

# Danfoss A/S

## Third quarterly report 2008

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.

*“Global recession has caused noticeable uncertainty on a range of the markets which Danfoss services. In spite of the fact that Danfoss has managed to achieve some sales progress, we have to accept that it will not be possible to reach our financial targets for 2008. At the same time, we must recognise the nervousness and reluctance which is increasingly characterising the general market situation. Therefore, a credible anticipation of how the next months will develop is more difficult than usual.*

*Consequently, Danfoss has begun to perform adjustments to the organisation as demanded by the acutely worsened market prospects. We have chosen to implement them, even though it will require us to make provisions which will further reduce the result for the year. Danfoss’ total 2008 result will also be considerably affected by accounting adjustments in the wake of the acquisition of the controlling interest in Sauer-Danfoss. The adjustments will blur the fact that the fundamental business has developed reasonably, even when we allow for the general recession.”*

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

### **Highlights from the first three quarters of 2008:**

*The comparison figures are affected by the fact that Sauer-Danfoss is not included in the 2007 figures, whereas Sauer-Danfoss is fully consolidated from and including of 3rd quarter 2008.*

- **Net sales** were 19.9 billion DKK, which equals growth of 19%. Growth was 5%, when adjusted for acquisitions, divestments and foreign currency translations, compared to 14% in the same period the year before.
- **The profit before other income and expenses** was 1,024 million DKK, whereas the **operating profit (EBIT)** was 1,035 million DKK. The underlying business developed reasonably during the first six months of the year, but a large proportion of the business was hit by the growing reluctance and recession on the global markets at the end of the third quarter. The result is affected by accounting adjustments following the acquisition of the controlling interest in Sauer-Danfoss.
- **The profit after tax** was 571 million DKK, compared to 869 million DKK in the year before. The 2007 result included extraordinary income from the sale of Damcos A/S, amounting to 186 million DKK.
- **The number of employees** grew to 32,806 from 21,826 in the third quarter of 2007.

### **Expectations for 2008:**

The development of the Group’s main markets during the third quarter and the major uncertainty concerning the development of the fourth quarter have caused Danfoss to downplay its expectations for the year as a whole, since they have furthermore been substantially affected by accounting adjustments following the acquisition of the controlling interest in Sauer-Danfoss.

- **Net sales (including Sauer-Danfoss)** are expected to be between 27 and 28 billion DKK.
- **EBIT** is expected to be between 0.6 billion DKK and 1 billion DKK, after the performance of all the accounting impacts of the acquisition of the shares in Sauer-Danfoss. Therefore, due to accounting reasons, Sauer-Danfoss will have a negative impact on the total 2008 EBIT.

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## Financial Highlights

Mill. DKK (unless otherwise stated)

All quarterly figures are unaudited.

