Annual Report
Danfoss ready for the future

2013

www.danfoss.com

Danfoss at a glance

Danfoss is a world-leading supplier of technologies that meet the growing need for food supply, modern infrastructure, efficient energy utilization and climate-friendly solutions.

The Group is divided into two business segments: Danfoss Climate & Energy and Danfoss Power Solutions. Danfoss Climate & Energy's key expertise lies in food refrigeration, air conditioning systems, controls for electric motors, heating systems for buildings, and components for renewable energy, including solar and wind energy. Danfoss Power Solutions' key expertise is in hydraulic systems and components for powering mobile machinery used in agriculture, construction, materials handling, and specialty equipment.

Danfoss is a privately-owned company that has grown and improved its skills and expertise in energy-efficient solutions over the past 80 years. Danfoss sells its products in more than 100 countries and employs some 22,500 people worldwide.

Danfoss…

- Approximate headcount: 22,500
- Products sold in over 100 countries worldwide
- Top five markets: USA, Germany, China, Russia and Italy
- Has 59 factories in 18 countries and 58 sales companies in 46 countries
- Headquartered in Nordborg, Denmark

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2013 highlights

FINANCIAL PERFORMANCE

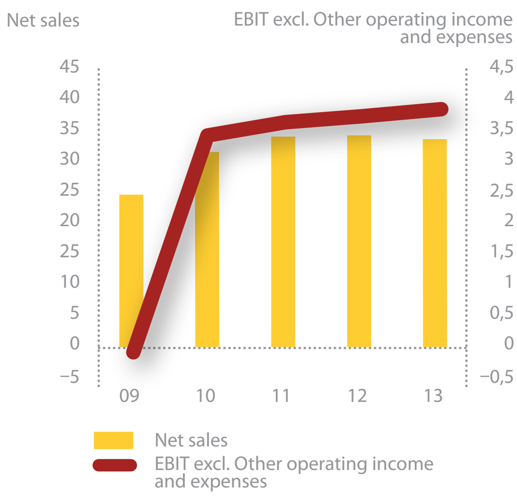
Danfoss maintained a high level of sales in 2013. Net sales amounted to DKK 33,628m, versus DKK 34,007m in 2012. Adjusted for changes in exchange rates, net sales were up by 2%.

The Group improved its earnings. Profit before other operating income and expenses grew by 4% to reach DKK 3,870m, up from DKK 3,729m in 2012.

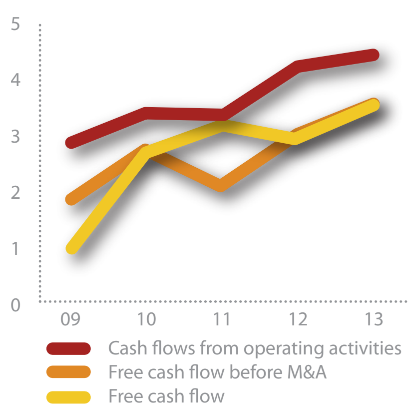
Danfoss continued to improve its financial versatility. Free cash flow was DKK 3,527m, against DKK 2,924m in 2012. At December 31, 2013, Danfoss had net interest-bearing debt of DKK 4,116m, equal to 0.8 × EBITDA for the last four quarters.

The return on equity was 18.2%, up from 17.8% in 2012. The equity ratio was 43.8%, against 51.1% in 2012.

EBIT excl. Other operating income and expenses bn. DKK



Cashflow, bn. DKK



THE CORE & CLEAR STRATEGY

Danfoss maintained the strong momentum in its implementation of the Group's Core & Clear strategy. Productivity across the Group has improved substantially, as have the Group's on-time delivery performance and the quality of its products.

Danfoss spent DKK 113m more on innovation in 2013 than in 2012. The level of innovation investment was 4.3% of net sales, or DKK 1,437m.

Customer satisfaction improved in 2013. This is the third straight year of rising customer satisfaction ratings.

Also, employee commitment has never been higher. On a scale from 1 to 100, employee commitment has risen to 78 in 2013 from its initial rating of 67 back in 2007. The 2013 survey also showed that more and more employees give their immediate superior the best possible rating.

CORPORATE CITIZENSHIP

In 2013, Danfoss continued its efforts to reduce the Group's energy consumption, and analyses were performed to reduce energy consumption in a further eight of the Group's 15 largest factories. Energy consumption at Danfoss Power Solutions (the former Sauer-Danfoss) and Danfoss Turbocor Compressors was included in the 2013 statement of the Group's CO_2 emissions from the consumption of electricity and heat. This accounts for the fact that emissions have increased considerably to reach 251,000 tons of CO_2 compared to 126,700 tons in 2012. When adjusted for energy consumption at Danfoss Power Solutions and Danfoss Turbocor Compressors, energy consumption in 2013 was on a par with 2012.

The Group has compliance programs within a number of areas. In 2013, special focus was applied to strengthening the anti-corruption and ethics programs. Employees and leaders underwent ethics training, where it was considered appropriate. Furthermore, the Group's competition compliance program was strengthened in 2013 with an updated global Competition Compliance Manual.

OUTLOOK FOR 2014

Danfoss expects the moderate global economic growth and low visibility of 2013 to continue in 2014. Accordingly, weak to moderate growth is also expected on the Group's markets. The results are expected to be affected by exchange rate fluctuations, especially in the first half of 2014. Danfoss expects to retain profitability through continual operational improvements and the targeted strategic initiatives already launched.

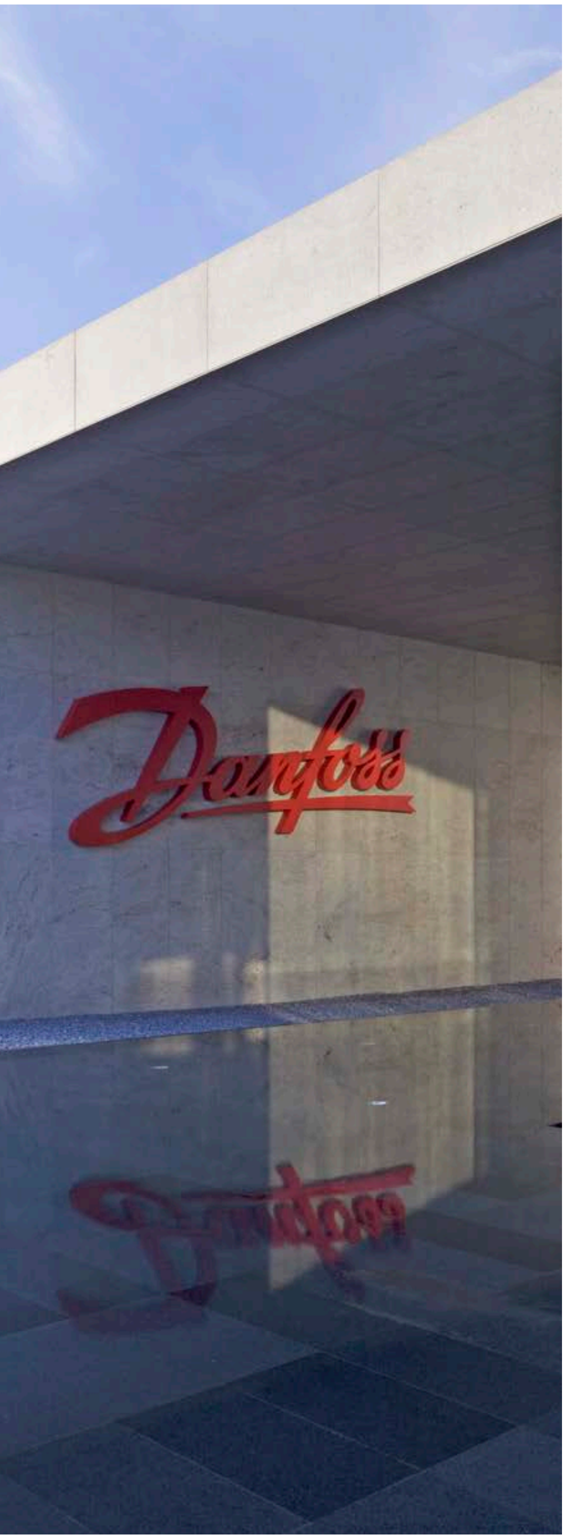
Net sales for 2014 are thus expected to show moderate growth in local currency terms.

Operating profit for 2014 is expected to rise in line with net sales.

LETTER FROM THE EXECUTIVE COMMITTEE

DANFOSS READY FOR THE FUTURE

Danfoss had a really good year in 2013, once again delivering solid results. We have strengthened our business and are poised for growth.



The Danfoss Annual Report shows how well Danfoss continued to perform in 2013 and the strong position we are in today. In fact, 2013 was an excellent year for the Group, in terms of both our financial results and the progress we made in the strategic initiatives under our Core & Clear group strategy. Danfoss fulfilled the expectations it set for 2013, just as in 2011 and 2012. This is a highly satisfactory and impressive performance, especially considering the still subdued global economic growth and the negative shift in foreign exchange rates, which offset much of the sales growth we achieved on several of our largest markets.

Powerful underlying business We maintained sales and earnings in 2013 at the levels of our two good years in 2011 and 2012. We also had a strong free cash flow and a high level of R&D expenditure. You might say that our results were created from within, driven by our powerful underlying business. Our solid financial results clearly show just how robust our Danfoss business is and that our Core & Clear strategy is working.

Contrasting performance The solid level of demand for Danfoss' technologies – which meet the growing need for a stable food supply, modern infrastructure, efficient energy utilization and climate-friendly solutions – continued in 2013. One notable exception was the European market for solar panels, which virtually collapsed due to uncertainty and changes to the framework conditions. On the other hand, we were pleased to note that our power electronics business performed strongly all year. The same was true of our district heating business, which has particularly good prospects in China and Russia. There was also good news on the market for advanced mobile hydraulics, as especially demand for materials handling and farm machinery was stronger than expected.

BRIC countries at a historic level From a geographical perspective, the BRIC countries accounted for a record-high proportion of our consolidated sales in 2013 as a result of our targeted effort to expand in global growth economies. Both Russia and Brazil reported double-digit growth rates all year, and in China, our growth recovered to reach an acceptable level. Overall, the growth we achieved on emerging markets offset the decline we saw on the traditional markets of the United States and Europe, both of which remained weak growth environments.

Top ratings for customer satisfaction and employee loyalty The success we have achieved at Danfoss in a low-growth global market is strongly rooted in the continuing implementation of our Core & Clear strategy. The understanding and sense of ownership demonstrated by our employees is essential and a powerful factor in a successful implementation. With this in mind, we are all the more pleased to note how wholeheartedly Danfoss employees have backed our Core & Clear journey right from the start. In our 2013 employee satisfaction survey, this support reached a new high.

The same goes for customer satisfaction: in 2013, we achieved improved customer satisfaction in the third consecutive year, bearing witness to the effect of the greater customer focus created through Core & Clear.

High level of innovation investment The Core & Clear platform also involves targeted innovation. We have maintained a very high level of investment in R&D, and we have made customer involvement a central component of our product innovation. In the course of 2013, this resulted in a historically high number of product launches, all of which were based on the current market situation and actual customer needs.

A strong platform The past year marked the culmination of the first phase of Core & Clear, which we call "Get the Basics Right". Through a targeted effort, we have strengthened the basic components of our business, creating a very strong platform. The efforts of each of our employees in the rollout of Core & Clear have produced substantial improvements in our productivity, in managing our overheads, in reducing complexity, in lifting quality and in improving our on-time delivery performance. At the same time, we have invested heavily in innovation, and both our customer and employee satisfaction ratings have climbed. All of this has helped us to raise our company's profitability by a satisfactory margin, achieve a solid bottom-line result and increase our financial versatility through a record-high free cash flow.

Acquisition the highlight of the year This financial versatility was essential for us in acquiring the remaining shares in Sauer-Danfoss Inc. in 2013 and obtaining full ownership of the company. This was undoubtedly the highlight of the year and probably one of the most important strategic acquisitions in recent Danfoss history. The purchase has strengthened our global position, and we can now leverage synergies across our two business segments, Danfoss Climate & Energy and Danfoss Power Solutions, which is Sauer-Danfoss' new name.

Danfoss focused on growth Danfoss is well prepared for the challenges of the future. Our platform is in place, and we are ready for the next phase of our strategy. Our focus will be to expand Danfoss' global position and create profitable growth in our core business. We expect market growth to remain modest, but we intend to invest in areas such as branding, marketing and sales to gain an advantage in the battle for what limited growth there is. We intend to invest in the growth pockets that exist, for example as we are already doing in Turkey. We are also prepared to leverage Danfoss' financial strength in order to acquire new technologies and activities if the right opportunity presents itself. Our focus on growth will go hand in hand with continuing improvements in productivity and the supply chain and, not least, our level of innovation investment will remain high: all for the benefit of our customers.

On behalf of the Executive Committee,

Niels B. Christiansen

From left:
Jesper V. Christensen, Niels B. Christiansen and Kim Fausing.

FINANCIAL HIGHLIGHTS

DKKm

	2009	2010	2011	2012	2013
INCOME STATEMENT					
Net sales	24,165	31,550	33,904	34,007	33,628
Operating profit before depreciation, amortization, impairment and other operating income and expenses	1,826	5,209	5,327	5,454	5,549
Operating profit before depreciation, amortization and impairment (EBITDA)	1,354	5,053	5,924	5,752	5,296
Operating profit excl. other operating income and expenses	-40	3,400	3,653	3,729	3,870
Operating profit (EBIT)	-1,431	3,264	4,226	3,769	3,616
Share of profit from associates and joint ventures after tax	-37	14	16	-2	8
Financial items, net	349	-334	-1,024	-421	-369
Profit before tax from continuing operations	-1,119	2,944	3,218	3,346	3,255
Profit from discontinued operations	-635	-829	-931	0	0
Net profit	-1,402	1,378	1,314	2,339	2,285
BALANCE SHEET					
Total non-current assets	19,289	18,703	17,422	17,038	16,052
Total assets	28,642	29,868	28,124	27,768	26,116
Total shareholders' equity	10,055	11,700	12,597	14,193	11,443
Net interest-bearing debt	9,144	6,675	4,634	2,691	4,116
Net assets	18,995	18,167	17,037	16,775	15,476
Capital expenditure	1,009	973	1,335	2,053	1,210
CASH FLOW STATEMENT					
Cash flow from operating activities	2,858	3,387	3,359	4,245	4,444
Cash flow from investing activities	-1,894	-741	-209	-1,321	-917
acquisition of intangible assets and property, plant and equipment	-895	-634	-1,220	-1,169	-1,003
acquisition of subsidiaries and activities	-893	-132	1,106	-191	0
Free cash flow	964	2,646	3,150	2,924	3,527
Free cash flow before M&A	1,906	2,792	2,078	3,019	3,513
Cash flow from financing activities	-733	-2,037	-2,530	-2,779	-3,623
NUMBER OF EMPLOYEES					
Number of employees	25,740	23,392	23,430	23,092	22,463
FINANCIAL RATIOS					
Organic net sales growth (%)	-12	25	10	-2	1
EBITDA margin excl. other operating income ect. (%)	7.6	16.5	15.7	16.0	16.5
EBITDA margin (%)	5.6	16.0	17.5	16.9	15.7
EBIT margin excl. other operating income etc. (%)	-0.2	10.8	10.8	11.0	11.5
EBIT margin (%)	-5.9	10.3	12.5	11.1	10.8
RONA (%)	-7.1	17.6	24.0	22.3	22.4
Return on equity (%)	-13.0	12.3	9.0	17.8	18.2
Equity ratio (%)	35.1	39.2	44.8	51.1	43.8
Leverage ratio (%)	92.5	62.2	36.8	19.0	36.0
Net interest bearing debt to EBITDA ratio	6.8	1.3	0.8	0.5	0.8
Dividend pay-out ratio (%)	0.0	7.5	25.0	17.1	35.0
Dividend ratio per share (%)	0.0	10.0	31.5	39.2	78.3

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.

CORE & CLEAR STATUS

Initial phase of strategy in place

Since the successful implementation of the initial phase of its business strategy, Danfoss has strengthened its product quality, stepped up investment in innovation, sharpened its customer focus, reduced business complexity and acquired new technologies and activities for the Group.


Core & Clear


Free & Agile


Customer & Innovation


Passion & Performance

Danfoss has a strong global position as a supplier of technologies that meet the growing need for food supply, modern infrastructure, efficient energy utilization and climate-friendly solutions. The Core & Clear strategy provides the scope and framework for expanding Danfoss' world-leading position. Since 2010, Core & Clear has been the driver of the decisions and choices made at Danfoss to strengthen the Group's results and reputation.

Strong momentum

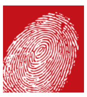
Building on Core & Clear, the Group has built up a strong momentum across the business, achieving powerful results. Despite a period of global economic slowdown, weak growth and spending restraint, Danfoss has managed to maintain a high level of sales while markedly improving the Group's financial strength and versatility.

The means to these ends were improving product quality, increasing investment in innovation, sharpening customer focus, reducing business complexity and acquiring new technologies and activities for the Group.

Ready for growth

This puts in place the building blocks for the initial phase of the strategy, a process focused on strengthening the core elements of the business. The Danfoss Group has now been streamlined and is ready for growth. The next phase will be to build on this strong foundation by launching initiatives that will help accelerate growth while remaining firmly focused on maintaining profitability, quality and efficiency in the business.

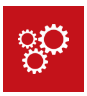
Four cornerstones of the Core & Clear strategy



Core & Clear: Strong focus on the core business

The Core & Clear strategy is rooted in a strong focus on optimizing the core business areas. In the first years of Core & Clear, the main objective was to reduce business complexity, also by divesting non-core business activities. Now, the focus is on optimizing the core businesses. Backed by a consistently strong free cash flow, Danfoss can quickly finance investments and acquisitions that can strengthen its core business areas. At the beginning of 2013, Danfoss gained full ownership of the former joint venture Danfoss Turbocor Compressors. This move has reinforced the company's already strong position in variable speed compressors.

Also in 2013, Danfoss completed one of the largest and most strategically important investments in its corporate history when it acquired the remaining shares in Sauer-Danfoss Inc. and became the sole owner of that company. This DKK 3.9bn purchase highlights the financial versatility Danfoss has gained since setting out on its Core & Clear journey in 2010.



Free & Agile: World-class production facilities and supply chain

Starting out the year at already high levels, Danfoss achieved double-digit productivity enhancements in 2013 at all Danfoss Climate & Energy factories. At the same time, the Group continued to cut the

Starting out the year at already **high levels**, Danfoss achieved double-digit productivity enhancements in 2013 at all Danfoss Climate & Energy factories

number of product codes, reducing complexity in the business and improving transparency across product families and business areas. Continuing to streamline its procurement activities, Danfoss has further cut the number of suppliers it uses to bring benefits in the form of less complexity, faster delivery and better prices. The combined result of these efforts is that Danfoss now has a world-class production apparatus and supply chain, and the work to enhance these fundamental components of the business will continue.

Customer & Innovation: Achieving supreme innovation and scoring high on customer satisfaction

Danfoss successfully improved customer satisfaction in 2013: This is the third straight year of rising customer satisfaction at Danfoss, bearing witness to the effect of the greater customer focus created through Core & Clear. Quality and on-time delivery are crucial elements of our customer focus. Through a dedicated follow-up process in 2013, Danfoss raised its product quality even further while also improving on-time delivery performance. Much of the improvement was achieved through the systematic approach implemented across the Group through the Danfoss Business System. The goal is for all business areas to comply with ISO/TS16949, one of the toughest quality standards in the world, by the end of 2015. Implementation of the 25 processes aimed at ensuring compliance with this standard is progressing to plan. In 2013, five more Danfoss factories were certified to ISO/TS16949, bringing the current total to 14.

Dedicated innovation is another key element of the Danfoss Core & Clear strategy. By carefully investing in select high-potential growth areas, Danfoss has developed

new technologies in areas such as flat stations for district heating solutions, software for controlling mobile machinery and advanced home heating control systems. Danfoss continued a high level of investment in R&D in 2013. In a peer group comparison, Danfoss ranks among those allocating the most resources to innovation. Thanks to the high level of investment, the number of product launches during the year was once again at a historic high.
Involving customers in the development of new Danfoss products is essential in delivering products that make a difference. In other words, customer focus is an integral part of the innovation process at Danfoss, and efforts to involve customers even more in its product development continued in 2013. As a result, Danfoss can today deliver products that are even more customized to meet individual customer needs.

Passion & Performance: Employee commitment at highest level ever

An ongoing focus area at Danfoss is employee understanding of and support for the changes resulting from the Core & Clear strategy. The successful implementation of the many Core & Clear initiatives rely strongly on a powerful commitment to the strategic direction by Danfoss employees, and that commitment has been rising since the launch of Core & Clear in 2010.
Danfoss has conducted employee satisfaction surveys every other year since 2007, and the 2013 survey revealed the highest employee commitment rating yet. On a scale from 1 to 100, employee commitment has risen from 67 in 2007 to 78 in 2013. Leadership skill ratings also improved in 2013.
The constant effort to improve employee competencies continued in 2013, as did the rollout of the employee performance review systems in the Group. In addition to demonstrating the need for competence building, these reviews are also a means of defining clear-cut goals for both employees and managers.

Core & Clear strategy

Danfoss pursues the Core & Clear strategy, which is rooted in a strong commitment to quality, on-time delivery and innovation. The strategy designates food supply, modern infrastructure, efficient energy utilization and climate-friendly solutions as the key strategy themes in what Danfoss does.

Core & Clear builds on four core elements:

Core & Clear:
Danfoss focuses on those core activities in which the Group already holds or is in the process of capturing a leading global position. Danfoss must ensure that, in its core business, it always differentiates itself clearly from the competition.

Free & Agile:
Danfoss must have the ability to adapt to changes in market trends. This requires that the Group continually works on becoming more flexible and agile. To do that, we must consistently optimize our supply chain and administrative processes and maintain a firm focus on strengthening our financial versatility by maintaining a strong free cash flow.

Customer & Innovation:
Danfoss is a flexible business partner. We invest in providing a simple and value-creating proposition for our customers. We base our product innovation on customer needs and manufacture top-quality customized solutions.

Passion & Performance:
Danfoss achieves results through a passionate commitment and our ability to successfully implement our strategy. We are focused on communicating a single clear direction in moving forward, defining clear and ambitious goals for employees and managers alike and following up on them, and investing in competency building and the ability to meet ambitious goals.

INNOVATION

R&D at Danfoss

INNOVATION LIKE NEVER BEFORE

Major investments, customer involvement and committed employees are setting new standards for product development at Danfoss. The Group spent close to DKK 1.5bn on innovation in 2013.

For people at Danfoss, constantly wanting to make our products even better and conducting research into developing new technologies is quite simply a way of life. Passion for innovation is a part of the Danfoss corporate spirit. Our engineers live to set new standards in terms of energy efficiency, quality and performance: making the impossible possible.

A major investment

Danfoss has strengthened its innovation capacity and product development programs over the past few years. Relative to its size, Danfoss allocates more resources to innovation than most other companies in its peer group. In 2013, Danfoss increased its innovation spend by more than DKK 100m relative to 2012. Measured as a percentage of sales, investment rose to 4.3% from 3.9% in 2012. Overall, Danfoss invested DKK 1,437m in innovation in 2013. During the year, Danfoss filed 221 new patent applications and was granted 208 patents. At December 31, 2013, the Group had a total of 1,932 patents.

Involving customers from start to finish

Targeted investment is a fundamental requirement for product development, but what has had the most far-reaching effect in recent years has been Danfoss involving its customers. When we develop a new product, the customer must be involved from start to finish. That enables us to combine the customer's experience in applying the product on a daily basis with our technical expertise and our engineers' passion for innovation. The result is top-quality and innovative products that meet actual customer needs. And that's good for Danfoss, because then we can be sure there is a demand for the product we are developing. It is also good for our customers, because they can be sure they will get a product that lives up to their expectations.

A specific example of how Danfoss involves its customers in product development is the Application Development Center in Ames, Iowa, in the U.S. and in Nordborg, Denmark, where customers can test Danfoss' hydraulic systems and components in their own mobile machinery.

New product launches in 2013

Danfoss introduced a record number of products in 2013: here are a selection of the products launched.

EvoFlat, flat station
A flat station is a control system that regulates the municipal heating system in the home. This new and efficient model ensures instant hot water delivery from the municipal system, which provides greater comfort for residents of large housing complexes. Integrating all measuring devices into one installation provides both energy savings and a more efficient distribution of energy at the same time.

