



Press release

# Danfoss A/S

## Third 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.

*"We are pleased that the positive development of the first half of the year has been managed in the best possible way. The effort to expand Danfoss' position on the North American market has proved successful and the USA is now Danfoss' second largest market. The growth in China has also been maintained at a high level. Thanks to the results achieved during the year's first nine months, we have been able to establish that we are within realistic reach of the ambitious targets of Danfoss reaching net sales of 24 billion DKK and having an EBIT of 10% by 2008."*

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

### Highlights from the first three quarters of 2006:

- **Net sales** increased by 16% to 14.1 billion DKK from 12.1 billion DKK in the same period last year. Growth amounted to 12%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments, compared to 5% in the same period the year before.
- **Operating profit (EBIT)** rose to 1,221 million DKK from 630 million DKK.
- **Profit before tax** increased by 55% to 1.1 billion DKK.
- **The number of employees** increased to 20,628 from 18,090 at the same time in 2005.

### Expectations for 2006:

On the basis of the results of the third quarter and the expectations for the rest of the year, Danfoss has upwardly adjusted its expectations for both the net sales and profit for 2006.

- The net sales are expected to be between 18.5 and 19.0 billion DKK, compared to previous expectations of between 18.0 and 18.5 billion DKK. Compared to 2005, this will equal growth of between 13% and 16%.
- The operating profit (EBIT) is expected to be between 1.3 and 1.4 billion DKK (previously it was 1.1 -1.2 billion DKK), equalling an EBIT margin of approx. 7.5%
- Any impact of future acquisitions and divestments has not been included in the expectations.

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

Nordborg, November 13, 2006

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## Financial highlights

Million DKK (unless otherwise stated) All quarterly figures are unaudited.	Q3 2005	Q3 2006	Change in %	Q3 2005 YTD	Q3 2006 YTD	Change in %	2005	Q3 2006 EUR YTD
<b>Profit and Loss Accounts</b>								
Net sales	4,273	4,960	16%	12,145	14,056	16%	16,416	1,884
EBITDA	453	785	73%	1,196	1,879	57%	1,695	252
<i>EBITDA Margin</i>	10.6%	15.8%		9.8%	13.4%		10.3%	13.4%
Operating profit (EBIT)	272	550	102%	630	1,221	94%	943	164
<i>EBIT Margin</i>	6.4%	11.1%		5.2%	8.7%		5.7%	8.7%
Profit before tax	257	509	98%	737	1,140	55%	999	153
<i>Return on Sales</i>	6.0%	10.3%		6.1%	8.1%		6.1%	8.1%
<b>Key figures<sup>1)</sup>:</b>								
Free cash flow				-700	-1,626 <sup>3)</sup>		-434	-218
Interest bearing debt				1,681	3,512	109%	1,561	471
RONA <sup>2)</sup>	3.3%	5.4%		8.0%	12.7%		12.1%	12.7%

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

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

<sup>3)</sup> Acquisitions of subsidiaries and activities amount to -1,663 million DKK.

## Solid sales growth in sight for Danfoss - so expectations are adjusted upwards

The Danfoss Group's **net sales** were 5 billion DKK in the third quarter, equalling growth of 16%. Growth was 14%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments. The operating profit increased to 550 million DKK from 272 million DKK, compared to the third quarter of 2005.

Net sales increased by 16% to 14.1 billion DKK in the first nine months of 2006 from 12.1 billion DKK in the same period the year before. Growth was 12%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments. The EBIT increased to 1,221 million DKK from 630 million DKK. The result is considered to be very satisfactory.

At the half-year, the high growth rates of the first six months of the year were not expected to continue, so the development was a positive surprise. With decent double-digit growth rates, the main markets in Europe and the markets in Latin and North America and Asia have been the major forces behind the growth. The markets in China, Russia and North America were most successful. The result of the progress made in the North American market is that the USA is now the Group's second largest market. The German market is still Danfoss' largest market, and this also showed double-digit growth rates. The remaining markets in Europe also showed decent growth rates during the quarter.

As expected, the raw material prices remained high in the third quarter, negatively affecting the profit. Expectations are that raw material prices will remain high in the fourth quarter. In order to counteract this development, Danfoss has increased the prices of a number of products which have been particularly affected by the high price of raw materials. However, the impact of the price increases has not fully shown yet.

