

Press release

Danfoss A/S

First quarterly report 2007

Danfoss is one of Denmark's largest industrial companies. The global Group is a leader within research, development, production, sales and service of mechanical and electronic components and solutions 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 the least possible consumption of raw materials and energy, a minimum 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.

"It was a good quarter for Danfoss and, generally, we are satisfied with the development. However, indications are beginning to show that some markets are declining, so we do not think that growth will continue at the same high level during the second half-year. But, we are happy to note that growth continued on the Chinese and Russian markets and we expect these markets to account for a major part of Danfoss' growth within the coming years."

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

Highlights from the first quarter of 2007:

- **Net sales** increased by 23% to 5.3bn DKK from 4.4bn DKK in the same period last year. Growth was 19%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments, compared to 13% in the same period the year before.
- **Operating profit (EBIT)** increased to 417 million DKK from 249 million DKK in the first quarter of 2006.
- **Profit before tax** was 513 million DKK against 262 million DKK in the same period last year. The 2007 profit includes extraordinary income of 187 million DKK from the sale of Damcos A/S.
- **The number of employees** increased to 21,299 from 18,639 at the same time in 2006.

Expectations for 2007:

- Danfoss retains its expectations for both net sales and profit for 2007, as was announced in connection with the publication of the 2006 accounts.
- Consequently, the net sales are expected to be between 21 and 22 billion DKK. Compared to 2006, this will equal growth of between 8% and 13%.
- The operating profit (EBIT) is expected to be between 1.6 and 1.8 billion DKK, of which acquired companies are expected to contribute with 50 million DKK. The full impact of the companies acquired in 2006 is not expected to show until the 2008 profits. The EBIT margin is expected to be around 8%.
- Any impact of future acquisitions and divestments has not been included in the expectations.

Nordborg, May 14, 2007

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

Financial highlights

Million DKK (unless otherwise stated) All quarterly figures are unaudited.	Q1 2006	Q1 2007	Change in %	2006	Q1 2006 EUR	Q1 2007 EUR
Profit and Loss Accounts						
Net sales	4,363	5,349	23%	19,428	585	718
EBITDA	456	648	42%	2,425	61	87
<i>EBITDA Margin</i>	10.5%	12.1%		12.5%	10.5%	12.1%
Operating profit (EBIT)	249	417	67%	1,601	33	56
<i>EBIT Margin</i>	5.7%	7.8%		8.2%	5.7%	7.8%
Profit before tax	262	513	96%	1,402	35	69
<i>Return on Sales</i>	6.0%	9.6%		7.2%	6.0%	9.6%
Key figures¹⁾:						
Free cash flow	-473	-357		-1,699	-63	-48
Net interest bearing debt	1,291	3,244	151%	2,866	173	435
RONA ²⁾	2.9%	3.8%		16.8%	2.9%	3.8%

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 deducting investments in associates and joint ventures, cash and cash equivalents, total provisions and interest bearing debt.

Continued progress in Russia and China and the favourable development on the European main markets benefit Danfoss in the first quarter

The Danfoss Group's **net sales** increased by 23% to 5.3bn DKK from 4.4bn DKK in the year before. Growth was 19%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments. The operating profit (EBIT) increased to 417 million DKK from 249 million DKK in 2006.

The positive development of 2006 continued in 2007, resulting in one of the best quarterly results that the Group has had in many years. It was this very favourable continuing development, with double-digit growth rates on the European main market, which drove the good quarterly result. However, the markets in North and Latin America and Asia, particularly China, also showed major progress. Significant success in China had the effect of making the Chinese market Danfoss' fifth largest during the quarter, which meant that, for the first time, sales in China exceeded sales in the Danish market.

All three divisions contributed to growth during the quarter.

Even though the level of activity on the Group's markets was high throughout the first quarter, signs are beginning to show that growth in several of the markets will decrease during the second half-year. Combined with the continued high price of raw materials, this could have a negative impact on the 2007 profit. It is, however, too soon to estimate whether this will influence the expectations for the 2007 profit and Danfoss therefore retains its expectations for the year.

The operating profit (EBIT) was 417 million DKK compared with 249 million DKK in the year before, equalling growth of 67%. The operating profit is therefore considered very satisfactory.

