



# Half-year report 2010

Danfoss is a global industrial group which focuses on supplying energy-efficient and climate-friendly solutions for a number of selected industries. The group is a world leader within research, development, production, sales and service of mechanical and electronic products for use in the refrigeration and air-conditioning industry, the indoor comfort and heating sector, and a wide range of industries where energy consumption plays a vital role. The Danfoss Group's activities are divided into three segments. Danfoss' fully-owned core businesses are consolidated in the Danfoss Climate & Energy segment. Meanwhile, Danfoss Development includes the activities that will undergo planned strategic reassessment over the next few years in preparation for divestment, joint ventures or other forms of alliances. Sauer-Danfoss is the third segment – Danfoss is the controlling shareholder in the publicly listed Sauer-Danfoss, one of the world's leading producers and suppliers of mobile hydraulics. Danfoss strives to reach its targets through the least possible consumption of raw materials and energy, the least possible impact on the surroundings and an efficient utilisation of resources. Danfoss has a long tradition of social responsibility towards employees and the external environment.





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*"The positive development of the first quarter was enhanced in the second quarter, and we end the half year with strong growth in net sales and earnings. We are therefore making an upward adjustment of our expected earnings in the amount of 400m DKK. Our climate and energy solutions have been in great demand in all our core business areas, and Sauer-Danfoss has also been a major contributor to our growth. The biggest improvements took place in the BRIC countries where our considerable investments are beginning to have a noticeable effect on corporate growth levels. The drastic restructuring of our business, that was launched with our new strategy at the beginning of 2010, along with tight cost control and improved capacity utilisation, have significantly improved our earnings. We are very pleased with this trend and we believe that the Danfoss Group can be said to have recovered from the financial crisis and its ramifications, even though we still have a number of strategic measures ahead of us."*

Niels B. Christiansen, President and CEO, Danfoss A/S

## Highlights from the first half year of 2010:

- **Net sales** were 15.8bn DKK, which equals growth of 25%. When adjusted for acquisitions, divestments and foreign currency translations, growth was 23%, compared with a decrease of -23% the year before.
- **The profit before other income and expenses** was 1,219m DKK, compared with a loss of 660m DKK in 2009.
- **The operating profit (EBIT)** was 1,166m DKK, compared with a loss of 1,250m DKK the year before.
- **The profit before tax** was 1,074m DKK, compared with -1,457m DKK the year before.
- *Despite extensive growth and in contrast to Danfoss' historical performance, **the free cash flow** was 116m DKK, compared with -126m DKK in 2009.*

## Expectations for 2010:

As a result of the developments in the first half-year, Danfoss maintains expectations for the entire accounting year while making an upward adjustment of earnings.

- Therefore, net sales are expected to be between 27bn and 28bn DKK. However, we estimate that a continued positive development at Sauer-Danfoss and Danfoss Climate & Energy will mean that Danfoss will exceed these expectations. The next months' peak season at Danfoss Heating Solutions and Danfoss District Energy will give conclusive hints as to whether these sectors have finally recovered from the impact of the financial crisis.
- The EBIT is expected to be between 1.4bn and 1.8bn DKK (previously 1.1-1.4bn DKK).

These expectations do not include the impact of divestments or acquisitions of companies/activities.

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## Financial Highlights

Mill. DKK (unless otherwise stated)  
All quarterly figures are unaudited.