**The operating profit (EBIT)** increased by 94% to 1,221 million DKK from 630 million DKK. The continuously high level of activity has led to an improved capacity utilisation and, consequently, an improved profit. In spite of the substantial growth, we managed to maintain a low cost level, which is partly due to the projects already implemented under the Danfoss Productivity Program. The significant increase in the EBIT should, however, also be seen in light of the fact that during the same period in 2005, the EBIT was lower than usual.

**Income from joint ventures and associates** was 98 million DKK, which is an increase of 24% compared to the same period last year. The item includes the share of income from Sauer-Danfoss, which was 133 million DKK compared to 98 million DKK in the same period the year before.

**Financial net items** showed a deficit of 179 million DKK compared to a profit of 28 million DKK in the year before. This development was primarily due to positive exchange rate adjustments in 2005 of 88 million DKK, compared to -29 million DKK in 2006. In addition, -82 million DKK has been spent on the Group's share remuneration schemes this year; in 2005 the amount was -14 million DKK.

The Group's net interest expenses are also on the increase. This is due to an increased interest level, an increased level of tied-up capital, following the high activity level, and the fact that the Group's interest-bearing debt in the quarter increased by approx. 900 million DKK, primarily as a result of a number of acquisitions.

**The profit before tax** was 1,140 million DKK compared to 737 million DKK. **The profit after tax in the period** was 849 million DKK compared to 566 million DKK the year before.

**The shareholders' equity** was 9,095 million DKK at the end of the third quarter, which corresponds to an equity ratio of 50.5% compared to 59.4% at the end of 2005. The drop is primarily due to the fact that the Group's net liabilities have increased by 2,032 million DKK since the end of last year - mainly as a result of increased loans raised in connection with the financing of the Group's acquisitions during the period and the increased level of activities.

**The free cash flow**, which is a combination of cash flows from operations of 689 million DKK and cash flows from investments of -2,315 million DKK, was -1,626 million DKK compared to -700 million DKK in the year before. The positive development in the profit was counteracted by increased funds being tied up in the working capital, and investments made in connection with the acquisition of companies and the separation of activities.

**The research and development costs** were approx. 513 million DKK in the first nine months of the year, compared to 474 million DKK the year before. This equals an increase of 8%, which corresponds to approx. 4% of net sales.

## Acquisitions and sale of companies

In September, Danfoss entered into an agreement to take over Nopro Wärmesysteme, Katsch, Austria. The company markets solutions for the connection and automatic monitoring and regulation of heating systems for small biomass-based district heating plants. It had annual net sales of approx. 37 million DKK in 2005 and employed 35 people.

Also in September, Danfoss sold its pressworks production to Dansk Flydepresse Teknologi A/S, Nordborg, and this took effect on October 1. The divestment of the pressworks production was part of the Group's strategy to focus on its core businesses. Of the 122 people in pressworks production, 108 have been offered a job with the company's new owner, and the remaining staff have been given the opportunity to continue to work for Danfoss.

## Changes in employee numbers

At the end of the third quarter, the Danfoss Group employed 20,628 people, an increase of 2,538 employees compared to the year before and corresponding to an increase of 14%. Of the 2,538 new employees, 1,213 came from acquired companies.

At the end of the third quarter, there were 15,451 employees in Europe (14,591 in the third quarter of 2005); 2,601 in North America, including Mexico (1,598); 2,083 in Asia-Pacific (1,411); and 493 in other regions (490). In Denmark, 6,155 people were employed at the end of the third quarter, compared to 5,920 in the year before.

## Events after the end of the quarter

In October, Danfoss sold its 25% ownership share of Damcos A/S, which produces systems for the remote control of valves and tank measurement used in ships, to the American company Emerson Electric. The profit from the sale is not included in the expectations, because it has not yet been decided whether final approval from the authorities can be obtained in this accounting year.

## Expectations for 2006

On the basis of the results of the third quarter and the expectations for the rest of the year, Danfoss has increased its expectations for both net sales and profit for 2006.

- Net sales are expected to be between 18.5 and 19.0 billion DKK, compared to previous expectations of between 18.0 and 18.5 billion DKK. The growth is between 13% and 16% compared to 2005.
- The operating profit (EBIT) is expected to be between 1.3 and 1.4 billion DKK (previously it was expected to be between 1.1 and 1.2 billion DKK), corresponding to an EBIT margin of approx. 7.5%.
- Any impact of future acquisitions and divestments has not been included in the expectations.