Income from joint ventures and associates amounted to 196 million DKK, against 57 million DKK in the year before. This item also includes, among other things, 187 million DKK which is part of the profit from the sale of Damcos A/S, as well as a share of the operating profit from Sauer-Danfoss Inc. which was 33 million DKK compared with 63 million DKK in the year before.

Financial net items showed a deficit of 100 million DKK compared to a deficit of 44 million DKK in the year before. This development was primarily due to positive exchange rate adjustments in the first quarter of 2006 of 5 million DKK, compared to -29 million DKK in 2007. In addition, 32 million DKK have been spent on the Group's share remuneration schemes in the first quarter of 2007, compared to 27 million DKK in 2006. Furthermore, the net interest expenses increased by 17 million DKK as a result of increased loans and an increased level of interest.

Net interest-bearing debt amounted to 3,244 million DKK at the end of the first quarter of 2007, as opposed to 1,291 million DKK at the same time in 2006. This increase in debt can primarily be attributed to loans in connection with the financing of acquisitions during 2006. For the same reason, the group's leverage (net interest-bearing debts as a percentage of shareholders' equity) rose to 34% from 15% in the previous year.

The profit before tax rose to 513 million DKK from 262 million DKK, while the **result for the year** was 428 million DKK compared with 197 million DKK in the year before.

The shareholders' equity was 9,454 million DKK, equalling an equity ratio of 48.2% compared to 48.6% at the end of 2006.

The free cash flow, which is a combination of cash flows from operating activities of - 328 million DKK and cash flows from investing activities of - 29 million DKK, was - 357 million DKK compared with -473 million DKK in 2006. The positive development in earnings was balanced by an increased level of binding liquidity in connection with the higher level of activity.

The research and development costs were 201 million DKK, compared to 179 million DKK the year before. This equals an increase of 12%, which corresponds to approx. 3.9% of net sales.

Acquisitions and sale of companies

In January, Danfoss obtained approval from the authorities to sell its 25% ownership share in Damcos A/S, which produces systems for the remote control of valves and tank measuring on ships, to the American company Emerson Electric.

In March, Danfoss took over PowerLynx A/S, Sønderborg, Denmark. The company develops and sells power-electronic products for the solar power sector and employs 67 people.

Changes in employee numbers and the Danfoss Board

At the end of the first quarter of 2007, the Danfoss Group employed 21,299 people, an increase of 2,660 employees compared to the first quarter of 2006.

There were 16,049 employees in Europe (14,768); 2,596 in North America, including Mexico (1,622); 2,319 in Asia-Pacific, including China (1,752); and 355 in other regions (497). In Denmark, 6,308 people were employed at the end of the period, compared to 5,917 in the year before.

In connection with the Annual General Meeting on April 20, Bill Hoover was elected a new member of the Danfoss Board, as a replacement for Daniel Meiland. Subsequently, the Board elected Henrik E. Nyegaard as its own Chairman and Hans Michael Jebsen as Vice-Chairman.

Events following the end of the quarter

In April, Danfoss sold the development, sale and production activities of Convec climate panels to Meinertz A/S in Skanderborg, Denmark.

Also in April, Danfoss took over the Norwegian heat pump company Normann Etek A/S. The company employs 13 people and had net sales of 50 million NOK in 2006.

Expectations for 2007

Danfoss retains its expectations for the entire year, even though the high growth in the first quarter is not expected to continue at the same level throughout the year.

The Danfoss Group expects the following for 2007:

- Net sales are expected to be between 21 and 22 billion DKK. This equals growth of between 8% and 13% compared to 2006. Companies acquired in 2006 are expected to contribute to the net sales by approximately 1.5 billion DKK in 2007.
- The operating profit (EBIT) is expected to be between 1.6 and 1.8 billion DKK. The acquired companies are expected to make up around 50 million DKK of this amount. The full impact of the companies acquired in 2006 is not expected to show until the 2008 profits.
- The EBIT margin is expected to be around 8%.
- Any impact of future acquisitions and divestments has not been included in the expectations.

Assumptions and risks:

In 2007, growth is expected to be generated primarily from the North and Latin American markets, Asia and, not least, the Chinese market. Also, the markets in Central and Eastern Europe, including Germany and Russia in particular, are expected to continue to grow in 2007.

