

Danfoss A/S

First quarterly report 2009

Danfoss is one of Denmark's largest industrial companies. The global Group is a leader in the 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 a leader in its field. Danfoss has a controlling 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.

"Danfoss has a strong belief that our operating profit is set to improve as we approach the end of the year; it is now possible to calculate the effects of the many initiatives that we have carried out to counter the global crisis. This does not change the fact that we, as expected, continue to be hit by the global recession and that the numerous restructuring activities and cost reductions will not be apparent until the second half-year and in 2010. Therefore, the first quarter generated a negative result, which is entirely in line with our expectations. We also expect a negative and weak second quarter, since we do not anticipate the overall market conditions to improve in the course of 2009. So the possibility remains for further initiatives to introduce additional restructurings, if the situation worsens. Net sales have reached a comparatively stable level, so the effect of the restructuring activities will mean that we will obtain improved profit in the second half-year. However, this will not compensate for the expected negative first half-year, which is why our expectations of a loss for 2009 is maintained."

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

Highlights from the first quarter of 2009:

The comparison figures are affected by the fact that Sauer-Danfoss is not included in the 2008 figures for the first half-year, whereas Sauer-Danfoss is fully consolidated from July 1, 2008.

- **Net sales** were 6.5bn DKK, which equals growth of 20%. When adjusted for acquisitions, divestments and foreign currency translations, growth fell by 16%, compared to growth of 2% in the same period the year before.
- **The profit before other income and expenses** was a deficit of 379m DKK, whereas the **operating profit (EBIT)** showed a loss of 447m DKK.
- **The profit before tax** was a deficit of 562m DKK, and the profit after tax was a loss of 398m DKK.

Expectations for 2009:

Danfoss maintains its expectations for both the net sales and profit for 2009, as announced in the 2008 Annual report.

- In spite of Sauer-Danfoss' effect on the entire year, net sales are expected to fall slightly compared with 2008.
- In total, following the recognition of Sauer-Danfoss, Danfoss expects to end 2009 with a negative result.

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Financial Highlights

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

	Q1 2008	Q1 2009	Change in %	2008	Q1 2009
					EUR
Profit and loss accounts:					
Net sales ¹⁾	5,385	6,454	20%	27,127	866
EBITDA	522	62	-88%	2,099	8
Operating profit excl. other income and expenses	275	-379	***	687	-51
Adjusted EBIT	295	-335	-213.6%	891	-45
Operating profit (EBIT)	272	-447	***	410	-60
Income from associates and joint ventures	41	-7	-117%	44	-1
Financial income/expenses	-149	-108	-28%	-579	-14
Profit before tax (EBT)	164	-562	***	-125	-75
Net profit	125	-398	***	-157	-53
¹⁾ Total growth in net sales:	1%	20%		22%	
Real growth in %	2%	-16%		2%	
Exchange rates in %	-3%	-1%		-3%	
Acquired/sold activities net in %	2%	37%		23%	
Balance sheet:					
Total non-current assets	11,176	21,638	94%	21,237	2,905
Assets	20,419	33,224	63%	32,928	4,461
Total shareholders' equity	9,907	11,495	16%	11,867	1,543
Net interest-bearing debt	4,498	10,436	132%	9,776	1,401
Net assets	13,095	21,598	65%	21,326	2,900
Capital expenditure	384	307	-20%	12,614	41
Cash flow statement:					
Cash flow from operating activities	-368	-54	-85%	1,428	-7
Cash flow from investing activities	-394	-299	-24%	-4,543	-40
hereof net investments of intangible assets	-376	-273	-27%	-2,167	-36
hereof net investments in companies	-16	0	-100%	-2,383	-1
Free Cash flow	-762	-353	-54%	-3,115	-47
Free cash flow before M&A	-737	-333	-55%	-639	-45
Cash flow from financing activities	619	548	-11%	3,050	73
Key figures:					
Number of employees (end of period)	22,540	29,004	29%	31,717	
EBIT margin excl. other operating income etc.	5.1%	-5.9%	-11.0	2.5%	
EBIT margin	5.0%	-6.9%	-11.9	1.5%	
Adjusted EBIT margin	5.4%	-5.2%	-10.6	3.3%	
EBITDA margin	9.7%	1.0%	-8.7	7.7%	
RONA ¹⁾	2.1%	-2.1%	-4.2	2.4%	
Return on equity	1.3%	-4.2%	-5.5	-0.9%	
Equity ratio	48.4%	34.6%	-13.8	36.0%	
Leverage ratio	45.5%	90.8%	45.3	82.4%	