### **Prerequisites and risks:**

In the fourth quarter, growth is expected to be generated from the North and Latin American markets, Europe, particularly Eastern and Central Europe, and Germany. The Chinese market is expected to continue its positive development throughout the year, while the markets in the rest of Asia are only expected to show moderate growth.

A large proportion of Danfoss' sales outside Europe are settled in dollars. A low dollar exchange rate will therefore contribute to a moderate growth in net sales when calculated in 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 the fourth quarter. 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.

The integration of this year's acquired companies into Danfoss is expected to result in increased costs in the short run, as a consequence of the impact of IFRS 3 adjustments, among other things.

## Danfoss' core business areas

*“Danfoss Refrigeration & Air Conditioning Division’s profit is again at a level we would expect, which is due to a high level of capacity utilisation, among other things. The prospects for net sales are also bright and all significant markets show double-digit growth rates.”*

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

**Danfoss Refrigeration & Air Conditioning Division** experienced a very positive rise in both net sales and profit in the third quarter of 2006 and achieved an acceptable result. Net sales increased by 15% to 2,462 million DKK from 2,141 million DKK. When converted at last year’s exchange rate level and adjusted for acquisitions and divestments, the increase was 16%, compared to a fall of 4% the year before.

<b>Danfoss Refrigeration &amp; Air Conditioning Division</b>								
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2005	Q3 2006	Change in %	Q3 2005 YTD	Q3 2006 YTD	Change in %	2005	Q3 2006 EUR YTD
Net sales	2,141	2,462	15%	6,334	7,238	14%	8,351	970
Operating profit (EBIT)	82	274	234%	324	674	108%	449	90
EBIT Margin	3.8%	11.1%		5.1%	9.3%		5.4%	9.3%
Net assets				3,979	5,894	48%	4,005	790
Net investments*	89	583	***	328	832	154%	621	112
Number of employees				9,220	10,955	19%	9,093	

\*Excl. goodwill

The quarter's net sales were characterised by substantial growth in many of the division’s main markets. In the important European market, high double-digit growth rates were realised and the market seems to be continuing its positive development. Also, the markets in North America and Asia showed double-digit growth rates. China and the USA contributed significantly to this development.

The operating profit increased to 274 million DKK from 82 million DKK. The increasing raw material prices were counterbalanced by tight cost control, resulting in significantly improved profit compared to the year before.

“The level of activity in the **Danfoss Heating Division** has been generally high this year and this is expected to continue in the fourth quarter. The high level of activity is a result of a combination of positive financial trends in Western Europe, including improved optimism and growth in Germany, as well as very extensive growth in the new markets in Eastern Europe.”

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

**Danfoss Heating Division** (including Danfoss Water Controls) experienced a satisfactory development of both the net sales and the profit in the third quarter. Net sales increased by 16% to 1,490 million DKK from 1,280 million DKK. When converted at last year’s exchange rate level and adjusted for acquisitions and divestments, the increase was 11%, compared to 14% in the year before.

<b>Danfoss Heating Division</b> (incl. Danfoss Water Controls)								
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2005	Q3 2006	Change in %	Q3 2005 YTD	Q3 2006 YTD	Change in %	2005	Q3 2006 EUR YTD
Net sales	1,280	1,490	16%	3,235	3,918	21%	4,640	525
Operating profit (EBIT)	174	264	52%	299	485	62%	505	65
EBIT Margin	13.6%	17.7%		9.3%	12.4%		10.9%	12.4%
Net assets				3,133	3,815	22%	3,014	512
Net investments*	274	125	-54%	398	297	-25%	381	40
Number of employees				4,511	5,058	12%	4,437	

\*Excl. goodwill

During the quarter, the markets in the EU, Eastern Europe and Asia continued the positive sales development of the first half-year. This positive development is a result of a combination of positive financial trends in Western Europe, including improved optimism and growth in Germany and very high growth in the new markets in, for example, Russia and China.

Continued increases in the price of materials such as copper, brass and steel have, however, led to a squeeze on profits, but due to the very high level of activity, a high profit was still maintained.

The operating profit increased to 264 million DKK from 174 million DKK, equalling an increase of 52%.

“The investments which **Danfoss Motion Controls** made in China are now beginning to contribute positively to the business. The growth level in China is high and sales exceed expectations. The acquisition of Holip in 2005 expanded the basis for future growth and, at the same time, a further expansion on this very important market was made possible.”

