bhd, Selangor

Philippines

Danfoss Inc., Manila

Singapore

Danfoss Industries Pte. Ltd., Singapore

Sauer-Danfoss Pte. Ltd. Singapore – 65%

South Korea

Danfoss Ltd., Seoul

Sauer-Danfoss-Daikin LTD, Seoul – 65%

Taiwan

Danfoss Co. Ltd., Taipei

Thailand

Danfoss (Thailand) Co. Ltd., Bangkok

United Arab Emirates

Danfoss FZCO, Dubai – 95%

AUSTRALIA

Australia

Danfoss (Australia) Pty. Ltd., Melbourne

Sauer-Danfoss-Daikin Pty. Ltd. – 65%

New Zealand

Danfoss (New Zealand) Ltd., Auckland