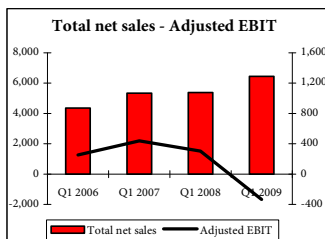
1) RONA (Return On Net Assets)

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 non-interest bearing debt.

Deficit in line with expectations

The Danfoss Group's **net sales** in the first quarter were 6,454m DKK compared to 5,385m DKK in 2008. The comparison figures are influenced by the fact that Sauer-Danfoss is not included in the first quarter figures of 2008. Converted at last year's exchange rate level and adjusted for acquisitions (including Sauer-Danfoss) and divestments, the Group's growth fell by 16%, compared to growth of 2% in 2008. The divisional organic growth was -22% in the Danfoss Refrigeration & Air Conditioning Division, -8% in the Danfoss Heating Division, and net sales fell by 14% in the Danfoss Motion Controls Division. Sauer-Danfoss had a negative growth of 38%.



The financial crisis continued to impact Group net sales in the first quarter. The major uncertainty and reluctance in the market stemming from the fourth quarter 2008 in particular continued in 2009. The development meant that customers were reluctant to place new orders, which is clearly reflected in the sales figures. Therefore, net sales fell by double-digit percentages on almost all markets, including the crucial markets of Germany, Russia, China and USA. The only bright spot is Latin America which generated moderate growth rates.

Even though various cost-reducing measures were implemented in 2008, it was not possible to reduce the operational costs proportionally with the fall in net sales. Therefore, the Group was forced to reduce the number of staff due to lack of orders. Should the present situation continue or worsen, further cuts cannot be ruled out. The cuts in the staff also mean that non-recurrent costs and provisions made for future liabilities are included in the Profit and Loss Account.

The uncertainty and nervousness on the markets are expected to continue for the rest of 2009. There are no immediate indications that this trend will change in 2009.

The result before other income and expenses showed a loss of 379m DKK compared to a profit of 275m DKK in the first quarter of 2008. The result is negatively affected by, among other things, accounting adjustments of 93m DKK following the acquisition of the controlling interest in Sauer-Danfoss.

Adjusted EBIT was -335m DKK compared to 295m DKK in the same period the previous year. The result is negatively affected, among other things, by the inclusion of Sauer-Danfoss' negative result. In addition, it was not possible to reduce the operational costs proportionally with the fall in net sales. The implemented restructuring activities are not expected to impact until the second half-year.

Adjusted EBIT margin, measured against the EBIT before costs and depreciations as a result of the re-evaluation of assets and liabilities in connection with company acquisitions, was -5.2% compared with 5.4% last year.

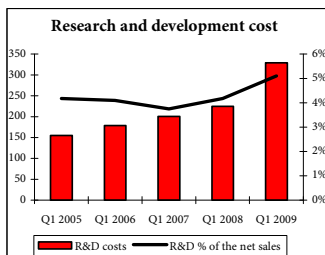
Operating profit (EBIT) showed a loss of 447m DKK compared to a profit of 272m DKK in the first quarter of 2008. The result was affected by accounting adjustments following the acquisition of the controlling interest in Sauer-Danfoss of 93m DKK. The result was also affected by costs incurred in connection with the implemented restructuring costs.

The share of profit from associates/joint ventures was -7m DKK compared to 41m DKK the previous year. Sauer-Danfoss is included in the result in the first quarter of 2008.

The profit before tax decreased to -562m DKK from 164m DKK. The **profit after tax** was -398m DKK compared to 125m DKK the previous year. Even though the result is entirely in line with expectations, the result is not considered satisfactory.

