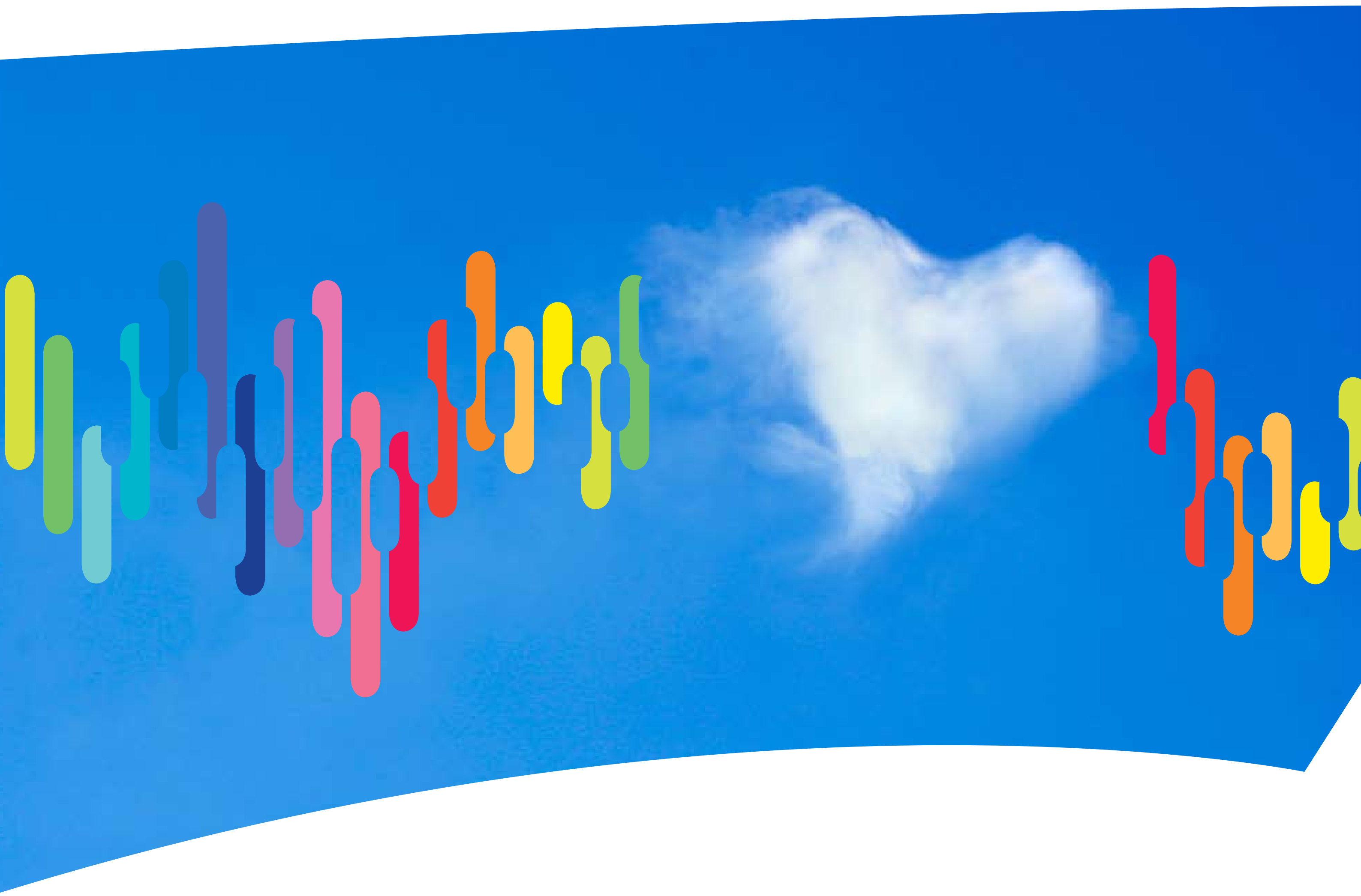
MAKING MODERN LIVING POSSIBLE

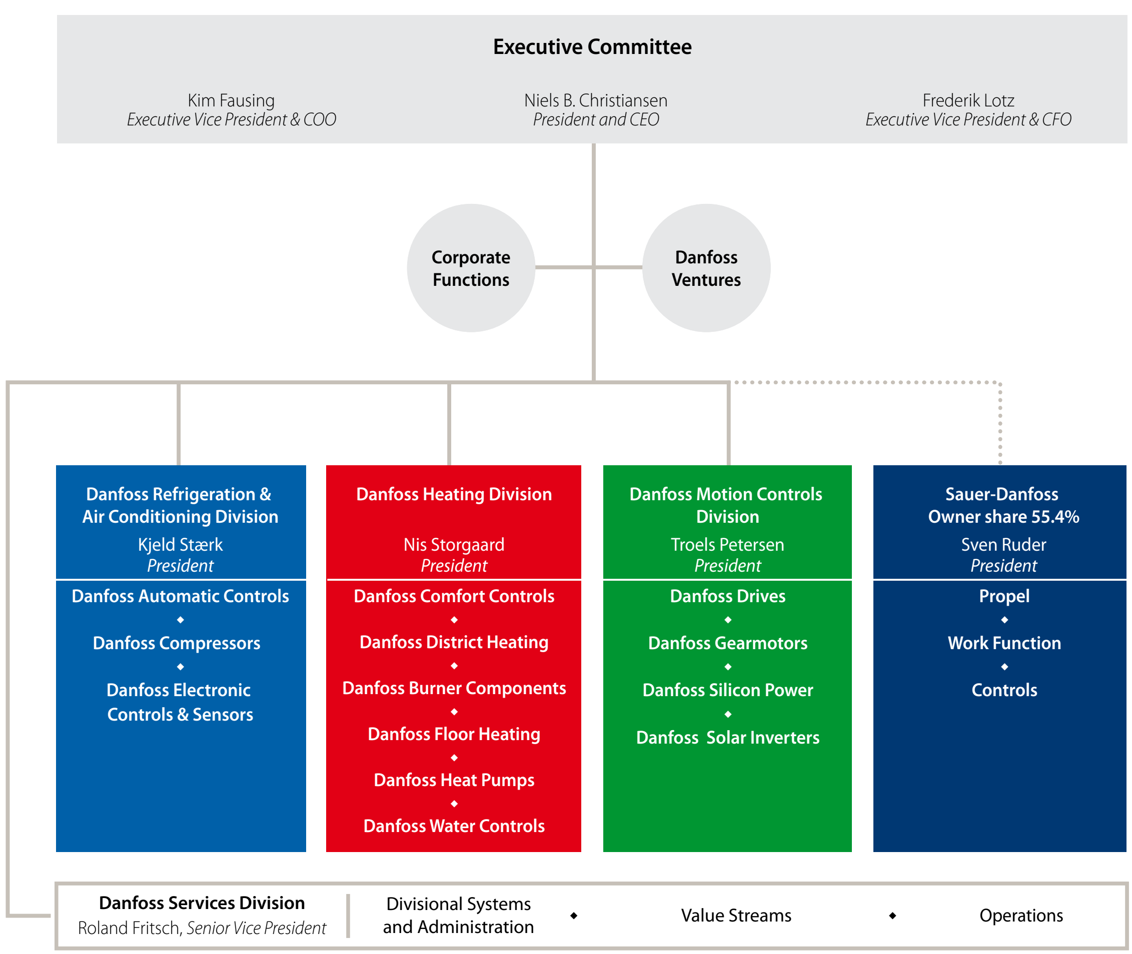
Danfoss



Annual Report 2008

Danfoss is one of Denmark's largest industrial companies. Danfoss is a global Group which plays a leading role within research, development, production, sales and service of mechanical and electronic components and solutions for a large range of sectors. Danfoss' activities are divided into three main business areas, Danfoss also has a controlling share in Sauer-Danfoss.
Danfoss Refrigeration & Air Conditioning Division: The Division supplies products and services worldwide within refrigeration and air-conditioning.
Danfoss Heating Division: The Division is a worldwide supplier of a range of components and services within heating and water.
Danfoss Motion Controls Division: The Division supplies products and services within frequency converters, gearmotor and power electronics for industries globally.
Sauer-Danfoss Inc.: Danfoss owns 55.4% of shares in Sauer-Danfoss Inc., one of the world's leading producers and suppliers of mobile hydraulics and electronic components and integrated solutions for off-road vehicles in the following segments: Agriculture, Construction, Material handling, Road building and Specialty applications.

