

Press release

Danfoss A/S

First quarterly report 2008

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.

"In this quarter, Danfoss' sales were affected by the fact that the weakening of the American housing market spread to several of our main markets and product areas. At the same time, the continuing high price of raw materials put pressure on our earnings. In Europe and the USA we experienced net sales which were slightly below last year's level, while China and Russia continued to show strong growth rates. In our view, we have reached the low point for growth and the development will once again begin to change for the better during the second half-year. We therefore retain our expectations for the whole year."

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

Highlights from the first quarter of 2008:

- **Net sales** reached 5.4 billion DKK, which is largely level with the same period in 2007. Growth was 2%, when converted at last year's level of exchange rates and adjusted for acquisitions and divestments, compared to 19% in the same period the year before.
- **The profit before other income and expenses** fell by 31% to 275 million DKK from 400 million DKK, whereas the **operating profit (EBIT)** was 272 million DKK compared to 417 million DKK in the year before. The result should be seen in light of the fact that the 2007 EBIT was positively affected by the profit obtained from the sale of Damcos A/S, as well as the fact that the first quarter of 2007 was extraordinarily good.
- **The result for the period** was 125 million DKK, compared to 428 million DKK in the year before. Allowing for the fact that the comparative figure from 2007 was extraordinarily good, the result is considered to be satisfactory, in spite of the fact that it did not fully meet Danfoss' expectations.
- **The number of employees** grew to 22,540 from 21,299 in the first quarter of 2007.

Expectations for 2008:

- Danfoss retains its expectations for both net sales and profit for 2008, as was announced in connection with the publication of the 2007 accounts.
- Net sales are expected to be between 23.5 and 24.5 billion DKK. This equals growth of between 6% and 10% compared to 2007.
- The operating profit (EBIT) is expected to be between 1.9 and 2.2 billion DKK.
- The EBIT margin excl. other income etc., and the EBIT margin itself, is expected to be between 8% and 9%.
- The expectations for 2008 do not include the acquisition of the shares in Sauer-Danfoss Inc., which make Danfoss the majority shareholder. (This will not take place until the deal is approved).

Nordborg, May 19, 2008

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Financial highlights

Million DKK (unless otherwise stated) All quarterly figures are unaudited.	2007 Q1	2008 Q1	Change in %	2007 Q1 EUR	2007 Q1 EUR	2008 Q1 EUR
Profit and Loss Accounts						
Net sales	5,349	5,385	1%	22,196	718	722
EBITDA	648	522	-19%	2,576	87	70
<i>EBITDA Margin</i>	12.1%	9.7%		11.6%	12.1%	9.7%
Operating profit excl. other income and expenses	400	275	-31%	1,634	54	37
Operating profit (EBIT)	417	272	-35%	1,616	56	36
<i>EBIT Margin</i>	7.8%	5.0%		7.3%	7.8%	5.0%
Profit before tax	513	164	-68%	1,378	69	22
<i>Return on Sales</i>	9.6%	3.0%		6.2%	9.6%	3.0%
Key figures¹⁾:						
Free cash flow	-357	-762		-577	-48	-102
Net interest bearing debt	3,244	4,498	39%	3,737	435	603
RONA ²⁾	3.8%	2.1%		14.1%	3.8%	2.1%

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.

Net sales and earnings still under pressure

In the first quarter, the Danfoss Group's net sales reached 5.4 billion DKK, which was largely level with the first quarter of 2007. Growth was 2%, when converted to last year's level of exchange rates and adjusted for acquisitions and divestments, compared to 19% in the same period the year before. **The result before other income and expenses** fell by 31% to 275 million DKK from 400 million DKK, whereas the **operating profit (EBIT)** was 272 million DKK compared to 417 million DKK the year before. The result does not meet expectations for sales or the profit. However, it is believed that the low point for growth has been reached so, for the time being, Danfoss retains its expectations for the year.

The negative atmosphere on the private American housing market, which had a negative effect on sales in the second half of 2007, continued in 2008. The unrest during the quarter spread to several of Danfoss' main markets and product areas and had a negative effect on sales in Europe in particular. The important German market also had a negative effect on sales development. On the other hand, positive development continued in Latin America, Russia and China, although growth here was at a lower level than in 2007.

The conditions on the Group's main markets are not expected to improve considerably during the second quarter, but expectations are that the second half-year will improve slightly.