Equity was 11,495m DKK at the end of the first quarter of 2009 compared to 9,907m DKK the year before. The increase is mainly a result of the inclusion of minority interests in Sauer-Danfoss.

Free cash flow, which is a combination of cash flows from operating activities of -54m DKK and cash flows from investing activities of -299m DKK, was -353m DKK, which is 409m DKK more than in 2008. The free cash flow before M&A was -333m DKK compared with -737m DKK in 2008. The primary reason of the increase is an improved working capital and fewer investments in machines and buildings.



In the first quarter, Danfoss spent 5.1% (2008: 4.2%) of net sales on research and development, including venture activities, equalling 329m DKK. In spite of the uncertainties surrounding the development, Danfoss has decided to maintain the scope of investments in energy-efficient solutions and, consequently, the forward-looking projects which are set to secure the Group's long-term competitiveness.

Employee numbers

At the end of the first quarter, the Danfoss Group employed 29,004 people, an increase of 6,464 employees compared with 2008. The Group's employees are distributed as follows: 12,336 in Europe (excl. Denmark) (2008: 10,457); 4,392 in North America incl. Mexico (2,597); 458 (230) in Latin America; 3,659 in Asia-Pacific incl. China (2,782) and 69 in other regions (72). In Denmark, 8,090 people were employed at the end of the first quarter, compared with 6,402 the year before.

At the Danfoss A/S Annual General Meeting held on April 24, 2009, Kasper Rørsted was elected to the Board, succeeding Henrik E. Nyegaard and Sven Murmann, who did not wish to stand for re-election. The Board elected Jørgen M. Clausen as Chairman of the Board and Hans Michael Jebsen as Vice-Chairman.

Events after the end of the quarter

In April, as a consequence of the continuing financial crisis, Danfoss announced that it plans to close Danfoss Bauer's factory in Munich by the end of 2009. The closure will affect 135 employees. The plan is to move the assembly of small geared motors from Munich to Zlate Moravce in Slovakia and the production of gears to a sub-supplier.

The continuing decrease of the order volume forced Danfoss to cut the number of staff in April by an additional 80 employees at various locations in Denmark.

Expectations for 2009

Danfoss maintains its expectations for both net sales and profit for 2009. Net sales are expected to fall slightly compared to 2008.

The profit will again be affected in 2009 by accounting adjustments of between 315 and 340m DKK due to the acquisition of the controlling interest in Sauer-Danfoss. At the same time, the inclusion of the expected negative profit in Sauer-Danfoss in 2009 will also have a negative impact on the Group's profit.

In addition, the restructuring costs and non-recurrent expenses and provisions made in connection with the reduction of employees will strain the profit.

Overall, on the basis of the inclusion of Sauer-Danfoss, Danfoss expects to end 2009 with a deficit.

Since it is not possible to reduce the operational costs proportionally with the development in activities, it is expected that Danfoss' profit for the first half-year will be more negatively affected than that of the second half-year.

The impact of the global crisis means that Danfoss' investment in Sauer-Danfoss will not lead to any short-term increases in the profit. However, Danfoss still has confidence in Sauer-Danfoss' positive long-term prospects and that it will add to the Danfoss Group's total growth rates.

Prerequisites and risks:

The recession is expected to continue in 2008, and it is highly likely that it will take a few years before the financial trends improve notably. Consequently, no growth is expected during 2009 on the Group's markets. The markets in China, India and the USA are expected, however, to show slight growth rates.

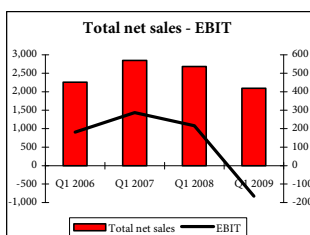
The decreasing prices of raw materials are not expected to have any short-term effect on the Group's profit. Danfoss has hedged some of the currency exposure for up to 12 months and a major part of the consumption of raw materials for up to 15 months.

Danfoss Refrigeration & Air Conditioning Division

“The dramatic decrease in the order volume that we witnessed in the course of the first quarter in **Danfoss Refrigeration & Air Conditioning Division** hit the net sales and the profit hard. The implemented restructuring and rationalisation initiatives can not be expected to have any short-term effect and so an improvement should not be expected until in the second half-year of 2009, at the earliest. The full benefit is set to show in 2010.”

