



Press release

Danfoss A/S

First quarterly report

2006

Danfoss is one of the largest industrial companies in Denmark. The global Group is a leader within research, development, production, sales and service of mechanical and electronic components for a number of industries. Danfoss' activities are divided into three main business areas: Danfoss Refrigeration & Air Conditioning Division, Danfoss Heating Division and Danfoss Motion Controls Division, each leading within its industry. Danfoss has a large ownership share in one of the world's leading manufacturers and suppliers of mobile hydraulics, Sauer-Danfoss. Danfoss seeks to attain its goals with minimum consumption of raw materials and energy, the least possible impact on its surroundings and the most efficient use of resources. Danfoss has a long tradition of social responsibility towards both employees and the surrounding environment.

“The development in the first quarter followed the positive trend of the last four months of 2005 and, at first sight, it looks as if this will continue. It is still too early to know if this development can be maintained throughout the rest of the year, but we are particularly pleased with the fact that the important German market is recovering too.”

Jørgen M. Clausen, President and CEO, Danfoss A/S

Highlights from the first quarter of 2006:

- **Net sales** increased by 18% to 4.4 billion DKK compared with the same period last year. Growth amounted to 13%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments.
- **Operating profit (EBIT)** rose to 249 million DKK, from 79 million DKK.
- **Profit before tax** was 262 million DKK, which is 98% higher compared to 2005.
- **The number of employees** increased from 17,967 to 18,639, representing an increase of 4%.

Expectations for 2006:

- The Group maintains its expectations for the whole of the year, considering the positive development in the first quarter. Net sales are expected to be between 17.0 and 17.5 billion DKK. Compared to 2005, this will equal growth of between 4% and 7%.
- The operating profit (EBIT) is still expected to be between 1.0 and 1.1 billion DKK, equalling an EBIT margin of between 6% and 6.5%.
- Allowing for the market conditions, both the net sales and the EBIT are expected to be at the upper end of the scale, even though Danfoss does not expect the very strong growth to continue at the same level throughout the rest of the year.
- Any impact of future acquisitions and divestments are not included in the expectations.

The first quarterly report 2006 has been prepared according to the same accounting principles used for the revised 2005 Annual Report.

Nordborg, May 15, 2006

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Further information about Danfoss is available on the Danfoss web site: www.danfoss.com

Financial highlights

Million DKK (unless otherwise stated) All quarterly figures are unaudited.	Q1 05	Q1 06	Change in %	2005	Q1 06 EUR
Profit and Loss Accounts					
Net sales	3,711	4,363	18%	16,416	585
EBITDA	259	456	76%	1,695	61
<i>EBITDA Margin</i>	7.0%	10.5%		10.3%	10.5%
Operating profit	79	249	215%	943	33
<i>EBIT Margin</i>	2.1%	5.7%		5.7%	5.7%
Profit before tax	132	262	98%	999	35
<i>Return on Sales</i>	3.5%	6.0%		6.1%	6.0%
Key figures¹⁾:					
Free Cash flow	-585	-473		-434	-63
Interest bearing debt	1,334	1,873	40%	1,561	251
RONA ²⁾	1.1%	2.8%		12.1%	2.8%

¹⁾ In those cases where the key figures have been defined by the Danish Society of Financial Analysts, they have been calculated accordingly.

²⁾ RONA (Return On Net Assets): Result of operating profit as percentage of average net assets. Net assets are total assets after the deduction of investments in associates and joint ventures, cash and cash equivalents, total provisions and non-interest bearing debt.

Good start to 2006 for Danfoss

The Danfoss Group's **net sales** rose by 18% to 4.4 billion DKK from 3.7 billion DKK in the same period last year. Growth amounted to 13%, when adjusted for acquisitions and the sale of companies and converted at last year's level of exchange rates. The operating profit was 249 million DKK, while the result before tax was 262 million DKK.

The positive sales development of the last four months of 2005 continued in 2006 and there was a noticeable increase in demand for the Group's products. The development in the European main market was especially pleasing, with double-digit growth rates. This positive development also included the important German market. The markets in North America and Asia, including China, also showed decent growth rates. The Latin American market showed only moderate growth.