The price of raw materials continued to rise generally and there have been no direct signs of any significant changes for this year. The fierce price competition has, in itself, affected the level of earnings, but it has also meant that it has not been possible to implement price increases on all of the products which have been particularly hit by the high raw material prices.

The result before other income and expenses fell to 275 million DKK from 400 million DKK in 2007, which equals a decrease of 31%. In the quarter, the growth of net sales was lower than anticipated, which led to a lower capacity utilisation and, consequently, increased operating expenses. Since efforts did not bring about corresponding reductions in operating costs, the profit was lower than expected. Subsequently, activities have been implemented to adjust capacity and the Group's cost level. The impact of these activities is expected to show in the second half-year, at the earliest.

The operating profit (EBIT) was 272 million DKK compared to 417 million DKK in the year before. The result should be seen in light of the fact that the 2007 EBIT was positively affected by the profit obtained from the sale of Damcos A/S, as well as the fact that the first quarter of 2007 was extraordinarily good.

The EBIT margin was 5.0% compared to 7.8% in the same period in 2007.

The adjusted EBIT margin, which is measured against the EBIT before expenses and depreciations, as a consequence of the re-evaluation of assets and liabilities in connection with company acquisitions, was 5.4% compared to 8.1% last year.

Income from associates/joint ventures amounted to 41 million DKK, against 196 million DKK in the year before. The drop should be seen in light of the fact that the 2007 item includes, among other things, 186 million DKK which is part of the profit from the sale of Damcos A/S. This item also includes a share of the operating profit from Sauer-Danfoss Inc., which was 52 million DKK compared with 33 million DKK in the year before.

Financial net items showed a deficit of 149 million DKK compared to a deficit of 100 million DKK in the year before. This development was primarily due to increasing net interest expenses caused by increased loans and exchange rate losses. The exchange rate losses are primarily attributable to the drop in the USD.

The profit before tax fell by 68% to 164 million DKK from 513 million DKK. **The profit for the quarter** was 125 million DKK, compared to 428 million DKK in the year before.

The net interest-bearing debt amounted to 4,498 million DKK compared to 3,244 million DKK in 2007. The increase in debt is primarily related to borrowing in connection with investments in new companies and fixed assets and increased funds tied up in working capital.

The shareholders' equity amounted to 9,907 million DKK, which equals an equity ratio of 48.4% compared to 49.0% at the end of 2007.

The free cash flow, which is a combination of cash flows from operating activities of -368 million DKK and cash flows from investing activities of -394 million DKK, was -762 million DKK which is 405 million DKK less than in 2007. The free cash flow before M&A amounted to -737 million DKK compared to -538 million DKK in 2007. The change compared to 2007 is primarily related to the smaller profit and increased funds tied up in the working capital. Historically speaking, the free cash flow is always negative in the first quarter.

The research and development costs amounted to 225 million DKK compared to 201 million DKK in the year before, which is an increase of 12%. This equals 4% of the net sales.

Changes in employee numbers and the Board

At the end of the first quarter of 2007, the Danfoss Group employed 22,540 people; an increase of 1,241 people compared with 2007. The Group's employees are distributed as follows: 10,457 in Europe, excl. Denmark (2007: 9,741), 2,597 in North America, including Mexico (2,596), 2,782 in the Asia-Pacific region, including China (2,319) and 302 in other regions (335). At the end of the quarter, there were 6,402 employees in Denmark, compared with 6,308 the year before.

In connection with the Danfoss Annual General Meeting, which was held on April 25, Jørgen M. Clausen was elected as a new member of the Board to replace Bente Skibsted, who did not wish to offer herself for re-election. Subsequently, the Board elected its own Chairman of the Board, Henrik E. Nyegaard, its first vice-chairman, Hans Michael Jebsen, and Jørgen M. Clausen as its second Chairman.

Events after the end of the quarter

In April 2008, Danfoss acquired the English company Eco Heat Pumps, which markets heat pumps on the British market. The company employs 30 people and had net sales of 31 million DKK in 2007.

Likewise in April, the Group took over the French company Valpes SARL, which produces and markets electrical actuators. The company employs 38 people and had net sales of 49 million DKK in 2007.

Expectations for 2008

Danfoss retains its expectations for both net sales and profit for 2008, in spite of the fact that the first quarter did not meet expectations.

The Danfoss Group expects the following in 2008:

- Net sales are expected to be between 23.5 and 24.5 billion DKK. This corresponds to growth of between 6% and 10% compared to 2007.
- Operating profit (EBIT) is expected to be between 1.9 and 2.2 billion DKK.
- The EBIT margin, excl. operating income etc., as well as the EBIT margin itself, is expected to be between 8% and 9%.
- The expectations for 2008 do not include the acquisition of shares in Sauer-Danfoss Inc., which make Danfoss the majority shareholder.