	Q3 2007	Q3 2008	Change in %	Q3 2007 YTD	Q3 2008 YTD	Change in %	2007	Q3 2008 YTD EUR
<b>Profit and loss accounts:</b>								
Net sales <sup>1)</sup>	5.765	8.434	46%	16.647	19.859	19%	22.196	2.663
EBITDA	759	909	20%	1.936	2.122	10%	2.576	285
Operating profit excl. other income and expenses				570	330	-42%	1.634	137
Adjusted EBIT	542	661	22%	1.283	1.407	9,7%	1.679	189
Operating profit (EBIT)	523	337	-36%	1.235	1.035	-16%	1.616	139
Income from associates and joint ventures				8	-1	-113%	210	9
Financial income/expenses	-147	-119	-19%	-321	-307	-4%	-448	-41
Profit before tax (EBT)	384	217	-43%	1.142	796	-30%	1.378	107
Net profit	268	145	-46%	869	571	-34%	1.063	77
<sup>1)</sup> Total growth in net sales:	16%	46%		18%	19%		14%	
Real growth in %	12%	4%		14%	5%		12%	
Exchange rates in %	-2%	-2%		-2%	-3%		-2%	
Acquired/sold activities net in %	6%	44%		6%	17%		4%	
<b>Balance sheet:</b>								
Total non-current assets				10.647	21.627	103%	11.054	2.899
Assets				20.366	35.472	74%	19.857	4.754
Total shareholders' equity				9.633	13.869	44%	9.744	1.859
Net interest-bearing debt				3.940	9.657	145%	3.737	1.294
Net assets				12.349	23.126	87%	12.227	3.100
Capital expenditure	425	15.617	***	1.075	16.526	***	1.931	2.215
<b>Cash flow statement:</b>								
Cash flow from operating activities				61	599	***	1.016	80
Cash flow from investing activities				-910	-3.719	309%	-1.593	-498
hereof net investments of assets				-852	-1.312	54%	-1.255	-176
hereof net investments in companies				-191	-2.368	***	-384	-317
Free Cash flow				-849	-3.120	267%	-577	-418
Free cash flow before M&A				-853	-723	-15%	-423	-97
Cash flow from financing activities				850	3.167	273%	431	424
<b>Key figures:</b>								
Number of employees (end of period)				21.826	32.806	50%	22.323	
EBIT margin excl. other operating income etc.	9,9%	3,9%	-6,0	7,6%	5,2%	-2,4	7,4%	
EBIT margin	9,1%	4,0%	-5,1	7,4%	5,2%	-2,2	7,3%	
Adjusted EBIT margin	9,4%	7,8%	-1,6	7,7%	7,1%	-0,6	7,6%	
EBITDA margin	13,2%	10,8%	-2,4	11,6%	10,7%	-0,9	11,6%	
RONA <sup>1)</sup>	4,3%	1,8%	-2,5	10,7%	5,9%	-4,8	14,1%	
Return on equity				9,3%	5,4%	-3,9	11,4%	
Equity ratio				47,2%	32,5%	-14,7	49,0%	
Leverage ratio				41,0%	83,7%	42,7	38,4%	

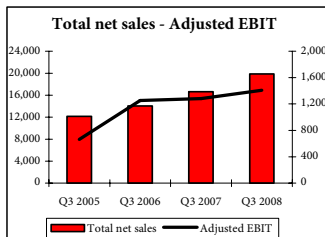
1) RONA (Return On Net Assets)

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.

## Global recession affects the net sales and profit

In the third quarter, the Danfoss Group's **net sales** amounted to 8.4 billion DKK compared to 5.8 billion the year before. The comparison figures are affected by the fact that Sauer-Danfoss is not included in the 2007 figures. Growth was 4%, when adjusted for acquisitions, divestments and foreign currency translations, compared with 12% in the same period the year before. **The profit before other income and expenses** was 330 million DKK, whereas the **adjusted EBIT** was 661 million DKK.



**Net sales** during the first nine months of 2008 was 19.9 billion DKK compared to 16.6 billion DKK in the same period in 2007, equalling growth of 19%. When adjusted for acquisitions, divestments and foreign currency translations, growth was 5% compared to 14% in the same period the year before. The divisional organic growth was 14% at Danfoss Motion Controls Division, 6% at Danfoss Heating Division, and Danfoss Refrigeration & Air Conditioning Division maintained the net sales level of the year before. Sauer-Danfoss grew by 9%.

The growing recession on the Group's main markets and the nervousness on the financial markets intensified in the third quarter. Whereas a few product areas and markets were affected earlier this year, the slump has now spread to several of the markets which the Danfoss Group services. However, the Group is particularly affected by the decline in sales for new construction, for infra-structure projects and for the manufacturers of household appliances.

Even though the markets were characterised by uncertainty and recession, a moderate sales increase was obtained in the European main market, where sales on the German market, for example, improved, though at a reduced level than previously. The American market developed slightly positively. The sales in markets in Latin America, Russia and China increased, but also at reduced rates than previously.

Since the general market situation is still characterised by nervousness and reluctance and since major uncertainty applies to the development of the fourth quarter, Danfoss has chosen to downplay its expectations for the year as a whole. The affected business areas have initiated an assessment and alignment of the cost level with the expected reduced activity level. Unfortunately, the development has also compelled the Group to cut the number of employees due to the lack of incoming orders. Further redundancies among the staff both in and outside Denmark cannot be ruled out, if the present situation continues. The downsizing of the staff also implies that there will be a need to pay non-recurrent costs and make provisions for future obligations.

In spite of the difficult market conditions, increased focus will be on corporate cross-divisional improvement projects – Danfoss Business System. The cost-consuming improvement projects must contribute to the long-term safeguarding of the Group's competitiveness.