	Q2 2009	Q2 2010	Change in %	Q2 2009 YTD	Q2 2010 YTD	Change in %	2009
<b>Profit and loss accounts:</b>							
Net sales	6,110	8,634	42%	12,620	15,752	25%	25,653
Operating profit added depreciations, amortisations and impairments (EBITDA)	-324	1,341	***	-262	2,214	***	1,058
Operating profit excl. other income and expenses	-281	824	***	-660	1,219	***	-270
Operating profit (EBIT)	-802	782	***	-1,250	1,166	***	-1,990
Income from associates and joint ventures	-18	15	***	-25	21	***	-37
Financial income/expenses	-75	-54	-28%	-182	-113	-38%	322
Profit before tax (EBT)	-895	743	***	-1,457	1,074	***	-1,705
Net profit	-634	525	***	-1,032	780	***	-1,402
Real growth in %	-23%	37%		-20%	23%		-12%
<b>Balance sheet:</b>							
Total non-current assets				21,028	19,882	-5%	19,289
Assets				31,736	32,173	1%	28,642
Total shareholders' equity				10,529	11,357	8%	10,055
Net interest-bearing debt				10,201	9,719	-5%	9,301
Net assets				20,327	20,687	2%	18,995
Capital expenditure	212	197	-7%	519	463	-11%	1,009
<b>Cash flow statement:</b>							
Cash flow from operating activities				462	461	0%	2,721
Cash flow from investing activities hereof net investments of intangible/tangible assets				-588	-345	-41%	-1,936
				-476	-227	-52%	-937
hereof net investments in companies				1	-135	***	-894
Free Cash flow				-126	116	***	785
Free cash flow before M&A				-76	259	***	1,727
Cash flow from financing activities				209	-16	***	-741
<b>Key figures:</b>							
Number of employees (end of period)				27,152	26,152	-4%	25,740
EBIT margin excl. other operating income etc.	-4.6%	9.5%	14.1	-5.3%	7.7%	13.0	-1.1%
EBIT margin	-13.2%	9.1%	22.3	-10.0%	7.4%	17.4	-7.8%
EBITDA margin	-5.3%	15.5%	20.8	-2.1%	14.1%	16.2	4.1%
RONA <sup>1)</sup>	-3.8%	3.9%	7.7	-6.0%	5.9%	11.9	-9.9%
Return on equity				-11.3%	7.2%	18.5	-13.0%
Equity ratio				26.7%	29.3%	2.6	28.9%
Leverage ratio				96.9%	85.6%	-11.3	92.5%
Net interest bearing debt to EBITDA ratio <sup>2)</sup>				7.3	2.7	-4.6	5.3

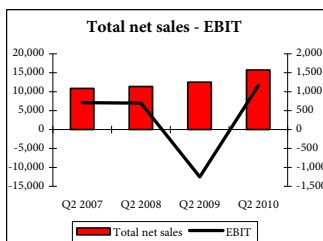
1) RONA (Return On Net Assets)  
Result of operating profit as percentage of  
Net assets are total assets deducting

2) EBITDA excl. other operating income and expenses

## Danfoss makes an upward adjustment of earnings

**As a result of the first measures in the group's new strategy and increasing growth after the financial crisis has subsided, the Danfoss Group's earnings have increased in the first half year of 2010.**

The Danfoss Group witnessed an increased demand for the group's products and services for the climate and energy area in the first half-year. The group had growth in net sales of 25%, to 15,752m DKK from 12,620m DKK last year. When adjusted for acquisitions, divestments and foreign currency translations, growth amounted to 23%, compared with a fall of 23% in the same period the year before. Danfoss Climate & Energy (covering Danfoss' core businesses) grew by 20%, Danfoss Development grew by 18%, whereas growth in Sauer-Danfoss was 30%.



In the first half-year, sales on the group's markets exceeded expectations and, in particular, the second quarter developed very positively. At the same time, market shares were gained on several markets. The European market once again had double-digit growth rates and the important German market, in particular, drove growth. Sales on the American market also showed decent growth rates. However, the BRIC countries (Brazil, Russia, India and China) continue to have the highest growth rates. The Chinese market had very high growth throughout the half-year. All of the divisions in Danfoss Climate & Energy contributed to the growth increase in net sales and earnings. The group's sales to the construction industries, which are sensitive to financial trends, are still influenced by the low activity level and reluctance caused by the financial crisis. The divisions, which particularly service these markets, have their peak season in the remaining months of 2010, so sales in this period will prove whether the financial crisis has actually released its hold.

***"The investments that we have made at Danfoss Solar Inverters are really beginning to make a positive contribution to the business. The company's growth in sales clearly exceeds expectations and we expect the business to grow further in the years to come."***

***Kim Fausing,  
Executive Vice  
President***

With decent growth in both net sales and earnings, Sauer-Danfoss had an excellent half-year result. The major demand from customers, combined with the results of the extensive adjustment of costs in 2009, led to a substantially improved profitability for the company. As a result of the positive developments during this half-year, the Sauer-Danfoss management has made an upward adjustment of the expectations for both net sales and profit for the whole of 2010.

Danfoss has focused and will continue to focus on generating a substantial positive cash flow. The purpose is, not least, to reduce the group's debt, and will be achieved through an increase of the group's profit and maintenance of a tight control of the working capital. In the first half-year, these measures had a positive effect on the group's cash flow, resulting in a profit of 116m DKK.