VFM2 valve and AMV/E 6xx actuator, motorized control valve solution
Easy to install and operate, the valve has been a huge success on the Chinese and Russian municipal heating markets. The advantages of this motorized control valve are its high capacity and flexible options in adding functionalities.

DHP-R ECO, heat pumps
This new series of heat pumps includes sizes ranging from 20 to 42 kW. These heat pumps feature the latest technology from Danfoss, including compressors, heat exchangers, electronic expansion valves and sensors, enabling efficiency improvements of up to 24%.

XGM032, HEX heat exchanger
A heat exchanger is the link between the municipal heating system and a household heating system. This model is both lighter and more compact, which means it takes up less space in the home, and it is the first in the world with a gasket solution based on microplate technology.

TMTHW wheel drive motor
A new wheel motor for heavy-duty cutting heads for forestry machines and other equipment requiring substantial torque and high speeds. Special features of this model include a higher load capacity and a patented dual shaft seal that ensures reliable operation without leaks, even under the most rugged working conditions.

OSPU control unit

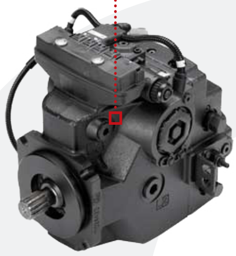
This new control unit is a cost-efficient alternative to dual-displacement control systems. The unit is used in mobile machinery that requires emergency manual steering, i.e. tractors, backhoes, telehandlers and combines.

PLUS+1® GUIDE 7.0

The PLUS+1 GUIDE 7.0 is an upgrade to the industry-proven PLUS+1 controls concept that digitally and seamlessly ties the hydraulic components on the machine together. It includes new features and options that increase developer productivity and support functional safety standards – thereby bringing machines to market faster.

H1 AC Eco Mode control option

This new automatic control option offers increased driving comfort in off-highway machines while also helping lower both noise levels and fuel consumption. Automatic highway activation reduces engine revolutions while maintaining vehicle speed.

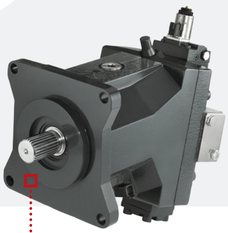


Shhark Quiet technology gear pumps

These pumps utilize the all-new noise-reducing Shhark Design that guarantees operational cost savings and less noise, even after many hours of heavy-duty load operation. This type of gear pump is typically used in construction equipment, agricultural machinery and lifting equipment.

AK-SM 800, control system for cooling equipment

The system control unit in this series is part of the market's best control solution for supermarket cooling applications. The new system combines the benefits of easy installation, remote access to system data, improved food cooling and lower power consumption.



H1B250
Bent Axis-motor

This new motor is an axial piston pump featuring the market's strongest synchronization shaft, and its features make this motor ideal for rough-terrain forklifts, combines, wheel loaders and other off-road vehicles.

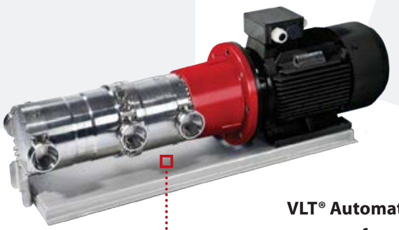
Extended and improved portfolio of high-pressure components - SGP sight glass, GBC ball valve, and NRV check valve

Danfoss has expanded the portfolio of control systems for CO_2 by upgrading with a new generation of sight glasses and improved valves. The new range of components are well-suited for CO_2 cooling and other high-pressure applications.

690 V IP20 VLT® frequency converters
This series enables control of 690 V motors as small as 0.37 kW without the need for expensive oversized frequency converters or step down transformers. Built on the efficient and reliable VLT® platform, these frequency converters are particularly suitable for installations in chemical, energy, mining, water and wastewater treatment, and marine applications.

LLZ Danfoss scroll compressors for low-temperature cooling
Danfoss expanded its selection of refrigeration scroll compressors with this LLZ range in 2013. The new series improves energy efficiency and cooling capacity by more than 20%.

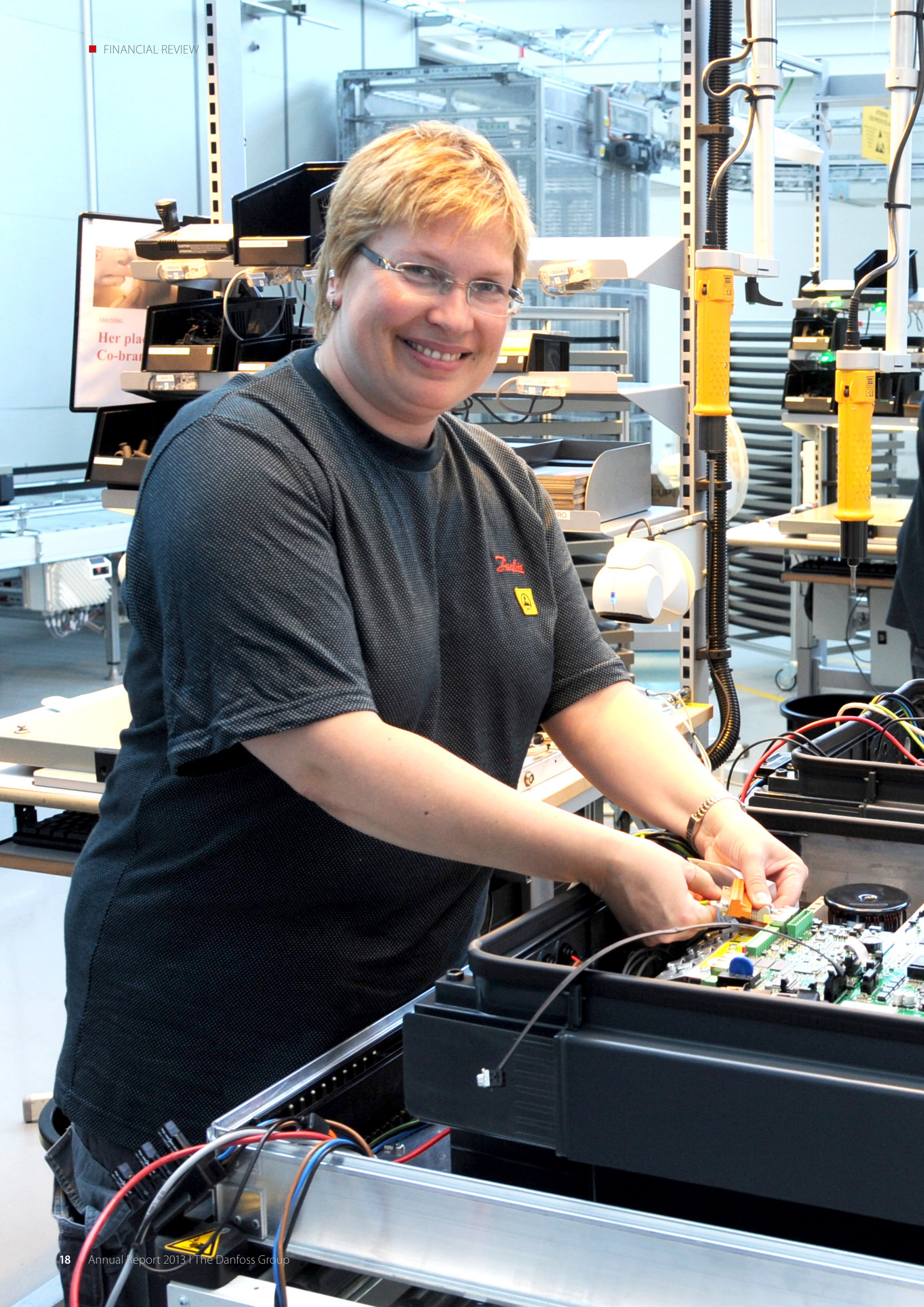
Danfoss Solar Inverters FLX series of string inverters
The series is the second generation of three-phase transformerless string inverters for PV installations. With their flexibility, ease of installation and high efficiency, these inverters can be used in a wide range of applications, from single households to large-scale power plants.



APP and iSave high-pressure pumps and energy recycling units
Two innovative high-pressure pumps and energy recycling units for desalination systems for producing fresh water for drinking water or irrigation purposes.

VLT® AutomationDrive FC 360, frequency converters
Designed for the efficient control of electrical motors in the industrial segment, these frequency converters are specifically targeted for the Asian market. Frequency converters can increase the efficiency and quality of many industrial processes, as well as reduce energy consumption in a variety of industrial applications such as textile industry equipment.

40 ton Danfoss scroll compressor for chillers and roof top units
This SH485 compressor is used in equipment like chillers or roof top units. The new model allows customers to offer a product that satisfies even the strictest regulatory requirements and provides significant energy and costs savings over the lifespan of the system. End users will also benefit from massive energy savings, low noise levels, a longer service life and lower maintenance costs.



FINANCIAL REVIEW

Danfoss delivered strong results and its best-ever free cash flow in 2013, driven by a consistently strong performance of the underlying core business and the targeted and successful implementation of the Core & Clear strategy.

Presentation of results

Net sales remained strong at DKK 33,628m, against DKK 34,007m in 2012. Adjusted for the effects of exchange rate fluctuations, net sales were up 2% over the strong 2012-figure. Net sales were in line with expectations, which was a satisfactory result.

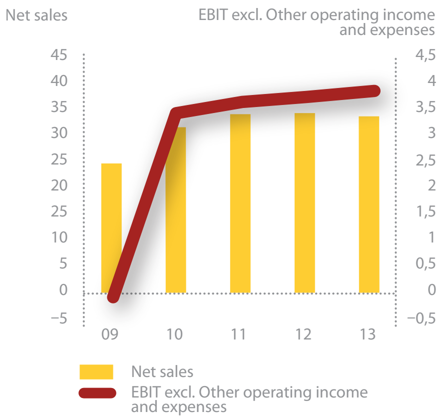
As expected, 2013 was another year of subdued global economic growth. The stagnant economy slowed demand for Danfoss' climate and energy-efficient technologies and hydraulic solutions for machinery used in agriculture and construction. However, Danfoss managed to defend or grow its market share in most business areas during the year. The year began on a slow note, but quarter by quarter the Group successfully lifted its sales, as expected. Due to changes in exchange rates, however, much of the top-line growth was offset by relatively strong drop in the currencies on several of Danfoss' markets, particularly in the second half of the year.

The Group successfully took advantage of the few growth pockets that existed on the market during the year. The targeted effort on the BRIC markets is producing results, and at 22%, the four countries accounted for a record-high share of consolidated sales in 2013. Especially the Brazilian market did very well during the year, reporting 30% growth in local currency. Russia, a market on which Danfoss has generated strong growth for quite some time, also produced high growth rates, although with a slightly weakening trend in the second half of the year. The Chinese market saw stable moderate growth all year. The same applies to India, which continued last year's level of performance. Overall, the BRIC countries continued recent years' upward trend.

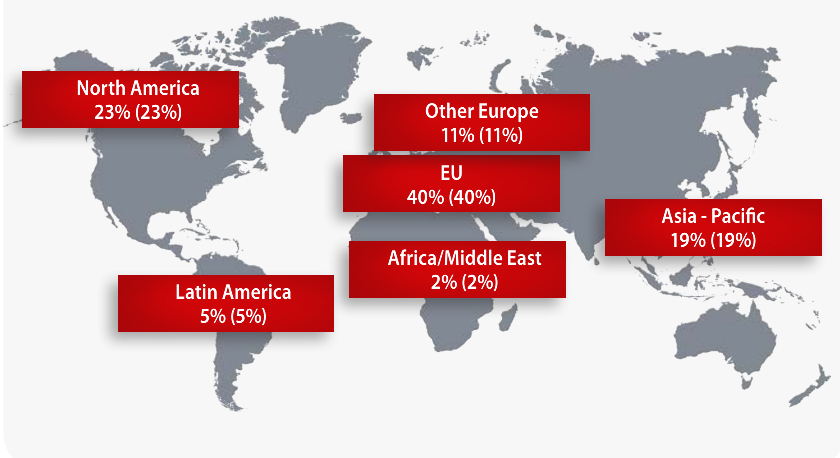
The improvements in the BRIC countries offset the slowdown the Group experienced in its traditional markets in the United States and Europe. The US market reported a slowdown in the early part of the year, which stabilized in the second half. Plunging demand on the European solar panel market caused by changes to national subsidy schemes, especially in Germany and Denmark, and uncertainty about the framework conditions for the solar energy sector in Europe were the reasons Danfoss did not see growth in Europe.

The Danfoss Climate & Energy segment experienced a stable performance throughout 2013, and sales remained at the 2012 level. The district heating and power electronics business areas both had a particularly good year in 2013. Adjusted for the effect of exchange rate fluctuations,

EBIT excl. Other operating income and expenses, bn. DKK



External sales per region 2013 (2012)



the growth rate was 2%. In other words, the business segment managed to offset the revenue drop stemming from the Solar Inverter business.

Danfoss Power Solutions began 2013 with the prospect of a subdued market. After a slow start to the year, the segment built a strong momentum in the latter half of 2013, and full-year sales ended 3% higher than in 2012.

Operating profit excluding other operating income and expenses grew by 4% to reach DKK 3,870m, up from DKK 3,729m in 2012. The main drivers of these improved results were the successful Core & Clear strategy and the resulting operational improvements in the core business in areas such as procurement, productivity and reduced complexity, all combined with good management keeping costs under control.

Operating profit (EBIT) amounted to DKK 3,616m, against DKK 3,769m in 2012. EBIT was largely unchanged when adjusted for the non-recurring costs of DKK 110m that were mainly related to the acquisition of the remaining shares in Sauer-Danfoss Inc. and re-branding. Accordingly, EBIT was in line with the level expected at the beginning of the year, which was satisfactory. Earnings were particularly strong in mid-year, which is traditionally Danfoss' peak season, and – adjusted for the above-mentioned non-recurring costs – Q3 2013 was the best quarter in the Group's history.

Financial items totaled an expense of DKK 369m, against an expense of DKK 421m in 2012.

Net profit was better than expected, at DKK 2,285m against DKK 2,339m in 2012. The main reasons for the slightly lower profit in 2013 were the above-mentioned non-recurring costs related to the acquisition of the remaining shares in Sauer-Danfoss Inc. as well as costs related to organizational adjustments.

Balance sheet

The acquisition of the remaining shares in

Sauer-Danfoss Inc. affected **shareholders' equity**. As a result of IFRS rules, equity was reduced for accounting purposes as the former minority interests were previously recognized in the Group's equity, and their market value had increased since the valuation in 2008. Equity stood at DKK 11,443m at December 31, 2013, compared to DKK 14,193m at December 31, 2012.

The return on equity was 18.2%, up from 17.8% in 2012.

Total assets amounted to DKK 26,116m at December 31, 2013 against DKK 27,768m at the year-earlier date.

Net interest-bearing debt stood at DKK 4,116m at December 31, 2013, compared with DKK 2,691m at the year-earlier date. This change was also due to Danfoss taking full ownership of Sauer-Danfoss Inc. The level of debt is equal to 0.8 × EBITDA for the last four quarters, which is within the target range of from 0 to 2 times EBITDA for the last four quarters. The Group management considers the level of debt to be satisfactory.

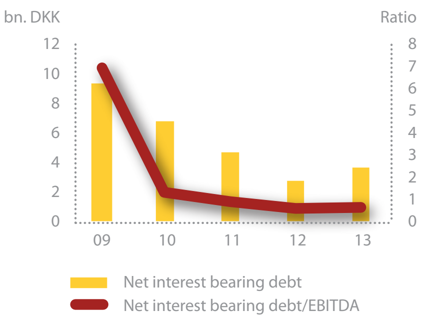
Interest-bearing debt included DKK 2,380m (58%) non-recurring debt maturing after more than 12 months. At December 31, 2013, the Group had unutilized and non-terminable long-term credit commitments of DKK 5,800m against DKK 6,000m at the year-earlier date in addition to cash and cash equivalents and ordinary operating credits.

Cash flow statement

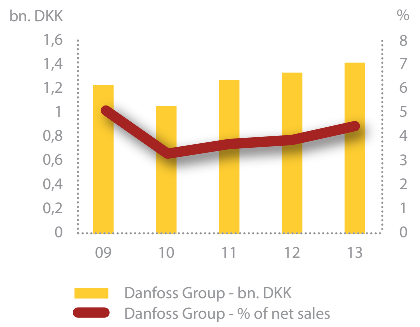
The already very high free cash flow set a new record in 2013, driven by strong

» The Group successfully took advantage of the few growth pockets that existed on the market during the year. The targeted effort on the BRIC markets is producing results, and at 22%, the four countries accounted for a record-high share of consolidated sales in 2013.«

Net interest-bearing debt



Research & Development investments



earnings and significant improvements to the working capital. Consisting of the DKK 4,444m cash flow from operating activities and the DKK −917m cash flow from investing activities, the free cash flow amounted to DKK 3,527m, against DKK 2,924m in 2012. Free cash flow before mergers and acquisitions amounted to DKK 3,513m, against DKK 3,019m at December 31, 2012, an improvement of 16%.

Innovation

Danfoss concentrated its innovation activities on developing energy-efficient and performance-enhancing solutions in the Group's core business areas. The product development program was further strengthened through significant investments: Danfoss has never made more product launches than it did in 2013. Danfoss invested DKK 1,437m in product development in 2013, compared to DKK 1,324m in 2012. Measured as a percentage of sales, investment rose to 4.3% from 3.9% in 2012. During the year, Danfoss filed 221 new patent applications compared to 152 last year, and 208 patents were granted to the Group against 244 patents in 2012. At December 31, 2013, the Group had 1,932 patents, compared to 2,101 last year.

Human capital

Being able to attract and retain people with the right knowledge and skills is essential if Danfoss is to retain and expand its leading market position in its core business areas. The Group offers special incentive schemes to retain key staff and managers.

Danfoss also makes an ongoing effort to build and develop employee qualifications through on-the-job training, courses and other learning activities. For example,

» Operating profit excluding other operating income and expenses grew by 4% to reach DKK 3,870m, up from DKK 3,729m in 2012. The main drivers of these improved results were the successful Core & Clear strategy and the resulting operational improvements in the core business in areas such as procurement, productivity and reduced complexity, all combined with good management and costs that were under control. «

Danfoss expanded its offering of e-learning opportunities available to employees and made some courses mandatory for managers.

In addition, Danfoss holds annual employee performance reviews in support of the continuing development of employee qualifications, ensuring consistency between levels of responsibility and levels of competency.

Employees

The Danfoss Group had 22,463 employees at December 31, 2013 against 23,092 at the year-earlier date. The drop was mainly attributable to a number of adaptations to global market conditions that Danfoss rolled out in the third quarter and which took effect in the second half of 2013. The Group's employees were distributed as follows by geography: 7,772 in Europe excluding Denmark (2012: 7,977), 3,920 in North America including Mexico (2012: 3,988), 412 in Latin America (2012: 451), 4,889 in Asia-Pacific including China (2012: 4,895), and 55 in Africa-Middle East (2012:

54). At December 31, 2013, Danfoss had 5,415 employees in Denmark compared to 5,727 a year earlier.

Changes in the Executive Committee

Effective July 1, 2013, Jesper V. Christensen joined the Executive Committee as Executive Vice President & CFO. The other members of the Executive Committee are President & CEO Niels B. Christiansen and Executive Vice President & COO Kim Fausing.

Acquisitions, business expansions and establishments in 2013

On April 12, 2013, Danfoss completed its purchase of the shares in Sauer-Danfoss Inc. it did not already own. In acquiring these shares at a total value of DKK 3.9bn, Danfoss achieved its strategic objective of gaining sole ownership of Sauer-Danfoss Inc. Full ownership has come at a total price of DKK 7.1bn since 2008. In connection with the acquisition in April, Sauer-Danfoss Inc. was delisted from the New York Stock Exchange. In September, Sauer-Danfoss Inc. was renamed Danfoss Power Solutions and is a business segment of the Danfoss Group.

Since acquiring a site near Chennai, India, at the end of 2012, Danfoss has begun building extensive production and development facilities. The project at Chennai is an important component of Danfoss' strategy to increase the Group's presence on the Indian market. Danfoss also expanded its activities in China in 2013, with the Group opening two new factories located in the Haiyan area near Shanghai. The factories manufacture energy-efficient heat exchangers for heating and cooling buildings, as well as hydraulic components and systems for mobile machinery.

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 2013 as a result of the implementation of new standards and interpretations. The changes have not had a material effect on recognition or measurement.

The Danfoss Group had 22,463 employees at December 31, 2013 against 23,092 at the year-earlier date

» The product development program was further strengthened through significant investments: Danfoss has never made more product launches than it did in 2013. Danfoss invested DKK 1,437m in product development in 2013, compared to DKK 1,324m in 2012. Measured as a percentage of sales, investment rose to 4.3% from 3.9% in 2012.«

FINANCIAL HIGHLIGHTS, QUARTERLY

Mill. DKK (unless otherwise stated)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	2013
Profit and loss accounts										
Net sales	8,357	8,865	8,763	8,022	34,007	8,063	8,752	8,712	8,100	33,628
Operating profit before depreciation, amortization, impairment and other operating income and expenses	1,245	1,444	1,554	1,211	5,454	1,106	1,408	1,688	1,347	5,549
Operating profit before depreciation, amortization and impairment (EBITDA)	1,217	1,451	1,565	1,519	5,752	1,057	1,336	1,587	1,316	5,296
Operating profit excl. other income and expenses	823	1,009	1,119	776	3,729	679	987	1,273	931	3,870
Operating profit (EBIT)	796	1,016	1,130	827	3,769	638	907	1,172	899	3,616
Financial income/expenses	-103	-85	-55	-179	-421	-36	-133	-96	-103	-369
Profit before tax	693	935	1,076	641	3,346	603	778	1,079	796	3,255
Net profit	486	696	804	353	2,339	422	556	708	598	2,285
Balance sheet										
Total non-current assets	17,297	17,581	17,101	17,038	17,038	17,024	16,691	16,127	16,052	16,052
Assets	29,057	29,723	28,857	27,768	27,768	28,546	28,450	27,472	26,116	26,116
Total shareholders' equity	12,997	13,398	14,153	14,193	14,193	14,637	10,445	10,942	11,443	11,443
Net interest-bearing debt	4,493	4,778	3,396	2,691	2,691	2,767	6,721	5,421	4,116	4,116
Net assets	17,304	17,979	17,353	16,775	16,775	17,332	17,089	16,284	15,476	15,476
Capital expenditure	187	402	234	1,230	2,053	191	272	286	461	1,210
Cash flow statement										
Cash flow from operating activities	317	1,225	2,770	4,245	4,245	435	1,265	2,623	4,444	4,444
Cash flow from investing activities	-195	-561	-694	-1,321	-1,321	-56	-340	-505	-917	-917
acquisition of intangible assets and property, plant and equipment	-183	-560	-772	-1,169	-1,169	-167	-471	-612	-1,003	-1,003
acquisition of subsidiaries and activities	0	6	6	-191	-191	0	0	2	-1	-1
Free Cash flow	122	664	2,076	2,924	2,924	378	925	2,118	3,527	3,527
Free cash flow before M&A	121	659	2,078	3,019	3,019	365	918	2,121	3,513	3,513
Cash flow from financing activities	-5	-604	-1,898	-2,779	-2,779	-530	-974	-2,202	-3,623	-3,623
Key figures										
Organic net sales growth (%)	0	-2	0	-3	-2	-4	-1	3	5	1
EBITDA margin excl. other operating income etc. (%)	14.9	16.3	17.7	15.1	16.0	13.7	16.1	19.4	16.6	16.5
EBITDA margin (%)	14.6	16.4	17.9	15.1	16.9	13.1	15.3	18.2	13.6	15.7
EBIT margin excl. other operating income etc. (%)	9.9	11.4	12.8	8.5	11.0	8.5	11.3	14.6	9.1	11.5
EBIT margin (%)	9.5	11.5	12.9	8.6	11.1	7.9	10.4	13.5	8.2	10.8
Equity ratio (%)	44.7	45.1	49.0	51.1	51.1	51.3	36.7	39.8	43.8	43.8
Leverage ratio (%)	34.6	35.7	24.0	19.0	19.0	18.9	64.3	49.5	36.0	36.0
Net interest bearing debt to EBITDA ratio	0.8	0.9	0.6	0.5	0.5	0.5	1.2	1.0	0.8	0.8
Geographical segments										
Total net sales										
EU	3,511	3,621	3,518	3,086	13,735	3,268	3,377	3,405	3,265	13,316
Rest of Europe	674	867	1,082	1,040	3,663	803	944	1,153	1,011	3,911
Asia	1,332	1,434	1,605	1,529	5,899	1,242	1,551	1,604	1,493	5,890
North America	2,159	2,260	1,855	1,671	7,945	2,081	2,113	1,811	1,660	7,666
Africa	53	84	75	61	274	51	68	65	47	230
Pacific	143	138	129	141	551	128	128	149	134	538
Latin America	400	352	407	397	1,556	400	449	435	401	1,685
Middle East	85	109	92	97	384	90	122	90	89	392
Total	8,357	8,865	8,763	8,022	34,007	8,063	8,752	8,712	8,100	33,628
Number of employees										
Europe excl. Denmark	8,146	8,243	8,139	7,977	7,977	7,973	8,041	7,972	7,772	7,772
North America incl. Mexico	3,718	3,813	3,877	3,988	3,988	3,994	4,039	3,946	3,920	3,920
Latin America	448	455	454	451	451	441	427	418	412	412
Asia-Pacific incl. China	4,807	4,866	4,904	4,895	4,895	4,894	4,950	4,936	4,889	4,889
Africa - Middle East	56	60	60	54	54	57	58	58	55	55
Total exclusive sold companies/activities	23,120	23,310	23,135	23,092	23,092	23,043	23,155	22,842	22,463	22,463

2013 Highlight

Danfoss continues to grow in emerging markets

Danfoss continues to grow its business operations in the BRIC countries. The four markets have never accounted for more of the consolidated sales than they did in 2013. The Group is investing specifically in emerging markets that offer a great deal of potential for energy-efficient products.