During the first three quarters, the high raw material prices and the low USD exchange rate have had a negative impact on the net sales and the profit. Due to the Group's hedging of part of its currency exposure for up to the next 12 months and

### *Major uncertainty about the market development in the fourth quarter*

part of its raw material costs for up to the next 15 months, Danfoss will not in the short run benefit from the rising Dollar rate and the decreasing raw material prices.

**The result before other income and expenses** was 1,024 million DKK compared with 1,273 million DKK in 2007, which equals a decrease of 20%. The result is affected by accounting adjustments following the acquisition of the controlling interest in Sauer-Danfoss. The development should also be seen in light of the fact that the 2007 result was positively affected by the profit obtained from the sale of Damcos A/S.

**The adjusted EBIT** was 1,407 million DKK compared to 1,283 million DKK in the year before. So, the result is positively affected by the inclusion of the Sauer-Danfoss result.

The growth in net sales was lower than expected, which led to a reduced capacity utilisation. Consequently, the earnings were lower than expected, since Danfoss' efforts to reduce the operating cost level correspondingly did not succeed. At the same time, it was decided to maintain a number of cost-intensive Group projects.

**The adjusted EBIT margin**, which is based on EBIT adjusted for expenses and depreciations caused by re-evaluation of assets and liabilities in connection with company acquisitions, was 7.1% compared to 7.7% last year.

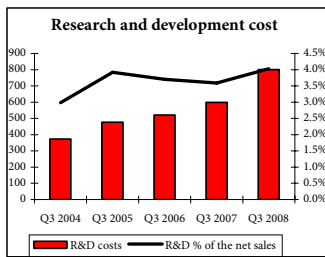
**The operating profit (EBIT)** was 1,035 million DKK compared to 1,235 million DKK in the year before. The result is affected by accounting adjustments following the acquisition of the controlling interest in Sauer-Danfoss. The development should also be seen in light of the fact that the 2007 EBIT was positively affected by the profit obtained from the sale of Damcos A/S.

**Financial net items** showed a deficit of 307 million DKK compared to a deficit of 321 million DKK in the year before. This development was primarily due to increasing net interest expenses caused by increased loans. However, this is counteracted by fewer costs incurred in connection with the fair market value regulations of the Group's share remuneration programmes.

**The profit before tax** was 796 million DKK compared to 1,142 million DKK in the year before, whereas **the profit after tax** was 571 million DKK compared to 869 million DKK in 2007.

The net interest-bearing debt amounted to 9,657 million DKK compared to 3,940 million DKK in 2007. The increase in debt is primarily related to borrowing in connection with investments in new companies – including Sauer-Danfoss – and fixed assets and increased funds tied up in working capital.

**The free cash flow**, which is a combination of cash flows from operating activities of 599 million DKK and cash flows from investing activities of -3,719 million DKK, was -3,120 million DKK compared to -849 million DKK in 2007. The free cash flow before M&A (mergers and acquisition of companies) amounted to -723 million DKK compared to -853 million DKK in 2007.



**The research and development costs** amounted to 801 million DKK compared to 598 million DKK in the year before, which equals 4% of the net sales. In spite of the uncertainty about the development in the fourth quarter, Danfoss has chosen to maintain the investment level in connection with the forward-looking projects, because they are set to add to the long-term development of the Group's competitiveness.

### Acquisition and sale of companies

In September, Danfoss entered into a cooperation agreement with Chinese company Tianjin Sanhua Refrigeration Equipment Co. Ltd, which is China's largest sales and distribution network within refrigeration. Danfoss owns 51% of the company.

### Changes in employee numbers

At the end of the third quarter, the Danfoss Group employed 32,806 people; an increase of 10,980 people compared with 2007. The majority of the new employees are a result of the acquisition of Sauer-Danfoss. The Group's employees are distributed as follows: 13,803 in Europe, excl. Denmark; 5,404 in North America, including Mexico; 518 in Latin America; 3,857 in the Asia-Pacific region, including China; and 69 in other regions. At the end of the quarter, there were 9,155 employees in Denmark, compared with 6,504 the year before.