Prerequisites and risks:

Growth in 2008 is expected to come primarily from the Eastern European, Russian, Chinese and Latin American markets, while the financial unrest in the USA will have a negative impact on market development in both North America and Europe.

The price of raw materials is again expected to be subject to major fluctuations in 2008, but the general expectation is that prices will remain at a high level. The price of copper and brass is expected to fall slightly over the year, but further increases in the price of steel are forecast.

Danfoss' core business areas

*“The unrest on the American housing market particularly hit our newly-acquired companies in the **Danfoss Refrigeration & Air Conditioning Division**. Various activities have been initiated to remedy the situation and we expect to see an improvement during the second half-year.”*

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

Danfoss Refrigeration & Air Conditioning Division experienced a negative development in both net sales and profit in the first quarter. Net sales fell by 6% to 2,682 million DKK from 2,847 million DKK. Calculated at last year's level of exchange rates and adjusted for acquisitions and divestments, growth was 4%.

Danfoss Refrigeration & Air Conditioning Division					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 2007	Q1 2008	Change in %	2007	Q1 2008 EUR
Net sales	2,847	2,682	-6%	11,187	360
Operating profit (EBIT)	288	216	-25%	856	29
EBIT Margin	10.1%	8.1%		7.7%	8.1%
Net assets	6,017	6,052	1%	5,774	812
Capital expenditure	95	123	29%	680	17
Number of employees	11,151	11,187	0%	11.116	

Development of the Division's European main markets was affected by the financial decline in the first quarter, which affected several of the Division's remaining product areas. For the first time in a long time, sales in the EU developed negatively and the important German market dropped by approx. 10%. In 2007, sales rates in the EU were very high in the first half-year which could not be maintained in 2008. However, it is expected that sales will improve slightly during the second half-year. Positive development on the Russian and Chinese markets, on the other hand, continued. Sales on the American market continued to be affected by the financial unrest.

Operating profit (EBIT) fell to 216 million DKK, from 288 million DKK in the year before, a decrease of 25%. The profit during the quarter was affected by the fact that the decline in sales resulted in a lower capacity utilisation than had been expected. In addition to this, the high price of raw materials also had an effect on profitability, since efforts to reflect these increases in the sales prices of Danfoss products did not fully succeed.

“The markets in Eastern Europe and Russia were the drivers for growth in the **Danfoss Heating Division** and we have high expectations of the markets in the coming quarters. However, we must continue to work to compensate for the high raw material prices.”

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

Danfoss Heating Division increased sales in the quarter. The net sales increased by 4% to 1,450 million DKK from 1,388 million DKK. The increase was 2%, when adjusted for acquisitions, divestments and currency translation.

Danfoss Heating Division					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 2007	Q1 2008	Change in %	2007	Q1 2008 EUR
Net sales	1,388	1,450	4%	6,238	195
Operating profit (EBIT)	110	60	-45%	632	8
EBIT Margin	7.9%	4.1%		10.1%	4.1%
Net assets	3,931	4,767	21%	4,533	639
Capital expenditure	66	95	44%	762	13
Number of employees	5,208	5,949	14%	5,870	

Activities on the German construction market continued to decline in the first quarter and this development has spread to several of the Western European markets which, therefore, did not live up to expectations. Sales of the Division’s products continued to develop positively in Eastern Europe and Russia.

Operating profit (EBIT) was 60 million DKK, compared to 110 million DKK, representing a decrease of 45% compared to the first quarter of 2007.

“The **Danfoss Motion Controls Division**’s high growth rates continued in the first quarter. The move to a new product range is being completed and customers have responded positively to the new frequency converters. The continuing high demand is putting pressure on capacity, so we are therefore increasing capacity so that we will be able to meet customer demand.”

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

Danfoss Motion Controls Division achieved a decent sales increase in the quarter. Net sales rose by 12% to 1,138 million DKK from 1,017 million DKK. When adjusted for acquisitions, divestments and currency translations, the growth was 14%.