Kim Fausing, Executive Vice President and COO, Danfoss A/S

Net sales fell by 22% to 2,093m DKK from 2,682m DKK. Adjusted for acquisitions, divestments and currency translation, net sales still fell by 22%.



DKK Mill. (unless otherwise stated) All quarterly figures are unaudited.	Q1 2008	Q1 2009	Change in %	2008	Q1 2009 EUR
Net sales	2,682	2,093	-22%	10,783	281
Operating profit (EBIT)	216	-166	-177%	334	-22
EBIT Margin	8.1%	-7.9%		3.1%	-7.9%
Net Assets	6,052	5,901	-2%	5,734	792
Capital expenditure	123	71	-42%	803	10
Number of employees	11,187	9,835	-12%	10,757	

The fall in demand had a notable effect on all business areas and regions, but Denmark, Italy, Russia and China were hit especially hard. One of the few bright spots was Latin America with moderate growth in sales.

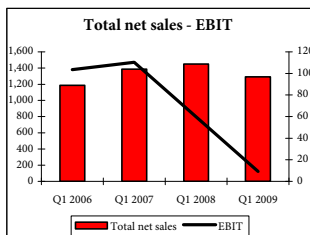
The operating profit (EBIT) ended at -166m DKK, compared with 216m DKK in 2008. This result is affected by the influence of restructuring costs, non-recurrent expenses and provisions made for the reduction in the number of employees.

Danfoss Heating Division

*“I am pleased that there are still some markets at **Danfoss Heating Division** which stand out positively in the present situation. The progress on the important German market is driven by investments in energy-efficient solutions.”*

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

Net sales fell by 11% to 1,291m DKK from 1,450m DKK. Adjusted for acquisitions, divestments and currency translations, the drop amounted to 8%.



DKK Mill. (unless otherwise stated)	Q1 2008	Q1 2009	Change in %	2008	Q1 2009 EUR
All quarterly figures are unaudited.					
Net sales	1,450	1,291	-11%	6,797	173
Operating profit (EBIT)	60	9	-85%	602	1
EBIT Margin	4.1%	0.7%		8.9%	0.7%
Net Assets	4,767	4,616	-3%	4,662	620
Capital expenditure	95	34	-64%	477	5
Number of employees	5,949	5,623	-5%	5,925	

As was the case with the preceding two quarters, net sales in the first quarter was negatively affected by the slow-down on almost every key market. Especially in Scandinavia, England, Russia, Poland and France, sales decreased substantially. However, some markets countered the negative trend. The markets in Germany, Austria and the USA showed increasing sales rates compared to the same period in 2008.

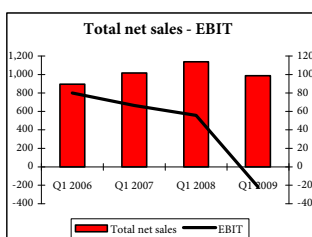
Operating profit (EBIT) was 9m DKK from 60m DKK in the year before.

Danfoss Motion Controls Division

*“Although we find ourselves in the midst of a global crisis, it is important to investigate new opportunities and markets. At the **Danfoss Motion Controls Division**, we believe renewable energy will offer new growth opportunities and we expect to gain much from that area over the next years.”*

Kim Fausing, Executive Vice President and COO, Danfoss A/S

Net sales were 986m DKK compared to 1,138m DKK, equalling a drop of 13%. Adjusted for acquisitions, divestments and currency translations, the decrease was 14%.



DKK Mill. (unless otherwise stated)	Q1 2008	Q1 2009	Change in %	2008	Q1 2009 EUR
All quarterly figures are unaudited.					
Net sales	1,138	986	-13%	4,755	132
Operating profit (EBIT)	56	-22	-139%	352	-3
EBIT Margin	4.9%	-2.2%		7.4%	-2.2%
Net Assets	1,426	1,600	12%	1,539	215
Capital expenditure	90	60	-33%	295	8
Number of employees	3,927	3,869	-1%	3,976	

In the first quarter, sales on the most important European market were hit hard by the global recession. Net sales on the markets in Russia and Asia were also affected. Meanwhile, the sales on the markets in North and Latin America increased slightly.