Danfoss is making a targeted investment in strengthening and expanding its market position in the BRIC countries and other emerging economies. The company's strategic focus specifically on the BRIC countries has been such a big success that the four countries (Brazil, Russia, India and China) accounted for 22% of consolidated sales in 2013, the highest level ever.

"Danfoss built a presence in China and Russia very early on, when these economies started opening up. There's no doubt that we had to learn a few lessons along the way, but we've also gained some valuable experience in how to build a business in emerging markets. That's one of the reasons we've become so skilled at running a business on those markets. We take a highly committed and strategic approach," explains Danfoss COO Kim Fausing.

Setting a good example

The BRIC countries still offer enormous growth potential, also for Danfoss, even though all the Group's business areas are already well positioned there. Danfoss' municipal heating business is especially doing well in Russia and China, which need energy-efficient heating. For example, Danfoss is currently working together with consulting engineering firm COWI to establish a large-scale municipal heating solution in the Chinese city of Anshan: a system that utilizes surplus heat from a nearby steel mill and does not only save energy and money, but also reduce coal pollution and substantially improves air quality for the city's almost four million people. The total investment is expected to be about DKK 1.5bn.

"The Anshan project is attracting a lot of attention in China. In fact, Danfoss and COWI may be asked to build similar systems in other big Chinese cities. That could mean billions of kroner of business," says Kim Fausing.

Fluctuations in emerging markets

Getting on board for growth in markets evolving rapidly can be something of a roller-coaster ride. China had very high economic growth rates a few years back, but in 2011, the government took decisive steps to curb the threat of overheating in the housing and construction sectors. The effect on demand was immediate, and today growth rates have dropped to more moderate levels. At about the same time, demand for energy-efficient heating solutions began to rise in Russia. Having successfully capitalized on the potential, Danfoss has enjoyed double-digit growth rates there for quite some time now. In 2013, it was Brazil's turn to surprise the market with strong and unexpected growth. Danfoss is also currently building a large campus complete with development and production facilities in the Indian city of Chennai: an investment intended to boost Danfoss' presence in India, where Danfoss now is in a good position for future growth.

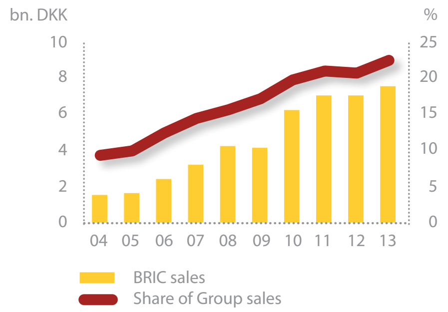
"During the last 10 years, the BRIC countries' share of sales has grown from 9% to 22%. But we've also seen fluctuating growth rates in the different countries. However, the unpredictable nature of these markets is part of the game, and we've known that all along. The BRIC countries are crucial in our efforts to generate profitable growth. We saw that in 2013, when our operations there actually offset the drop in sales on our traditional markets," explains Kim Fausing.

Danfoss investing in Turkey

Danfoss aims to capitalize on the high growth potential of the Turkish market. Due to the country's climate, Turkey has a huge market for both cooling and heating, and, while already a substantial economy, the country has seen respectable rates of economic growth in recent years.

"It's always been our strategy to strengthen our global position, and that won't change. Right now, there are only a few growth pockets in an otherwise low growth global market, and we try to capitalize on them by expanding our presence and mainly strengthening our sales organizations in those countries," says Kim Fausing.

Danfoss sales to the BRIC countries over the past ten years.



Danfoss in the BRIC countries

- The BRIC countries account for 22% of Danfoss' consolidated sales
- Over the last 10 years, the BRIC countries' share of total sales has increased from 9% to 22%
- Danfoss has 5,660 employees in the BRIC countries

Danfoss expanding capacity in China

China is an important market for Danfoss, and the Group has doubled its sales to the country since 2008. This growth performance is expected to continue, driven by migration from rural to urban areas and a growing middle class, which is part of the reason for the rise in energy consumption. To reduce greenhouse gas emissions and the use of coal, the Chinese government has a vision of achieving sustainable urbanization and building more 'green' cities. To better accommodate China's need for solutions that will save energy, reduce pollution and help build infrastructure, Danfoss opened two new factories in China in 2013. One factory building is a 42,314-square-meter (about 450,000 square feet) extension of the existing factory in Haiyan that will house production of energy-efficient heat exchangers for heating and cooling systems as well as a laboratory and storage facilities. The other is a new Danfoss Power Solutions factory with 21,000 square meters (about 230,000 square feet) to be used for manufacturing hydraulic and electronic components and systems for vehicles that will help China expand its infrastructure. The opening of the two factories makes Haiyan Danfoss' second-largest complex in China, surpassed only by its factories in the Wuqing district near the city of Tianjin.

In the fall of 2013, the red ribbon was cut at the inauguration of the factories in Haiyan.

2013 Highlight

The world's second-largest building full of Danfoss technology

Shanghai Tower, currently under construction, will soon be the tallest structure in China and the second-tallest in the world, and Danfoss products are helping make Shanghai Tower one of the world's greenest buildings.

As a result of growing Chinese urbanization, special demands are being placed on construction projects to reduce energy consumption and pollution. Consequently, the demand for energy-saving Danfoss products is on the increase, and in 2013, the company has e.g. won more orders for Shanghai Tower, including orders for 660 variable speed drives and 6,700 valves to control the cooling and heating systems in the 632-meter high building. It is the highest number of these valves Danfoss has ever supplied for a single building.
The Danfoss products will help make Shanghai Tower a world-class green building. The structure has already earned the American LEED* Gold certification and the Chinese "Green Building Three Star" rating, which is the highest standard achievable in China.

Kilometers of pipework

The 6,700 control valves will save more than 20% of the energy used by the cooling and heating systems, compared with normal control valves. They will automatically ensure precise control and the right balancing of the water flow in the building's kilometers of pipes. This also means that people on the top floor will get the temperature they want, and fast, regardless of the temperatures preferred on lower floors.
"The heating, ventilation and air conditioning system accounts for more than 50% of the building's energy consumption. Our control valves can cut this energy consumption by 20%, and that means a lot to the owner," says Danfoss sales engineer Lu Guosheng, who is in charge of the project. Danfoss will also deliver 660 variable speed drives for the heating and cooling systems. They will ensure that the pumps, compressors, and fans never run faster than necessary to ensure the right temperature, providing additional savings to the tune of 20-40%. Moreover, the energy efficiency of the air conditioning system will be boosted by pressure transmitters and filter driers, likewise sourced from Danfoss.

* Leadership in Energy and Environmental Design (LEED) is a set of rating systems developed by the U.S. Green Building Council (USGBC) for the design, construction, operation, and maintenance of green buildings, homes and neighborhoods.

Facts about Shanghai Tower:

- The 121-floor building will be 632 meters tall and have a total floor space of 576,000 square meters containing a hotel, offices, retail and cultural facilities, and observation decks at the top.
- Construction will be finished in November 2015.
- On completion, the tower will be the second-tallest building in the world, after the Burj Khalifa in Dubai.

A growing proportion of the world's population is settling in urban areas, and the number of cities with a population of over one million is constantly growing. This leads to very special requirements with respect to both construction and infrastructure, fields in which Danfoss provides some of the world's most innovative solutions.

Danfoss products are in the engine room when engineers build tall buildings; they help the escalators at the mall run smoothly, and they are used in providing entire cities and districts with heating in the most energy-efficient way. Having equipment of exceptional quality is essential when you need to pump pressurized concrete up to the 100th floor or install municipal heating pipelines deep underground that have to last for decades. Whether it is urban councils in China's metropolises or engineers in Sao Paolo, they all know the quality that Danfoss delivers.

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. All five divisions are leading players in the climate and energy sector. The entire segment is focused on providing energy-efficient and climate-friendly solutions for a number of selected business sectors. The divisions play a leading role in R&D, production, sales and service of mechanical and electronic products sold on the global market for cooling and air conditioning, comfort and heating, and control of electric motors, and for a number of industries in which energy efficiency is important.

Market trends

Sales trends in the Danfoss Climate & Energy segment were as expected for 2013, with growth increasing in the second half of the year. Especially the district heating and power electronics business areas performed well during the year. Overall, the segment continued to see a comfortable level of demand for energy-efficient solutions, and sales remained at the 2012 level. With net sales up 2% in local currency terms, the segment managed to offset the revenue drop stemming from the Solar Inverter business, which took a severe blow from plunging demand in the European solar panel market in 2013 caused by changes to national subsidy schemes, especially in Germany and Denmark, and uncertainty about the framework conditions for the solar energy sector in Europe. Seen from a geographical perspective, conditions in the Solar Inverter business were the main reason why the European market as a whole saw no growth. Sales to the Russian market continued to record double-digit growth rates in 2013, although the second half of the year showed a slight drop in demand for heating and district heating solutions. Growth staged a comeback in China, reaching a stable 6% throughout the year. The segment's Indian operations were impacted by currency trends, but still managed 6% growth adjusted for that effect. The North American market was a disappointment, with weaker demand from key customers being the main reason for the 2% sales drop. Brazil was the positive surprise, with unexpectedly strong sales across the entire business segment driving a 28% improvement in local currency terms.

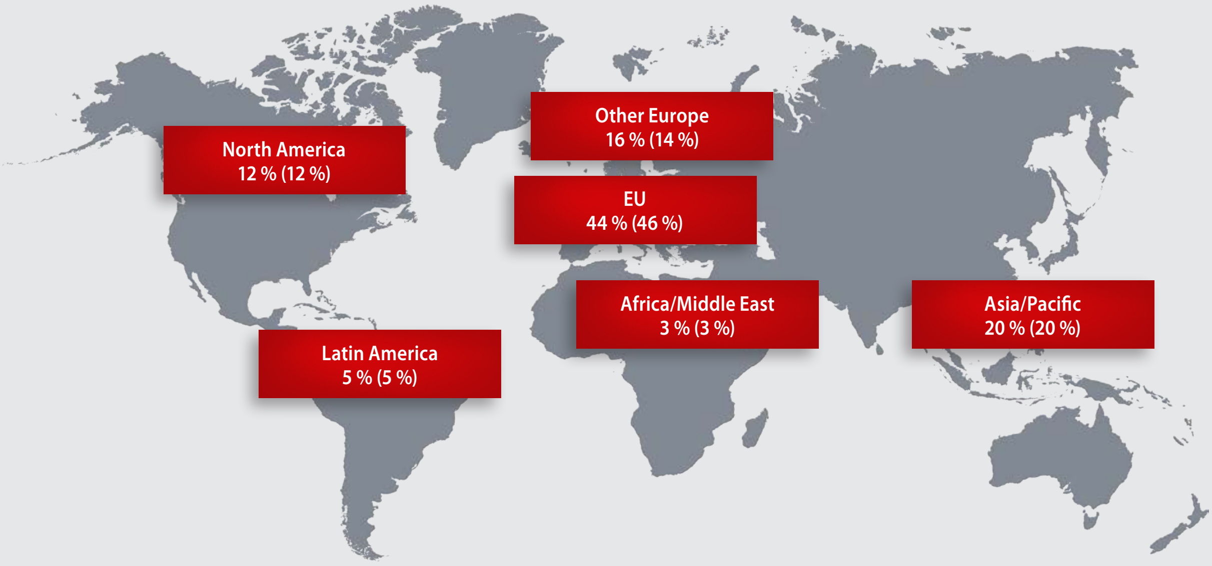
Segment performance

The work to develop the Danfoss Climate & Energy segment continued in 2013. Investment in product development remained at the very high level of 4.7% of net sales, and the segment released a large number of new products, including a new range of heat exchangers. Danfoss Climate & Energy continued to expand its position on the Indian market with the construction of production and product development facilities in Chennai. Another event this year was the successful integration of Danfoss Turbocor Compressors, a former joint venture that Danfoss acquired at the end of 2012.
In light of the slow pace of growth on the global market, Danfoss lowered its overheads in the third quarter: a major share of the cost reductions were implemented in Danfoss Climate & Energy so that the segment would remain competitive.

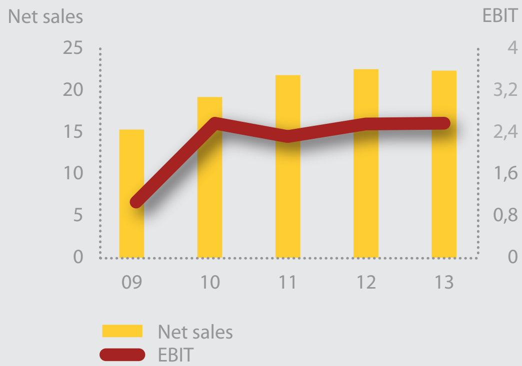
Financial performance

The segment kept 2013 sales at the same level as the year before while also improving earnings. This strong performance was driven by the continuing implementation of improvement activities under the Core & Clear strategy, leading to – among other things – major cost savings on procurement and boosted productivity. Net sales amounted to DKK 22,330m, against DKK 22,411m in 2012. Adjusted for the effect of exchange rate fluctuations, the growth rate was 2%. Profit before other operating income and expenses grew by 5% to reach DKK 2,669m, from DKK 2,546m in 2012. Operating profit (EBIT) was DKK 2,554m as opposed to DKK 2,541m in 2012, lifting the EBIT margin to 11.4% from 11.3% in 2012.

Sales distribution by regions 2013 (2012)



Net sales & EBIT bn. DKK



Financial highlights

	2012	2013
OPERATING PROFIT (EBIT)		
Net sales	22,411	22,330
Operating profit (EBIT)	2,541	2,554
BALANCE SHEET		
Intangible assets	4,176	3,966
Property, plant and equipment	4,264	4,140
Total assets	14,805	14,336
OTHER INFORMATION		
Capital expenditure	1,623	814
Depreciation/amortization	885	855
NUMBER OF EMPLOYEES		
Number of employees	14,319	13,657
KEY FIGURES		
EBIT margin	11.3%	11.4%

Danfoss Power Solutions

Segment description

When Danfoss took full ownership of Sauer-Danfoss Inc. in 2013, the Sauer-Danfoss business segment was renamed Danfoss Power Solutions, and it is a business segment of the Danfoss Group. Danfoss Power Solutions consists of three divisions – Danfoss Hydrostatics, Danfoss Work Function and Danfoss Controls – and four stand-alone business operations. Danfoss Power Solutions is the global leader in hydraulic controls for mobile machinery. The divisions of the segment all hold a leading position in R&D, design, manufacture and sale of innovative and performance-enhancing hydraulic and electronic systems and components used in mobile machinery operating in agriculture, construction, materials handling, and specialty equipment.

Market trends

Danfoss Power Solutions began 2013 with the prospect of a subdued market. After a slow start to the year, the segment built a strong momentum in the latter half of 2013, achieving full-year sales that very nearly reached the same level as in 2012. Adjusted for changes in exchange rates, net sales were up 3% over 2012. The market for advanced mobile hydraulics for materials handling and farm machinery turned surprisingly positive, with demand that was stronger than expected.

The segment's sales performance was rooted across several geographic markets, with Brazil reporting the strongest improvement at 32% measured in local currency. India was severely affected by currency trends, but still managed 10% growth in sales net of that effect. In China, last year's decline was reversed, with sales showing moderate improvement at 4%. Europe ended the year at the same level, driven mainly by a respectable rise in sales in Germany. On its largest market, the United States, Power Solutions maintained sales at last year's level in local currency terms.

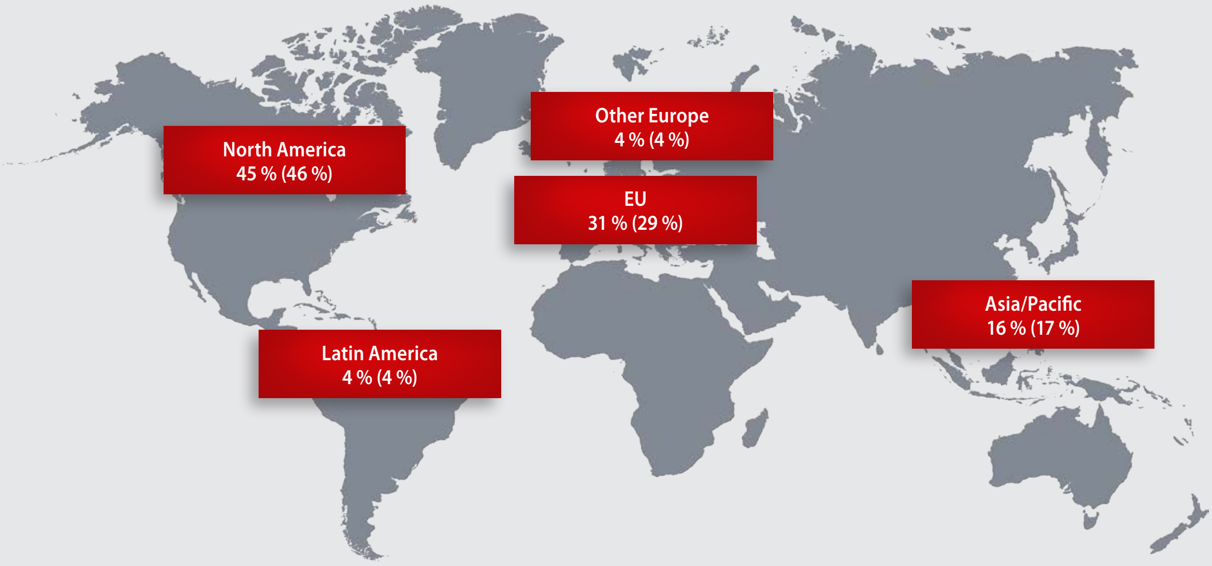
Segment performance

Danfoss Power Solutions stepped up investment in product development in 2013, raising the level to 3.5% of net sales from 3.3% in 2012. The segment also upheld its long-term investment in developing the Chinese market, opening a new factory in Haiyan at the end of the year. The new facility manufactures products tailored to the Chinese market.

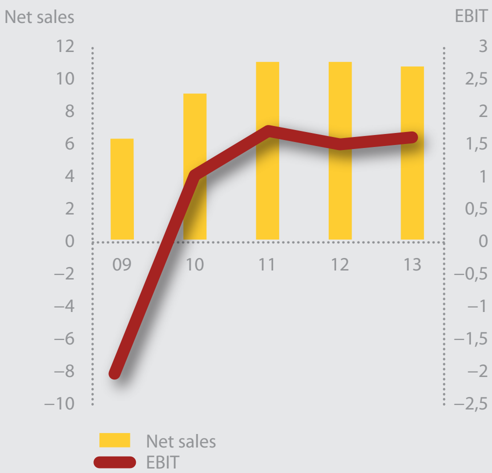
Financial performance

The segment kept 2013 sales at the same level as the year before while also improving earnings. This strong performance was driven by the continuing implementation of improvement activities, among other things leading to substantial procurement cost savings and boosted productivity enhancements, as well as a strong focus on costs. Net sales remained strong at DKK 10,989m, against DKK 11,097m in 2012. Adjusted for the effect of exchange rate fluctuations, the growth rate was 3%. Profit before other operating income and expenses grew by 2% to reach DKK 1,585m, up from DKK 1,550m in 2012. Operating profit (EBIT) was DKK 1,593m, against DKK 1,562m the previous year, lifting the EBIT margin to 14.5% from 14.1% in 2012.

Sales distribution by regions 2013 (2012)



Net sales & EBIT bn. DKK



Financial highlights

	2012	2013
INCOME STATEMENT		
Net sales	11,097	10,989
Operating profit (EBIT)	1,563	1,593
BALANCE SHEET		
Intangible assets	4,407	4,023
Property, plant and equipment	2,257	2,080
Total assets	9,277	8,821
OTHER INFORMATION		
Capital expenditure	284	377
Depreciation/amortization	803	772
NUMBER OF EMPLOYEES		
Number of employees	6,363	6,320
KEY FIGURES		
EBIT margin	14.1%	14.5%

Outlook for **2014**

Danfoss expects the moderate global economic growth and low visibility of 2013 to continue in 2014. Accordingly, weak to moderate growth is also expected on the Group's markets. The results are expected to be affected by exchange rate fluctuations, especially in the first half of 2014. Danfoss expects to retain profitability through continual operational improvements and the targeted strategic initiatives already launched.

Net sales for 2014 are thus expected to show moderate growth in local currency terms.

Operating profit for 2014 is expected to rise in line with net sales.

Awards 2013

At Danfoss, we receive the highest and most important recognition when a lot of customers buy our products. However, it also makes us proud when other stakeholders single out and honor our performance and products. Below are some of the prizes that Danfoss and our employees received in 2013.

Special honor for employee in the US
Vice President Public & Industry Affairs Robert Wilkins, USA, received the Air Conditioning, Heating and Refrigeration Institute's prize for excellent services. The prize was awarded on Amelia Island, Florida, in connection with the Air Conditioning, Heating, and Refrigeration Institute's (AHRI) annual meeting. Robert Wilkins accepted the prize for having served the Heating, Ventilation, Air Conditioning and Refrigeration (HVACR) industry with distinction, vigor, honor and humor throughout his long career. The AHRI Distinguished Service Award is AHRI's highest distinction, and it recognizes those who are industry leaders and who have made significant contributions throughout their careers.

ADAP-KOOL® wins innovation award in the US
Danfoss won the innovation prize for 2013 in the refrigeration category at the annual American air conditioning, heating and refrigeration exhibition: AHR Expo 2013. The award was given for ADAP-KOOL®, AK-PC 781: a control unit that regulates capacity control in refrigeration systems. The AHR Expo Innovation Award is given for the most creative, efficient and innovative Heating, Ventilation, Air Conditioning and Refrigeration (HVACR) products and technologies.

2013 China Lean Leader

Christian Overgaard, the President of Danfoss in China, was honored with China's national prize for production optimization, and was named "China Lean Leader 2013". The prize was presented at the "China Lean Competition" in Tianjin for a unique improvement in productivity at Danfoss' Chinese factories. The aim of the annually held competition is to encourage companies to implement lean production processes through the systematic use of management tools.

Valve series reaches the top in China

Danfoss was awarded the China Refrigeration Exhibition's annual innovation prize in 2013. The prize was awarded at the 24th China Refrigeration Exhibition in Shanghai to acknowledge Danfoss' new two-step servo-controlled ICLX valve series, which is used to pressure-control suction pipes in large industrial refrigeration systems. China Refrigeration Exhibition awards the prize for products or technologies which represent innovation and development within the field of refrigeration.

Danfoss engineer honored

An engineer at Danfoss Power Electronics, Preben Holm, received the IEC 1906 Award 2013. This international prize was awarded at the International Engineering Consortium (IEC) in recognition of Preben's work in preparing global standards regarding the control of electricity and the safe use of electrical equipment.

Gold for water valve

Danfoss was awarded gold by Air Conditioning, Heating & Refrigeration News. The judges were contractors from the industry, and they awarded the prize for Danfoss' water valve WVFX, which has generated greater market share for ice cream machine manufacturers based in North America. ACHR News' Dealer Design Award is given for excellent product design.