Danfoss Motion Controls Division					
Million DKK (unless otherwise stated). All quarterly figures are unaudited.	Q1 2007	Q1 2008	Change in %	2007	Q1 2008 EUR
Net sales	1,017	1,138	12%	4,371	153
Operating profit (EBIT)	67	56	-16%	322	7
EBIT Margin	6.6%	4.9%		7.4%	4.9%
Net assets	1,214	1,426	17%	1,336	191
Capital expenditure	165	90	-45%	368	12
Number of employees	3,551	3,927	11%	3,859	

The positive sales development witnessed in 2007 continued in 2008. On the European market, the Division realised growth of 10%. The markets outside Europe also added to the growth and China, Latin America and Russia, in particular, achieved decent progress in sales.

Operating profit (EBIT) fell by 16% to 56 million DKK compared to 67 million DKK in the year before. The profit was affected by costs incurred in connection with the current move from the old product range to a new range of frequency converters.

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

The company is a joint venture of Danfoss A/S, and the Group owns 37.9 % of the shares in Sauer-Danfoss Inc.

<i>Sauer-Danfoss Inc</i>				
Million USD (unless otherwise stated).	Q1 2007	Q1 2008	Change in %	2007
Net sales	523	617	18%	1,739
Profit after tax	15	28	87%	54

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

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 2007	Q1 2008	Change in %	2007	Q1 2008 EUR
Profit and loss account:					
Net sales ¹⁾	5,349	5,385	1%	22,196	722
EBITDA	648	522	-19%	2,576	70
Operating profit excl. other income and expenses	400	275	-31%	1,634	37
Operating profit (EBIT)	417	272	-35%	1,616	36
Income from associates and joint ventures	196	41	-79%	210	5
Financial income/expenses	-100	-149	49%	-448	-19
Profit before Tax (EBT)	513	164	-68%	1,378	22
Net Profit	428	125	-71%	1,063	17
¹⁾ Total growth in net sales:	23%	1%		14%	
Real growth in %	19%	2%		12%	
Exchange rates in %	-3%	-3%		-2%	
Acquired/sold activities net in %	7%	2%		4%	
Balance Sheet:					
Total non-current assets	10,298	11,176		11,054	1,499
Assets	19,540	20,419		19,857	2,738
Total shareholders' equity	9,454	9,907		9,744	1,329
Net interest-bearing debt	3,244	4,498	39%	3,737	603
Net assets	11,505	13,095	14%	12,227	1,756
Capital expenditure	333	384	15%	1,931	51
Cash flow statement:					
Cash flows from operating activities	-328	-368		1,016	-49
Cash flows from investing activities	-29	-394		-1,593	-53
hereof net investments of assets	-206	-376		-1,255	-51
hereof net investments in companies	-37	-16		-384	-2
Free cash flow	-357	-762		-577	-102
Free cash flow before M&A	-538	-737	37%	-423	-99
Cash flows from financing activities	376	619		431	83
Key figures:					
Number of employees (end of period)	21,299	22,540	6%	22,323	
EBIT margin excl. other operating income etc.	7.5%	5.1%	-2,4	7.4%	
EBIT margin	7.8%	5.0%	-2,8	7.3%	
Adjusted EBIT margin	8.1%	5.4%		7.6%	
EBITDA margin	12.1%	9.7%		11.6%	
RONA ¹⁾	3.8%	2.1%		14.1%	
Return on equity	4.6%	1.3%		11.4%	
Equity ratio	48.2%	48.4%		49.0%	
Leverage ratio	34.4%	45.5%		38.4%	

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.

Profit & Loss Account

Mill. DKK (unless otherwise stated) All quarterly figures are unaudited.	Q1 2007	Q1 2008	Change in %	2007	Q1 2008 EUR
Net sales	5,349	5,385	1%	22,196	722
Net sales Danfoss Services etc.	125	137	10%	537	18
Cost of sales	-3,892	-4,015	3%	-16,256	-538
Gross profit	1,582	1,507	-5%	6,477	202
	29.6%	28.0%		29.2%	28.0%
Distribution expenses	-989	-1,015	3%	-4,125	-136
Administrative expenses	-193	-217	12%	-718	-29
Operating profit excl. other income and expenses	400	275	-31%	1,634	37
	7.5%	5.1%		7.4%	5.1%
Other operating income and expenses	17	-3	-118%	-18	-1
Operating profit (EBIT)	417	272	-35%	1,616	36
	7.8%	5.0%		7.3%	5.0%
Income from associates and joint ventures	196	41	-79%	210	5
Financial income/expenses	-100	-149	49%	-448	-19
Profit before tax	513	164	-68%	1,378	22
Corporate tax expenses	-85	-39	-54%	-315	-5
Net profit	428	125	-71%	1,063	17