The restructuring activities implemented in 2009, the tight cost control and the improved capacity utilisation have had a particularly positive impact on the group's profitability. This trend is expected to continue over the coming quarters, even though it will not be at quite the same level as in the first half-year.

**The result before other income and expenses** was 1,219m DKK, compared with -660m DKK the year before.

**The operating profit (EBIT)** was 1,166m DKK, compared with -1,250m DKK in 2009. As previously mentioned, the clearly improved earnings were caused by the restructuring activities, improved capacity utilisation and tight cost control.

**The profit before tax** was 1,074m DKK, compared with -1,457m DKK the year before. **The profit after tax** was 780m DKK, compared with -1,032m DKK in the year before. The result is considered satisfactory.

#### Balance sheet and cash flows

The equity was 11,357m DKK, compared with 10,055m DKK at the end of 2009. The increase in equity was primarily due to the recognition of the positive quarterly result. The total amount of assets amount to 32,173m DKK, compared with 28,642m DKK at the end of 2009.

**The net interest-bearing debt** was 9,719m DKK, compared with 10,201m DKK the year before. The present net interest-bearing debt corresponds to 2.7 x the latest four quarters' EBITDA, which is a very satisfactory development.

It is Danfoss' policy to dispose of considerable long-term financial resources. On June 30 2010, the group had unused irredeemable credit commitments, including cash funds, amounting to 5.4bn DKK, compared with 3.5bn DKK the year before.

#### Cash flow

The free cash flow, which is a combination of cash flow from operating activities of 461m DKK and cash flow from investing activities of -345m DKK, despite extensive growth and in contrast to Danfoss' historical performance, was 116m DKK, compared with -126m DKK in 2009. The free cash flow before acquisitions and divestment of activities was 259m DKK, compared with -76m DKK in 2009.



In the first half-year of 2010, Danfoss spent 3.3% (514m DKK) on research and development, compared with 5.2% (656m DKK) the year before. The scope of investments is in line with the implemented plans set out in the new strategy, in that the investments in the core businesses in Danfoss Climate & Energy have increased compared to the level of 2009. At the same time, Sauer-Danfoss has adjusted its research and development costs to better match the new market situation.



## **Changes in employee numbers**

At the end of the half-year, the Danfoss Group had 26,152 employees, a decrease of 1,000 compared with 2009. The employees are distributed as follows: 11,012 in Europe, excl. Denmark (2009: 11,788); 3,713 in North America, incl. Mexico (3,787); Latin America 396 (376); 4,581 in Asia-Pacific, incl. China (3,694); and 61 in other regions (65). In Denmark, 6,389 were employed at the end of the half-year, compared with 7,442 the year before.

## **Risk management**

Please refer to the Danfoss Annual Report 2009, page 23, for details about the Danfoss Group's risk management and reporting.

## **Competition case**

On February 17 2009, representatives of the European Commission Directorate General for Competition paid an unannounced visit to Danfoss in Nordborg, Flensburg and Turin, Italy. Simultaneously, two of Danfoss' companies in the USA received a federal grand jury subpoena (a request for information) from the US Department of Justice. The reason was the suspicion of illegally entered pricing agreements and illegal exchange of information between competitors within the household compressor market. The Brazilian competition authorities have indicated that they have initiated a formal procedure based on similar alleged illegal issues.

The competition authorities in Mexico, New Zealand and Chile have also approached Danfoss and requested information about household compressors. It cannot be ruled out that competition authorities in other countries will also initiate similar investigations.

A number of collective lawsuits have been brought against manufacturers of household compressors, in particular, in the USA. Consequently, Danfoss companies located in the USA have been sued. All collective lawsuits have been consolidated in one single lawsuit at the court in Michigan. The claimants maintain to have suffered losses as a result of the alleged illegal pricing agreements concerning household compressors, for which they demand compensation. A similar action for damages has been brought in Canada.

Danfoss is cooperating with the authorities to clarify the alleged issues.

On the basis of Danfoss' own internal investigations, it can no longer be ruled out that employees, outside the knowledge of top management and contrary to Danfoss' own internal rules, have taken part in actions which could constitute a violation of the EU's competition law. Therefore, Danfoss has taken precautions and has dealt with the issues.