A large part of Danfoss' sales outside Europe are settled in dollars. A low dollar exchange rate could therefore mean a moderate growth in net sales, when converted to Danish Kroner. The expectations are based on a dollar exchange rate of 5.90 DKK/USD.

The price of raw materials in 2007 is expected to be subject to major fluctuations, but the general expectation is that prices will remain high. Danfoss will try to hedge selected raw materials and thereby try to even out some of the major fluctuations in raw material prices.

Danfoss' core business areas

*“The high level of activity in the market means that the **Danfoss Refrigeration & Air Conditioning Division** has had difficulties keeping up with demand but, luckily, thanks to our productivity programs, we have been able to produce more than the existing production facilities would have been able to.”*

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

Danfoss Refrigeration & Air Conditioning Division experienced a positive development in both net sales and profit. Net sales rose by 26% to 2,847 million DKK from 2,256 million DKK. Calculated at last year's level of exchange rates and adjusted for acquisitions and divestments, the growth was 21% compared to 12% in the year before.

Danfoss Refrigeration & Air Conditioning Division					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 2006	Q1 2007	Change in %	2006	Q1 2007 EUR
Net sales	2,256	2,847	26%	9,782	382
Operating profit (EBIT)	182	288	58%	761	39
EBIT Margin	8.0%	10.1%		7.8%	10.1%
Net assets	4,350	6,017	38%	5,636	808
Capital expenditure	91	95	4%	2,214	13
Number of employees	9,553	11,151	17%	10,787	

The positive sales development of 2006 continued on the European markets in the quarter and the German market in particular experienced a major increase. The Chinese and American markets also showed excellent increases in growth and, on these markets, the acquired companies in particular contributed positively to the growth.

A few markets showed signs of a slowdown in growth.

Operating profit (EBIT) was 288 million DKK compared with 182 million DKK in the previous year. This equals an increase of 58%.

“The continued high prices of raw materials are putting pressure on the profit of the **Danfoss Heating Division**. A high level of growth has compensated for this development.”

Frederik Lotz, Executive Vice President and CFO, Danfoss A/S

Danfoss Heating Division experienced an increase in both net sales and profit in the first quarter. Net sales rose by 17% to 1,388 million DKK from 1,187 million DKK. Calculated at last year’s level of exchange rates and adjusted for acquisitions and divestments, growth amounted to 16%, which was the same as the year before.

Danfoss Heating Division					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 2006	Q1 2007	Change in %	2006	Q1 2007 EUR
Net sales	1,187	1,388	17%	5,664	186
Operating profit (EBIT)	103	110	7%	726	15
EBIT Margin	8.7%	7.9%		12.8%	7.9%
Net assets	3,141	3,931	25%	3,683	528
Capital expenditure	38	66	74%	810	9
Number of employees	4,586	5,208	14%	5,088	

The continued focus on the environment and renewable energy, not least in the EU, means that the Division’s products are in high demand. Sales in the Division’s main markets in Europe generally developed positively. The increase on the Russian market continued in the quarter and showed decent double-digit growth rates. The positive development of 2006 continued on the Asian markets, where the Chinese market in particular was the driving force behind the growth.

The continued high price of copper, brass and steel, among other things, put pressure on earnings.

The operating profit (EBIT) rose to 110 million DKK from 103 million DKK, which is an increase of 7%.

“Generally, there was a high level of activity on the main markets of the **Danfoss Motion Controls Division** and we expect it to remain at the same level during the next quarters. The acquisition of PowerLynx had a negative effect on the profit during the quarter, but we are convinced that the profit in the next quarters will improve.”

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

Danfoss Motion Controls Division achieved a positive sales development during the quarter. Net sales rose to 1,017 million DKK from 896 million DKK, an increase of 14%. When calculated at last year’s exchange rates and adjusted for acquisitions and divestments, the growth in net sales was 16% compared to 14% in the year before.

<i>Danfoss Motion Controls Division</i>					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 2006	Q1 2007	Change in %	2006	Q1 2007 EUR
Net sales	896	1,017	14%	3,759	136
Operating profit (EBIT)	80	67	-16%	342	9
EBIT Margin	8.9%	6.6%		9.1%	6.6%
Net assets	1,072	1,214	13%	1,002	163
Capital expenditure	38	165	334%	180	22
Number of employees	3,180	3,551	12%	3,387	

The growth in the markets in Europe, Latin America, Russia and China continued in the quarter and the Division’s products were generally in high demand.