Balance sheet

Mill. DKK.	Q1 2007	Q1 2008	2007	2007 EUR
ASSETS				
Non-current assets				
Intangible fixed assets	3,973	4,147	4,159	556
Tangible fixed assets	4,618	5,168	5,062	693
Non-current financial assets	1,707	1,861	1,833	250
Total non-current assets	10,298	11,176	11,054	1,499
Current assets				
Inventories	3,320	3,599	3,363	483
Accounts receivable	5,018	5,111	4,721	685
Cash and cash equivalents	904	533	719	71
Total current assets	9,242	9,243	8,803	1,239
Total assets	19,540	20,419	19,857	2,738
LIABILITIES AND SHAREHOLDERS' EQUITY				
Total shareholders' equity	9,454	9,907	9,744	1,329
Non-current liabilities	4,267	4,844	3,304	699
Current liabilities	5,819	5,668	6,809	710
Total liabilities	10,086	10,512	10,113	1,409
Total liabilities and shareholders' equity	19,540	20,419	19,857	2,738

Statement of cash flows

Mill. DKK.	Q1 2007	Q1 2008	2007	Q1 2008 EUR
Operating profit (EBIT)	417	272	1,616	36
Adjustments for non-cash transactions	117	199	920	27
Changes in working capital	-770	-675	-837	-91
Cash flows generated from operations before interest	-236	-204	1,699	-28
Financial income	8	7	40	1
Financial expenses	-46	-107	-395	-14
Dividends received	32	17	93	2
Cash flows from operations before tax	-242	-287	1,437	-39
Paid tax	-86	-81	-421	-10
Cash flows from operating activities	-328	-368	1,016	-49
Acquisition of intangible fixed assets	-30	-44	-238	-6
Acquisition of tangible fixed assets	-182	-340	-1,255	-46
Proceeds from sale of tangible fixed assets	6	8	94	1
Acquisition of subsidiaries etc.	-37	-16	-384	-2
Proceeds from disposal of subsidiaries etc.	0	0	74	0
Acquisition (-) and sale of other investments etc.	214	-2	116	0
Cash flows from investing activities	-29	-394	-1,593	-53
Free cash flow	-357	-762	-577	-102
Financing by non-shareholders:				
Financing by Repayment of (-)/proceeds from interest bearing debt	377	619	708	83
Financing by shareholders:				
Issuing of shares	0	0	0	0
Repurchase/sale of own shares	-1	0	-25	0
Addition/disposal of minority interest	0	0	-43	0
Dividends paid	0	0	-209	0
Cash flows from financing activities	376	619	431	83
Net change in cash and cash equivalents	19	-143	-146	-19
Cash and cash equivalents (beginning of period)	886	719	886	96
Foreign exchange adjustment of cash and cash equivalents	-1	-43	-21	-6
Cash and cash equivalents (end of period)	904	533	719	71

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 2007	1,024	176	-257	-19	7,879	7,779	204	9,007	28	9,035
Total recognised income and expense		-89	-142		886	655	255	910	2	912
Dividends to shareholders						0	-204	-204	-5	-209
Transfers				-3	3	0				0
Purchase of minority interest					-26	-26		-26		-26
Shares issued/capital reduction				-25		-25		-25	-6	-31
Share based payments					63	63		63		63
Balance at 31 December 2007	1,024	87	-399	-47	8,805	8,446	255	9,725	19	9,744
Total recognised income and expense		42	-23		125	144		144		144
Dividends to shareholders						0		0		0
Transfers						0		0		0
Purchase of minority interest						0		0		0
Shares issued/capital reduction						0		0		0
Share based payment					19	19		19		19
Balance at 31 March 2008	1,024	129	-422	-47	8,949	8,609	255	9,888	19	9,907

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

Geographical segments

Mill. DKK.

Group	EU	Rest of Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	Total
Net sales Q1 2007	3,122	532	590	653	82	82	174	114	5,349
Net sales Q1 2008	3,083	605	647	578	81	81	197	113	5,385

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 2007 Closing rates	Q1 2008 Closing rates	2007 Closing rates	Q1 2007 Average rates	Q1 2008 Average rates	2007 Average rates
EUR	7.45	7.46	7.46	7.45	7.45	7.45
GBP	10.96	9.37	10.15	11.11	9.88	10.90
USD	5.59	4.72	5.08	5.69	4.99	5.45

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 2007 Annual Report. For a detailed description of these, please refer to the Danfoss A/S Annual Report 2007.