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

**Danfoss Motion Controls Division** achieved a satisfactory result with increases in both net sales and profit in the third quarter. The net sales increased to 960 million DKK from 823 million DKK, which corresponds to growth of 17%. When converted at last year’s exchange rate level and adjusted for acquisitions and divestments, the increase was 15%, compared to a fall of 6% in the year before.

<i>Danfoss Motion Controls Division</i>								
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2005	Q3 2006	Change in %	Q3 2005 YTD	Q3 2006 YTD	Change in %	2005	Q3 2006 EUR YTD
Net sales	823	960	17%	2,385	2,775	16%	3,211	372
Operating profit (EBIT)	67	109	63%	167	254	52%	252	34
EBIT Margin	8.1%	11.4%		7.0%	9.1%		7.9%	9.1%
Net assets				898	981	9%	991	132
Net investments*	35	19	-46%	106	81	-24%	211	11
Number of employees				2,912	3,348	15%	3,176	

\*Excl. goodwill

Danfoss Motion Controls continued the positive trend of the year’s first six months and, also in the third quarter, the division achieved high growth rates in both net sales and profit. The markets in Asia and North America showed double-digit growth rates, as did the largest markets in Central Europe.

The operating profit increased to 109 million DKK from 67 million DKK, equalling an increase of 63%. The profit is at a higher level than the year before, and in spite of new product launches and increasing material costs, Danfoss Motion Controls managed to exceed expectations.

**Sauer-Danfoss Inc.** is listed on the stock exchange in New York, USA.

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

<i>Sauer-Danfoss Inc</i>							
Million USD (unless otherwise stated).	Q3 2005	Q3 2006	Change in %	Q3 2005 YTD	Q3 2006 YTD	Change in %	2005
Net sales	342	382	12%	1.203	1.336	11%	1.548
Profit after tax	4	7	75%	35	56	60%	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](http://www.sauer-danfoss.com)

## Financial Highlights

Mil. DKK (unless otherwise stated). All quarterly figures are unaudited.	Q3 2005	Q3 2006	Change in %	Q3 2005 YTD	Q3 2006 YTD	Change in %	2005	Q3 2006 EUR YTD
<b>Profit and loss account:</b>								
Net sales <sup>1)</sup>	4,273	4,960	16%	12,145	14,056	16%	16,416	1,884
Operating income before other operating income and expenses	313	519	66%	619	1,103	78%	910	148
EBITDA	453	785	73%	1,196	1,879	57%	1,695	252
Operating profit (EBIT)	272	550	102%	630	1,221	94%	943	164
Income from associates and joint ventures after tax	15	6	-60%	79	98	24%	78	13
Financial income/expenses	-30	-47	57%	28	-179	***	-22	-24
Profit before Tax (EBT)	257	509	98%	737	1,140	55%	999	153
Net Profit	187	357	91%	566	849	50%	733	114
<sup>1)</sup> Total growth in net sales:	0%	16%		-3%	16%		0%	
Real growth in %	7%	14%		5%	12%		5%	
Exchange rates in %	1%	-1%		2%	1%		-1%	
Acquired/sold activities net in %	-6%	-3%		-6%	-3%		4%	
<b>Balance Sheet:</b>								
Assets				14,572	17,948		14,598	2,407
Net investments (excl. goodwill)	415	735	77%	819	1,177	44%	1,164	158
Net investments in goodwill	316	804	154%	330	1,084	228%	464	145
Total shareholders' equity				8,392	9,095		8,693	1,220
Interest-bearing debt				1,681	3,512	109%	1,561	471
Net interest-bearing debt				1,084	2,857	164%	825	383
<b>Cash flow statement:</b>								
Cash flows from operating activities				479	689		1,192	92
Cash flows from investing activities				-1,179	-2,315		-1,626	-310
Free cash flow				-700	-1,626		-434	-218
Cash flows from financing activities				308	1,566		177	210
Cash and cash equivalents (end of period)				597	655		736	88
<b>Key figures:</b>								
Number of employees (end of period)				18,090	20,628	14%	18,168	
RONA <sup>1)</sup>	3.3%	5.4%	2.1	8.0%	12.7%		12.1%	
EBIT margin	6.4%	11.1%	4.7	5.2%	8.7%		5.7%	
EBITDA margin	10.6%	15.8%	5.2	9.8%	13.4%		10.3%	
Net investment percentage	17.1%	31.0%	13.9	9.5%	16.1%		9.9%	
Return on sales	6.0%	10.3%	4.3	6.1%	8.1%		6.1%	
Return on equity				6.9%	9.6%		8.9%	
Equity ratio				57.5%	50.5%		59.4%	