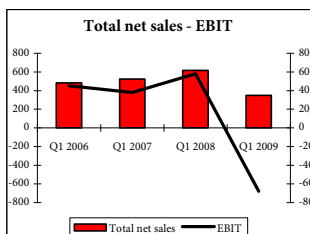
The operating profit (EBIT) showed a loss of 22m DKK compared to a profit of 56m DKK the year before.

Sauer-Danfoss

“The first quarter results reflect the severe downturn in virtually every market and region we serve. The decline in sales was particularly steep as our customers have been working down their inventory levels. In addition, earnings were also impacted by the up-front costs of our aggressive cost reduction actions. I am very pleased with the response we have had from all employees in reducing costs. We are staying focused on conserving cash and sizing our business to the lower sales levels we expect for the remainder of this year and into 2010.”

Sven Ruder, President and CEO, Sauer-Danfoss Inc.

Sauer-Danfoss' net sales fell by 43% to 350m USD from 617m USD. The decrease was 38%, when adjusted for foreign currency translations.



USD Mill. (US GAAP) (unless otherwise stated) All quarterly figures are unaudited.	Q1 2008	Q1 2009	Change in %	2008	Q1 2009 EUR
Net sales	617	350	-43%	2,091	
Operating profit (EBIT)	58	-68	***	27	
EBIT Margin	9.4%	-19.4%		1.3%	
Net Assets					
Capital expenditure	35	17		199	
Number of employees	9,853	8,224	-17%	9,584	

*) 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.

Sales in the first quarter were hit hard by the global recession and sales on the markets in Asia, Europe, the Pacific Region and North and Latin America fell by double-digit percentages.

The operating profit (EBIT) was a loss of 68m USD compared with a surplus of 58m USD the year before. The result is affected by non-recurrent expenses incurred in connection with restructurings and resignations as well as a considerable goodwill write downs.

Profit & Loss Account

Mill. DKK (unless otherwise stated)

All quarterly figures are unaudited.

	Q1 2008	Q1 2009	Change in %	2008	Q1 2009 EUR
Net sales	5,385	6,454	20%	27,127	866
Net sales Danfoss Services etc.	137	56	-59%	408	7
Cost of sales	-4,015	-5,389	34%	-20,846	-723
Gross profit	1,507	1,121	-26%	6,689	150
	28.0%	17.4%		24.7%	17.4%
Distribution expenses	-1,015	-1,140	12%	-4,808	-153
Administrative expenses	-217	-360	66%	-1,194	-48
Operating profit excl. other income and expenses	275	-379	***	687	-51
	5.1%	-5.9%		2.5%	-5.9%
Other operating income and expenses	-3	-68	***	-277	-9
Operating profit (EBIT)	272	-447	***	410	-60
	5.0%	-6.9%		1.5%	-6.9%
Income from associates and joint ventures	41	-7	-117%	44	-1
Financial income/expenses	-149	-108	-28%	-579	-14
Profit before tax	164	-562	***	-125	-75
Corporate tax expenses	-39	164	***	-32	22
Net profit	125	-398	***	-157	-53

Balance sheet

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

Q1 2008 Q1 2009 2008 Q1 2009
EUR

Assets
Non-current assets

Intangible fixed assets	4,147	10,769	10,580	1,446
Tangible fixed assets	5,168	9,192	9,191	1,234
Non-current financial assets	1,861	1,677	1,466	225
Total non-current assets	11,176	21,638	21,237	2,905

Current assets

Inventories	3,599	5,137	5,310	690
Accounts receivable	5,111	5,649	5,785	759
Cash and cash equivalents	533	800	596	107
Total current assets	9,243	11,586	11,691	1,556
Total assets	20,419	33,224	32,928	4,461

Liabilities and shareholders' equity

Total shareholders' equity	9,907	11,495	11,867	1,543
Non-current liabilities	4,844	14,593	12,057	1,958
Current liabilities	5,668	7,136	9,004	960
Total liabilities	10,512	21,729	21,061	2,918
Total liabilities and shareholders' equity	20,419	33,224	32,928	4,461

Statement of cash flow

Mill. DKK (unless otherwise stated)

All quarterly figures are unaudited.