### Events after the end of the quarter

In October, Danfoss took over the remaining 75% of the shares in the Italian company Necos. In 2007, the company had net sales amounting to approx. 4 million DKK and it has 13 employees.

### Expectations for 2008:

The development of the Group's main markets during the third quarter combined with the uncertainty concerning the development of the fourth quarter, has caused Danfoss to downplay its expectations for the year as a whole, in which the results will also be substantially affected by the accounting adjustments following the acquisition of the controlling interest in Sauer-Danfoss.

The Danfoss Group (incl. Sauer-Danfoss) expects the following for 2008:

- The **net sales** are expected to be between 27 and 28 billion DKK.
- The **EBIT** is expected to be between 0.6 billion DKK and 1.0 billion DKK, once all of the accounting impacts of the acquisition of the shares in Sauer-Danfoss have been carried out. Therefore, due to accounting reasons, Sauer-Danfoss will have a negative impact on the total 2008 EBIT.
- The **adjusted EBIT margin** which is based on EBIT adjusted for expenses and depreciations caused by re-evaluation of assets and liabilities in connection with company acquisitions, is expected to be between 4.5 and 6.5%.

***EBIT is affected by accounting adjustments of between 300-600 million DKK***

The net sales and profit expectations for 2008, as announced in Sauer-Danfoss' 2008 third quarterly press release, have been included in Danfoss' expectations after having been calculated in accordance with Danfoss' accounting principles.

### **Prerequisites and risks:**

The global setback and the nervousness on the financial markets are expected to continue in the fourth quarter and the uncertainty is also extensive as to how this will affect net sales. Growth is expected to be weak on the markets in Eastern Europe, Russia, China and Latin America.

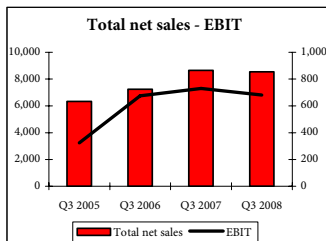
Due to the Group hedging part of its currency exposure for up to the next 12 months and part of its raw material costs for up to the next 15 months, Danfoss will not in the short run benefit from the rising Dollar rate and decreasing raw material prices.

## Danfoss Refrigeration & Air Conditioning Division

*“The general setback of the world economy has hit **Danfoss Refrigeration & Air Conditioning Division’s** sale of refrigeration and air-conditioning products in almost all markets. Efforts to increase sales and profit will be further intensified, but the impact is not likely to show until the end of the year.”*

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

Net sales fell by 1% to 8,544 million DKK from 8,656 million DKK. When adjusted for acquisitions, divestments and foreign currency translations, the net sales were level with the year before.



DKK Mill. (unless otherwise stated) All quarterly figures are unaudited.	Q3 2007	Q3 2008	Change in %	Q3 2007 YTD	Q3 2008 YTD	Change in %	2007	Q3 2008 YTD EUR
Net sales	2,818	2,804	0%	8,656	8,544	-1%	11,187	1,146
Operating profit (EBIT)	235	203	-14%	731	681	-7%	856	91
EBIT Margin	8.3%	7.3%		8.4%	8.0%		7.7%	8.0%
Net Assets				5,880	6,410	9%	5,774	859
Capital expenditure	34	169	397%	280	483	73%	680	65
Number of employees				11,136	11,157	0%	11,116	

Even though development on the German market was moderately positive, sales on the other markets in the EU did not, in general, live up to expectations and compared to the third quarter of 2007, this was a set-back. The negative development on the American market continued, whereas sales improved on the Russian and Chinese markets, though at a lower level than before.

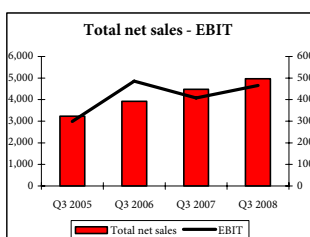
The operating profit (EBIT) fell to 681 million DKK from 731 million DKK in the year before, equalling a decrease of 7%.

## Danfoss Heating Division

“Even though the global recession has created a noticeable uncertainty in a number of markets, **Danfoss Heating Division** has managed to retain the positive development in the Eastern European, Russian and Chinese markets. We still expect growth to continue for the rest of the year. However, growth will continue at a reduced level, which is contrary to our previous expectations.”