Consequently, at present, it cannot be ruled out that the said employees' irregular activities could lead to the European Commission taking action against Danfoss. However, Danfoss does not currently have any knowledge about the European Commission's conclusion or that of other competition authorities.

### **Events after the end of the quarter**

In July, Danfoss announced that the production of standard products for the electrical floor heating market will be relocated from Vejle, Denmark to Poland. The relocation is expected to be carried out at the beginning of 2011 and it will affect 49 employees.

Also in July, Danfoss announced that an agreement had been entered into with German AURELIUS regarding the sale of Danfoss Household Compressors. Danfoss Household Compressors has approx. 3,000 employees and net sales of approx. 3bn DKK. The sale, which must obtain the approval of various competition authorities, covers all of Danfoss Household Compressors' activities in Germany, China, Slovenia and Slovakia. The final transfer is expected to take place within the next few months.

Danfoss sold the company KH Nordtherm to the company management, with effect from August 1. The company's net sales in 2009 were 36m DKK and it employs 20 people.

In August, Danfoss announced that the production of Danfoss Chatleff distributor products will be relocated to Danfoss' facility in Monterrey, Mexico. The production facility in Buda, USA will be closed down by the end of 2010 and the relocation will affect 120 employees.



## **Corporate Citizenship**

(at Danfoss, excluding Sauer-Danfoss)

### **Resource consumption and CO<sub>2</sub> emissions**

Danfoss wants to reduce the CO<sub>2</sub> emissions from energy consumption and the transportation of finished goods by 25% before 2025. The target is in absolute figures and is measured in proportion to 2007 emissions, which is the base year of the group's climate strategy.

Danfoss' total energy consumption increased in the first half-year by 8%, whereas the CO<sub>2</sub> emission increased by 16% compared to the same period the year before. The primary reason is the increased net sales and, consequently, the increased consumption of energy at the factories in China, Poland and Mexico, where the CO<sub>2</sub> emissions caused by the generation of energy is at a higher than average level in the countries where Danfoss' factories are located. The current energy-saving projects implemented at selected factories continued in the first half-year and the set targets regarding CO<sub>2</sub> emissions are expected to be reached.

For the second consecutive year, Danfoss has reported its emission of CO<sub>2</sub> to the international climate organisation Carbon Disclosure Project's Supply Chain programme ([www.cdproject.net](http://www.cdproject.net)). In 2009, Danfoss' score was 55 on a scale of 100. The average score of all of the 710 reporting companies under the programme was 39.

### **Responsible supplier management**

In the second quarter, Danfoss set up a Code of Conduct Audit office in the rapidly growing Chinese market, where the group has a wide range of suppliers. The office is set to continue its work to ensure ongoing improvements in relation to Chinese suppliers. The office will be part of Danfoss' Code of Conduct Competence Centre in the global purchasing function.

Danfoss has also entered into a global agreement with an audit company which, in addition to performing Code of Conduct audits on a global scale, is also helping to adapt Danfoss' audit tools according to best practice within the area.

### **Frequency of accidents resulting in absence**

The accident frequency – the number of work accidents per 1 million working hours – dropped from 19.7 in the first half year of 2009 to 16.5 in the first half year of 2010.

## **Expectations of 2010:**

On the basis of the better-than-expected development in the first half-year, the group is making an upward adjustment of expected 2010 profit.

Even though the development in the first half-year was very positive, there is still some uncertainty as to how the markets will develop in the second half-year. Some customers are still reluctant to initiate large projects which depend to a large degree on loan financing. Danfoss estimates that this trend will continue throughout 2010. Growth in the second half-year is expected to be primarily generated by the markets in South America, Russia, India and China, whereas the markets in Europe and North America are expected to develop more moderately.

Therefore, the net sales are expected to be between at least 27bn and 28bn DKK, because we estimate that a continuing positive development at both Sauer-Danfoss and Danfoss Climate & Energy will mean that Danfoss will exceed expectations. The next months' peak season at Danfoss Heating Solutions and Danfoss District Energy will give conclusive hints as to whether these sectors have finally recovered from the impact of the financial crisis.

The effect of the restructuring activities implemented in 2009 and the first measures of the group's new strategy had a positive effect on the group's profit in the first half-year. This trend is expected to continue in the second half-year and, therefore, to increase the profit in the underlying business.