The world's first indoor climate test center

New know-how is required and a new Danfoss test center is set to examine the aggregate climate control systems installed in a house to make them all compatible with each other.

Today, home-owners often equip their house with heat pumps, ventilation systems and underfloor heating. They are intended to make houses more energy-efficient, but in reality, the systems sometimes have offsetting effects. Therefore, new know-how is required and a newly-opened Danfoss test center is set to examine the aggregate climate control systems installed in a house to make them all mutually compatible.

A cornerstone

Danfoss wants to be a world champion of climate control in houses by making all our products – and, eventually, also other products in the house – work together in a single energy-efficient system. The new test center is a cornerstone of this journey because it can be used for testing and developing products which will accommodate the market's current and future needs. Many houses are now so well-insulated that you can practically heat them using a hair dryer. So, the challenge is to ensure comfortable indoor climate in energy-efficient houses without the owners having to open the doors to let out excess heat.

Faster product development

Conducting tests in a private home is not always optimal, because the test can never be repeated under precisely the same weather conditions. The rooms in the test center are surrounded by a cold room that is used by engineers to simulate various temperature conditions, and to test how products and climate control systems respond in the test rooms. This means that even on warm summer days, tests can be carried out under winter conditions at −20° Celcius. The test center gives the optimum framework for working with the optimization of the interaction between the technologies and creates efficient climate solutions for the future for all kinds of buildings. With the new facilities, Danfoss will be able to bring new solutions and products faster to market.

Facts about the test center:

- The test center is located in Vejle, Denmark.
- The two-storey 162m² building consists of three test rooms with different floorings, such as wooden and tiled, as found in real houses.
- Well-insulated houses offer a good opportunity for utilizing electricity as a means to link different energy forms. Sustainable energy sources such as solar panels and heat pumps often generate power to be used directly to heat the house.

100% green supermarket

REMA 1000, a supermarket in Trondheim, Norway, is the first store of its kind, and a world-class case study of CO_2 refrigeration concepts and heat recovery.

Watch a video about the concept here.

Scan the QR code to watch the video

Climate

Danfoss supplies some of the world's most innovative products when it comes to reducing environmental and climate impact, for example through improved energy efficiency, renewable energy and the use of environmentally-friendly components in our products. That is why Danfoss is in a very special position, involved in everything from indoor climate in individual rooms to solving the global climate challenge.

Danfoss products help ensure a stable production of renewable solar or wind energy. We also make products that keep homes and workplaces warm when it's cold outside and cool when it's warm; they also provide ventilation and a pleasant indoor climate, and we do it for people all over the world, and all while minimizing the energy consumption.

HYDRAULICS: A CRUCIAL

A strategic piece fell in place when Danfoss gained full ownership of the Group's specialist in hydraulics, Sauer-Danfoss Inc.

Since coming under full Danfoss ownership in spring 2013, Sauer-Danfoss Inc. has officially been renamed Danfoss Power Solutions and is now a business segment of the Danfoss Group. Danfoss Power Solutions is a world leader in innovative and performance-enhancing mobile hydraulics for construction, agriculture and other so-called off-highway markets for mobile machinery. These solutions are typically sold to equipment manufacturers and distributors all over the world.

Enormous potential

"Gaining full ownership of our hydraulics activities marks an extremely important milestone for the entire Danfoss Group and makes us even better prepared to meet the challenges of the future. Demand for advanced hydraulic solutions is driven by urbanization, the expansion of modern infrastructure and greater efficiency in the agricultural sector, so there's enormous growth potential in this field," said Danfoss CEO Niels B. Christiansen.

Danfoss Power Solutions has already become a very strong part of the Danfoss business in terms of innovation, growth and financial results. In terms of net sales, Danfoss Power Solutions accounts for one-third of the consolidated Danfoss business. This business segment has about 6,300 employees.

Innovation driver

Thanks to years of cooperation between the two organizations, the corporate cultures of Danfoss Power Solutions and the rest of the Danfoss Group are based on a set of common principles. In the longer term, customers will benefit from the expanded global network and the broader technology platform that Danfoss Power Solutions brings, as well as the synergies that arise from the merger of two technology-intensive businesses.

"In joining Danfoss, we become part of a single strong global brand with a high level of commitment to research and development. This is a driver that will add to the innovation culture that has enabled us to stand out as an innovative leader in mobile hydraulics. It will also let us direct more attention to serving our customers," said Eric Alström, CEO of Danfoss Power Solutions.

PART OF OUR BUSINESS

Cornerstones are hydraulics, electronics and software

Danfoss Power Solutions has built up a unique product portfolio that meets the highest standards for quality, delivery and performance. Problem-free integration of electronics, hydraulics and control software is at the core of what Danfoss Power Solutions offers. A look under the hood of many of the most powerful and advanced mobile machinery units reveals products from Danfoss.

Danfoss hydraulic components are used in a broad range of mobile equipment in virtually every industry, including construction, agriculture, road construction and repair, material handling, turf care, specialized machinery and much more.

Starting out global

Danfoss Power Solutions is an amalgamation of three businesses: Sundstrand of the United States, Sauer-Getriebe of Germany, and Danfoss Fluid Power of Denmark. Initially, Sundstrand and Sauer-Getriebe formed a joint venture named Sauer-Sundstrand. In 2000, that company merged with Danfoss Fluid Power to become Sauer-Danfoss Inc. In 2013, Danfoss acquired all remaining shares in Sauer-Danfoss Inc.: the company was renamed Danfoss Power Solutions and is now a business segment of the Danfoss Group.

2013 Highlight

Danfoss helps banana farmers double their income

Danfoss has helped banana farmers in India to build the right practices in the cold chain, which in turn has helped them control post-harvest losses and significantly increase the shelf life of their bananas. With the right supply chain infrastructure, these banana farmers have now doubled their income.

A lack of cold storage facilities in India is costly to farmers. According to a UN report, India's fresh food waste is seventh-highest in the world. The problem is being addressed in the Theni district of Tamil Nadu, the largest producer of bananas in India, and a project to create optimum cold chain practices has helped banana farmers control post-harvest losses and increase shelf life.

A local idea

A couple of years ago, a progressive local farmer Mr. AP Karuppaiah suggested that better refrigeration technology would stop bananas rotting, and that the right supply chain infrastructure would generate a higher yield. Eventually, under his direction, a storage unit used by several local farmers was optimized through the installation of Danfoss refrigeration products that save energy and improve food safety and quality. Danfoss supported the project, and today, banana production in Theni is the highest in the world; the farmers have more than doubled their income; and employment in the industry has risen.

"One of the major factors of running a cold storage or ripening chamber is the cost of electricity. To reduce electricity consumption and improve savings, we are using Danfoss products in our cold storage. I'm very pleased with the savings and am looking forward to using Danfoss solutions in all our other cold storages in Theni," says Mr. AP Karuppaiah.

Engaging the industry to tap huge potential

Based on the results, Danfoss suggested that this model should be replicated in other districts of Tamil Nadu, which has a total population of 72 million. Tamil Nadu produces an estimated 9 million tons of bananas annually, about a third of India's total production. However, around 30% of this production is wasted due to inefficient post-harvest practices.

To highlight the problem of food waste and how to minimize it, Danfoss is cooperating with The Confederation of Indian Industry, an association of Indian businesses, with activities such as the annual Banana Festival. This event, held in 2012 and 2013, is organized for all stakeholders in the banana industry.
The Government of Tamil Nadu now has a growing appreciation of these initiatives to improve banana production and is considering a proposal to set up ten central refrigerated packing houses across the state. If this proposal is implemented, it will not only reduce the post-harvest losses, but will further increase the farmers' income and provide employment opportunities.

Challenges faced by the banana industry in India are:

- the lack of scientific farming methods
- the deficient supply of tissue culture
- poor post-harvest and cold chain infrastructure coupled with low consistency in quality, and a lack of adequate branding and marketing.

Danfoss products used in the Theni storage:

- Electronic expansion valve, type ETS
- Solenoid valve, series VBR
- Expansion pressure regulator
- MLZ refrigeration scroll compressors.

The UN report "Food wastage footprint: Impacts on natural resources" (2013) estimates that 230 cubic kilometers of water is used to grow crops such as fruit and grain that are ultimately wasted in India.

As a conservative estimate, if 20% of 9 million tons of food produced is wasted, Tamil Nadu will lose the equivalent of DKK 2.4bn in income annually. However, with the appropriate use of technology, especially good quality cold chain solutions, and by following the right cluster approach, food losses can be reduced by 10-12% which would help save close to DKK 1.3bn.

India's problem is not a lack of food – the country is the world's second-largest grower of fresh produce – but rather a lack of cold storage facilities that causes farmers to lose fruit and vegetables because they rot.

Danfoss keeps the milk cold in India

India is the world's largest milk-producing country. Over the past 20 years, Danfoss has worked with Indian dairies to develop innovative and energy-efficient solutions ensuring a high quality of milk and a minimum of waste despite the demanding conditions in the country.

Click this link to watch a video on how Danfoss has contributed to developing milk production in India.

Scan the QR code to watch the video

Food

Across its business areas, Danfoss is deeply involved in the production of food all over the world. Every day, products developed by Danfoss engineers help ensure that food products are transported from the field to production and then to the dinner table in a process that is as energy-efficient and stable as possible with minimum waste.

And this is crucial, because with more and more mouths to feed every day, there is a constant need for more food. At the same time, standards of living continue to rise in the world's most populous nations, triggering a stronger demand for higher-end foods like meat, which, again, increases the need for more crops to feed the animals. In other words, it is a huge and hugely important challenge to improve agricultural productivity all over the world and to keep foods fresh all the way to consumers. Innovative Danfoss products and our competent employees take up this challenge every day all over the world. You will find Danfoss products everywhere, whether you look under the hood of a combine harvester, at the controls of the conveyor belt at a slaughterhouse, or in the refrigeration counters of your local supermarket.

CORPORATE GOVERNANCE

Corporate governance is a crucial aspect of the way Danfoss runs its business. Key concepts like responsibility, integrity, and openness about the Group's activities form the basis for the high standards of corporate governance to which the Danfoss Group holds itself.

Legislation provides the general framework for the company's governance, but corporate governance is also about how we manage the business within this framework. The group structure supports our management values and determines a clear distribution of management responsibilities. This structure and these well-defined principles drive the interaction between the company's management, owners and other stakeholders. The company's Articles of Association and a comprehensive set of internal management and control procedures also form part of corporate governance at Danfoss.

Management structure

Danfoss has a two-tier management system consisting of its Board of Directors and the Executive Committee. The Board of Directors lays the general course for the company by approving strategies and targets. The Executive Management develops the strategy and handles the day-to-day management of the company and execution of the strategy.

The Board of Directors

The Danfoss Board consists of six members elected at the Annual General Meeting and three employee-elected members. Of the six members elected by the shareholders, three (Kasper Rørsted, William Ervin Hoover and Björn Rosengren) are independent. The Board of Directors meets at least five times a year. In addition, the Board holds extraordinary meetings as and when required. The Board regularly assesses the aggregate competencies of its members to ensure that they are consistent with the company's requirements at all times.

Audit Committee

The duties and responsibilities of Danfoss' Audit Committee, as well as its powers, can either be organized in an independent committee or be executed by the entire Board. At Danfoss, the entire Board performs the function of the Audit Committee. The Committee's activities and tasks are set out in its rules of procedure, and it held four meetings in 2013.

Internal audit function

The company's internal audit function presents its conclusions directly to the Board's audit committee or its chairman. The internal audit function is intended to provide independent and objective auditing to ensure:

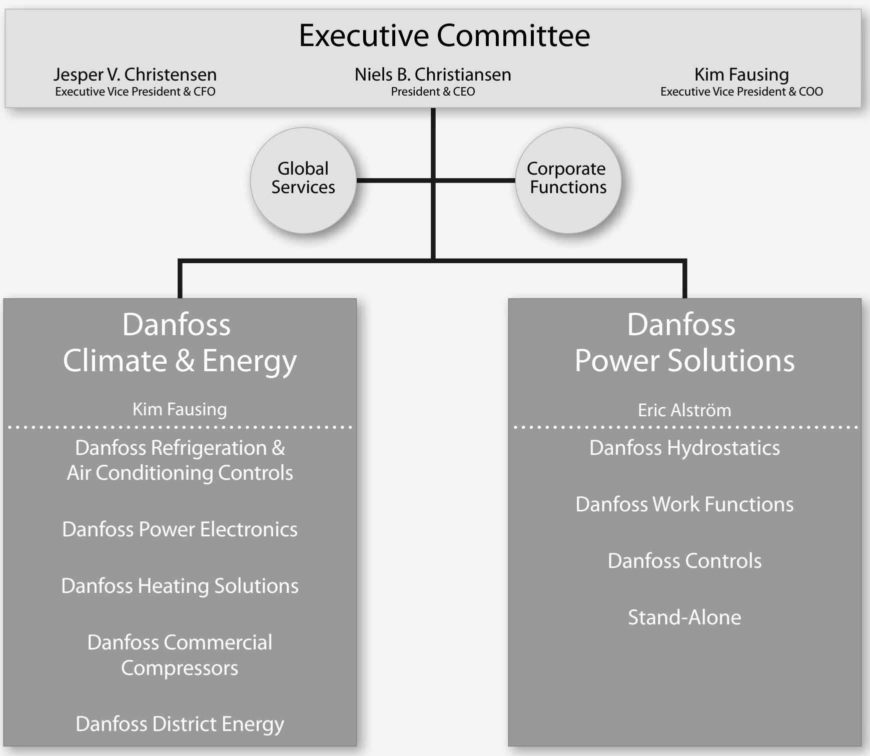
- The Group follows good administrative practice.
- The Group has comprehensive internal controls and business processes in place in all essential areas of activity.
- The Group's IT systems have adequately segregated functions.

The internal audit function visited a number of Group companies in 2013. 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

Although not a listed company and as such not subject to the same disclosure requirements as listed companies, Danfoss has to a large extent chosen to comply with the rules applying to listed companies in

Business Structure



Composition of the Board of Directors [1)]

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

[1)] From the Annual General Meeting held in April 2013 to the 2014 Annual General Meeting

[2)] Elected by the employees

● Chairman of the Audit Committee

Denmark as set out in section 107b of the Danish Financial Statements Act. For the complete account of Danfoss' corporate governance, please see the corporate website at www.danfoss.com/corporate-governance2013.

Shareholders

Danfoss' share capital amounts to DKK 1,022m and is divided into two share classes: A-shares accounting for DKK 425m and B-shares accounting for DKK 597m. 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 98.67% of the votes. At the end of 2012, Danfoss had 3,100 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 2013, the price was set at DKK 3,460 per share. The new price will be announced at the 2014 Danfoss Annual General Meeting in April.

Dividends and General Meeting

The Annual General Meeting will be held in Nordborg on April 25, 2014. The Board of Directors will recommend to the General Meeting that a dividend of 35% of the Group's net profit be paid in 2014, corresponding to 78.3% per share.

Shareholders with more than 5% of share capital

	Shares	Votes
Bitten and Mads Clausen Foundation, Nordborg, Denmark	46.32 %	84.97 %
Clausen Controls A/S, Sønderborg, Denmark	25.62 %	5.40 %
Henrik Mads Clausen, Lake Forrest, USA	10.76 %	2.27 %
Karin Clausen, Holte, Denmark	7.07 %	1.49 %

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

Board of directors

	Companies with considerable board activities	Qualifications
Jørgen M. Clausen Chairman (born 1948) Member since 1985	**Chairman of:** Danish Energy Industries Federation and The Danish National Advanced Technology Foundation **Board member of** Bitten and Mads Clausen Foundation Fonden for Universe Science Parken	Bachelor of Science Engineering, MBA Professional experience managing a Danish based international company and from other board memberships **Decoration**: Kammerherre title bestowed by H. M. The Queen of Denmark Knight 1st Class of the Order of the Dannebrog, Denmark Verdienstkreuz erster Klasse of the Federal Republic of Germany
Hans Michael Jebsen Vice-Chairman (born 1956) Member since 2005 Resigned from the board of directors as of 31.12.2013	**Chairman of:** Jebsen & Co Ltd **Board member of:** Hysan Development Co Ltd and Wharf (Holdings) Ltd	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 **Decoration:** Hofjægermester title bestowed by H. M. The Queen of Denmark The Silver Cross of the Order of the Dannebrog, Denmark Cross of the Order of Merit of the Federal Republic of Germany Bronze Bauhinia Star of Hong Kong SAR Government
Peter M. Clausen Board member (born 1949) Member since 1993	**Chairman of:** Bitten and Mads Clausens Foundation, Fabrikant Mads Clausens Foundation, Danfoss Foundation for education, Project Zero Foundation, Forsker-park Syd and Sønderborg Havneselskab A/S **Board member of:** The Mads Clausen Institute	Professional experience from other board memberships
William Ervin Hoover, Jr. Director (born 1949) Member since 2007 (150 options)	**Chairman of:** ReD Associates Holding A/S **Vice-Chairman of:** GN Store Nord A/S (Great Nordic) **Board member of:** Sanistål A/S and Lego Foundation	MBA from Harvard Professional experience with supply chain, performance transformation, organization changes and mergers & acquisitions
Kasper Rørsted CEO of Henkel AG & Co. (born 1962) Member since 2009	**Board member of:** Bertelsmann AG	Professional experience in managing a major international company Switzerland, the UK and Germany
Bjørn Rosengren Chief Executive Officer and President of Wärtsilä Corporation (born 1959) Member since 2010		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
Svend Aage Hansen Employee-elected Board member HR consultant - Labour Relations Danfoss A/S (born 1959) Member since 2008		Cooperation courses and experience from other board memberships
Gunnar Jensen Employee-elected Boardmember, Senior Shop Steward at Danfoss (born 1948) Member since 2010	**Vice-Chairman of:** Group Club Danfoss Denmark **Boardmember of:** Bitten and Mads Clausens Foundation and Metal Sønderborg	Cooperation courses and experience from other board memberships
Jens Peter Nielsen Employee-elected Boardmember, Senior Shop Steward at Danfoss Kolding. (born 1957) Member since 2006	**Chairman of:** Group Club Danfoss Denmark and Danfoss Employee Foundation **Boardmember of:** Bitten and Mads Clausen Foundation, Metal Kolding and LO-Kolding	Cooperation courses and experience from other board memberships
Bitten Clausen Honorary member		

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 and Dansk Industri
Board member of: William Demant Holding A/S

Kim Fausing
Executive Vice President and COO of Danfoss A/S
(born 1964)
Member since 2008, (4,275 warrents)

Companies with considerable board activities

Vice-Chairman of: Velux A/S.
Board member of: Hilti AG, Danish-German Chamber of Commerce

Jesper V. Christensen
Executive Vice President and CFO of Danfoss A/S
(born 1969)
Member since 2013

Danfoss Leadship Team

Anne Wilkinson, Senior Vice President, Corporate HR (born1965)
Mette Refshauge, Senior Vice President, Corporate Communications (born 1973)
Kim Christensen, Divisional President (born 1965)
Ole Møller-Jensen, Divisional President (born 1955)
Jürgen Fischer, Divisional President (born 1963)
Eric Alström, Segment President (born 1966)

From left, at the back: Niels B. Christiansen, Jürgen Fischer and Ole Møller-Jensen
From left, front: Mette Refshauge, Eric Alström, Kim Christensen, Anne Wilkinson, Kim Fausing and Jesper V. Christensen

2013 Highlight

Military academy cuts energy use by 27%

Thanks to a Danfoss system controller, the Riverside Military Academy in Georgia, USA, now monitors energy use in all campus buildings – and acts on energy over-use.

The 460 cadets at the Riverside Military Academy in Gainesville, Georgia, can no longer turn the temperatures in their dorm rooms up to 80° Fahrenheit, almost 27° Celsius. After installing a Danfoss AK-SC system controller, the academy has been able to monitor energy use in everything from dormitories and classrooms to dining hall and swimming-pool – and, not least, identify the largest consumers and act on energy over-use.

The academy has also taken several steps enabling it to cut annual energy use by 27%.

"In the fiscal year 2011-2012, our electricity expense was USD 416,000. This past year, we experienced increased enrollment. Taking this into account, along with a 26 percent increase in electricity rates, I still only budgeted USD 389,500 for electricity," says Facilities Director Larry Robinson, adding that, the academy was previously locked into one master meter and could not monitor usage in individual buildings.

So now, lower and upper temperature ranges in the cadet dormitories have been cut by 10%.

From dormitories to Olympic-sized swimming pool

Also, the motor, securing the flow of chemicals to the academy's Olympic-sized swimming pool, has been equipped with a Danfoss frequency converter. This means that the motor can slow down and speed up as needed, as opposed to running constantly, and, as a result, the academy is currently projecting pool energy savings of nearly USD 11,000 annually.

Other changes include the installation of a Danfoss light-level sensor and a light-bulb upgrade. The light-level sensor works with each individual building's outdoor lighting to maintain cohesive switch-on and switch-off. The lighting upgrade was done in the academy dining hall due to the previous daily change-out of light-bulbs in the 600-bulb ceiling. And it included the installation of more than 300 long-lifespan LED lights which also helped reduce energy consumption.

"Ever since installing the Danfoss AK-SC 255 system controller, we've been able to monitor direct results of everything we do to conserve energy on campus," says Larry Robinson.

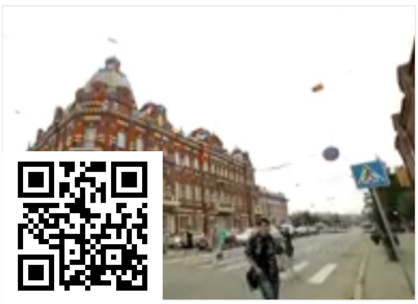
Energy

The world's energy consumption continues to grow, too big to solve by renewable energy solutions alone. This provides new opportunities for those who can help reduce the world's energy consumption.

The fact that energy efficiency has been a core focus for Danfoss throughout its history is what has propelled the Danfoss Group to its current world-leading position and enabled the Group to build unique expertise in how energy can be moved most efficiently from power plant to point of use. When it comes to managing energy for heating, cooling or using electronics in the home, the office or in the supermarket, Danfoss also provides some of the world's most innovative solutions. Don't forget: The cheapest and most climate-friendly energy is the energy you don't use.

School in Siberia powered by heat pump

In the village of Vershinino, Russia, each building needs to have its own individual heating system and heat source. A common energy source has been the traditional wood heating stoves or oil boilers, but a new school has been equipped with a new energy-efficient solution – a Danfoss heat pump.



Scan the QR code to watch the video

SUSTAINABILITY

Danfoss continued its efforts to promote sustainability in 2013. The Group is now pursuing a new and updated sustainability strategy that focuses on a number of priority fields.

Sustainability and corporate citizenship play an essential role at Danfoss and have especially done so since the Group became a signatory to the UN Global Compact in 2002. Danfoss prepares an annual corporate citizenship report that also doubles as the Communication on Progress report it submits to the UN. The report documents the progress made in the work done at Danfoss to apply the principles of the Global Compact. As of 2013, the Communication on Progress report also includes Danfoss Power Solutions, as well as doubling as Danfoss' report on corporate social responsibility as required under section 99a of the Danish Financial Statements Act. The report is available on Danfoss' website at www.danfoss.com/sustainability2013.

Sustainability strategy

In 2013, Danfoss drafted a new sustainability strategy that combined its current and proposed sustainability initiatives. During its implementation period from 2014 to 2017, this strategy will guide the work on sustainability at Danfoss in a stronger group-wide context, while at the same time setting out clear goals for the company's work in a number of priority areas.

Special focus areas for our sustainability strategy in 2014 are:

- Energy-efficient business, including energy-saving projects at the Group's largest factories
- Product materials, lifecycle and compliance with environmental requirements
- Occupational health and safety
- Ethical conduct

A number of ongoing activities will continue in 2014, including the following:

- Due diligence activities in respect of human rights and anti-corruption
- Reporting on the content in our products of conflict minerals
- Compliance programs (anti-corruption, competition, data security and export controls)

Human rights and ethical conduct

The UN has approved guidelines for how businesses should ensure they are not complicit in human rights abuses. Danfoss conducted a due diligence process in 2013 for the purpose of identifying, remedying and preventing possible violations. This is how Danfoss ensures that Group companies are not complicit in human rights abuses, and it enables the Group to build knowledge about methods so that it can later apply them to its supply chain.