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

Net sales increased by 11% to 4,970 million DKK from 4,473 million DKK. When adjusted for acquisitions, divestments and foreign currency translations, the increase was 6%.



DKK Mill. (unless otherwise stated)	Q3 2007	Q3 2008	Change in %	Q3 2007 YTD	Q3 2008 YTD	Change in %	2007	Q3 2008 YTD EUR
All quarterly figures are unaudited.								
Net sales	1,701	1,920	13%	4,473	4,970	11%	6,238	666
Operating profit (EBIT)	238	304	28%	407	465	14%	632	62
EBIT Margin	14.0%	15.8%		9.1%	9.4%		10.1%	9.4%
Net Assets				4,582	5,078	11%	4,533	681
Capital expenditure	263	101	-62%	446	422	-5%	762	57
Number of employees				5,443	6,153	13%	5,870	

The European market had weak growth rates in the period, but with major differences in the individual markets. Growth continued in the markets in Eastern Europe and Russia, despite the weak global market.

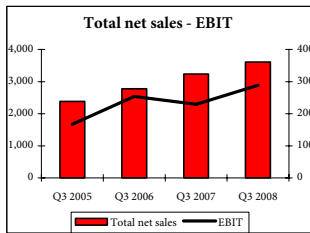
The operating profit (EBIT) increased by 14% to 465 million DKK from 407 million DKK in the year before.

## Danfoss Motion Controls Division

*“Following a lengthy growth period, we at **Danfoss Motion Controls Division** are beginning to notice the slowdown. However, it is uplifting to see that the particularly important German market is retaining its growth rates.”*

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

Net sales increased by 12% to 3,613 million DKK from 3,230 million DKK. When adjusted for acquisitions, divestments and foreign currency translations, growth was 14%.



DKK Mill. (unless otherwise stated) All quarterly figures are unaudited.	Q3 2007	Q3 2008	Change in %	Q3 2007 YTD	Q3 2008 YTD	Change in %	2007	Q3 2008 YTD EUR
Net sales	1,154	1,212	5%	3,230	3,613	12%	4,371	484
Operating profit (EBIT)	124	100	-19%	229	289	26%	322	39
EBIT Margin	10.7%	8.3%		7.1%	8.0%		7.4%	8.0%
Net Assets				1,287	1,481	15%	1,336	199
Capital expenditure	98	56	-43%	293	195	-33%	368	26
Number of employees				3,781	4,086	8%	3,859	

The positive sales development in almost all of the markets continued, though at a reduced level than originally anticipated. The European market had double-digit growth rates. The markets in China, Latin America and Russia also contributed to the growth.

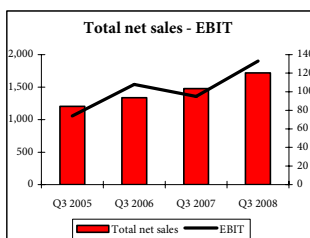
The operating profit (EBIT) increased by 26% to 289 million DKK from 229 million DKK the year before.

## Sauer-Danfoss

*“Notwithstanding the overall economic environment, we still achieved continued growth in net sales and profit in the third quarter of 2008. The growth in Asia and the Pacific Region and North and Latin America continues, though at lower rates, whereas sales in Europe were slightly reduced in the third quarter compared to the same period last year.”*

David Anderson, President and CEO, Sauer-Danfoss Inc.

Sauer-Danfoss’ net sales increased by 16% to 1,719 million USD from 1,478 million USD. Growth was 9%, when adjusted for acquisitions, divestments and foreign currency translations.



\*) Sauer-Danfoss is listed on the New York Stock Exchange and the company share price can be monitored using the code SHS. This text is an extract of Sauer-Danfoss’ official third quarterly report. If misinterpretation arise caused by the summarised material, the original text takes precedence.

USD Mill. (US GAAP) (unless otherwise stated) All quarterly figures are unaudited.	Q3 2007	Q3 2008	Change in %	Q3 2007 YTD	Q3 2008 YTD	Change in %	2007	Q3 2008 YTD EUR
Net sales	452	490	8%	1,478	1,719	16%	1,973	
Operating profit (EBIT)	22	25	14%	95	133	40%	114	
EBIT Margin	4.9%	5.1%		6.4%	7.7%		5.8%	
Net Assets								
Capital expenditure								
Number of employees				9,360	9,901	6%	9,756	

The growth rates on the North and Latin American markets as well as in Asia and the Pacific Region continued to increase; though at a lower level than previously. Net sales on the European market are below the level of the same period in 2007.