The results of Sauer-Danfoss in the first half-year were better than expected and the company has upwardly adjusted its expectations for 2010. The groups' 2010 earnings will also be affected by accounting adjustments amounting to 250-350m DKK due to the purchase of the controlling interest in Sauer-Danfoss.

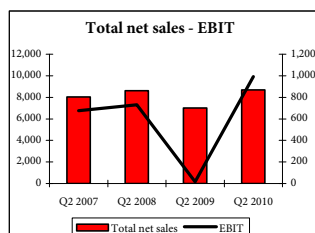
Despite this, the group expects to improve the EBIT in 2010 by approximately 3bn DKK compared with 2009.

The expectations of the EBIT is upwardly adjusted to be between 1.4bn and 1.8bn DKK, compared with the previous 1.1-1.4bn DKK.

The expectations do not include the impact of divestments or acquisitions of companies/activities.

## Danfoss Climate & Energy

Net sales increased by 24% to 8,672m DKK from 7,007m DKK. When adjusted for acquisitions, divestments and foreign currency translations, growth in net sales was 20%.



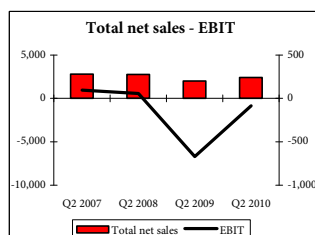
DKK Mill. (unless otherwise stated)	Q2 2009	Q2 2010	Change in %	Q2 2009 YTD	Q2 2010 YTD	Change in %	2009
Net sales	3,579	4,781	34%	7,007	8,672	24%	15,112
Operating profit (EBIT)	63	581	***	16	992	***	1,051
EBIT Margin	1.8%	12.2%		0.2%	11.4%		7.0%
Net Assets				9,453	9,688	2%	8,562
Capital expenditure	145	102	-30%	288	287	0%	569
Number of employees				14,239	13,092	-8%	13,502

The operating profit (EBIT) was 992m DKK, compared with a profit of 16m DKK in 2009.

The primary drivers of growth were the markets in the BRIC countries (Brazil, Russia, India and China), but the markets in North America and Europe also showed decent double-digit growth rates. The German market in particular had improved growth rates.

## Danfoss Development

Net sales increased by 20% to 2,416m DKK from 2,016m DKK. When adjusted for acquisitions, divestments and foreign currency translations, growth also amounted to 18%.



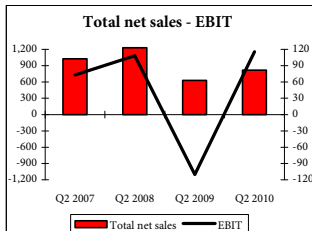
DKK Mill. (unless otherwise stated)	Q2 2009	Q2 2010	Change in %	Q2 2009 YTD	Q2 2010 YTD	Change in %	2009
Net sales	995	1,296	30%	2,016	2,416	20%	4,177
Operating profit (EBIT)	-513	-22	-96%	-670	-85	-87%	-803
EBIT Margin	-51.5%	-1.7%		-33.2%	-3.5%		-19.2%
Net Assets				2,002	2,429	21%	1,809
Capital expenditure	29	55	90%	55	106	93%	182
Number of employees				5,078	6,700	32%	5,172

The operating profit (EBIT) was -85m DKK, compared with -670m DKK the year before.

Danfoss Development includes, among other things, the activities which will undergo strategic reassessment over the next few years in preparation for divestment, joint ventures or other forms of alliances. These are the areas that Danfoss will not be single-handedly allocating resources to in order to place them in a world-leading position. The implementation of the strategy is expected to have a neutral impact on the group's results. It could, however, give rise to shifts, which could lead to both positive and negative extraordinary items in the quarterly reports throughout 2010 and 2011.

## Sauer-Danfoss

Net sales increased by 31% to 819m USD from 627m USD. When adjusted for foreign currency translations and divestments, the increase amounted to 30%.



USD Mill. (US GAAP) (unless otherwise stated)	Q2 2009	Q2 2010	Change in %	Q2 2009 YTD	Q2 2010 YTD	Change in %	2009
Net sales	277	432	56%	627	819	31%	1,159
Operating profit (EBIT)	-41	68	***	-110	115	***	-210
EBIT Margin	-14.7%	15.8%		-17.6%	14.1%		-18.2%
Net Assets							
Capital expenditure				31	9		43
Number of employees				6,805	5,927	-13%	6,117

The operating profit (EBIT) was 115m USD, compared with a loss of 110m USD the year before.