The strategic and operational projects initiated at the half-year in 2005, which in the long term will create the basis for improved earnings, continued during the quarter. Costs relating to these projects amounted to 33 million DKK in the first quarter, compared to 10 million DKK in the year before. In spite of an increasing level of activity, the rate of increase in general costs was kept at a lower level than the growth of net sales, thanks to the Group's productivity programs.

The operating profit excluding other operating income and expenses amounted to 247 million DKK compared to 73 million DKK in the year before. The increase in the profit can primarily be ascribed to the increased net sales and, consequently, an improved use of capacity.

The operating profit (EBIT) increased to 249 million DKK from 79 million DKK, equalling an increase of 170 million DKK. The result is considered to be satisfactory.

The share of income from joint ventures/associates was 57 million DKK, which is an increase of 30 million DKK compared to the year before. This includes the share of income from Sauer-Danfoss, amounting to 63 million DKK compared to 30 million DKK in the same period the year before.

Financial net items showed a deficit of 44 million DKK compared to a profit of 26 million DKK in the same period the year before. This development was primarily due to the positive adjustments in exchange rates of 40 million DKK compared to 5 million DKK in 2006. Furthermore, in 2006, 27 million DKK were spent on the Group's share payment programs, whereas funds were not allocated to the program in the first quarter of 2005. The Group's net interest expenses are also on the increase due to a higher level of interests and an increase in capital tied up as a result of the high activity level.

The profit before tax amounted to 262 million DKK compared to 132 million DKK in the same period the year before, equalling growth of 98%, whereas **profit after tax** was 197 million DKK compared to 102 million DKK in same period the year before.

The equity was 8,955 million DKK, which corresponds to an equity ratio of 58.3% compared to 59.4% at the end of 2005.

The free cash flow was -473 million DKK compared to -585 million DKK the year before. The change is primarily due to the improved profit and a reduced binding of liquidity. The free cash flow is a combination of cash flows from operations of -150 million DKK, compared to -326 million DKK in the year before, and cash flows from investments of -323 million DKK, compared to -259 million DKK in the year before.

The research and development costs equalled 3.9% of net sales and amounted to 168 million DKK compared to 154 million DKK in this period last year, which is an increase of 9%. The increase was part of the Group's plans to strengthen research and development activities.

Acquisitions and setting-up of companies in the first quarter

In January, Danfoss, together with CW Obel A/S, set up the company Danfoss Semco A/S Fire Protection, which has fire fighting as its business area. Subsequently, the company has taken over Semco Maritime A/S' fire division. Danfoss owns 60% of the new company, while CW Obel owns 40%. Danfoss Semco A/S Fire Protection employs 60 people and has net sales of approx. 135 million DKK.

In January, the New Zealand company Heatcraft NZ LTD took over the sales and support of Danfoss refrigeration and air-conditioning products in the New Zealand market. The 20 employees have been offered jobs at Heatcraft NZ LTD.

Changes in employee numbers and the Board

At the end of the first quarter 2006, the Danfoss Group employed 18,639 people, an increase of 672 employees compared to the same period in 2005.

There are 14,768 employees in Europe (14,506), 1,622 in North America including Mexico (1,650), 1,752 in Asia-Pacific including China (1,298) and 497 in other regions (513). In Denmark, 5,917 people were employed at the end of the first quarter of 2006, compared to 6,112 the year before.

At the Danfoss Annual General Meeting on April 4, Henrik E. Nyegaard was re-elected as Chairman of the Danfoss Board, while Hans Michael Jebsen was elected as a new Vice-Chairman. Daniel Meiland was elected as a new member of the Board and Tom Kähler did not offer himself for re-election.

Events after the end of the quarter

At an extraordinary general meeting on April 21, 2006, a decision was taken to separate Danfoss Bionics so that it became an independent company. Danfoss Bionics is included in the accounts until March 31, 2006.