In 2013, Danfoss updated its Ethics Handbook, which contains guidelines for ethical conduct. The updates reflected the experience gained from employees' understanding and use of the ethical guidelines, and the new handbook was distributed to all Danfoss Climate & Energy employees at the beginning of the year. The Ethics Handbook will be distributed to all employees in the Danfoss Power Solutions segment in 2014. The risk management & compliance review provided in this Annual Report contains information on the number of employees who have received training in ethical conduct and on other ethical conduct reporting.

Climate and energy

Danfoss' 3×25 climate strategy commits Danfoss to cutting CO_2 emissions by 25% while increasing the share of renewable energy used by 25% (relative to the 2007 level) by the year 2025. A review of the climate strategy is scheduled for 2014.

In 2013, Danfoss continued its efforts to reduce the Group's energy consumption. Energy consumption at Danfoss Power Solutions (the former Sauer-Danfoss) and Danfoss Turbocor Compressors was included in the 2013 statement of the Group's CO_2 emissions from the consumption of electricity and heat. This accounts for the fact that emissions have increased considerably to reach 251,000 tons of CO_2 compared to 126,700 tons in 2012. When adjusted for energy consumption at Danfoss Power Solutions and Danfoss Turbocor Compressors, energy consumption in 2013 was on a par with 2012.

In 2013, Danfoss energy consumption was split on 67% for electricity and 33% for heating. Energy consumption was up 76%, and consumption of energy for heating purposes increased 35%. Renewable energy sources accounted for 9% of the energy consumed: the rest derived from fossil sources.

To cut its use of fossil fuels, Danfoss installed a 2.1 MW solar power plant in an area next to the corporate headquarters at Nordborg in Denmark. The plant is a powerful symbol of Danfoss leading by example in the transition to sustainable energy. The new facility can generate enough power to cover the annual power consumption of 400 single-family homes. Also covering an area the size of five or six soccer fields, it is the biggest solar power plant of its kind in the Nordic region. The facility contains 9,300 solar panels connected to 130 Danfoss solar inverters, which means that the energy generated by the solar panels can be fed into the power grid. A similar 1 MW facility is currently being installed at the Danfoss factory in India.

Occupational health and safety

Employee safety is a key priority at Danfoss, and the Group is constantly focused on improving conditions with respect to occupational health and safety. For example, all employees and visitors at Danfoss

Scan the QR code to watch the video

Power Solutions factories are required to wear protective eyewear and footwear whenever they are in a production area. A review planned for 2014 will determine whether similar rules should be applied to the rest of the Group.

Danfoss is continuing its systematic efforts to bring down the number of work-related accidents. In 2013, its accident rate was 8.1 among production staff and 0.5 among white-collar employees, against a respective 9.2 and 1.5 for 2012. The accident rate is calculated as the number of accidents per one million hours worked.

In 2013, Danfoss recorded 173 accidents resulting in at least one day's absence, against 136 in 2012. The 2013 figure includes Danfoss Power Solutions, which had 47 accidents in 2013. Injured employees were absent for a total of 3,115 days, corresponding to an average of 18 days per accident.

As part of its sustainability strategy, reducing the number of accidents and improving occupational health and safety throughout the Group will be a special focus area in 2014.

Responsible supplier management

Since 2004, Danfoss has had a Code of Conduct for suppliers that lays down its environmental and social requirements. All Danfoss suppliers are required to sign its Code of Conduct, and Danfoss performs regular supplier audits to verify compliance and ensure that any non-compliance is addressed. Danfoss has revised its supplier management model in order to ensure that the compliance verification efforts prioritize suppliers in areas with the biggest risk of non-compliance. The model now emphasizes preferred suppliers rather than, as previously, the value of purchases made from each supplier.

In 2013, a total of 809 Danfoss suppliers signed the Code, and 134 audits were conducted to verify compliance with the guidelines, of which 44 were preliminary audits and 90 follow-up audits. Because an audit as such does not ensure remediation of non-compliance, Danfoss also performed a number of other follow-up activities, and these efforts will continue in 2014.

Diversity

Danfoss considers diversity among its employees to be an asset that brings with it competitive benefits as well as added creativity and innovation. In particular, Danfoss emphasizes diversity in its recruitment policy. When recruiting a new employee, the objective is to identify at least three qualified candidates that together represent diversity in terms of culture, nationality, gender and age. If two or more candidates are equally qualified, Danfoss will aim towards diversity among its employees in the final selection process.

As part of its efforts to obtain diversity, Danfoss is also making a dedicated effort to raise the numbers of managers throughout the Group who are women. The Group's overall goal is to increase the percentage of women managers to 20% by 2015 from a starting point of 18% in 2013, in order to ensure that our managers increasingly reflect the diversity of the Danfoss workforce, of which 29% of the white-collar employees were women in 2013.

Danfoss aims for the composition of its top governing body to reflect the diversity of the rest of the Group, where women are underrepresented. The Danfoss Board of Directors has as yet no female members. At its annual meeting in 2017, Danfoss will attempt to raise the number of women serving on the Board to at least one of the six members.

In order to achieve that goal, the Board will, before recommending candidates for the Board, work to identify at least one candidate representing diversity. Should two candidates be equally qualified, the Board of Directors will recommend the candidate representing diversity for election by the shareholders.

Risk Management & Compliance

Monitoring and dealing efficiently with risk is essential for Danfoss. Therefore, the approach to risk management is systematic.

Risk management

Maintaining efficient risk management is a cornerstone at Danfoss as well as a prerequisite for running a business and responding rapidly and flexibly when conditions change. Danfoss takes a systematic approach to managing risk, applying a model inspired by enterprise risk management thinking.

Risk management forms an integral part of strategic planning at Danfoss, also through a general safeguarding of corporate governance, business management, compliance programs, projects, outsourcing, procurement, insurance, currencies, interest rates, raw materials, reputation, patents, IT systems, contracts, the environment and other factors. In addition, all entities of the Danfoss Group apply the same risk management principles, irrespective of their geographical location. 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 in managing risk. Where possible, Danfoss strives to make the management of specific risks measurable, or, as a minimum, ensure that the impact of this work can be verified objectively.

Responsibility

The Executive Committee is responsible for risk management at Danfoss. Responsibility for the actual performance of risk management activities lies with the company's respective managers and corporate functions.

The structure for handling risk management at Danfoss includes:

- The Danfoss Board, including the Board's audit committee.
- Internal Auditing, 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, ensures effective risk management across the Group and is in charge of establishing selected 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, the central unit that manages the Group's financial risks, including insurance risks.
- Internal controlling, which covers management systems, business systems and controls, etc.
- The day-to-day management is in charge of activities aimed at safeguarding assets and earnings, handling business risks, monitoring and interpreting

legislation and standards, and managing IT security, the global insurance program, patents and trademark rights, product quality, fire prevention, environmental and occupational health and safety standards, etc.

Risk reporting and control

Risks are reported on an ongoing basis between the various managerial levels, for example at quarterly business review meetings. In addition, the Risk & Compliance function annually prepares a report on the most significant risks that they submit to the Board of Directors and the Audit Committee. The Risk & Compliance Committee provides overall supervision of the risk management process and monitors selected corporate risks as well as potential new risks.

Risk profile

While there is no single risk factor threatening the Group's survival, it is exposed, in its aggregate risk profile, to a number of external and internal risk factors. Being able to respond to risk in an optimal manner is essential for Danfoss and its future potential.
Specific measurement criteria have been defined in order to provide the best basis for assessment of the Group's performance in relation to its specific risk exposure, along with the risks themselves also being assessed on a regular basis.

Important risk factors relate to the following conditions:

- Global market conditions and megatrends, including
- a sustained stronger focus on energy-efficient and socially sustainable solutions
- fair and equal access to markets
- competition especially from China and India
- global economic growth
- key markets such as the US, Germany, China, Russia, Brazil and India
- the most important business areas, i.e. new building construction, renovation, raw materials extraction and processing, production of consumer durables, farm machinery, infrastructure projects and retail trade
- Customer relations and reputation, including Danfoss' ability to maintain and build long-term relationships of trust with customers and other key business partners
- Competitive strength and innovation, including the ability to support customers with providing efficient solutions, attractive cost levels and high product quality
- Financial sustainability, including the Group's ability to fund new growth.

Compliance

Danfoss wishes to maintain and continually improve its reputation as a company that conducts itself properly and responsibly. This means that Danfoss will do its utmost to live up to its legal and ethical responsibilities. As a global enterprise, Danfoss supports the growing international focus on regulation and legislation in areas such as corruption, fair competition and good business ethics. Better regulation across the globe would help ensure a level playing field, which would be a huge advantage for a company like Danfoss. For this reason, Danfoss is strongly focused on compliance with current rules and legislation, and the Group has established internal programs and control mechanisms to minimize the risk of rule violations.

Training and compliance follow-up

Compliance efforts are based on an extensive program of prevention based on employee training and clear rules and guidelines. Follow-up procedures to verify the effectiveness of such rules form an integral part of internal controls and audits at Danfoss, as do spot checks conducted by the company's internal auditing function.

The Group has compliance programs in a number of areas. A special focus in 2013 was to strengthen our anti-corruption, fair competition and ethics programs. During the year, employees and managers attended ethics training programs where it was considered relevant. The new employees from the acquisition of Danfoss Turbocor Compressors were enrolled in the programs, and there was more focus in India on regular training of new employees. The training programs ended with a test.

Also, the Group strengthened its compliance program in competition law in 2013 by updating its global manual on competition compliance. In 2014, employees who are in contact with business partners or industry organizations will take a newly-developed e-learning course on the topic. This e-learning course will be mandatory for the employees selected, who must take a test at the end of the course. These Group-wide compliance programs are also planned for rollout in Danfoss Power Solutions in 2014.

Compliance hotlines

In addition to the compliance programs, Danfoss has also had a query function called "AskUs" since the end of 2012, where the Group's employees can find answers to any questions and doubts they may have regarding ethics and compliance. The purpose of AskUs is to minimize uncertainty among the Group's employees and prevent unintended non-compliance. In 2013, AskUs received 69 enquiries from employees seeking guidance on how best to follow ethical guidelines or compliance requirements in a specific situation.
Danfoss also has a whistleblower function called "the Ethics Hotline", where employees can report suspected breaches of internal guidelines and legislation anonymously and without involving a manager. A total of 112 cases were reported to the Ethics Hotline in 2013. Disciplinary action has been taken in all substantiated cases: none of these cases have had significant consequences for Danfoss.

In 2014, Danfoss will continue to focus on expanding its current compliance programs and functions and on training its employees in order to prevent non-compliance and improve employees' understanding of the rules and regulations.

Risk overview

Like its industry peers, Danfoss is exposed to a number of general and basic risks. These are risks relating to customers and markets, factories and suppliers in the supply chain, law and regulatory regimes, and internal processes and systems.

Danfoss' exposure to such risks is similar to the general risk exposure of its peers.

The Executive Committee has defined four specific risk areas of the risk management process that, due to their special nature, are of particular importance to Danfoss. The four areas are described in the table below. This overview does not include financial risk, which is described in *Note 18 to the financial statements on financial risk and instruments.*

Description of risk	Risk mitigation measures
Phasing out refrigerants The global community has committed itself to gradually phase out the use of R22 refrigerants (HCFC gasses). This indicates a technological change that will require new solutions to be developed and current systems to be redesigned and retooled. For Danfoss, this technological change involves an added risk, because new high-quality products will have to be launched as demand grows while, at the same time, its R22 products are gradually being phased out.	Danfoss is addressing this risk by closely monitoring the markets and focusing on the development of new high-quality products while also advising its collaborative partners on the consequences of the technological change. However, Danfoss also considers this a clear opportunity to develop the market for natural refrigerants such as CO_2, a field in which Danfoss is already a market leader.
Ethical conduct The ethical behavior of companies and their employees is increasingly becoming a focus of attention, with stricter laws and possible sanctions being introduced worldwide in areas such as anti-corruption, data protection law and competition law. Unethical or outright illegal conduct by Danfoss employees could cause considerable damage to Danfoss' reputation and result in substantial financial sanctions.	Danfoss has implemented ethical guidelines and compliance programs. Compliance is verified through follow-up procedures that include internal inspections and other measures. In addition, Danfoss has an "AskUs" enquiry function, from which employees can seek advice and guidance on ethical conduct. Danfoss also operates an Ethics Hotline employees can use to anonymously report suspected violations of the law or internal guidelines.
Developments on the Russian market The Russian economy continues its dependency on the world market prices for energy and commodities. Danfoss provides heating solutions for both public- and private-sector customers. Demand is closely correlated with the condition of and changes in the Russian economy and the ongoing progress of urban renovation projects in the country. Danfoss also sells a number of different products to Russian industry, which also to a great extent relies on raw materials extraction and processing.	Danfoss considers Russia a significant Market with a great deal of potential that management at both Group and business segment level monitors closely and systematically: an ongoing process of monitoring general economic trends in the country, changes in national and local legislation, and the content of Danfoss' internal reporting. To balance the risk at Group level, Danfoss is also present in other growth markets.
Food price trends Rising and falling food prices have an impact on the financial position of the agricultural sector and thus on its ability to invest in renovation and new equipment. For example, because Danfoss Power Solutions develops and manufactures solutions for this sector, any fluctuations in its financial situation will have a direct effect on the business segment.	Danfoss aims to balance this cyclical exposure partly by cultivating new markets in several different regions, other segments and other sectors and by having an adaptable and flexible supply chain. The risk can also be balanced by offering customers solutions that can directly improve efficiency or otherwise reduce their operating costs.

EUROPE

Belgium
N.V. Danfoss S.A. • Groot-Bijgaarden
Danfoss Power Solutions BVBA • Groot-Bijgaarden
Hydro-Gear Europe BVBA • Tongeren

Bulgaria
Danfoss EOOD • Sofia

Gemina Termix Production A/S • Sunds
Issab Holding ApS • Nordborg
Danfoss Power Solutions ApS • Nordborg
Danfoss Power Solutions Holding ApS • Nordborg

Estonia
Danfoss AS • Tallinn
Proekspert AS • Tallinn – 75%

Finland
Oy Danfoss Ab • Espoo
Danfoss Power Solutions Oy Ab • Espoo

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

Iceland
Danfoss hf. • Reykjavik

Italy
Danfoss S.r.l. • Torino
Danfoss Power Solutions S.r.l. • Castenaso

Croatia
Danfoss d.o.o. • Zagreb

Denmark
Danfoss A/S • Nordborg (parent company)
Danfoss Compressors Holding A/S • Nordborg
Danfoss Distribution Services A/S • Rødekro
Danfoss Power Electronics A/S • Gråsten
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

France
Avenir Energie • Valence
Danfoss Commercial Compressors S.A. • Trévoux
Danfoss France Holding S.C. • Trappes
Danfoss S.a.r.l. • Trappes
Danfoss Power Solutions SAS • Dammarie-lès-Lys

Netherlands
Danfoss B.V. • Rotterdam
Danfoss Holding B.V. • Rotterdam
Danfoss Turbocor Compressors B.V. • Amsterdam
Danfoss Power Solutions B.V. • Rotterdam

Latvia
SIA Danfoss • Riga

Lithuania
Danfoss UAB • Vilnius

Norway
Danfoss AS, Skui • Oslo
Danfoss Power Solutions 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)
Danfoss Power Solutions Sp.z.o.o. • Wroclaw

Portugal
Danfoss Lda. • Carnaxide

Romania
Danfoss s.r.l. • Bukarest
Danfoss District Heating S.r.l. • Bukarest

Russia
Danfoss Dzerzhinsk LLC • Nizhny Novgorod
OOO Danfoss • Istra
ZAO Danfoss • Moscow
ZAO Ridan • Nizhny Novgorod
Danfoss Power Solutions LLC • Moscow

Switzerland
Danfoss AG • Frenkendorf

Serbia
Danfoss d.o.o. • Belgrade

Slovakia
Danfoss spol. S.r.o. • Zlaté Moravce
Danfoss Power Solutions a.s. • Povazska Bystrica

Slovenia
Danfoss Trata d.o.o. • Ljubljana

Spain
Danfoss S.A. • Madrid
Danfoss Power Solutions S.A. • Madrid

Great Britain
Danfoss Heat Pumps UK Ltd. • South Yorkshire
Danfoss Limited • Denham
Danfoss UK Limited • Denham
Danfoss Randall Limited • Bedford
Senstronics Holding Ltd. • London – 50% (joint venture)
Danfoss Power Solutions Ltd. • Swindon

Sweden
Danfoss AB • Linköping
Danfoss Värmepumpar AB • Arvika
Danfoss East Investment AB • Linköping
EP Technology AB • Malmö
Danfoss Power Solutions AB Solna

Czech Republic
Danfoss s.r.o. • Prague

Turkey
Danfoss Otomasyon ve Urunleri Tic Ltd. • Istanbul

Germany
Danfoss Esslingen GmbH • Esslingen
Danfoss Flensburg GmbH • Flensburg
Danfoss GmbH • Offenbach/Main
Danfoss Silicon Power GmbH • Flensburg
Danfoss Werk Offenbach GmbH • Offenbach/Main
Promeos GmbH • Erlangen – 27% (associate company)
Danfoss Power Solutions GmbH & Co. OHG • Neumünster
Danfoss Power Solutions Informatic GmbH • Neumünster
Danfoss Power Solutions GmbH • Neumünster

Ukraine
Danfoss T.o.v. • Kiev

Hungary
Danfoss Ktf. • Budapest

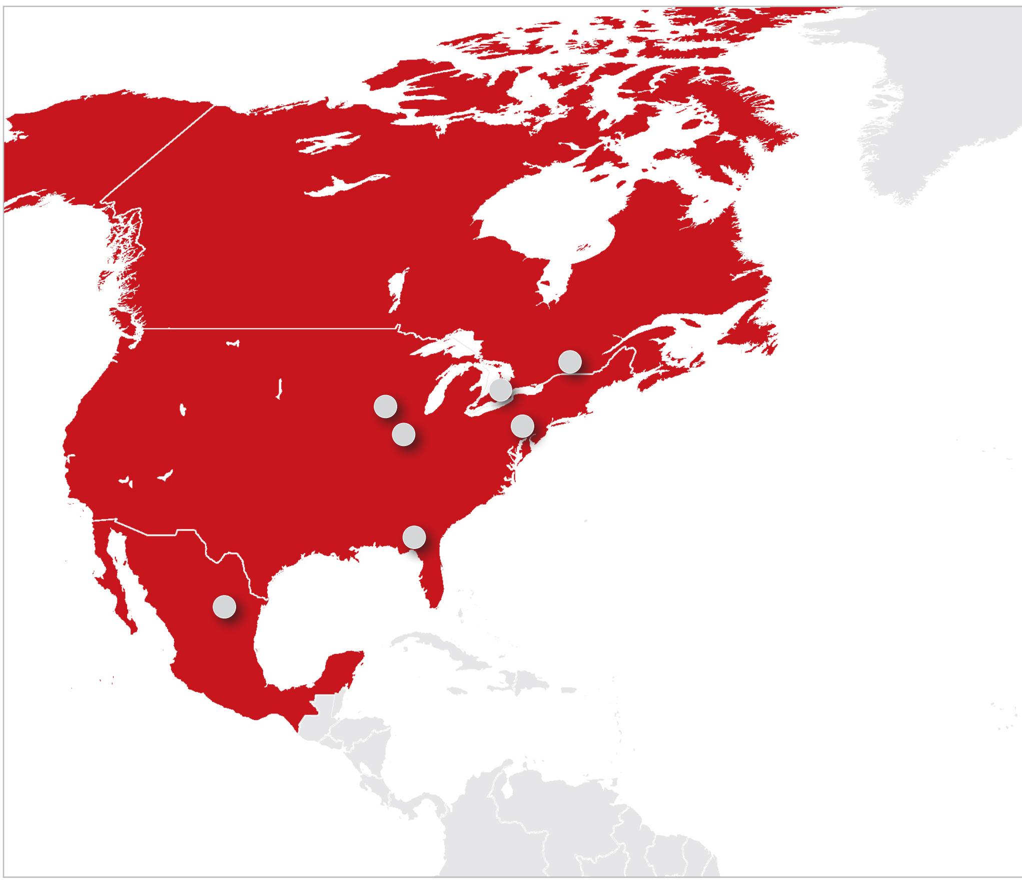
Austria
Danfoss Gesellschaft m.b.H. • Guntramsdorf

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 LLC • Baltimore
Danfoss Holding, Inc. • Baltimore
Danfoss Turbocor Compressors Inc. • Tallahassee, Florida
Hydro-Gear Inc. • Sullivan, Illinois – 60%
Hydro-Gear Limited Partnership • Sullivan, Illinois – 60%
Danfoss Power Solutions (US) Company • Ames, Iowa
Danfoss Power Solutions Inc. • Ames, Iowa



ASIA

Philippines
Danfoss Inc. • Manila

India
Danfoss Industries Pvt. Limited • Chennai
Danfoss Power Solutions India Pvt. Ltd. • Pune

Indonesia
PT Danfoss Indonesia • Jakarta

Japan
Daikin-Sauer-Danfoss Ltd. • Osaka – 45%
Danfoss Power Solutions Ltd. • Osaka

Kazakhstan
Danfoss LLP • Almaty

China
Danfoss (Anshan) Controls Co. Ltd. • Anshan
Danfoss Energy Products (Guiyang) Co., Ltd. • Guiyang
Danfoss Automatic Controls Management (Shanghai) Co. Ltd. • Shanghai
Danfoss (Tianjin) Limited • Tianjin
Danfoss Industries Limited • Hong Kong
Tau Energy Holdings (HK) Limited • Hong Kong
Zheijang Holip Electronic Technology Co. Ltd. • Zheijang
Danfoss Plate Heat Exchanger (Hangzhou) Co., Ltd • Zheijang
Danfoss Micro Channel Heat Exchanger (Jiaxing) Co., Ltd. • Haiyan
Danfoss-Semco (Tianjin) Fire Protection Equipment Co., Ltd. • Tianjin – 60% Danfoss
Shanghai Hydrostatic Transmission Co. Ltd. • Shanghai – 60%
Danfoss Power Solutions (Shanghai) Co. Ltd. • Shanghai
Danfoss Power Solutions (Zhejiang) Co., Ltd. • Zhejiang
Danfoss Power Solutions Trading (Shanghai) Co., Ltd. • Shanghai

Malaysia
Danfoss Industries Sdn Bhd • Selangor

Singapore
Danfoss Industries Pte. Ltd. • Singapore
Danfoss Power Solutions Pte. Ltd. • Singapore
Danfoss Power Solutions China Holding Pte. Ltd. • Singapore

South Korea
Danfoss Ltd. • Seoul
Danfoss Power Solutions Ltd. • Seoul

Taiwan
Danfoss Co. Ltd. • Tapei

Thailand
Danfoss (Thailand) Co. Ltd. • Bangkok

United Arab Emirates
Danfoss FZCO • Dubai – 95%

AUSTRALIA

Australia
Danfoss (Australia) Pty. Ltd. • Mt. Waverly
Danfoss Power Solutions Pty. Ltd. • Huntingwood

New Zealand
Danfoss (New Zealand) Ltd. • Auckland

SOUTH AMERICA

Argentina
Danfoss S.A. • Buenos Aires

Brazil
Danfoss do Brasil Indústria e Comércio Ltda. • São Paulo
Danfoss Power Solutions Ltda. • São Paulo

Chile
Danfoss Industries Ltda. • Santiago

Colombia
Danfoss S.A. • Santiago de Cali

Venezuela
Danfoss S.A. • Valencia

AFRICA

South Africa
Danfoss (Pty) Ltd. • Rivonia, Johannesburg
Elsmark Holding Limited, in liquidation • Johannesburg
Elsmark South Africa (Proprietary) Limited, in liquidation • Johannesburg

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 2,708 employees at the end of 2013.

Net sales increased by DKK 209m in 2013 to DKK 8,115m from DKK 7,906m in 2012, an improvement of 3%.

The profit before other operating income and expenses was DKK 759m against DKK 546m in 2012. The company's operating profit was DKK 724m against DKK 486m the previous year.

Financial income and expenses amounted to a net income of DKK 2,236m against a net income of DKK 606m the previous year. This was mainly attributable to an increase in distributed dividends from subsidiaries.

The profit after tax in 2013 was DKK 2,584m against DKK 560m the previous year.

Equity stood at DKK 7,655m at the end of 2013 against DKK 5,546m at the end of 2012. The increase was mainly attributable to recognition of the profit for the year less dividends paid to the owners.

The subsidiaries Danfoss Ejendomsselskab A/S and Danfoss Development A/S and their assets merged with Danfoss A/S in 2013. The mergers were recognized in accordance with IFRS (International Financial Reporting Standards) in 2012, and, consequently, the comparison figures for 2012 have been adjusted.