Q1 2008 Q1 2009 2008 Q1 2009

EUR

	Q1 2008	Q1 2009	2008	Q1 2009
Operating profit (EBIT)	272	-447	410	-60
Adjustments for non-cash transactions	199	453	2,037	61
Changes in working capital	-675	199	-140	26
Cash flow generated from operations before interest	-204	205	2,307	27
Financial income	7	6	37	1
Financial expenses	-107	-246	-580	-33
Dividends received	17	0	105	0
Cash flow from operations before tax	-287	-35	1,869	-5
Paid tax	-81	-19	-441	-2
Cash flows from operating activities	-368	-54	1,428	-7
Acquisition of intangible fixed assets	-44	-47	-261	-6
Acquisition of tangible fixed assets	-340	-244	-2,084	-33
Proceeds from sale of tangible fixed assets	8	18	178	3
Acquisition of subsidiaries etc.	-16	0	-2,385	0
Proceeds from disposal of subsidiaries etc.	0	0	2	-1
Acquisition (-) and sale of other investments etc.	-2	-26	7	-3
Cash flow from investing activities	-394	-299	-4,543	-40
Free Cash flow	-762	-353	-3,115	-47
Financing by non-shareholders:				
Financing by Repayment of (-)/ proceeds from interest bearing debt	619	625	3,345	83
Financing by shareholders				
Issuing of shares	0	0	41	0
Repurchase/sale of own shares	0	-47	0	-6
Addition/disposal of minority interest	0	0	-12	0
Dividends paid	0	-30	-324	-4
Cash flow from financing activities	619	548	3,050	73
Net change in cash and cash equivalents	-143	195	-65	26
Cash and cash equivalents (beginning of period)	719	596	719	80
Foreign exchange adjustment of cash and cash equivalents	-43	9	-58	1
Cash and cash equivalents (end of period)	533	800	596	107

Equity specification

Mill. DKK (unless otherwise stated)

All quarterly figures are unaudited.

	Share capital ¹⁾	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 2008	1,024	87	-399	-47	8,805	8,446	255	9,725	19	9,744
Total recognised income and expense		-180	-389		886	317	205	522	-73	449
Dividends to shareholders							-255	-255	-68	-323
Purchase of minority interest					-10	-10		-10	-2	-12
									2,184	2,184
Shares issued/capital reduction	3				38	38		41		41
Share based payments					-216	-216		-216		-216
Balance at 31 December 2008	1,027	-93	-788	-47	9,503	8,575	205	9,807	2,060	11,867
Total recognised income and expense		-40	54		-400	-386		-386	64	-322
Dividends to shareholders								0	-6	-6
Purchase of minority interest					-1	-1		-1	4	3
Shares issued/capital reduction				-47		-47		-47		-47
Balance at 31 March 2009	1,027	-133	-734	-94	9,102	8,141	205	9,373	2,122	11,495

¹⁾ Distribution of shares:

A shares: DKK 425 Mill.

B shares: DKK 601.9 Mill.

Geographical segments

DKK Mill. (unless otherwise stated)

All quarterly figures are unaudited.

Group	EU	Rest of Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales Q1 2008	3,083	605	647	578	81	81	197	113	5,385
Net sales Q1 2009	3,215	552	762	1,438	68	97	243	79	6,454

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 2008 Ending rates	Q1 2009 Ending rates	2008 Ending rates	Q1 2008 Average rates	Q1 2009 Average rates	2008 Average rates
EUR	7.46	7.45	7.45	7.45	7.45	7.46
GBP	9.37	8.00	7.65	9.88	8.20	9.40
USD	4.72	5.60	5.28	4.99	5.72	5.10

Accounting principles:

Since 2002, Danfoss has prepared the accounts according to IFRS (International Financial Reporting Standards). For a detailed description of these, please refer to the Danfoss A/S Annual Report 2008.