At the beginning of April, Danfoss entered into an agreement for the sale of Refrigeration Investment Company (Pty) Ltd., South Africa, to the South African company African Oxygen Limited. The sale is conditional on the approval of the South African competitive authorities. In 2005, Refrigeration Investment Company (Pty) Ltd. had net sales of 188 million DKK and employed 167 people.

Executive Vice President, CFO Ole Steen Andersen announced in May that he would retire in connection with the 2007 Danfoss Annual General Meeting.

On May 10, Danfoss took over the Swiss company Steinmann Apparatebau AG, which produces and sells heat pumps. The company employs 25 people and has net sales of approx. 27 million DKK.

Expectations for 2006

On the basis of the positive development in both net sales and EBIT, the Group retains its expectations for the 2006 accounts. Allowing for the market conditions, both net sales and the EBIT are expected to be at the upper end of the scale, even though Danfoss does not expect the very strong growth to continue at the same level throughout the rest of the year.

- Net sales are expected to be between 17.0 and 17.5 billion DKK, which corresponds to growth of between 4% and 7% compared to 2005.
- The operating profit (EBIT) is expected to be between 1.0 and 1.1 billion DKK, corresponding to an EBIT margin of between 6% and 6.5%.
- Any impact of future acquisitions and divestments are not included in the expectations.

The first quarterly report 2006 has been prepared according to the same accounting principles used for the revised 2005 Annual Report.

Any impact of future acquisitions and divestments are not included in the expectations.

Prerequisites and risks:

In 2006, growth is primarily expected to be generated from the North and Latin American markets, Eastern and Central Europe and the Chinese market which, once again, is expected to contribute to the total growth. The markets in the rest of Asia are expected to show moderate growth. The markets in the EU, and particularly Germany, showed decent growth in the first quarter, but it is still not certain if this development will continue throughout the year.

A large proportion of Danfoss' sales outside Europe are settled in dollars, which is why a low dollar exchange rate will contribute to a moderate growth in net sales when calculated as Danish Kroner. The expectations are calculated on the basis of a dollar exchange rate of 6.05 DKK/USD.

Raw material prices are expected to remain at a high level in 2006. In particular, the development of copper, brass and aluminium is uncertain and energy prices are also likely to rise. Danfoss tries to smooth out some of the major fluctuations in raw material prices through the hedging of selected raw materials. If the prices continue to increase at the same rate as in 2005, it could have a negative impact on the 2006 result.

The corporate projects that have been initiated will also have a negative effect on the cost level in 2006. However, the projects are crucial to achieve the Group's long-term competitiveness. Currently, there are no plans to initiate new large corporate projects.

Danfoss' core business areas

“Danfoss Refrigeration & Air Conditioning Division had a good first quarter, and indications are that the market situation is really about to change. The positive trend is also supported by the strategic projects that have been launched; therefore we expect further increases in profit in the next quarters.”

Niels B. Christiansen, Executive Vice President and COO, Danfoss A/S

Danfoss Refrigeration & Air Conditioning Division had a satisfactory development of both net sales and profit in the first quarter of 2006. Net sales rose to 2,256 million DKK from 1,947 million DKK, equalling an increase of 16%. The increase was 12%, when converted at last year's exchange rate level and adjusted for acquisitions and divestments.

Danfoss Refrigeration & Air Conditioning Division					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 05	Q1 06	Change in %	2005	Q1 06 EUR
Net sales	1,947	2,256	16%	8,351	302
Operating profit (EBIT)	93	182	96%	449	24
EBIT Margin	4.8%	8.0%		5.4%	8.0%
Net assets	3,851	4,350	13%	4,005	583
Net investments	106	88	-17%	621	12
Number of employees	9,387	9,553	2%	9,093	

The growth in the Division's markets generally developed very positively during the quarter, and the European, North American and Asian markets showed particularly decent growth rates. China and India also had decent growth, with the development in India a particular surprise.

The strategic projects initiated in 2005 continued in the first quarter. The initial results are beginning to show, even though the process has not finished yet. The operating profit increased by 96% to 182 million DKK from 93 million DKK.