The operating profit (EBIT) increased by 40% to 133 million USD from 95 million USD the year before.

Sauer-Danfoss was not recorded as a subsidiary in the period until and including the second quarter, but was included in the item “The profit of associates/joint ventures”. From the third quarter and onwards, the Sauer-Danfoss figures will be included in Danfoss’ accounts as a subsidiary.

## Profit & Loss Account

Mill. DKK (unless otherwise stated)

All quarterly figures are unaudited.

	Q3 2007	Q3 2008	Change in %	Q3 2007 YTD	Q3 2008 YTD	Change in %	2007	Q3 2008 YTD EUR
Net sales	5,765	8,434	46%	16,647	19,859	19%	22,196	2,663
Net sales Danfoss Services etc.	126	55	-56%	393	353	-10%	537	47
Cost of sales	-4,121	-6,479	57%	-12,111	-14,891	23%	-16,256	-1,996
<b>Gross profit</b>	<b>1,770</b>	<b>2,010</b>	<b>14%</b>	<b>4,929</b>	<b>5,321</b>	<b>8%</b>	<b>6,477</b>	<b>714</b>
	30.7%	23.8%		29.6%	26.8%		29.2%	26.8%
Distribution expenses	-1,031	-1,354	31%	-3,115	-3,523	13%	-4,125	-473
Administrative expenses	-169	-326	93%	-541	-774	43%	-718	-104
<b>Operating profit excl. other income and expenses</b>	<b>570</b>	<b>330</b>	<b>-42%</b>	<b>1,273</b>	<b>1,024</b>	<b>-20%</b>	<b>1,634</b>	<b>137</b>
	9.9%	3.9%		7.6%	5.2%		7.4%	5.2%
Other operating income and expenses	-47	7	-115%	-38	11	-129%	-18	2
<b>Operating profit (EBIT)</b>	<b>523</b>	<b>337</b>	<b>-36%</b>	<b>1,235</b>	<b>1,035</b>	<b>-16%</b>	<b>1,616</b>	<b>139</b>
	9.1%	4.0%		7.4%	5.2%		7.3%	5.2%
Income from associates and joint ventures	8	-1	-113%	228	68	-70%	210	9
Financial income/expenses	-147	-119	-19%	-321	-307	-4%	-448	-41
<b>Profit before tax</b>	<b>384</b>	<b>217</b>	<b>-43%</b>	<b>1,142</b>	<b>796</b>	<b>-30%</b>	<b>1,378</b>	<b>107</b>
Corporate tax expenses	-116	-72	-38%	-273	-225	-18%	-315	-30
<b>Net profit</b>	<b>268</b>	<b>145</b>	<b>-46%</b>	<b>869</b>	<b>571</b>	<b>-34%</b>	<b>1,063</b>	<b>77</b>

**Balance sheet**

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

Q3 2007    Q3 2008    2007    Q3 2008  
EUR

**Assets**
**Non-current assets**

Intangible fixed assets	4,049	11,137	4,159	1,493
Tangible fixed assets	4,749	8,947	5,062	1,199
Non-current financial assets	1,849	1,543	1,833	207
<b>Total non-current assets</b>	<b>10,647</b>	<b>21,627</b>	<b>11,054</b>	<b>2,899</b>

**Current assets**

Inventories	3,559	5,754	3,363	771
Accounts receivable	5,285	7,323	4,721	981
Cash and cash equivalents	875	768	719	103
<b>Total current assets</b>	<b>9,719</b>	<b>13,845</b>	<b>8,803</b>	<b>1,855</b>
<b>Total assets</b>	<b>20,366</b>	<b>35,472</b>	<b>19,857</b>	<b>4,754</b>

**Liabilities and shareholders' equity**

<b>Total shareholders' equity</b>	<b>9,633</b>	<b>13,869</b>	<b>9,744</b>	<b>1,859</b>
Non-current liabilities	3,899	12,473	3,304	1,671
Current liabilities	6,834	9,130	6,809	1,224
<b>Total liabilities</b>	<b>10,733</b>	<b>21,603</b>	<b>10,113</b>	<b>2,895</b>
<b>Total liabilities and shareholders' equity</b>	<b>20,366</b>	<b>35,472</b>	<b>19,857</b>	<b>4,754</b>

## Statement of cash flow

Mill. DKK (unless otherwise stated)

All quarterly figures are unaudited.