Growth was primarily generated in all regions, but the biggest drivers of growth were the markets in Asia-Pacific.

The positive development in the quarter convinced the management in Sauer-Danfoss to upwardly adjust expectations both for net sales and profit for 2010. For more information: <http://www.sauer-danfoss.com>

Sauer-Danfoss is listed on the New York Stock Exchange and the company share price can be monitored using the code SHS. The figures in this paragraph are the official Sauer-Danfoss figures recorded according to US GAAP. They are not the figures recognised in the Danfoss Group accounts. The figures are recognised according to IFRS in Danfoss' accounts.



## Profit & loss account

Mill. DKK

	Q2 2009	Q2 2010	Q2 2009 YTD	Q2 2010 YTD	2009
Net sales	6,110	8,634	12,620	15,752	25,653
Cost of sales	-4,946	-6,371	-10,335	-11,749	-20,456
<b>Gross profit</b>	<b>1,164</b>	<b>2,248</b>	<b>2,285</b>	<b>4,003</b>	<b>5,197</b>
	19.1%	26.0%	18.2%	25.4%	20.3%
Distribution expenses	-1,132	-1,116	-2,272	-2,184	-4,425
Administrative expenses	-313	-308	-673	-600	-1,042
<b>Operating profit excl. other income and expenses</b>	<b>-281</b>	<b>824</b>	<b>-660</b>	<b>1,219</b>	<b>-270</b>
	-4.6%	9.5%	-5.3%	7.7%	-1.1%
Other operating income and expenses	-521	-42	-590	-53	-1,720
<b>Operating profit (EBIT)</b>	<b>-802</b>	<b>782</b>	<b>-1,250</b>	<b>1,166</b>	<b>-1,990</b>
	-13.2%	9.1%	-10.0%	7.4%	-7.8%
Income from associates and joint ventures	-18	15	-25	21	-37
Financial income/expenses	-75	-54	-182	-113	322
<b>Profit before tax</b>	<b>-895</b>	<b>743</b>	<b>-1,457</b>	<b>1,074</b>	<b>-1,705</b>
Corporate tax expenses	261	-218	425	-294	303
<b>Result for the period</b>	<b>-634</b>	<b>525</b>	<b>-1,032</b>	<b>780</b>	<b>-1,402</b>

## Balance sheet

Mill. DKK

	<u>Q2 2009</u>	<u>2009</u>	<u>Q2 2010</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible fixed assets	10,375	9,094	9,644
Tangible fixed assets	8,816	8,267	8,161
Non-current financial assets	1,837	1,928	2,077
<b>Total non-current assets</b>	<b><u>21,028</u></b>	<b><u>19,289</u></b>	<b><u>19,882</u></b>
<b>Current assets</b>			
Inventories	4,484	3,848	4,611
Accounts receivable	5,538	4,854	6,826
Bonds and shares	27	35	36
Cash and cash equivalents	659	616	818
<b>Total current assets</b>	<b><u>10,708</u></b>	<b><u>9,353</u></b>	<b><u>12,291</u></b>
<b>Total assets</b>	<b><u>31,736</u></b>	<b><u>28,642</u></b>	<b><u>32,173</u></b>
<b>Liabilities and shareholders' equity</b>			
<b>Total shareholders' equity</b>	<b><u>10,529</u></b>	<b><u>10,055</u></b>	<b><u>11,357</u></b>
<b>Liabilities</b>			
Non-current liabilities	14,690	11,901	12,273
Current liabilities	6,517	6,686	8,543
<b>Total liabilities</b>	<b><u>21,207</u></b>	<b><u>18,587</u></b>	<b><u>20,816</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>31,736</u></b>	<b><u>28,642</u></b>	<b><u>32,173</u></b>