Danfoss A/S expects net sales for 2014 to be on a level with the 2013 figures, and the company expects to report a profit 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, 2013.

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, 2013, 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, 2013.

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

Jesper V. Christensen

Kim Fausing

Board of directors

Jørgen M. Clausen
Chairman

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 2013. 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. 64-122). 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 2013 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 2013 in accordance with International Financial Reporting Standards, which have been adopted by the EU, and additional disclosure requirements in the Danish Financial Statements Act.

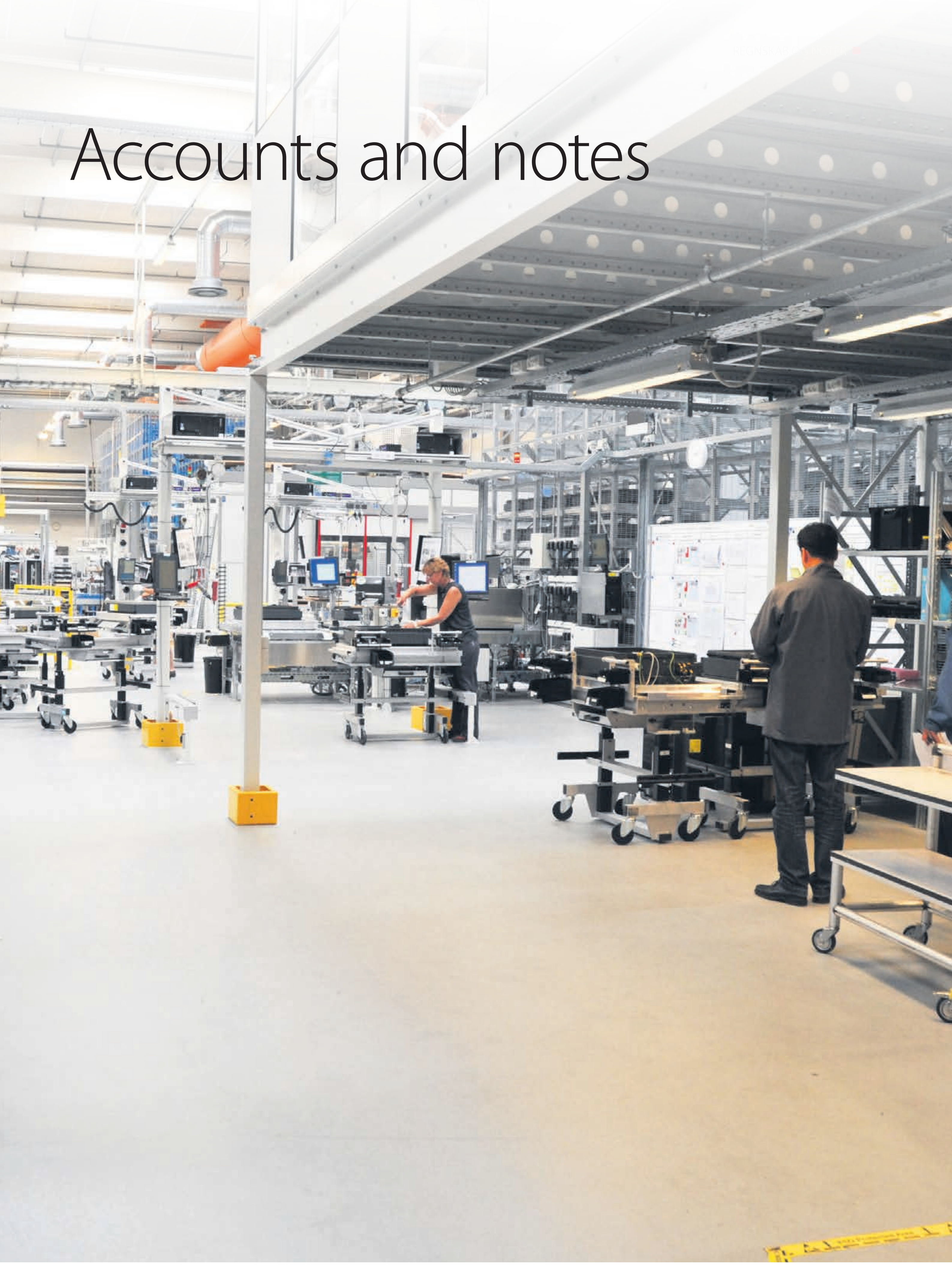
Statement on the Management's review
Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is 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, den 12. marts 2014

KPMG
Statsautoriseret Revisionspartnerselskab

Jesper Koefoed, Statsaut. revisor *Thorbjørn Bruhn,* Statsaut. revisor

Accounts and notes



INCOME STATEMENT

1 January to 31 December

DKKm	Note	Parent Company 2012	Parent Company 2013	Group 2012	Group 2013
Net sales	1	7,906	8,115	34,007	33,628
Cost of sales	2	-5,975	-5,912	-22,528	-21,766
Research and development costs	2	-268	-295	-1,263	-1,359
Gross profit		**1,663**	**1,908**	**10,216**	**10,503**
Selling and distribution costs	2	-693	-643	-5,012	-5,063
Administrative expenses	2	-424	-506	-1,475	-1,570
Operating profit excl. other operating income and expenses		**546**	**759**	**3,729**	**3,870**
Other operating income	2	21	46	425	127
Other operating expenses	2	-81	-81	-385	-381
Operating profit (EBIT)	1	**486**	**724**	**3,769**	**3,616**
Share of profit from associates and joint ventures after tax	3			-2	8
Financial income	4	1,009	2,534	93	33
Financial expenses	5	-403	-298	-514	-402
Profit before tax		**1,092**	**2,960**	**3,346**	**3,255**
Tax on profit	6	-532	-376	-1,007	-970
Net profit		**560**	**2,584**	**2,339**	**2,285**
Attributable to:					
Proposed dividends reserve		400	800		
Other reserves		160	1,784		
		560	**2,584**		
Attributable to:					
Shareholders in Danfoss A/S				1,980	2,037
Minority interests				359	248
				2,339	**2,285**
Basic earnings per share (share of nominal 100 DKK)	7			195.6	201.9
Diluted earnings per share (share of nominal 100 DKK)	7			193.3	200.7

STATEMENT OF COMPREHENSIVE INCOME

1 January to 31 December

DKKm	Note	Parent Company 2012	Parent Company 2013	Group 2012	Group 2013
Net profit		**560**	**2,584**	**2,339**	**2,285**
Other comprehensive income					
Items that cannot be reclassified to profit or loss:					
Actuarial gain/loss (-) on pension and health care plans	16		-4	-176	207
Tax on actuarial gain/loss on pension and health care plans	15		1	49	-80
			-3	**-127**	**127**
Items that cannot be reclassified to profit or loss:					
Foreign exchange adjustments on translation of foreign currency into DKK etc.				-36	-550
Fair value adjustment of hedging instruments:					
Fair value adjustment re. hedging of net investments in subsidiaries				35	149
Fair value adjustment re. hedging of future cash flows		33	53	41	25
Fair value adjustment transferred to net sales in the income statement				92	53
Tax on value adjustment of hedging instruments		-8	-14	-39	-57
		25	**39**	**93**	**-380**
Other comprehensive income after tax		**25**	**36**	**-34**	**-253**
Total comprehensive income		**585**	**2,620**	**2,305**	**2,032**
Attributable to:					
Shareholders of Danfoss A/S				1,987	1,866
Minority interests				318	166
				2,305	**2,032**

BALANCE SHEET

As of 31 December

DKKm		Parent Company		Group	
ASSETS	Note	**2012**	**2013**	**2012**	**2013**
Non-current assets					
Intangible assets	8	**681**	**644**	**8,649**	**8,054**
Property, plant and equipment	9	**1,462**	**1,351**	**6,940**	**6,506**
Investments	3	10,024	13,623	108	83
Pension benefit plan assets	16			17	42
Non-current receivables		8	3	35	27
Deferred tax assets	15			1,289	1,340
Other non-current assets		**10,032**	**13,626**	**1,449**	**1,492**
Total non-current assets		**12,175**	**15,621**	**17,038**	**16,052**
Current assets					
Inventories	10	**719**	**649**	**4,050**	**3,849**
Trade receivables	11	2,709	3,347	4,424	4,428
Receivable corporation tax	18			507	266
Derivative financial instruments (positive fair value)	17	89	38	98	57
Other receivables		96	116	763	727
Receivables		**2,894**	**3,501**	**5,792**	**5,478**
Cash and cash equivalents	17	**9**	**1**	**888**	**737**
Total current assets		**3,622**	**4,151**	**10,730**	**10,064**
Total assets		**15,797**	**19,772**	**27,768**	**26,116**

BALANCE SHEET

As of 31 December

DKKm		Parent Company		Group	
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	**2012**	**2013**	**2012**	**2013**
Shareholders' equity					
Danfoss A/S' share of equity	12	5,546	7,655	11,855	10,587
Minority interests				2,338	856
Total shareholders' equity		**5,546**	**7,655**	**14,193**	**11,443**
Liabilities					
Provisions	13	41	52	466	486
Deferred tax liabilities	15	324	340	1,838	1,722
Pension and healthcare benefit plan obligations	16	27	25	1,204	930
Borrowings	17	2,836	2,882	3,151	3,093
Derivative financial instruments (negative fair value)	17	51	16	51	16
Other non-current debt		125	82	169	225
Non-current liabilities		**3,404**	**3,397**	**6,879**	**6,472**
Provisions	13	72	61	391	426
Liabilities under share incentive programs	14	133	99	133	99
Borrowings	17	346	1,584	595	1,806
Trade payables		463	557	2,576	3,023
Debt to subsidiaries		5,029	5,698		
Debt to associates and joint ventures		1		34	10
Corporation taxes	18	237	122	392	243
Derivative financial instruments (negative fair value)	17	25	4	28	5
Other debt		541	595	2,547	2,589
Current liabilities		**6,847**	**8,720**	**6,696**	**8,201**
Total liabilities		**10,251**	**12,117**	**13,575**	**14,673**
Total liabilities and shareholders' equity		**15,797**	**19,772**	**27,768**	**26,116**

STATEMENT OF CASH FLOWS

1 January to 31 December

DKKm		Parent Company		Group	
	Note	**2012**	**2013**	**2012**	**2013**
Profit before tax		1,092	2,960	3,346	3,255
Adjustments for non-cash transactions	19	-517	-1,691	1,764	2,287
Change in working capital	20	958	195	538	296
Cash flow generated from operations		**1,533**	**1,464**	**5,648**	**5,838**
Financial income		252	155	39	29
Financial expenses		-410	-231	-532	-259
Dividends received		572	1,670	15	7
Cash flow from operations before tax		**1,947**	**3,058**	**5,170**	**5,615**
Paid tax	18	-192	-487	-925	-1,171
Cash flow from operating activities		**1,755**	**2,571**	**4,245**	**4,444**
Acquisition of intangible assets		-53	-31	-101	-91
Acquisition of property, plant and equipment		-248	-152	-1,122	-1,118
Proceeds from sale of property, plant and equipment		9	84	54	205
Acquisition of subsidiaries etc.	21	-489	-3,949	-415	
Proceeds from disposal of subsidiaries etc.	21	73	750	224	
Acquisition (-)/ sale of other investments etc.	22	1,536	-640	39	87
Cash flow from investing activities		**828**	**-3,938**	**-1,321**	**-917**
Free cash flow		**2,583**	**-1,367**	**2,924**	**3,527**
Financing by non-shareholders:					
Cash repayment of (-)/cash proceeds from interest-bearing debt		-2,057	1,871	-2,045	1,179
Financing by shareholders:					
Repurchase (-)/sale of treasury shares		-199	-116	-199	-116
Addition/disposal of minority interests					-4,092
Dividends paid to shareholders in the Parent Company		-320	-396	-320	-396
Dividends paid to minority shareholders				-215	-198
Cash flow from financing activities		**-2,576**	**1,359**	**-2,779**	**-3,623**
Net change in cash and cash equivalents		**7**	**-8**	**145**	**-96**
Cash and cash equivalents as of 1 January		2	9	744	888
Foreign exchange adjustment of cash and cash equivalents				-1	-55
Cash and cash equivalents as of 31 December		**9**	**1**	**888**	**737**
Statement of free cash flow adj. for acquisition and disposal of subsidiaries etc. (M&A)					
Free cash flow		2,583	-1,367	2,924	3,527
Acquisition of subsidiaries etc.	21	489	3,949	415	
Proceeds from disposal of subsidiaries etc.	21	-73	-750	-224	
Purchase and sale of shares and other investments	22	-5	-29	-96	-14
Free cash flow before M&A		**2,994**	**1,803**	**3,019**	**3,513**

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

STATEMENT OF CHANGES IN EQUITY

DKKm

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 2012	**1,043**	**685**	-137	-277	-814	9,511	**8,283**	**329**	**10,340**	**2,257**	**12,597**
Comprehensive income in 2012											
Net profit						1,580	**1,580**	**400**	**1,980**	**359**	**2,339**
Other comprehensive income											
Foreign exchange adjustments on translation of foreign currencies				-6			**-6**		**-6**	**-30**	**-36**
Fair value adjustment of hedging instruments			126	35			**161**		**161**	**7**	**168**
Actuarial gain/loss (-) on pension and healthcare plans						-150	**-150**		**-150**	**-26**	**-176**
Tax on other comprehensive income			-30	-9		41	**2**		**2**	**8**	**10**
Total other comprehensive income			96	20		-109	**7**		**7**	**-41**	**-34**
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**
Comprehensive income in 2013											
Net profit						1,237	**1,237**	**800**	**2,037**	**248**	**2,285**
Other comprehensive income											
Foreign exchange adjustments on translation of foreign currencies				-472			**-472**		**-472**	**-78**	**-550**
Fair value adjustment of hedging instruments			80	149			**229**		**229**	**-2**	**227**
Actuarial gain/loss (-) on pension and healthcare plans						209	**209**		**209**	**-2**	**207**
Tax on other comprehensive income			-20	-37		-80	**-137**		**-137**		**-137**
Total other comprehensive income			60	-360		129	**-171**		**-171**	**-82**	**-253**
Total comprehensive income for the period			60	-360		1,366	**1,066**	**800**	**1,866**	**166**	**2,032**
Transactions with owners											
Dividends to shareholders						4	**4**	**-400**	**-396**	**-179**	**-575**
Purchase of minority interest						-2,623	**-2,623**		**-2,623**	**-1,469**	**-4,092**
Capital increase/purchase of treasury shares	**2**	**39**			-156		**-156**		**-115**		**-115**
Total transactions with owners	**2**	**39**			-156	-2,619	**-2,775**	**-400**	**-3,134**	**-1,648**	**-4,782**
Balance as of 31 December 2013	**1,022**	**409**	19	-617	-431	9,385	**8,356**	**800**	**10,587**	**856**	**11,443**

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 2012	**1,043**	**685**	-76	-814	4,123	**3,233**	**329**	**5,290**
Merger with subsidiary					143	**143**		**143**
Comprehensive income in 2012								
Net profit					160	**160**	**400**	**560**
Other comprehensive income								
Fair value adjustment of hedging instruments			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		160	**185**	**400**	**585**
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	4,082	**3,756**	**400**	**5,546**
Comprehensive income in 2013								
Net profit					1,784	**1,784**	**800**	**2,584**
Other comprehensive income								
Fair value adjustment of hedging instruments			53			**53**		**53**
Actuarial gain/loss (-) on pension and healthcare plans					-4	**-4**		**-4**
Tax on other comprehensive income			-14		1	**-13**		**-13**
Total other comprehensive income			39		-3	**36**		**36**
Total comprehensive income for the period			39		1,781	**1,820**	**800**	**2,620**
Transactions with owners								
Dividends to shareholders					4	**4**	**-400**	**-396**
Capital increase/purchase of treasury shares	**2**	**39**		-156		**-156**		**-115**
Total transactions with owners	**2**	**39**		-156	4	**-152**	**-400**	**-511**
Balance as of 31 December 2013	**1,022**	**409**	-12	-431	5,867	**5,424**	**800**	**7,655**

Notes

1. Segment reporting

DKKm

Main business segments	2012 Danfoss Climate & Energy	2012 Danfoss Power Solutions	2012 Other areas	2012 **Group**	2013 Danfoss Climate & Energy	2013 Danfoss Power Solutions	2013 Other areas	2013 **Group**
INCOME STATEMENT								
Net sales	22,411	11,097	499	**34,007**	22,330	10,989	309	**33,628**
internal net sales	39	45	-84		24	25	-49	
Net sales, external	22,372	11,053	582	**34,007**	22,306	10,964	358	**33,628**
Depreciation/amortization	885	803	38	**1,726**	855	772	44	**1,671**
Net gain/loss (-) upon disposal of activities		1	11	**12**		-1	-3	**-4**
Impairment/reversal of impairment losses previous years (-)	270		-12	**258**	5		4	**9**
Operating profit (EBIT)	2,541	1,563	-335	**3,769**	2,554	1,593	-531	**3,616**
Share of profit from associates and joint ventures after tax	-4		2	**-2**	7		1	**8**
Profit before financial items	2,537	1,563	-333	**3,767**	2,561	1,593	-530	**3,624**
BALANCE SHEET								
Total assets *)	14,805	9,277	3,686	**27,768**	14,336	8,821	2,959	**26,116**
Capital expenditure	1,623	284	146	**2,053**	814	377	19	**1,210**
Impairment losses	270			**270**	9			**9**
Investment in associates and joint ventures	68		12	**80**	39		12	**51**
Total liabilities	3,991	2,500	7,084	**13,575**	4,338	2,432	7,903	**14,669**
OTHER INFORMATION								
Number of employees	14,319	6,363	2,410	**23,092**	13,657	6,320	2,486	**22,463**

The two segments, "Danfoss Climate & Energy" and "Danfoss Power Solutions" are further described in separate reports.
Comparative figures for 2012 for Danfoss Power Solutions have been restated from recognition under US GAAP to IFRS. Reclassification was made between "Danfoss Power Solutions" and "Other areas"

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

1. Segment reporting (continued)

DKKm

Products and services

	Group	
	2012	**2013**
Heating, Ventilation and Air conditioning (HVAC)	22,194	22,102
Hydraulics	11,337	11,222
Other	476	304
	34,007	33,628

Geographical segments

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**

Group 2013	Denmark	Other EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	**Total**
Net sales	1,288	12,028	3,911	5,890	7,666	230	538	1,685	392	**33,628**
Total non-current assets *)	4,296	4,020	207	1,362	4,768		11	48		**14,712**

*) 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	
	2012	**2013**
Non-reportable segments	582	358
Total net sales	582	358

Specification of other areas - Profit before financial items

	Group	
	2012	**2013**
Gain/loss (-) upon disposal of activities	12	-3
Non-reportable segments	-26	-91
Central functions, not allocated*)	-321	-436
Eliminations of intra-group profits etc.	2	
Profit before financial items	-333	-530

Specification of other areas - Assets

	Group	
	2012	**2013**
Non-reportable segments	238	164
Central functions not allocated *)	3,452	2,796
Other	-4	-1
Total assets	3,686	2,959

Specification of other areas - Liabilities

	Group	
	2012	**2013**
Non-reportable segments	348	313
Central functions not allocated *)	2,995	2,689
Interest bearing debt	3,746	4,899
Other	-5	2
Total Liabilities	7,084	7,903

*) Central functions, not allocated, are primarily administrative expenses and central functions' liabilities and deferred tax, cash and cash equivalents.

2. Expenses and other operating income

DKKm

A. Personnel expenses

	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
Salaries and wages	1,561	1,567	7,777	7,803
Termination benefits	12	24	66	185
Share-based remuneration *)	5		9	3
Social security	15	14	649	696
Defined contribution plans	129	118	432	454
Defined benefit plans excluding gains from reductions and redemptions **)			57	74
	1,722	1,723	8,990	9,215
Average number of employees	2,941	2,792	23,173	23,030
Total number of employees as of end of the year	2,864	2,708	23,092	22,463

*) Benefits cf. further information in note 14. Share incentive programmes.
**) Expenses for defined benefit plans are described in note 16. Pension and healthcare obligations.

	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
Board of Directors:				
Directors' fees	3	5	4	6
	3	5	4	6
Executive Committee:				
Salaries	22	20	23	21
Pension costs re. defined contribution plans	2	7	2	7
Bonuses	33	53	33	53
Share-based remuneration *)	2		2	
	59	80	60	81
Executives:				
Salaries	14	15	25	22
Pension costs re. defined contribution plans	1	2	3	3
Bonuses	13	13	29	24
Share-based remuneration *)	1		1	
	29	30	58	49
Termination benefits:				
Executives	2		10	
Total compensation	93	115	132	136

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

2. Expenses and other operating income (continued)

DKKm

B. Depreciation/amortization and impairment losses

	Parent Company		Group	
	2012	2013	2012	2013
Classified by nature:				
Amortization of intangible assets	85	68	503	478
Impairment on intangible assets			270	2
	85	68	773	480
Depreciation of property, plant and equipment	212	200	1,222	1,193
Impairment on property, plant and equipment				7
Reversal of impairment losses on property, plant and equipment			-12	
	212	200	1,210	1,200
Depreciation and impairment	297	268	1,983	1,680
Classified by functions:				
Intangible assets:				
Cost of sales	34	54	313	305
Selling and distribution costs	7	7	143	145
Administrative expenses	10	7	47	28
Other operating expenses			270	2
	51	68	773	480

C. Other operating income

	Parent Company		Group	
	2012	2013	2012	2013
Gain on disposal of activities			12	
Gain on value adjustment on step acquisition of company			275	
Gain on disposal of property, plant and equipment	6	5	32	45
Reversal of impairment losses on property, plant and equipment			12	
Other	15	41	94	82
	21	46	425	127

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, further detailed in note 21. Acquisition and sale of subsidiaries and activities.

2. Expenses and other operating income (continued)

DKKm

D. Other operating expenses

	Parent Company		Group	
	2012	2013	2012	2013
Loss on disposal of activities				-3
Loss on disposal of property, plant and equipment	-3	-1	-24	-34
Impairment			-270	-9
Restructuring costs	-12	-24	-68	-186
Other	-66	-56	-23	-149
	-81	-81	-385	-381

Impairment for the year is based on expected value in use.
Restructuring cost in 2013, mainly related to terminations in France, Denmark, Germany, China and the USA.
In 2013, the item Other includes DKK 110 million in extraordinary costs relating to acquisition of outstanding shares in Sauer-Danfoss Inc.
Impairment for 2012 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.

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

	Parent Company		Group	
	2012	2013	2012	2013
KPMG:				
Audit fee	5	5	25	21
Fees for assurance engagements			1	
Tax and VAT advice	2	2	6	6
Other fees	2	1	6	4
Total	9	8	38	31

3. Non-current financial assets

DKKm	Parent Company 2012					Group 2012		
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**Total**	Investments in associates and joint ventures	Other investments	**Total**
Costs as of 1 January	9,695	1,132	367	2	11,196	393	145	538
Additions/disposals through merger with subsidiaries	-453		17	129	-307			
Foreign exchange adjustments etc.						5		5
Additions	489			2	491		44	44
Transfer relating to step acquisition of company	222		-222			-245		-245
Disposals	-116	-129	-7		-252		-55	-55
Costs as of 31 December	9,837	1,003	155	133	11,128	153	134	287
Adjustments as of 1 January	-1,207		-60		-1,267	-229	-102	-331
Additions/disposals through merger with subsidiaries	245		-17	-94	134			
Foreign exchange adjustments etc.						-4		-4
Transfer relating to step acquisition of company						177		177
Net profit/value adjustment				-10	-10	-2	-4	-6
Reversed impairment/impairment for the year (-)	-8		-12		-20			
Dividends						-15		-15
Disposal	59				59			
Adjustments as of 31 December	-911		-89	-104	-1,104	-73	-106	-179
Carrying amount as of 31 December	8,926	1,003	66	29	10,024	80	28	108

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.

Transfer for the year of "Investments in associates/joint ventures" relates to Danfoss Turbocor Compressors. For further information, see note 21. Acquisition and sale of subsidiaries and activities.