*“The effect of **Danfoss Heating Division’s** acquisitions in recent years is beginning to show. The promotional initiatives implemented in 2005 in the European market are also beginning to have a serious impact on net sales and profit. The Division is, however, sensitive to the high price of raw materials which, in the long term, could negatively affect the profit.”*

Ole Steen Andersen, Executive Vice President and CFO, Danfoss A/S

Danfoss Heating Division (including Danfoss Water Controls) experienced a satisfactory development in the first quarter. Net sales increased by 28% from 927 million DKK to 1,187 million DKK. The increase in net sales was 17%, when adjusted for acquisitions, divestments and foreign currency translation.

Danfoss Heating Division (incl. Danfoss Water Controls)					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 05	Q1 06	Change in %	2005	Q1 06 EUR
Net sales	927	1,187	28%	4,640	159
Operating profit (EBIT)	51	103	102%	505	14
EBIT Margin	5.5%	8.7%		10.9%	8.7%
Net assets	2,352	3,141	34%	3,014	421
Net investments	65	37	-43%	381	5
Number of employees	4,120	4,586	11%	4,437	

Generally, growth was achieved in all of the Division’s markets during the quarter. The European markets, particularly Eastern Europe and Germany, showed decent growth rates in the period. Also, the markets in North America and Asia experienced decent growth in the period. The continually rising prices for energy have resulted in an increased demand for the Division’s energy-saving products. This demand is expected to continue.

The continually rising prices for raw materials increased the cost level and further increases could have a negative impact on profit. The price of copper alone has risen by 55% since the turn of the year. The operating profit increased to 103 million DKK from 51 million DKK, which is double last year's figure.

“The positive trend set in 2005 continued in the first quarter at **Danfoss Motion Controls Division**. Both net sales and profit are higher than last year. This development can be ascribed to the combination of an increase in new customers and orders, and the results of the productivity programs.”

Hans Kirk, Executive Vice President and CDO, Danfoss A/S

Danfoss Motion Controls Division achieved satisfactory results in the first quarter. The net sales increased by 21% to 896 million DKK from 740 million in the same period last year. Growth was 14%, when adjusted for acquisitions, divestments and foreign currency translation.

Danfoss Motion Controls Division					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 05	Q1 06	Change in %	2005	Q1 06 EUR
Net sales	740	896	21%	3,211	120
Operating profit (EBIT)	36	80	122%	252	11
EBIT Margin	4.8%	8.9%		7.9%	8.9%
Net assets	899	1,072	19%	991	144
Net investments	35	32	-9%	211	4
Number of employees	2,882	3,180	10%	3,176	

The Division enjoyed growth in all of its markets in the first quarter, with several showing good double-digit growth rates. A large proportion of growth stemmed from the markets in Russia, Germany and China. Work with the productivity program progressed according to plan, and several areas achieved positive results. For example, productivity in one factory increased by nearly 30%.

The operating profit increased by 44 million DKK to 80 million DKK, from 36 million DKK. A continued increase in new orders and customers, combined with the results of the productivity programs, helped make production more profitable.

Sauer-Danfoss Inc. is listed on the stock exchanges in Frankfurt, Germany, and New York, USA.

Danfoss A/S owns 38.4 % of the shares in Sauer-Danfoss Inc. The company is recorded in the accounts as a joint venture.

<i>Sauer-Danfoss Inc.</i>				
Million USD (unless otherwise stated).	Q1 05	Q1 06	Change in %	2005
Net sales	423	484	14%	1,548
Profit after tax	11	26	136%	39

Sauer-Danfoss Inc. is included in the Danfoss A/S Group accounts under the item “Income from associates and joint ventures after tax”.