<sup>1)</sup> RONA (Return On Net Assets)

Result of operating profit as percentage of average net assets. Net assets are total assets deducting 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.	Q3 2005	Q3 2006	Change in %	Q3 2005 YTD	Q3 2006 YTD	Change in %	2005	Q3 2006 EUR YTD
Net sales	4,273	4,960	16%	12,145	14,056	16%	16,416	1,884
Sale of services etc.	108	107	-1%	338	338	0%	452	45
Cost of sales	-3,088	-3,499	13%	-8,869	-10,081	14%	-11,865	-1,351
<b>Gross profit</b>	<b>1,293</b>	<b>1,568</b>	<b>21%</b>	<b>3,614</b>	<b>4,313</b>	<b>19%</b>	5,003	<b>578</b>
	30.3%	31.6%		29.8%	30.7%		30.5%	30.7%
Distribution expenses	-848	-896	6%	-2,506	-2,704	8%	-3,443	-362
Administrative expenses	-132	-153	16%	-489	-506	3%	-650	-68
<b>Operating profit excl. other income and expenses</b>	<b>313</b>	<b>519</b>	<b>66%</b>	<b>619</b>	<b>1,103</b>	<b>78%</b>	<b>910</b>	<b>148</b>
	7.3%	10.5%		5.1%	7.8%		5.5%	7.8%
Other operating income and expenses	-41	31	-176%	11	118	***	33	16
<b>Operating profit (EBIT)</b>	<b>272</b>	<b>550</b>	<b>102%</b>	<b>630</b>	<b>1,221</b>	<b>94%</b>	<b>943</b>	<b>164</b>
	6.4%	11.1%		5.2%	8.7%		5.7%	8.7%
Income from associates and joint ventures after tax	15	6	-60%	79	98	24%	78	13
Financial income/expenses	-30	-47	57%	28	-179	***	-22	-24
<b>Profit before tax</b>	<b>257</b>	<b>509</b>	<b>98%</b>	<b>737</b>	<b>1,140</b>	<b>55%</b>	<b>999</b>	<b>153</b>
Corporate tax expenses	-70	-152	117%	-171	-291	70%	-266	-39
<b>Profit after tax</b>	<b>187</b>	<b>357</b>	<b>91%</b>	<b>566</b>	<b>849</b>	<b>50%</b>	<b>733</b>	<b>114</b>

## Balance sheet

Million DKK. All quarterly figures are unaudited.	Q3 05	Q3 06	2005	Q3 06 EUR
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	1,609	3,203	1,772	429
Fixed assets	4,187	4,466	4,339	599
Non-current financial assets	1,645	1,670	1,590	224
<b>Total non-current assets</b>	<b>7,441</b>	<b>9,339</b>	<b>7,701</b>	<b>1,252</b>
<b>Current assets</b>				
Inventories	2,534	2,919	2,396	391
Accounts receivable	4,000	5,035	3,765	676
Cash and cash equivalents	597	655	736	88
<b>Total current assets</b>	<b>7,131</b>	<b>8,609</b>	<b>6,897</b>	<b>1,155</b>
<b>Total assets</b>	<b>14,572</b>	<b>17,948</b>	<b>14,598</b>	<b>2,407</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Total shareholders' equity</b>	<b>8,392</b>	<b>9,095</b>	<b>8,693</b>	<b>1,220</b>
<b>Non-current debt</b>	<b>2,368</b>	<b>2,594</b>	<b>2,172</b>	<b>348</b>
<b>Current debt</b>	<b>3,812</b>	<b>6,259</b>	<b>3,733</b>	<b>839</b>
<b>Total debt</b>	<b>6,180</b>	<b>8,853</b>	<b>5,905</b>	<b>1,187</b>
<b>Total liabilities and shareholders' equity</b>	<b>14,572</b>	<b>17,948</b>	<b>14,598</b>	<b>2,407</b>