	Q3 2007	Q3 2008	2007	Q3 2008
	EUR			
Operating profit (EBIT)	1,235	1,035	1,616	139
Adjustments for non-cash transactions	540	981	920	132
Changes in working capital	-1,201	-812	-837	-110
<b>Cash flow generated from operations before interest</b>	<b>574</b>	<b>1,204</b>	<b>1,699</b>	<b>161</b>
Financial income	34	21	40	3
Financial expenses	-308	-386	-395	-52
Dividends received	41	65	93	9
<b>Cash flow from operations before tax</b>	<b>341</b>	<b>904</b>	<b>1,437</b>	<b>121</b>
Paid tax	-280	-305	-421	-41
<b>Cash flows from operating activities</b>	<b>61</b>	<b>599</b>	<b>1,016</b>	<b>80</b>
Acquisition of intangible fixed assets	-132	-159	-238	-21
Acquisition of tangible fixed assets	-737	-1,237	-1,255	-166
Proceeds from sale of tangible fixed assets	17	84	94	11
Acquisition of subsidiaries etc.	-187	-2,362	-384	-317
Proceeds from disposal of subsidiaries etc.	-4	-6	74	0
Acquisition (-) and sale of other investments etc.	133	-39	116	-5
<b>Cash flow from investing activities</b>	<b>-910</b>	<b>-3,719</b>	<b>-1,593</b>	<b>-498</b>
<b>Free Cash flow</b>	<b>-849</b>	<b>-3,120</b>	<b>-577</b>	<b>-418</b>
Financing by non-shareholders:				
Financing by Repayment of (-)/ proceeds from interest bearing debt	1,062	3,422	708	458
<b>Financing by shareholders</b>				
Issuing of shares	0	50	0	7
Repurchase/sale of own shares	27	-9	-25	-1
Addition/disposal of minority interest	-32	-12	-43	-2
Dividends paid	-207	-284	-209	-38
<b>Cash flow from financing activities</b>	<b>850</b>	<b>3,167</b>	<b>431</b>	<b>424</b>
<b>Net change in cash and cash equivalents</b>	<b>1</b>	<b>47</b>	<b>-146</b>	<b>6</b>
Cash and cash equivalents (beginning of period)	886	719	886	96
Foreign exchange adjustment of cash and cash equivalents	-12	2	-21	1
<b>Cash and cash equivalents (end of period)</b>	<b>875</b>	<b>768</b>	<b>719</b>	<b>103</b>

## Equity specification

Mill. DKK (unless otherwise stated)

All quarterly figures are unaudited.

	Share capital <sup>1)</sup>	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 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		-133	216		1,903	1,986		1,986	173	2,159
Dividends to shareholders						0	-255	-255	-29	-284
Transfers								0		0
Purchase of minority interest					-10	-10		-10	2,165	2,155
Shares issued/capital reduction	3			-9	47	38		41		41
Share based payments					54	54		54		54
Balance at 30 September 2008	1,027	-46	-183	-56	10,799	10,514	0	11,541	2,328	13,869

<sup>1)</sup> Distribution of shares:

A shares: DKK 425 mio.

B shares: DKK 598.5 mio.

## 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 Q3 2007 YTD	9,428	1,788	1,945	2,051	256	261	550	368	16,647
Net sales Q3 2008 YTD	10,672	2,429	2,324	2,810	248	296	720	360	19,859

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 2007 Ending rates	Q3 2008 Ending rates	2007 Ending rates	Q3 2007 Average rates	Q3 2008 Average rates	2007 Average rates
EUR	7.45	7.46	7.46	7.45	7.46	7.45
GBP	10.70	9.44	10.15	11.01	9.55	10.90
USD	5.26	5.22	5.08	5.54	4.91	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. This quarterly report was not prepared according to the principles of IAS no. 34 concerning quarterly reports.