	Parent Company 2013					Group 2013		
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	**Total**	Investments in associates and joint ventures	Other investments	**Total**
Costs as of 1 January	9,837	1,003	155	133	11,128	153	134	287
Foreign exchange adjustments etc.						-1	-1	-2
Additions	3,949		2	1	3,952		2	2
Disposals	-205	-32	-49		-286	-61		-61
Costs as of 31 December	13,581	971	108	134	14,794	91	135	226
Adjustments as of 1 January	-911		-89	-104	-1,104	-73	-106	-179
Foreign exchange adjustments etc.							1	1
Net profit/value adjustment				1	1	9	2	11
Reversed impairment/impairment for the year (-)	-89		2		-87			
Dividends						-7		-7
Disposal			19		19	31		31
Adjustments as of 31 December	-1,000		-68	-103	-1,171	-40	-103	-143
Carrying amount as of 31 December	12,581	971	40	31	13,623	51	32	83

At the end of 2013, 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.

Additions for the year to "Investments in subsidiaries" is mainly the acquisition of the remaining shares in Sauer-Danfoss Inc.

Impairment losses for the year on "Investments in subsidiaries" mainly relates to Tau Energy Holdings (HK) Limited and Avenir Energie, which have been written down to value in use.

Disposal for the year of "Investments in associates/joint ventures" relates to the sale of Danfoss Sanhua Micro Channel Heat Exchanger Co Ltd.

Further information on associates and joint ventures is provided in the notes 4. Financial income, 5. Financial expenses, 17. Financial risks and instruments and 24. Related parties.

4. Financial income

DKKm	Parent Company		Group	
	2012	2013	2012	2013
Interest from banks etc.	8	6	32	29
Interest from associates and joint ventures	3		6	
Calculated expected return on defined benefit plan assets			6	2
Gain on other investments		1		2
Fair value adjustment for stock options and warrants *)	33		49	
Interest from subsidiaries	241	149		
Foreign exchange gains, net	51	233		
Dividend from subsidiaries	639	1,590		
Dividend from associates and joint ventures	8	7		
Gain on disposal of associates and joint ventures		1		
Gain on disposal of shares subsidiaries	26	547		
	1,009	2,534	93	33
Interest on financial assets measured at amortised cost amounts to	252	155	38	29

*) Cf. note 14. Share incentive programmes.

5. Financial expenses

DKKm	Parent Company		Group	
	2012	2013	2012	2013
Interest to banks etc.	-219	-164	-277	-192
Interest element on discounted liabilities	-2	1	-3	
Return on defined benefit plans			-55	-40
Foreign exchange losses, net			-37	-151
Fair value adjustment of share options and warrants *)		-10		-14
Impairment/loss on loans	-131	-26	-141	-7
Loss on other investments	-10		-4	
Borrowing costs recognised in the cost of assets	3		3	2
Interest to subsidiaries	-21	-11		
Impairment/loss on disposal of subsidiaries and associates/joint ventures	-23	-88		
	-403	-298	-514	-402
Interest on financial liabilities at amortised cost amounts to	-242	-174	-280	-192

*) Cf. note 14. Share incentive programmes.

Impairment writedown on loans to subsidiaries in 2012 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

DKKm	Parent Company		Group	
	2012	2013	2012	2013
Current tax expense	-98	-315	-804	-1,129
Change in deferred tax	-203	-1	-216	195
Adjustments concerning previous years	-231	-60	13	-36
	-532	-376	-1,007	-970
Tax on profit is defined as:				
Tax on profit before tax	25.0%	25.0%	25.0%	25.0%
Adjustment of tax in foreign subsidiaries calculated at 25%			2.4%	2.7%
Tax exempt income/non-deductible expenses	5.2%	-1.5%	1.3%	-0.9%
Adjustment of net tax assets			0.7%	-0.4%
Dividends exempt of tax	-14.8%	-13.5%		
Effect of change in corporate tax rate		-0.8%	0.6%	-1.3%
Other taxes	3.0%	1.2%	1.9%	2.6%
Adjustments concerning previous years	21.2%	0.5%	-0.4%	2.1%
Other adjustments	9.2%	1.8%	-1.4%	0.0%
Effective tax rate	48.8%	12.7%	30.1%	29.8%

	Parent Company		Group	
	2012	2013	2012	2013
Tax on profit (income statement)	-532	-376	-1,007	-970
Tax on fair value adjustment of hedging instruments (other comprehensive income)	-8	-14	-39	-57
Tax on actuarial gain/loss on pension and health care plans (other comprehensive income)		1	49	-80
Total taxes	-540	-389	-997	-1,107

7. Earnings per share

DKKm	Group	
	2012	2013
Net profit	2,339	2,285
Minority interests	-359	-248
The Group's share of net profit	1,980	2,037
Nominal value (DKKm)		
Average number of shares	1,033.6	1,021.3
Average number of treasury shares	-21.1	-12.3
Average number of shares issued	1,012.5	1,009.0
Average dilutive effect of share options/warrants	12.0	5.9
Diluted average number of shares issued	1,024.5	1,014.9
Basic earnings per share (share of nominal 100 DKK)	195.6	201.9
Diluted earnings per share (share of nominal 100 DKK)	193.3	200.7

8. Intangible assets

DKKm	Group								
	2012								
	Goodwill	Software	Brand	Techno-logy	Customer relations	Patents, trade-marks etc.	Develop-ment costs	**Total**	**Total**
Cost as of 1 January	4,905	659	910	2,995	1,759	395	538	7,256	12,161
Foreign exchange adjustments in foreign companies	-10	-1	-8	-29	-16	-5	-3	-62	-72
Addition through acquisition of subsidiaries	562			187	38			225	787
Additions		57				2	48	107	107
Disposals	-67	-43		-17	-11	-1	-11	-83	-150
Cost as of 31 December	5,390	672	902	3,136	1,770	391	572	7,443	12,833
Amortization and impairment losses as of 1 January	1,077	513		769	544	321	263	2,410	3,487
Foreign exchange adjustments in foreign companies	12	-2		-12	-8	-5	-2	-29	-17
Amortization		60		204	145	19	75	503	503
Impairments				210	60			270	270
Disposals		-37		-10	-6	-1	-5	-59	-59
Amortization and impairment losses as of 31 December	1,089	534		1,161	735	334	331	3,095	4,184
Carrying amount as of 31 December	4,301	138	902	1,975	1,035	57	241	4,348	8,649

Addition through acquisition of subsidiaries relates to Danfoss Turbocor Compressors. For further information, see note 21 Acquisition and sale of subsidiaries and activities.

	Group								
	2013								
	Goodwill	Software	Brand	Techno-logy	Customer relations	Patents, trade-marks etc.	Develop-ment costs	**Total**	**Total**
Cost as of 1 January	5,390	672	902	3,136	1,770	391	572	7,443	12,833
Foreign exchange adjustments in foreign companies	-121	1	-22	-83	-42	-3	-5	-154	-275
Additions		63				3	24	90	90
Disposals		-3				-3		-6	-6
Cost as of 31 December	5,269	733	880	3,053	1,728	388	591	7,373	12,642
Amortization and impairment losses as of 1 January	1,089	534		1,161	735	334	331	3,095	4,184
Foreign exchange adjustments in foreign companies	-2			-34	-22	-2	-3	-61	-63
Amortization		49		194	143	22	70	478	478
Impairments		2						2	2
Disposals		-6				-7		-13	-13
Amortization and impairment losses as of 31 December	1,087	579		1,321	856	347	398	3,501	4,588
Carrying amount as of 31 December	4,182	154	880	1,732	872	41	193	3,872	8,054

Impairment tests

At the end of 2013, 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 2014-2023 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 2012	Danfoss Heating Solutions	Danfoss Power Solutions	Danfoss Refrigera-tion & 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	

Group 2013	Danfoss Heating Solutions	Danfoss Power Solutions	Danfoss Refrigera-tion & A/C Controls	Danfoss Commercial Com-pressors	Other
Share of the Group's goodwill at the end of 2013	29%	21%	13%	25%	12%
Share of the Group's brand at the end of 2013		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	13%	13%	13%	13%	13%
Sensitivity analysis of the impairment test:					
Possible growth reduction in the terminal period (percentage points)	*)	*)	*)	*)	
Possible increase in the discount rate (percentage points)	<16	<21	<36	<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 Danfoss Power Solutions.

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 2013 and are expected to exceed the general development share until 2023. The net cash flow during the terminal period from 2024 and onwards is estimated at a 2% annual growth level, which is assumed to be at or below the market development. The 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 depreciation. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2012: 0 percentage point), or the discount cash flow rate can be increased by up to 16 percentage points (2012: 15 percentage points), without causing a need for impairment writedown.

Danfoss Power Solutions

The intangible assets with indefinite useful lives assigned to Danfoss Power Solutions, comprise goodwill and brand and derive from Danfoss' recognition of the purchase of an additional 38.2% of the share capital in Sauer-Danfoss Inc. in 2008.
The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2012: 0 percentage point) or the discount rate can be increased by up to 21 percentage points without causing a need for impairment writedown.
As a result of the Tender Offer Process regarding Sauer-Danfoss Inc. in the autumn of 2012 it was not possible to update the impairment test.

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. RC's earnings has been satisfactory in 2013 and future growth and unchanged earnings are expected.
The average growth rate until 2023 is estimated to exceed the average market development and therefore an increased future market share is assumed. The net cash flow during the terminal period from 2024 and onwards is estimated at a 2% annual growth level and is assumed to be at or below the market development level. The 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 depreciation. The sensitivity analysis concludes that growth during the terminal period can be reduced so that the business lapses (2012: 0 percentage point) or that the discounted cash flow rate can be increased by up to 36 percentage points (2012: 40 percentage points) without causing a need for impairment writedown.

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 Turbocor Compressors, USA in 2012.

The result in CC has been satisfactory in 2013 and the weighted average growth rate until 2023 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 2024 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 depreciation. 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% (2012: 9%) without causing a need for impairment writedown.

Other intangible assets

Software in progress amounts to DKK 68m (2012: 37m). Of the entire Group's development activities capitalised development expenditure in progress amounts to DKK 50m (2012: 52m). 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 2013, 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 (2012: 0 DKK).

DKKm	**Parent Company**					
	2012					
	Goodwill	Software	Patents, trade-marks, etc.*)	Develop-ment costs	**Total**	**Total**
Cost as of 1 January	462	429	220	142	791	1,253
Additions through merger with subsidiaries			1		1	1
Additions		37	11	5	53	53
Disposals		-22			-22	-22
Cost as of 31 December	462	444	232	147	823	1,285
Amortization and impairment losses as of 1 January		329	147	64	540	540
Addition through merger with subsidiaries			1		1	1
Amortization		44	13	28	85	85
Disposals		-22			-22	-22
Amortization and impairment losses as of 31 December		351	161	92	604	604
Carrying amount as of 31 December	462	93	71	55	219	681

	Parent Company					
	2013					
	Goodwill	Software	Patents, trade-marks, etc.*)	Develop-ment costs	**Total**	**Total**
Cost as of 1 January	462	444	232	147	823	1,285
Additions		29	2		31	31
Disposals		-2	-2		-4	-4
Cost as of 31 December	462	471	232	147	850	1,312
Amortization and impairment losses as of 1 January		351	161	92	604	604
Amortization		34	13	21	68	68
Disposals		-3	-1		-4	-4
Amortization and impairment losses as of 31 December		382	173	113	668	668
Carrying amount as of 31 December	462	89	59	34	182	644

*) 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 2013. 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 2013.

9. Property, plant and equipment

DKKm	Group 2012				
	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of 1 January	4,855	8,399	916	798	14,968
Foreign exchange adjustments in foreign companies	100	68	-4	-3	161
Addition through acquisition of subsidiaries	12	23	3	2	40
Transfers	255	-352	1,090	-993	
Additions	85	228	71	734	1,118
Disposals	-59	-504	-64	-11	-638
Cost as of 31 December	5,248	7,862	2,012	527	15,649
Depreciation and impairment losses as of 1 January	2,153	5,172	642		7,967
Foreign exchange adjustments in foreign companies	43	80	-3		120
Transfers	24	-612	588		
Depreciation	180	890	152		1,222
Reversal of previous years' impairment	-12				-12
Disposals	-23	-505	-60		-588
Depreciation and impairment losses as of 31 December	2,365	5,025	1,319		8,709
Carrying amount as of 31 December	2,883	2,837	693	527	6,940
Hereof assets held under finance leases	1	11	61		73

	Group 2013				
	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of 1 January	5,248	7,862	2,012	527	15,649
Foreign exchange adjustments in foreign companies	-94	-51	-34	-34	-213
Transfers	138	226	27	-391	
Additions	69	242	98	712	1,121
Disposals	-261	-435	-299	-3	-998
Cost as of 31 December	5,100	7,844	1,804	811	15,559
Depreciation and impairment losses as of 1 January	2,365	5,025	1,319		8,709
Foreign exchange adjustments in foreign companies	-26	-2	-25		-53
Transfers	-87	87			
Depreciation	186	843	164		1,193
Impairment	7				7
Disposals	-175	-404	-224		-803
Depreciation and impairment losses as of 31 December	2,270	5,549	1,234		9,053
Carrying amount as of 31 December	2,830	2,295	570	811	6,506
Hereof assets held under finance leases	2	7	59		68

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 2012				
	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of 1 January	259	2,275	454	242	3,230
Addition through merger with subsidiaries	1,388			16	1,404
Transfers	19	69	319	-407	
Additions		1	18	229	248
Disposals	-2	-92	-5	-1	-100
Cost as of 31 December	1,664	2,253	786	79	4,782
Depreciation and impairment losses as of 1 January	226	1,905	296		2,427
Addition through acquisition of subsidiaries	775				775
Depreciation	41	119	52		212
Disposals	-2	-87	-5		-94
Depreciation and impairment losses as of 31 December	1,040	1,937	343		3,320
Carrying amount as of 31 December	624	316	443	79	1,462
Hereof assets held under finance leases			59		59

	Parent Company 2013				
	Land and buildings	Plant and machinery	Equipment	Assets under construction	**Total**
Cost as of 1 January	1,664	2,253	786	79	4,782
Transfers	19	46	13	-78	
Additions		2	20	148	170
Disposals	-3	-151	-227	-2	-383
Cost as of 31 December	1,680	2,150	592	147	4,569
Depreciation and impairment losses as of 1 January	1,040	1,937	343		3,320
Depreciation	38	103	59		200
Disposals	-3	-143	-156		-302
Depreciation and impairment losses as of 31 December	1,075	1,897	246		3,218
Carrying amount as of 31 December	605	253	346	147	1,351
Hereof assets held under finance leases			54		54

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	
	2012	2013	2012	2013
Raw materials and consumables	139	115	1,641	1,508
Work in progress	99	100	463	458
Finished goods and goods for resale	481	434	1,946	1,883
Inventories	719	649	4,050	3,849
Write-downs of inventories	70	63	431	384
Carrying amount of inventories stated at net realizable value	50	48	376	327
Expensed adjustment of inventories to net realizable value included in cost of sales	5	15	42	75
Cost of goods sold included in cost of sales	4,024	4,117	16,741	16,309

11. Trade receivables

DKKm	Parent Company		Group	
	2012	2013	2012	2013
Trade receivables before provision for bad debts	219	215	4,555	4,595
Provision for bad debts	-10	-9	-151	-170
Trade receivables	209	206	4,404	4,425
Trade receivables due after 1 year			3	11
Trade receivables from subsidiaries	697	662		
Short-term borrowings to subsidiaries	1,801	2,479		
Receivables from subsidiaries	2,498	3,141		
Receivables from associates and joint ventures	2		20	3
Total trade receivables	2,709	3,347	4,424	4,428
Provision for bad debts as of 1 January	-11	-10	-165	-151
Foreign exchange adjustments			-1	7
Change in provisions	-1		-30	-35
Realized loss	2	1	45	9
Provision for bad debts as of 31 December	-10	-9	-151	-170

12. Share capital

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

	Shares	Votes
Bitten & Mads Clausen Foundation, Nordborg, Denmark	46.32%	84.97%
Clausen Controls A/S, Sonderborg, Denmark	25.62%	5.40%
Henrik Mads Clausen, Lake Forrest, USA	10.76%	2.27%
Karin Clausen, Holte, Denmark	7.07%	1.49%

Distribution of shares

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

2013							
A shares			B shares			Total shares	
No.	Nominal value	DKKm	No.	Nominal value	DKKm	No.	DKKm
4,250,000	100 DKK	425.0	5,965,743	100 DKK	596.6	10,215,743	1,021.6

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 rights to 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 capital represented at the general meeting to be adopted.

Dividend per share (DKK)

	2012	**2013**
Proposed dividend per 100 DKK share	39.2	78.3
Dividend paid per 100 DKK share	31.5	39.2

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)

	2012	**2013**
Holding as of 1 January	269,379	89,142
Acquired in the year from employees and the board	104,362	18,584
Acquired from Bitten & Mads Clausen Foundation	16,000	28,902
Sold to the board	-599	-2,450
Capital reduction	-300,000	
Holding as of 31 December	89,142	134,178

The primary purpose of holding treasury shares is to secure the share option programme in Danfoss A/S. The total cost in 2013 for own shares amounts to DKK 164m. (2012: 389m). The total selling price relating to treasury shares amounted to DKK 8m in 2013 (2012: 2m). The Group's holding of treasury shares represents 1.31% (2012: 0.87%) of the Group's share capital. The value of treasury shares held amounts to DKK 464m (2012: 285m).

Capital management

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

13. Provisions

DKKm	Group 2013				
	Warranty	Restruc-turing	Contingent considera-tion	Other	Total
Provisions as of 1 January	537	38	4	278	857
Foreign exchange adjustments etc.	-11	2		-7	-16
Provisions used	-181	-7	-1	-18	-207
Reversal of unused provisions	-83	-3	-2	-6	-94
Additional provisions recognized	196	63		113	372
Provisions as of 31 December	458	93	1	360	912

	Group	
Estimated maturity of above provisions:	**2012**	**2013**
Within 1 year	391	426
Between 1 and 5 years	298	347
After more than 5 years	168	139
	857	912

	Parent Company 2013			
	Warranty	Restruc-turing	Other	Total
Provisions as of 1 January	71	2	40	113
Provisions used	-48	-2	-6	-56
Reversal of unused provisions	-14		-1	-15
Additional provisions recognized	51		20	71
Provisions as of 31 December	60		53	113

	Parent Company	
Estimated maturity of above provisions:	**2012**	**2013**
Within 1 year	72	61
Between 1 and 5 years	22	38
After 5 years	19	14
	113	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 (2012: 60m).

The Group's provision for restructuring mainly relates to expected costs for termination benefits. Contingent consideration consists of earn out 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.

14. Share incentive programmes

In the Danfoss Group, share incentive programmes in Danfoss A/S and the subsidiary Danfoss Power Solutions Inc. are included. The general programmes are described in individual sections.

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

All 40,500 outstanding shares at the end of 2012 were redeemed in connection with the acquisition of the remaining shares in Danfoss Power Solutions Inc.

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:

	2012	**2013**
Share price	3,198	3,460
Expected volatility	36.0%	37.0%
Expected dividends	1.0%	1.0%
Risk-free interest rate	1,2-1,6%	0,6-0,9%
Exercise prices and terms of maturity for the programmes	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 2013 of 3,460 was most recently adjusted at the Annual General Meeting in 2013 and will next be fixed at the Annual General Meeting in 2014.

Share incentive programmes established in 2004 and subsequent programmes
In 2004 and 2007 Danfoss A/S established share incentive programmes for the Board and a warrant programme 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 programme for executive committee members and senior managers. Participation in the 2009 programme was not conditional on the purchase of shares. Also, no minimum RONA level was defined for the programme .

Since Danfoss A/S has an obligation to buy back shares under the share option programmes, 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
		466,578			

14. Share incentive programmes (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	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
Changes in the share price/fair value:						
Options/warrants - exercise price at 1,222					236	1
Options/warrants - exercise price at 1,522					190	1
Options/warrants - exercise price at 1,932					146	4
Options/warrants - exercise price at 1,808					193	2
Warrants - exercise price at 1,100					245	6
						14
Disposal due to subscription of shares:						
Options/warrants - exercise price at 1,222	-467			-300	2,238	-2
Options/warrants - exercise price at 1,522	-467			-3,734	1,938	-8
Options/warrants - exercise price at 1,932	-466			-4,466	1,528	-8
Options/warrants - exercise price at 1,808	-638			-2,551	1,652	-5
Warrants - exercise price at 1,100				-10,400	2,360	-25
	-2,038			-21,451		-48
Exercise/transfer due to retirements:						
Options/warrants - exercise price at 1,222			-1,333	1,093		
Options/warrants - exercise price at 1,522			-1,333	1,093		
Options/warrants - exercise price at 1,932			-2,668	2,428		
Warrants - exercise price at 1,100			-1,550	1,550		
			-6,884	6,164		
Granted options/warrants 31 December:						
Options/warrants - exercise price at 1,222				5,406	2,195	12
Options/warrants - exercise price at 1,522				6,346	1,941	12
Options/warrants - exercise price at 1,932		2,400		23,582	1,689	44
Options/warrants - exercise price at 1,808	150	1,875		4,725	1,646	11
Warrants - exercise price at 1,100				8,600	2,310	20
	150	4,275		48,659		99

The total provision as of 31 December 2013 for 2004 and subsequent share incentive programmes has been calculated at DKK 99m (2012: 133m) and is recognized under current liabilities.

DKKm

Recognition of programmes in the income statement

	2012	2013	2012	2013
	Financial items		Fixed expenses	
Subsidiaries	-16	4	4	3
Parent company	-33	10	5	
The Danfoss Group	-49	14	9	3

15. Deferred tax, etc.

DKKm

Changes in deferred taxes

	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
Deferred taxes as of 1 January, (net) *)	-38	-324	-304	-549
Additions through merger and acquisition of subsidiaries	-91		-25	
Foreign exchange adjustment in foreign companies			-52	-19
Adjustments concerning previous years	8	-16	-9	71
Deferred tax recognized in the income statement	-203	-1	-208	195
Deferred tax recognized in other comprehensive income		1	49	-80
Deferred taxes as of 31 December, (net) *)	-324	-340	-549	-382

*) Liability (-)

Specification of deferred tax

	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
	Deferred tax asset	Deferred tax asset	Deferred tax asset	Deferred tax asset
Intangible assets			116	102
Property, plant and equipment and financial assets	2		196	80
Current assets			233	219
Liabilities	52	63	656	573
Tax loss carry-forwards			685	650
Non-capitalised tax assets re. tax losses			-187	-185
	54	63	1,699	1,439
Set-off within the same legal entities and jurisdiction	-54	-63	-410	-99
Deferred tax assets	0	0	1,289	1,340

	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
	Deferred tax liability	Deferred tax liability	Deferred tax liability	Deferred tax liability
Intangible assets	54	41	1,409	1,263
Property, plant and equipment and financial assets	106	101	349	227
Current assets	17	20	101	68
Liabilities	123	176	311	198
Deferred tax regarding Danish joint taxation	78	65	78	65
	378	403	2,248	1,821
Set-off within the same legal entities and jurisdiction	-54	-63	-410	-99
Deferred tax liabilities	324	340	1,838	1,722

The tax asset related to tax loss carry-forwards of DKK 465m net (2012: 498m) 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 185m (2012: 187m). 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 340m (2012: 324m), DKK 65m (2012: 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 59m(2012: 266m). 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.

16. 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 and Germany there is a tradition for defined benefit plans.
50% of the plans as measured in relation to total pension and healthcare obligations are being reduced and are not open for new employees. The plans still open for new business are mainly located in Danfoss Power Solutions (US) Company and Danfoss Power Solutions GmbH & Co. OHG. Defined benefit plans that are unfunded are mainly located in the subsidiaries Danfoss Bauer GmbH and Danfoss Compressors GmbH. In these companies unfunded plans amount to approximately DKK 341m (2012: 585m). All material defined benefit plans have been computed by independent actuaries.

Plans in which the pension funds are invested in financial instruments are exposed to risk. 42% (2012: 44%) of the funds are invested in shares, which have historically been subject to value fluctuations.