For further information please refer to the Sauer-Danfoss homepage: www.sauer-danfoss.com

Financial Highlights

Mil. DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 05	Q1 06	Change in %	2005	Q1 06 EUR
Profit and loss account:					
Net sales ¹⁾	3,711	4,363	18%	16,416	585
Operating income before other operating income and expenses	73	247	238%	910	33
EBITDA	259	456	76%	1,695	61
Operating profit (EBIT)	79	249	215%	943	33
Income from associates and joint ventures after tax	27	57	111%	78	8
Financial income/expenses	26	-44	-269%	-22	-6
Profit before Tax (EBT)	132	262	98%	999	35
Net Profit	102	197	93%	733	26
¹⁾ Total growth in net sales:	-6%	18%		0%	
Real growth in %	1%	13%		5%	
Exchange rates in %	-1%	3%		-1%	
Acquired/sold activities net in %	6%	-2%		4%	
Balance Sheet:					
Assets	13,570	15,332		14,598	2,055
Net investments (excl. goodwill)	168	170	1%	1,164	23
Net investments in goodwill	7	9	29%	464	1
Total shareholders' equity	7,924	8,955		8,694	1,200
Interest-bearing debt	1,334	1,873	40%	1,561	251
Net interest-bearing debt	752	1,291	72%	825	173
Cash flow statement:					
Cash flows from operating activities	-326	-150		1,192	-20
Cash flows from investing activities	-259	-323		-1,626	-43
Free cash flow	-585	-473		-434	-63
Cash flows from financing activities	209	325		177	43
Cash and cash equivalents (end of period)	582	582		736	78
Key figures:					
Number of employees (end of period)	17,967	18,639	4%	18,168	
RONA ¹⁾	1.1%	2.8%		12.1%	
EBIT margin	2.1%	5.7%		5.7%	
EBITDA margin	7.0%	10.5%		10.3%	
Net investment percentage	4.7%	4.1%		9.9%	
Return on sales	3.5%	6.0%		6.1%	
Return on equity	1.3%	2.2%		8.9%	
Equity ratio	58.3%	58.3%		59.4%	

¹⁾ RONA (Return On Net Assets)

Result of operating profit as percentage of average net assets. Net assets are total assets after the deduction of investments in associates and joint ventures, cash and cash equivalents, total provisions and non-interest bearing debt.

Profit & Loss Account

Million DKK (unless otherwise stated) All quarterly figures are unaudited.	Q1 05	Q1 06	Change in %	2005	Q1 06 EUR
Net sales	3,711	4,363	18%	16,416	585
Sale of services etc.	101	119	18%	452	16
Cost of sales	-2,748	-3,172	15%	-11,865	-425
Gross profit	1,064	1,310	23%	5,003	176
	28.7%	30.0%		30.5%	30.0%
Distribution expenses	-810	-869	7%	-3,443	-117
Administrative expenses	-181	-194	7%	-650	-26
Operating profit excl. other income and expenses	73	247	238%	910	33
	2.0%	5.7%		5.5%	5.7%
Other operating income and expenses	6	2	-67%	33	0
Operating profit (EBIT)	79	249	215%	943	33
	2.1%	5.7%		5.7%	5.7%
Income from associates and joint ventures after tax	27	57	111%	78	8
Financial income/expenses	26	-44	-269%	-22	-6
Profit before tax	132	262	98%	999	35
Corporate tax expenses	-30	-65	117%	-266	-9
Profit after tax	102	197	93%	733	26

Balance sheet

Million DKK. All quarterly figures are unaudited.	Q1 05	Q1 06	2005	Q1 06 EUR
ASSETS				
Non-current assets				
Intangible assets	1,124	1,769	1,772	237
Fixed assets	4,015	4,300	4,339	576
Non-current financial assets	1,536	1,743	1,590	234
Total non-current assets	6,675	7,812	7,701	1,047
Current assets				
Inventories	2,684	2,585	2,396	346
Accounts receivable	3,629	4,353	3,765	584
Cash and cash equivalents	582	582	736	78
Total current assets	6,895	7,520	6,897	1,008
Total assets	13,570	15,332	14,598	2,055
LIABILITIES AND SHAREHOLDERS' EQUITY				
Total shareholders' equity	7,924	8,955	8,693	1,200
Non-current debt	2,041	2,123	2,172	285
Current debt	3,605	4,254	3,732	570
Total debt	5,646	6,377	5,905	855
Total liabilities and shareholders' equity	13,570	15,332	14,598	2,055