## Statement of cash flows

Million DKK. All quarterly figures are unaudited.	Q3 05 YTD	Q3 06 YTD	2005	Q3 06 EUR YTD
Operating profit	630	1,221	943	164
Adjustments for non-cash transactions	457	457	691	61
Changes in working capital	-475	-773	-116	-103
<b>Cash flows generated from operations before interest</b>	<b>612</b>	<b>905</b>	<b>1,518</b>	<b>122</b>
Net financial items	-22	-57	-63	-8
Dividends received	34	44	48	6
<b>Cash flows from operations before tax</b>	<b>624</b>	<b>892</b>	<b>1,503</b>	<b>120</b>
Paid tax	-145	-203	-311	-28
<b>Cash flows from operating activities</b>	<b>479</b>	<b>689</b>	<b>1,192</b>	<b>92</b>
Acquisition of intangible fixed assets	-79	-85	-165	-11
Acquisition of tangible fixed assets	-619	-568	-1,043	-76
Proceeds from sale of tangible fixed assets	74	159	179	21
Acquisition of subsidiaries etc.	-587	-1,663	-653	-223
Proceeds from disposal of subsidiaries etc.	123	1	149	0
Acquisition (-) and sale of other investments	-91	-159	-93	-21
<b>Cash flows from investing activities</b>	<b>-1,179</b>	<b>-2,315</b>	<b>-1,626</b>	<b>-310</b>
<b>Free cash flows</b>	<b>-700</b>	<b>-1,626</b>	<b>-434</b>	<b>-218</b>
<b>Financing by non-shareholders:</b>				
Financing by non Repayment of (-)/proceeds from interest bearing debt	460	1,950	328	261
<b>Financing by shareholders:</b>				
Issuing of shares	7	0	7	0
Repurchase/sale of own share	-1	0	0	0
Addition/disposal of minority interest	-3	0	-3	0
Dividends paid	-155	-384	-155	-51
<b>Cash flows from financing activities</b>	<b>308</b>	<b>1,566</b>	<b>177</b>	<b>210</b>
<b>Cash flows from operating, investing and financing activities</b>	<b>-392</b>	<b>-60</b>	<b>-257</b>	<b>-8</b>
Cash and cash equivalents (beginning of period)	958	736	958	99
Foreign exchange adjustment of cash and cash equivalents	31	-21	35	-3
<b>Cash and cash equivalents (end of period)</b>	<b>597</b>	<b>655</b>	<b>736</b>	<b>88</b>

## Equity specification

Million DKK.

All quarterly figures are unaudited.

	Share capital <sup>1)</sup>	Share premium	Proposed dividend	Hedge accounting reserve	Currency translation adjustments	Reserve own shares	Minority interests	Other reserves	Total
<b>Balance at 1 January 2005</b>	<b>1,023</b>	<b>79</b>	<b>152</b>	<b>54</b>	<b>-381</b>	<b>-12</b>	<b>13</b>	<b>6,859</b>	<b>7,787</b>
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
<b>Balance at 31 December 2005</b>	<b>1,023</b>	<b>0</b>	<b>184</b>	<b>125</b>	<b>-152</b>	<b>-12</b>	<b>16</b>	<b>7,509</b>	<b>8,693</b>
Net profit							4	845	849
Other adjustments				119					119
Currency translation adjustments					-48		1		-47
Total income				119	-48		5	845	921
Dividends to shareholders			-184				-3	-340	-527
Shares issued/sold							8		8
<b>Balance at 30 September 2006</b>	<b>1,023</b>	<b>0</b>	<b>0</b>	<b>244</b>	<b>-200</b>	<b>-12</b>	<b>26</b>	<b>8,014</b>	<b>9,095</b>

<sup>1)</sup> 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	Total
	EU	Europe	Asia	America			America	East	
Net sales Q3 2005 YTD	7,465	1,233	1,137	1,027	367	269	398	249	12,145
Net sales Q3 2006 YTD	8,459	1,552	1,474	1,270	367	244	453	237	14,056

Net sales are based on customer location.

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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:	Q3 2005 Closing rates	Q3 2006 Closing rates	2005 Closing rates	Q3 2005 Average rates	Q3 2006 Average rates	2005 Average rates
EUR	7.46	7.46	7.46	7.45	7.46	7.45
GBP	10.94	11.00	10.89	10.88	10.90	10.90
USD	6.20	5.89	6.32	5.91	6.00	6.00

## Accounting principles:

Since 2002, Danfoss has prepared the accounts according to IFRS (International Financial Reporting Standards). These 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.