## Statement of cash flow

Mill. DKK

	<b>Q2 2009</b>	<b>Q2 2010</b>	<b>2009</b>
Operating profit (EBIT)	-1,250	1,166	-1,990
Adjustments for non-cash transactions	1,207	938	3,466
Changes in working capital	967	-1,333	2,012
<b>Cash flow generated from operations before interest</b>	<b>924</b>	<b>771</b>	<b>3,488</b>
Financial income	9	14	25
Financial expenses	-363	-196	-570
Dividends received	0	3	0
<b>Cash flow from operations before tax</b>	<b>570</b>	<b>592</b>	<b>2,943</b>
Paid tax	-108	-131	-222
<b>Cash flows from operating activities</b>	<b>462</b>	<b>461</b>	<b>2,721</b>
Acquisition of intangible fixed assets	-96	-45	-144
Acquisition of tangible fixed assets	-417	-297	-882
Proceeds from sale of tangible fixed assets	37	115	89
Acquisition of subsidiaries etc.	0	-142	-893
Proceeds from disposal of subsidiaries etc.	1	7	-1
investments etc.	-113	17	-106
<b>Cash flow from investing activities</b>	<b>-588</b>	<b>-345</b>	<b>-1,936</b>
<b>Free Cash flow</b>	<b>-126</b>	<b>116</b>	<b>785</b>
Financing by non-shareholders:			
Financing be Repayment of (-)/ proceeds from interest bearing debt	510	53	-350
<b>Financing by shareholders</b>			
Issuing of shares	0	0	0
Repurchase/sale of own shares	-57	-8	-57
Addition/disposal of minority interest	-8	0	-8
Dividends paid	-236	-61	-326
<b>Cash flow from financing activities</b>	<b>209</b>	<b>-16</b>	<b>-741</b>
<b>Net change in cash and cash equivalents</b>	<b>83</b>	<b>100</b>	<b>44</b>
Cash and cash equivalents (beginning of period)	596	616	596
Foreign exchange adjustment of cash and cash equivalents	-20	102	-24
<b>Cash and cash equivalents (end of period)</b>	<b>659</b>	<b>818</b>	<b>616</b>

## Equity specification

Mill. DKK

	Share capital <sup>1)</sup>	Hedging reserve	Translation reserve	Reserve own shares	Other reserves	Reserves	Proposed dividend	Danfoss A/S' share of equity	Minoritet interest	Total equity
Balance at 1 January 2009	1,027	-93	-788	-47	9,503	<b>8,575</b>	205	<b>9,807</b>	2,060	<b>11,867</b>
Total recognised income and expense		21	-12		-1,261	<b>-1,252</b>		<b>-1,252</b>	-192	<b>-1,444</b>
Dividends to shareholders							-205	<b>-205</b>	-100	<b>-305</b>
Purchase of minority interest				1	-1	<b>0</b>		<b>0</b>		<b>0</b>
Shares issued/capital reduction					-5	<b>-5</b>		<b>-5</b>	-1	<b>-6</b>
Share based payments				-57		<b>-57</b>		<b>-57</b>		<b>-57</b>
Balance at 31 December 2009	1,027	-72	-800	-103	8,236	<b>7,261</b>	0	<b>8,288</b>	1,767	<b>10,055</b>
Total recognised income and expense		-171	668		638	<b>1,135</b>		<b>1,135</b>	240	<b>1,375</b>
Dividends to shareholders								<b>0</b>	-65	<b>-65</b>
Shares issued/capital reduction				-8		<b>-8</b>		<b>-8</b>		<b>-8</b>
Balance at 30 June 2010	1,027	-243	-132	-111	8,874	<b>8,388</b>	0	<b>9,415</b>	1,942	<b>11,357</b>



## Notes

Accounting principles:

Since 2002, Danfoss has prepared the accounts according to IFRS (International Financial Reporting Standards). The accounting principles have been applied in this quarterly report and in the Annual Report 2009. For a detailed review of the principles, please refer to the 2009 Annual Report. This quarterly report was not prepared according to the principles included in IAS no. 34 regarding quarterly reports.

All figures are unaudited

## Geographical segments

DKK Mill.

Group	EU	Rest of Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales Q2 2009 YTD	6,239	1,122	1,674	2,604	145	191	469	176	12,620
Net sales Q2 2010 YTD	7,236	1,403	2,448	3,293	185	243	672	272	15,752

Net sales are based on customer location.

## Currencies used:

The accounts were prepared in Danish Kroner. The profit and loss account figures were translated into Danish Kroner at the average rate of the reporting period. The balance sheet figures were translated at the ending rates of the reporting period.