Statement of cash flows

Million DKK. All quarterly figures are unaudited.	Q1 05	Q1 06	2005	Q1 06 EUR
Operating profit	79	249	943	33
Adjustments for non-cash transactions	180	169	691	23
Changes in working capital	-559	-475	-116	-64
Cash flows generated from operations before interest	-300	-57	1.518	-8
Net financial items	26	-17	-63	-2
Dividends received	0	2	48	0
Cash flows from operations before tax	-274	-72	1.503	-10
Paid tax	-52	-78	-311	-10
Cash flows from operating activities	-326	-150	1.192	-20
Acquisition of intangible assets	-39	-27	-165	-4
Acquisition of land and buildings, machinery and equipment	-131	-152	-1.043	-21
Proceeds from sale of land and buildings, machinery and equipment	12	5	179	1
Acquisition of subsidiaries etc.	-98	-20	-653	-3
Proceeds from disposal of subsidiaries etc.	0	1	149	0
Acquisition (-) and sale of other investments	-3	-130	-93	-16
Cash flows from investing activities	-259	-323	-1.626	-43
Free cash flows	-585	-473	-434	-63
Financing by non-shareholders:				
Financing by non Repayment of (-)/proceeds from interest bearing debt	212	325	328	43
Financing by shareholders:				
Issuing of shares			7	
Issuing of shares/sale of own shares				
Addition/disposal of minority interest	-3		-3	
Dividends paid			-155	
Cash flows from financing activities	209	325	177	43
Cash flows from operating, investing and financing activities	-376	-148	-257	-20
Cash and cash equivalents (beginning of period)	958	736	958	99
		-6	35	-1
Cash and cash equivalents (end of period)	582	582	736	78

Equity specification

Million DKK.

All quarterly figures are unaudited.

	Share capital ¹⁾	Share premium	Proposed dividend	Hedge accounting reserve	Currency translation adjustments	Reserve own shares	Minority interests	Other reserves	Total
Balance at 1 January 2005	1,023	79	152	54	-381	-12	13	6,859	7,787
Net profit			184				5	544	733
Other adjustments		-79	1	71				99	92
Currency translation adjustments					229				229
Total income	0	-79	185	71	229	0	5	643	1,054
Dividends to shareholders			-153				-2		-155
Shares issued/sold								7	7
Balance at 31 December 2005	1,023	0	184	125	-152	-12	16	7,509	8,693
Net profit							1	196	197
Other adjustments				81					81
Currency translation adjustments					-16				-16
Total income	1,023	0	184	206	-168	-12	17	7,705	8,955
Dividends to shareholders									
Shares issued/sold									
Balance at 31 March 2006	1,023	0	184	206	-168	-12	17	7,705	8,955

¹⁾ Distribution of shares:

A shares: DKK 425 mill

B shares: DKK 598 mill

Geographical segments

Million DKK.

All quarterly figures are unaudited.

Group	Other		North		Africa	Pacific	Latin		Middle East	Total
	EU	Europe	Asia	America			America	East		
Net sales Q1 05	2,318	354	342	300	120	78	119	80	3,711	
Net sales Q1 06	2,660	436	448	401	116	80	148	74	4,363	

Net sales are based on customer location.

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Date of publication:

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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 closing rate of the reporting period.

Currency:	Q1 2005 Closing rates	Q1 2006 Closing rates	2005 Closing rates	Q1 2005 Average rates	Q1 2006 Average rates	2005 Average rates
EUR	7.45	7.46	7.46	7.44	7.46	7.45
GBP	10.82	10.72	10.89	10.73	10.87	10.90
USD	5.75	6.17	6.32	5.68	6.21	6.00

Accounting principles:

Since 2002, Danfoss has prepared the accounts according to the International Financial Reporting Standard (IFRS). They were used for this quarterly report as well as for the 2005 Annual Report. For a detailed description of these, please refer to the Danfoss A/S Annual Report 2005.

Financial calendar:

Financial reports in 2006 will be published on the following dates:

September 4, 2006
November 13, 2006

Interim report 2006
Third quarterly report 2006