DKKm

The Group's defined benefit plan obligations

	Group	
	2012	**2013**
Present value of provisions	3,128	2,973
Fair value of plan assets	-1,941	-2,085
	1,187	888
The above obligations are recorded as follows in the balance sheet:		
Pension benefit plan assets	17	42
Pension and healthcare plan obligations	1,204	930

Development in the present value of defined benefit plan obligations

	Group	
	2012	**2013**
Provision as of 1 January	2,794	3,128
Foreign exchange adjustments	11	-76
Pension costs for the year	34	37
Calculated interest on plan liabilities	127	115
Actuarial gains(-)/losses from changes in demographic assumptions	12	16
Actuarial gains(-)/losses from changes in financial assumptions	275	-111
Plan participants' contribution liabilities	10	7
Disbursed benefits from the Group	-35	-38
Disbursed benefits from plan assets	-97	-105
Transfer from other long term debt	1	
Disposals through transition to defined contribution plans etc.	-4	
Provision as of 31 December	3,128	2,973

Development in the fair value of plan assets

	Group	
	2012	**2013**
Plan assets as of 1 January	1,704	1,941
Foreign exchange adjustments	16	-65
Calculated interest on plan assets	78	77
Plan participants' contribution asset	10	8
Return for the year on plan assets excluding calculated interest	111	111
Payments by the Group	122	114
Disbursed benefits	-97	-105
Adjustments	1	4
Disposals through transition to defined contribution plans etc.	-4	
Plan assets as of 31 December	1,941	2,085

16. Pension and healthcare obligations (continued)

DKKm

Expenses relating to pension and healthcare obligations

	Group 2012	Group 2013
Pension costs for the year	34	37
Calculated interest on liabilities	127	115
Calculated expected return on assets	-78	-78
Expensed in the income statement as personnel expenses	83	74
Pension costs distributed by function:		
Pension cost stated under cost of sales	10	13
Pension cost stated under selling and distribution costs	8	8
Pension cost stated under administrative expenses	15	15
Pension cost posted under financial items	50	38
	83	74

Estimated maturity of provisions

	Group 2012	Group 2013
Within 1 year	135	137
Between 1 and 5 years	600	596
After more than 5 years	2,393	2,240
	3,128	2,973

Pension plan assets are specified as follows:

	Group 2012	Group 2012	Group 2013	Group 2013
Shares and similar securities	848	44%	869	42%
Listed corporate bonds	538	28%	574	28%
Bonds	455	23%	486	22%
Sundry financial instruments	76	4%	67	3%
Cash and cash equivalents	23	1%	61	3%
Property			16	1%
Other	1	0%	12	1%
	1,941	100%	2,085	100%

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

	Group 2012 Range	Group 2012 Weighted average	Group 2013 Range	Group 2013 Weighted average
Discount rate	1.8-8.0%	4.4%	2.0-9.9%	4.0%
Estimated future salary increase	1.5-6.0%	3.2%	2.0-7.0%	3.6%
Estimated return on plan assets	1.8-6.0%	4.1%	1.5-8.0%	3.9%

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.

16. Pension and healthcare obligations (continued)

DKKm

Sensitivity analysis

	Koncern
	2013
Reported defined benefit liability	2,973
Sensitivity on discount rate:	
Increase in discount rate of 0.5 percentage point affects the defined benefit plan liability by	-194
Decrease in discount rate of 0.5 percentage point affects the defined benefit plan liability by	+216
Sensitivity regarding future salary:	
Increase in future salary increase of 0.5 percentage point affects the defined benefit plan liability by	+55
Decrease in future salary increase of 0.5 percentage point affects the defined benefit plan liability by	-54
Sensitivity on average life expectancy:	
Increase in average life expectancy of 1 year affects the defined benefit plan liability by	-104
Decrease in average life expectancy of 1 year affects the defined benefit plan liability by	+103

17. 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 28. Accounting policies.

Currency exposure

Currency exposure consists of three elements:

1. *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.
2. *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.
3. *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 2013	Expected effect on cash flow in 2014
DKK/EUR	10%	103	114
DKK/USD	10%	24	3
DKK/GBP	10%	10	6

The amounts are based on the exchange rate of 31 December 2013 and expected net cash flow in 2014 in foreign currency. In this context, financial instruments recognized as of 31 December 2013 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:

	Parent Company		**Group**	
Overdue by:	**2012**	**2013**	**2012**	**2013**
Up to 30 days	4	2	91	74
From 30 to 90 days	6	6	101	73
More than 90 days			15	13
	10	8	207	160

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

17. 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:

	Parent Company				Group			
	2012		2013		2012		2013	
DKKm	Income Statement	Equity	Income Statement	Equity	Income Statement	Equity	Income Statement	Equity
Cash and debt with floating interest rates	-4	-4	-10	-10	-12	-12	-5	-5
Hedge instruments (interest swaps)		24		53		24		53
	-4	20	-10	43	-12	12	-5	48

A 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 2013. In 2013, 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 2013, Danfoss' liquidity reserve in the form of unused non-terminable long-term credit facilities was recorded at 5.8 bn DKK (2012: 6.0bn). 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 Danfoss Group's loan agreements comprise no financial covenants.

The major part of the Group's cash and cash equivalents of DKK 737m (2012: 888m) is placed on short-term deposit with an interest rate below 1% p.a.

The Group's debt categories and maturities

	Group					Group				
	2012					2013				
			Maturity					Maturity		
	Carrying amount	Contractual cashflow	0-1 year	1-5 years*)	Over 5 years	Carrying amount	Contractual cashflow	0-1 year	1-5 years*)	Over 5 years
Non-derivative financial liabilities:	6,356	6,965	3,291	898	2,776	7,932	8,424	4,897	1,320	2,207
Derivative financial liabilities:	79	68	47	21		21	35	25	10	
	6,435	7,033	3,338	919	2,776	7,953	8,459	4,922	1,330	2,207

*) 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 23. Contingent liabilities assets and security.

The above debt is recorded as follows:	Group	
	2012	**2013**
Non-current liabilities	3,202	3,109
Current liabilities	3,233	4,844
	6,435	7,953

17. Financial risks and instruments (continued)

DKKm

Financial instruments by category

	Group		Group	
	2012	**2012**	**2013**	**2013**
	Carrying amount	Fair value	Carrying amount	Fair value
Other investments	28	28	32	32
Financial assets available-for-sale	**28**	**28**	**32**	**32**
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	53	53	18	18
Derivative financial instruments for the hedging of future cash flows	45	45	39	39
Financial assets used as hedging instruments	**98**	**98**	**57**	**57**
Trade receivables	4,404	4,404	4,425	4,425
Other receivables	685	685	673	673
Cash and cash equivalents	888	888	737	737
Loans and receivables	**5,977**	**5,977**	**5,835**	**5,835**
Interest-bearing debt	3,746	3,673	4,899	4,854
Trade payables and other debt	5,326	5,326	5,847	5,847
Financial liabilities measured at amortized cost	**9,072**	**8,999**	**10,746**	**10,701**
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities	1	1		
Derivative financial instruments for the hedging of future cash flows	75	75	19	19
Financial liabilites used as hedging instruments	**76**	**76**	**19**	**19**
Derivative financial instruments for financial hedging	3	3	2	2
Financial liabilities measured at fair value via the income statement	**3**	**3**	**2**	**2**

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 2012.

17. Financial risks and instruments (continued)

Fair value hierarchy as of 31 December for the Group

	Group 2012				Group 2013			
	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:								
Other investments			28	28			32	32
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		53		53		18		18
Derivative financial instruments for the hedging of future cash flows		45		45		39		39
Total financial assets		98	28	126		57	32	89
Financial liabilities:								
Derivative financial instruments for the hedging of the fair value of recognized assets and liabilities		1		1				
Derivative financial instruments for the hedging of future cash flows		75		75		19		19
Derivative financial instruments for financial hedging	3			3	1	1		2
Total financial liabilities	3	76		79	1	20		21

Financial instruments measured at fair value based on Level 3

	Group 2012	Group 2013
	Other invest-ments Level 3	Other invest-ments Level 3
Carrying amount as of 1 January	30	28
Gain/loss (-) in the income statement	-4	2
Purchase	2	2
Carrying amount as of 31 December	28	32
Gain/loss (-) in the income statement for assets owned as of 31 December	-4	2

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

17. Financial risks and instruments (continued)

Derivatives as of 31 December for the Group

	Group 2012						Group 2013					
	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
USD	1,782	20	19		1		230	41	13	28		
EUR	1,699	6	4		2		363	3	4	-1		
Other currencies	669	8	-2	10			391	9		9		
Forward exchange contracts		34	21	10	3			53	17	36		
Interest swaps		-67		-18	-49			-17	-1		-16	
Other derivatives		-4	-3	-1				-1	-1			
Derivatives end of year		-37	18	-9	-46			35	15	36	-16	

At the end of 2013, unrealized gain/loss(-) on derivatives recognized in equity amounted to DKK 20m (2012: -55m).

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 1m was taken to income in 2013 (2012: 0m) as a consequence of testing for effectiveness.

17. 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 1m (2012: 9m) 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 2012					Parent Company 2013				
			Maturity					Maturity		
	Carrying amount	Contractual cash flow	0-1 year	1-5 years *)	Over 5 years	Carrying amount	Contractual cash flow	0-1 year	1-5 years *)	Over 5 years
Non-derivative financial liabilities	8,675	9,182	5,881	729	2,572	10,754	11,186	7,924	1,255	2,007
Derivative financial liabilities	76					20				
	8,751	9,182	5,881	729	2,572	10,774	11,186	7,924	1,255	2,007

*) 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 23. Contingent liabilities assets and security.

The above debt is recorded as follows:	**Parent Company**	
	2012	**2013**
Non-current liabilities	2,887	2,898
Current liabilities	5,864	7,876
	8,751	10,774

17. Financial risks and instruments (continued)

DKKm

Financial instruments by category

	Parent Company		Parent Company	
	2012	2012	2013	2013
	Carrying amount	Fair value	Carrying amount	Fair value
Other investment	29	29	31	31
Financial assets available-for-sale	**29**	**29**	**31**	**31**
Derivative financial instruments for the hedging of future cash flows	25	25		
Financial assets used as hedging instruments	**25**	**25**		
Trade receivables	209	209	206	206
Trade receivables from subsidiaries	2,499	2,499	3,141	3,141
Other receivables	98	98	116	116
Cash and cash equivalents	9	9	1	1
Loans and receivables	**2,815**	**2,815**	**3,464**	**3,464**
Derivative financial instruments for financial hedging	64	64	38	38
Financial assets, measured at fair value in the income statement	**64**	**64**	**38**	**38**
Interest-bearing debt	3,182	3,121	4,499	4,471
Debt to subsidiaries	5,029	5,029	5,698	5,698
Trade payables and other debt	1,130	1,130	1,234	1,234
Financial liabilities measured at amortized cost	**9,341**	**9,280**	**11,431**	**11,403**
Derivative financial instruments for the hedging of future cash flows	73	73	18	18
Financial liabilites used as hedging instruments	**73**	**73**	**18**	**18**
Derivative financial instruments for financial hedging	3	3	2	2
Financial liabilities measured at fair value in the income statement	**3**	**3**	**2**	**2**

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 2012.

Fair value hierarchy as of 31 December for the Parent Company

	Parent Company 2012				Parent Company 2013			
	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	In total	Quoted prices Level 1	Observable input Level 2	Non-observable input Level 3	In total
Financial assets:								
Other investments			29	29			31	31
Derivative financial instruments for the hedging of future cash flows		25		25				
Derivative financial instruments for financial hedging		64		64		38		38
Total financial assets		89	29	118		38	31	69
Financial liabilities:								
Derivative financial instruments for the hedging of future cash flows		73		73		18		18
Derivative financial instruments for financial hedging	3			3	1	1		2
Total financial liabilities	3	73		76	1	19		20

17. Financial risks and instruments (continued)

Financial instruments measured at fair value based on Level 3

	Parent Company	
	2012	**2013**
	Other investments Level 3	Other investments Level 3
Carrying amount as of 1 January	37	29
Gain/loss (-) in the income statement	-10	1
Purchase	2	1
Carrying amount as of 31 December	29	31
Gain/loss (-) in the income statement for assets owned as of 31 December	-10	1

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

Derivative financial instruments as of 31 December for the parent company

	Parent Company 2012						**Parent Company 2013**					
	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
USD	1,415	19	22	-3			-46	28	28	1	-1	
EUR	1,586						248					
Other currencies	669	8	8				391	10	10			
Forward exchange contracts		27	30	-3				38	38	1	-1	
Interest swaps		-67		-18	-49			-17	-1		-16	
Other derivatives		-5	-5					-2	-2	-1	1	
Derivatives end of year		-45	25	-21	-49			19	35		-16	

At the end of 2013, total deferred gains and losses on derivatives recognized in equity amounted to DKK -16m (2012: -70m).

18. Corporation tax payable

DKKm	Parent Company		Group	
	2012	2013	2012	2013
Corporation tax payable/receivable (-) as of 1 January	80	237	20	-115
Foreign exchange adjustment in foreign companies			-39	-29
Paid during the year	-192	-487	-925	-1,171
Adjustments concerning previous years	243	43	-23	106
Disposals through sale of subsidiaries			1	
Current tax expenses in income statement	98	315	804	1,129
Current tax expenses in other comprehensive income	8	14	47	57
Corporation tax payable/receivable (-) as of 31 December	237	122	-115	-23
The above corporation tax is recorded as follows:				
Assets			507	266
Liabilities	237	122	392	243
	237	122	-115	-23

19. Adjustment for non-cash transactions

DKKm	Parent Company		Group	
	2012	2013	2012	2013
Depreciation/amortization and impairment	297	268	1,983	1,680
Gain(-)/loss on disposal of tangible assets and business activities	-2	-4	-295	-8
Share of profit from associates and joint ventures after tax			2	-8
Financial income	-1,009	-2,534	-93	-33
Financial expenses	403	298	514	402
Other, including provisions	-206	281	-347	254
	-517	-1,691	1,764	2,287

20. Change in working capital

DKKm	Parent Company		Group	
	2012	2013	2012	2013
Change in inventories	13	55	592	-28
Change in receivables	992	-56	-115	-359
Change in trade payables and other debt	-47	196	61	683
	958	195	538	296

21. Acquisition and sale of subsidiaries and activities

DKKm	Group		Group	
	2012	2013	2012	2013
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible assets, except goodwill	-225		91	
Property, plant and equipment	-40		5	
Other non-current assets, including deferred tax assets	-17		8	
Inventories	6		24	
Receivables	-45		27	
Cash and cash equivalents	-34		11	
Interest-bearing debts			-12	
Provisions, including deferred tax liabilities	67		-2	
Trade and other payables	58		-30	
Net assets acquired	-230		122	
Goodwill(-)/profit on disposal	-562		12	-3
Consideration paid(-)/received	-792		134	-3
Fair value of previous ownership interests	343			
Fair value of acquired ownership interests	-449			
Cash and cash equivalents	34		-11	
Net consideration paid(-)/received	-415		123	-3
Net consideration paid(-)/received is composed of the following:				
Cash and cash equivalents	-415		224	
Payable/receivable, 1 January			-213	-2
Receivable, adjustment			110	-1
Payable/receivable, 31 December			2	0
	-415		123	-3

The Group neither acquired nor sold any subsidiaries or activities in 2013.

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 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. Acquisitions and sales in 2012 are specified below.

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

Acquisition and sale of subsidiaries and activities:

2012

Company/activity		Country	Income statement consoli-dated from/until	Holding acquired/ sold	Net sales per year DKK m *)	No. of employees	Conside-ration 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.

Parent Company

DKKm	Parent Company		Parent Company	
	2012	**2013**	**2012**	**2013**
	Acquisitions	Acquisitions	Disposals	Disposals
Investments in subsidiaries	-489	-3,949	57	205
Net assets acquired	-489	-3,949	57	205
Goodwill(-)/profit on disposal			23	547
Net consideration paid(-)/received	-489	-3,949	80	752
Net consideration paid(–)/received is composed of the following:				
Cash and cash equivalents	-489	-3,949	73	750
Receivable as of 1 January			10	1
Receivable, adjustment			-2	
Receivable as of 31 December			-1	1
	-489	-3,949	80	752

The parent company's capital increase and aquisition of undertakings and activities amounting to DKK -3,949m (2012: -489m) primarily concerns the aquisition of the remaining shares in Sauer-Danfoss Inc. and capital increases.
The parent company's disposal of enterprises and activities of DKK 752m (2012: DKK 80m) primarily relates to the intercompany disposal of OOO Danfoss, Istra, Russia.

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

DKKm	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
Sale of shares and other securities	7	30	11	14
Purchase of shares and other securities	-2	-1	85	
	5	29	96	14
Increase/decrease of lending	1,531	-669	-57	73
	1,536	-640	39	87

23. Contingent liabilities, assets and security

DKKm

Security

	Parent Company		Group	
	2012	2013	2012	2013
Carrying amount of land and buildings pledged as security for bank loans and mortgages	608	591	727	706
Leasing assets pledged as security for leasing commitments	59	54	72	66
Secured loans from financial institutions	1,095	1,090	1,337	1,283

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.
Civil lawsuits against Danfoss are still pending in Europe, 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	
Operating lease payments fall due as follows:	2012	2013	2012	2013
Buildings:				
Less than 1 year	14	15	149	198
Between 1 and 5 years	49	46	408	522
More than 5 years	65	61	444	318
Equipment etc.:				
Less than 1 year	29	36	188	160
Between 1 and 5 years	32	42	326	190
More than 5 years			29	5

The Group expensed DKK 446m in operating lease payments in 2013 (2012: 366m) and they relate mainly to buildings and equipment. There were no significant contingent lease payments in 2013 or 2012.

Operating leases (lease income)

	Parent Company		Group	
Operating lease receivables fall due as follows:	2012	2013	2012	2013
Less than 1 year	60	58	16	14
Between 1 and 5 years	182		9	9
More than 5 years	18			5

The Group recognized operating lease income of DKK 47m in 2013 (2012: 42m). 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	
	2012	2013	2012	2013
Service contract commitment other than leases	186	263	300	412
Inventories	184	165	375	336
Property, plant and equipment		19	107	241
Hereof commitments relating to 2014	281	338	638	817

24. Related parties

Danfoss A/S' related parties comprise Bitten & Mads Clausen Foundation and other shareholders with significant ownership interests, cf. note 12. 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 46.32% of the shares in Danfoss A/S and controls 84.97% 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 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 to the Danfoss Group does not exceed DKK 25m (2012: 25m). In the financial year, Bitten & Mads Clausen Foundation sold shares in Danfoss A/S at a value of DKK 100m back to the company. 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 2013 (2012: 2m). In 2013, the Group sold its portion of the shares in the joint venture AqSep A/S to a company owned by Peter M. Clausen. Besides that, companies in which Peter M. Clausen and Jørgen M. Clausen have significant ownership interests have sold goods and services of less than DKK 5m (2012: 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 14. Share incentive programmes.

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	
	2012	**2013**	**2012**	**2013**
Non-current assets	169	19	169	19
Current assets	281	125	281	127
Total assets	450	144	450	146
Non-current liabilities	23	1	23	1
Current liabilities	277	45	277	44
Total liabilities	300	46	300	45
Equity	150	98	150	101
Net sales	987	229	987	234
Expenses	996	208	996	214
Net profit	-9	21	-9	20

Associates:	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
Total assets	22	16	22	16
Total liabilities	15	10	15	10
Equity	7	6	7	6
Net sales	44	25	44	25
Expenses	36	24	36	24
Net profit	8	1	8	1

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

24. Related parties (continued)

DKKm

Transactions with joint ventures and associates:

	Parent Company		Group	
	2012	**2013**	**2012**	**2013**
Sales of goods and services	5	3	21	21
Purchases of goods and services	10	2	247	91

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 expensesand 17. Financial risks and instruments.

Transactions between the Parent Company and the subsidiaries:

	Parent Company	
	2012	**2013**
Sales of goods and services	6,592	6,813
Purchases of goods and services	2,777	2,871
Purchases of intangible assets and property, plant and equipment	12	
Disposal of intangible assets and property, plant and equipment	6	8

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 17. Financial risks and instruments.

25. Events after the balance sheet date

Danfoss and SMA Solar Technology AG, the world's largest manufacturer of solar inverters, signed letter of intent on February 26, 2014 to create a close strategic partnership. Under the agreement, Danfoss will acquire 20% of the shares in SMA, representing an investment of almost DKK 2.3bn. Subject to final approval, SMA will assume the rights to all Danfoss solar products, as well as sales and service.

The agreement is subject to regulatory approval, which is expected to be obtained in the third quarter of 2014. The agreement is not expected to have a significant influence on the 2014 financial results.

26. Basis of preparation

Danfoss A/S is a public limited company domiciled in Denmark. The Annual Report for the period January 1-December 31, 2013, comprises the consolidated financial statements of Danfoss A/S and its subsidiaries (the group) and separate financial statements of the parent company, 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 the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements pursuant to the Danish Financial Statements Act.

The Board of Directors and the Executive Committee reviewed and approved the Annual Report 2013 on March 12, 2014, and it will be presented for approval at the Annual General Meeting to be held on April 25, 2014.

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

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

The accounting policies, which are described in note 28. *Accounting policies*, have been consistently applied in respect of the financial year and the comparative figures.
The accounting policies are consistent with those applied in the previous year except for the following changes:

Changes in accounting policies
Danfoss A/S has implemented the standards and interpretations that have taken effect for 2013. In addition, Danfoss has prospectively implemented Amendments to IAS 36 "Impairment of Assets". Other than as set out below, none of those standards and interpretations have affected recognition and measurement in 2013, nor are they expected to have a material effect on Danfoss A/S in future.

Under the amendments to IAS 19 “Employee Benefits” effective for 2013, the expected return on plan assets must be calculated as a net amount for all asset types in the pension plan at the same rate of interest as applied for the expected developments in pension liabilities for the year. The calculation of the end-of-year value of plan assets is unchanged to the effect that the amendment results only in the return for the year being distributed differently between the income statement and other comprehensive income. This amendment has reduced the profit for the year by DKK 18 million relative to the accounting policies applied for 2012.

In addition, effective from 2013, Danfoss classifies the interest component relating to the defined benefit plans as financial items, whereas in prior years it was recognized under cost of sales, selling and distribution costs or administrative expenses.
This reclassification has been restated in the comparative figures for 2012 to the effect that operating profit (EBIT) amounted to DKK 3,769m for 2012, versus DKK 3,745m in the Annual Report 2012. For 2013, operating profit was DKK 38m higher than if the classification had been unchanged from the Annual Report 2012.

For financial years starting on or after January 1, 2013, the recoverable amounts of each cash-generating unit must be disclosed if the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to the unit in question is significant compared to the total carrying amount of goodwill or of intangible assets with indefinite useful lives.

Amendments to IAS 36 of May 2013 change the disclosure requirement to the effect that, as from January 1, 2014, only information about the recoverable amount per cash-generating unit must be disclosed when a write-down is made.

Danfoss has prospectively implemented Amendments to IAS 36 in accordance with the commencement provisions of the standard.

New financial reporting regulations
A number of standards and interpretations have been issued that are not mandatory for Danfoss A/S in the preparation of the Annual Report for 2013. None of these are expected to materially affect the financial reporting of Danfoss A/S.

27. 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, provisions and 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 28, 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 expiration date of the losses. Please see note 15, *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, further provisions may be required in future accounting periods. Provisions for bad debts are disclosed in note 11. *Trade receivables.*

27. Critical accounting estimates and judgements (cont.)

Provisions
As part of its normal business policy, Danfoss 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.

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 13, *Provisions* and note 23, *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 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 14. *Share incentive programs*.

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 16, *Pension plans and health care obligations*.

28. 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 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.

28. Accounting policies (cont.)

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, in accordance with the structure in the internal financial reporting, 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.

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. 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 minorityshareholders.

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.

28. Accounting policies (cont.)

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 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.

Research and development
Research and development costs include costs that do not qualify for capitalization including costs like wages and salaries and consumables.

Selling and distribution costs
Distribution costs comprise costs related to distribution of products sold during the year and sales staff, advertising and exhibition expenses 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 expenses 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 expenses.

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.

28. Accounting policies (cont.)

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 feasibility, sufficient resources and a potential future market or utilization opportunity within 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 typically 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 construction costs. 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

28. Accounting policies (cont.)

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, development 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 acquisitions, 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.

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. If the recoverable amount is lower than cost, investments are written down to this lower value.

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.

28. Accounting policies (cont.)

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.

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.

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.

28. Accounting policies (cont.)

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 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 fair values 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 14. *Share incentive programs*. 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.

28. Accounting policies (cont.)

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.

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.

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.

28. Accounting policies (cont.)

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 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 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 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 dividend and paid corporation taxes.

Cash and cash equivalents

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

28. Accounting policies (cont.)

Segment information

The segment information applies to the internal management reporting and is prepared according to the group's accounting policies.

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 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.

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.
Operating profit excluding other operating income and expenses/Net sales

EBIT margin
Operating profit (EBIT)/Net sales

EBITDA margin
EBITDA/Net sales

EBITDA margin excluding other operating income ect.
Operating profit before depreciation, amortization, impairment and other operating income and expenses/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) before depreciation, amortization and impairment

Dividend pay-out ratio
Total dividends distributed to shareholders/Net profit