The operating profit (EBIT) fell by 16% to 67 million DKK from 80 million DKK the year before. The operating profit of this quarter was negatively affected by the acquisition of PowerLynx A/S.

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 38.2 % of the shares in Sauer-Danfoss Inc.

<i>Sauer-Danfoss Inc</i>				
Million USD (unless otherwise stated).	Q1 2006	Q1 2007	Change in %	2006
Net sales	484	523	8%	1,739
Profit after tax	26	15	-42%	54

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

Mill. DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 2006	Q1 2007	Change in %	2006	Q1 2007 EUR
Profit and loss account:					
Net sales ¹⁾	4,363	5,349	23%	19,428	718
EBITDA	456	648	42%	2,425	87
Operating profit excl. other income and expenses	247	400	62%	1,411	54
Operating profit (EBIT)	249	417	67%	1,601	56
Income from associates and joint ventures	57	196	244%	91	26
Financial income/expenses	-44	-100	127%	-290	-13
Profit before Tax (EBT)	262	513	96%	1,402	69
Net Profit	197	428	117%	1,038	57
¹⁾ Total growth in net sales:	18%	23%		18%	
Real growth in %	13%	19%		14%	
Exchange rates in %	3%	-3%		0%	
Acquired/sold activities net in %	2%	7%		4%	
Balance Sheet:					
Total non-current assets	7,812	10,298		10,132	1,382
Assets	15,332	19,540		18,534	2,622
Total shareholders' equity	8,955	9,454		9,035	1,269
Net interest-bearing debt	1,291	3,244	151%	2,866	435
Net assets	9,037	11,505	27%	10,736	1,544
Capital expenditure	185	333	80%	3,401	45
Cash flow statement:					
Cash flows from operating activities	-150	-328		1.321	-44
Cash flows from investing activities	-324	-29		-3.020	-4
hereof net investments of assets	-174	-206		-1.000	-28
hereof net investments in companies	-20	-37		-1.995	-5
Free cash flow	-473	-357		-1.699	-48
Cash flows from financing activities	325	376		1.877	51
Key figures:					
Number of employees (end of period)	18,639	21,299	14%	20,612	
EBIT margin	5.7%	7.8%		8.2%	
EBITDA margin	10.5%	12.1%		12.5%	
RONA ¹⁾	2.9%	3.8%		16.8%	
Return on equity	2.3%	4.6%		11.9%	
Equity ratio	58.3%	48.2%		48.6%	
Leverage ratio	14.5%	34.4%		31.8%	

¹⁾ 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 interest bearing debt.

Profit & Loss Account

Mill. DKK (unless otherwise stated) All quarterly figures are unaudited.	Q1 2006	Q1 2007	Change in %	2006	Q1 2007 EUR
Net sales	4,363	5,349	23%	19,428	718
Net sales Danfoss Services etc.	119	125	5%	474	17
Cost of sales	-3,172	-3,892	23%	-14,053	-523
Gross profit	1,310	1,582	21%	5,849	212
	30.0%	29.6%		30.1%	29.6%
Distribution expenses	-869	-989	14%	-3,756	-132
Administrative expenses	-194	-193	-1%	-682	-26
Operating profit excl. other income and expenses	247	400	62%	1,411	54
	5.7%	7.5%		7.3%	7.5%
Other operating income and expenses	2	17	***	190	2
Operating profit (EBIT)	249	417	67%	1,601	56
	5.7%	7.8%		8.2%	7.8%
Income from associates and joint ventures	57	196	244%	91	26
Financial income/expenses	-44	-100	127%	-290	-13
Profit before tax	262	513	96%	1,402	69
Corporate tax expenses	-65	-85	31%	-364	-12
Net profit	197	428	117%	1,038	57