Currency	Q2 2009 Ending rates	Q2 2010 Ending rates	2009 Ending rates	Q2 2009 Average rates	Q2 2010 Average rates	2009 Average rates
EUR	7.45	7.45	7.44	7.45	7.44	7.45
GBP	8.74	9.11	8.23	8.34	8.56	8.36
USD	5.27	6.07	5.19	5.61	5.62	5.35

## Financial highlights

Mill. DKK (unless otherwise stated)

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q4 2009 YTD	Q1 2010	Q2 2010
<b>Profit and loss accounts:</b>							
Net sales	6,510	6,110	6,516	6,644	25,653	7,118	8,619
Operating profit added depreciations, amortisations and impairments (EBITDA)	62	-324	784	536	1,058	873	1,341
Operating profit excl. other income and expenses	-379	-281	296	94	-270	395	824
Operating profit (EBIT)	-448	-802	194	-934	-1,990	384	782
Income from associates and joint ventures	-7	-18	-5	-7	-37	6	15
Financial income/expenses	-108	-75	-61	565	322	-59	-75
Profit before tax (EBT)	-563	-895	129	-376	-1,705	331	743
Net profit	-399	-634	111	-482	-1,402	255	525
Real growth in %	-16%	-23%	-11%	3%	-12%	11%	37%
<b>Balance sheet:</b>							
Total non-current assets	21,638	21,028	20,425	19,289	19,289	19,562	19,882
Assets	33,224	31,736	30,853	28,642	28,642	30,539	32,173
Total shareholders' equity	11,495	10,529	10,536	10,055	10,055	10,530	11,357
Net interest-bearing debt	10,436	10,201	9,218	9,301	9,301	9,724	9,719
Net assets	21,598	20,327	19,333	18,995	18,995	19,871	20,687
Capital expenditure	307	212	193	296	1,009	266	197
<b>Cash flow statement:</b>							
Cash flow from operating activities	-54	462	1,492	2,721	2,721	-39	461
Cash flow from investing activities hereof net investments of intangible/tangible assets	-299	-589	-785	-1,936	-1,936	-230	-345
hereof net investments in companies	0	0	0	-894	-894	-92	-135
Free Cash flow	-353	-126	708	785	785	-269	116
Free cash flow before M&A	-333	-76	774	1,727	1,727	-163	259
Cash flow from financing activities	548	209	-521	-741	-741	384	-16
<b>Key figures:</b>							
Number of employees (end of period)	29,004	27,152	26,098	25,740	25,740	25,443	26,152
EBIT margin excl. other operating income etc.	-5.9%	-4.6%	4.6%	1.4%	-1.1%	5.5%	9.5%
EBIT margin	-6.9%	-13.2%	3.0%	-14.1%	-7.8%	5.4%	9.1%
EBITDA margin	1.0%	-5.3%	12.1%	8.1%	4.1%	12.3%	15.5%
RONA	-2.1%	-3.8%	1.0%	-4.9%	-9.9%	2.0%	3.9%
Return on equity	-4.2%	-11.3%	-8.3%	-13.0%	-13.0%	1.7%	7.2%
Equity ratio	28.2%	26.7%	28.1%	28.9%	28.9%	28.3%	29.3%
Leverage ratio	90.8%	96.9%	87.5%	92.5%	92.5%	92.3%	85.6%
Net interest bearing debt to EBITDA ratio	5.6	7.3	7.2	5.3	5.3	3.9	2.7
<b>Geographical segments:</b>							
<b>Total net sales</b>							
EU	3,271	2,967	3,152	3,295	12,558	3,389	3,849
Rest of Europe	552	570	731	709	2,563	611	792
Asia	762	912	1,006	1,014	3,694	1,039	1,409
North America	1,438	1,167	1,031	923	4,558	1,459	1,834
Africa	68	77	101	117	363	80	105
Pacific	97	93	119	146	455	116	126
Latin America	243	226	248	305	1,022	306	366
Middle East	79	98	128	135	440	118	153
Total	6,510	6,110	6,516	6,644	25,653	7,118	8,634
<b>Number of employees</b>							
Europe excl. Denmark	12,336	11,788	11,482	11,437	11,437	10,939	11,012
North America incl. Mexico	4,392	3,787	3,578	3,494	3,494	3,505	3,713
Latin America	458	376	371	378	378	389	396
Asia-Pacific	3,659	3,694	3,858	3,853	3,853	4,246	4,581
Other regions	69	65	61	63	63	64	61
Denmark	8,090	7,442	6,748	6,515	6,515	6,300	6,389
Total	29,004	27,152	26,098	25,740	25,740	25,443	26,152



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