Balance sheet

Mill. DKK.	Q1 2006	Q1 2007	2006	Q1 2007 EUR
ASSETS				
Non-current assets				
Intangible fixed assets	1,769	3,973	3,874	533
Tangible fixed assets	4,300	4,618	4,612	620
Non-current financial assets	1,743	1,707	1,646	229
Total non-current assets	7,812	10,298	10,132	1,382
Current assets				
Inventories	2,585	3,320	2,799	446
Accounts receivable	4,353	5,018	4,717	673
Cash and cash equivalents	582	904	886	121
Total current assets	7,520	9,242	8,402	1,240
Total assets	15,332	19,540	18,534	2,622
LIABILITIES AND SHAREHOLDERS' EQUITY				
Total shareholders' equity	8,955	9,454	9,035	1,269
Non-current liabilities	2,387	4,532	3,732	607
Current liabilities	3,990	5,554	5,767	746
Total liabilities	6,377	10,086	9,499	1,353
Total liabilities and shareholders' equity	15,332	19,540	18,534	2,622

Statement of cash flows

Mill. DKK.	Q1 2006	Q1 2007	2006	Q1 2007 EUR
Operating profit (EBIT)	249	417	1,601	56
Adjustments for non-cash transactions	175	117	614	16
Changes in working capital	-475	-770	-399	-103
Cash flows generated from operations before interest	-51	-236	1,816	-31
Financial income	4	8	24	1
Financial expenses	-27	-46	-186	-6
Dividends received	2	32	59	4
Cash flows from operations before tax	-72	-242	1,713	-32
Paid tax	-78	-86	-392	-12
Cash flows from operating activities	-150	-328	1,321	-44
Acquisition of intangible fixed assets	-27	-30	-121	-4
Acquisition of tangible fixed assets	-152	-182	-1,000	-25
Proceeds from sale of tangible fixed assets	5	6	206	1
Acquisition of subsidiaries etc.	-20	-37	-1,995	-5
Proceeds from disposal of subsidiaries etc.	1	0	59	0
Acquisition (-) and sale of other investments etc.	-130	214	-169	29
Cash flows from investing activities	-323	-29	-3,020	-4
Free cash flow	-473	-357	-1,699	-48
Financing by non-shareholders:				
Financing by Repayment of (-)/proceeds from interest bearing debt	325	377	2,258	51
Financing by shareholders:				
Issuing of shares	0	0	10	0
Repurchase/sale of own shares	0	-1	-7	0
Addition/disposal of minority interest	0	0	0	0
Dividends paid	0	0	-384	0
Cash flows from financing activities	325	376	1,877	51
Net change in cash and cash equivalents	-148	19	178	3
Cash and cash equivalents (beginning of period)	736	886	736	119
Foreign exchange adjustment of cash and cash equivalents	-6	-1	-28	-1
Cash and cash equivalents (end of period)	582	904	886	121

Equity specification

Mill. DKK.

	Share capital	Hedging reserve	Translation reserve	Reserve own shares	Other reserves	Reserves	Proposed dividend	Danfoss A/S' share of equity	Minority interest	Total equity
Balance at 1 January 2006	1,023	125	-152	-12	7,301	7,262	184	8,469	16	8,485
Total recognised income and expense		51	-105		855	801	204	1,005	5	1,010
Dividends to shareholders					-340	-340	-184	-524	-3	-527
Shares issued/capital reduction	1			-7	10	3		4	10	14
Share based payments					53	53		53		53
Balance at 31 December 2006	1,024	176	-257	-19	7,879	7,779	204	9,007	28	9,035
Total recognised income and expense		-31	1		425	395		395		395
Dividends to shareholders										0
Shares issued/capital reduction									5	5
Share based payment					19	19		19		19
Balance at 31 March 2007	1,024	145	-256	-19	8,323	8,193	204	9,421	33	9,454

¹⁾ Distribution of shares:
A-shares: DKK 425. mil.
B-shares: DKK 598.5 mil.

Geographical segments

Mill. DKK.

Group	EU	Rest of Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales Q1 2006	2,673	423	448	401	116	80	148	74	4,363
Net sales Q1 2007	3,122	532	590	653	82	82	174	114	5,349

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:	Q1 2006 Closing rates	Q1 2007 Closing rates	2006 Closing rates	Q1 2006 Average rates	Q1 2007 Average rates	2006 Average rates
EUR	7.46	7.45	7.46	7.46	7.45	7.46
GBP	10.72	10.96	11.10	10.87	11.11	10.94
USD	6.17	5.59	5.66	6.21	5.69	5.95

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 2006 Annual Report. For a detailed description of these, please refer to the Danfoss A/S Annual Report 2006.