Organisation



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Financial highlights (DKK)

mill DKK	2004	2005	2006	2007	2008*	2008**
PROFIT AND LOSS ACCOUNT						
Net sales	16.345	16.416	19.428	22.196	22.786	27.127
Operating profit added depreciations, amortisations and impairments (EBITDA)	1.746	1.699	2.425	2.576	2.104	2.099
EBIT excl. other income, etc.	907	914	1.411	1.634	1.146	687
Adjusted EBIT	1.128	952	1.632	1.687	1.108	891
Operating profit (EBIT)	1.072	947	1.601	1.616	1.005	410
Income from associates and joint ventures after tax	94	82	91	210		44
Financial items, net	-235	-22	-290	-448		-579
Profit before tax	931	1.007	1.402	1.378		-125
Net profit	699	740	1.038	1.063		-157
BALANCE SHEET						
Total non-current assets	6.497	7.665	10.132	11.054		21.237
Total assets	13.101	14.562	18.534	19.857		32.928
Equity	7.653	8.485	9.035	9.744		11.867
Net interest-bearing debt	167	825	2.866	3.737		9.776
Net assets	7.003	8.373	10.736	12.227	11.511	21.326
Capital expenditure	1.507	1.867	3.401	1.931	1.856	12.614
CASH FLOW STATEMENT						
Cash flow from operating activities	1.232	1.192	1.321	1.016	926	1.428
Cash flow from investing activities	-951	-1.626	-3.020	-1.593		-4.543
hereof acquisition of intangible and tangible fixed asse	-1.289	-1.028	-915	-1.399		-2.167
hereof acquisition of subsidiaries and activities	355	-504	-1.936	-310		-2.383
Free cash flow before M&A	-53	78	396	-423	-850	-639
Free cash flow	281	-434	-1.699	-577		-3.115
Cash flow from financing activities	-705	177	1.877	431		3.050
NUMBER OF EMPLOYEES						
Number of employees (headcount)	17.543	18.168	20.612	22.323	22.133	31.717
KEY FIGURES						
EBIT margin excl. other income, etc.	5,6%	5,6%	7,3%	7,4%	5,0%	2,5%
EBIT margin	6,6%	5,8%	8,2%	7,3%	4,4%	1,5%
Adjusted EBIT margin	6,9%	5,8%	8,4%	7,6%	4,9%	3,3%
EBITDA margin	10,7%	10,4%	12,5%	11,6%	9,2%	7,7%
RONA	15,6%	12,3%	16,8%	14,1%		2,4%
Return on equity	9,4%	9,2%	11,9%	11,4%		-0,9%
Equity ratio	58,4%	58,2%	48,6%	49,0%		36,0%
Leverage ratio	2,2%	9,7%	31,8%	38,4%		82,4%
Dividend ratio	15,0%	18,0%	20,0%	25,0%	20,0%	20,0%

DEFINITIONS

RONA (Return On Net Assets)
Operating Profit (EBIT) as percentage of average Net Assets.
Net Assets is Total Assets deducted Investments in joint ventures and associates, Cash and cash equivalents, Provisions and Non-interest bearing debt.

Return on Equity
Net Profit as percentage of average Shareholders' Equity.

EBIT margin
Operating Profit as percentage of Net Sales.

EBITDA margin
Operating Profit added Depreciations, Amortisations and Impairments as percentage of Net Sales.

Adjusted EBIT margin
Operating Profit added cost, Depreciations, Amortisations and Impairment related to the Purchase Price Allocation in connection with Business Combinations as percentage of sales.

Equity ratio
Shareholders' Equity as percentage of Total Liabilities and Shareholders' Equity end of year.

Net-interest bearing debt
Net-interest bearing debt is recorded as debt including and excluding security deducted cash funds.

Leverage ratio
Net interest-bearing debt as percentage of Shareholders' Equity end of year.

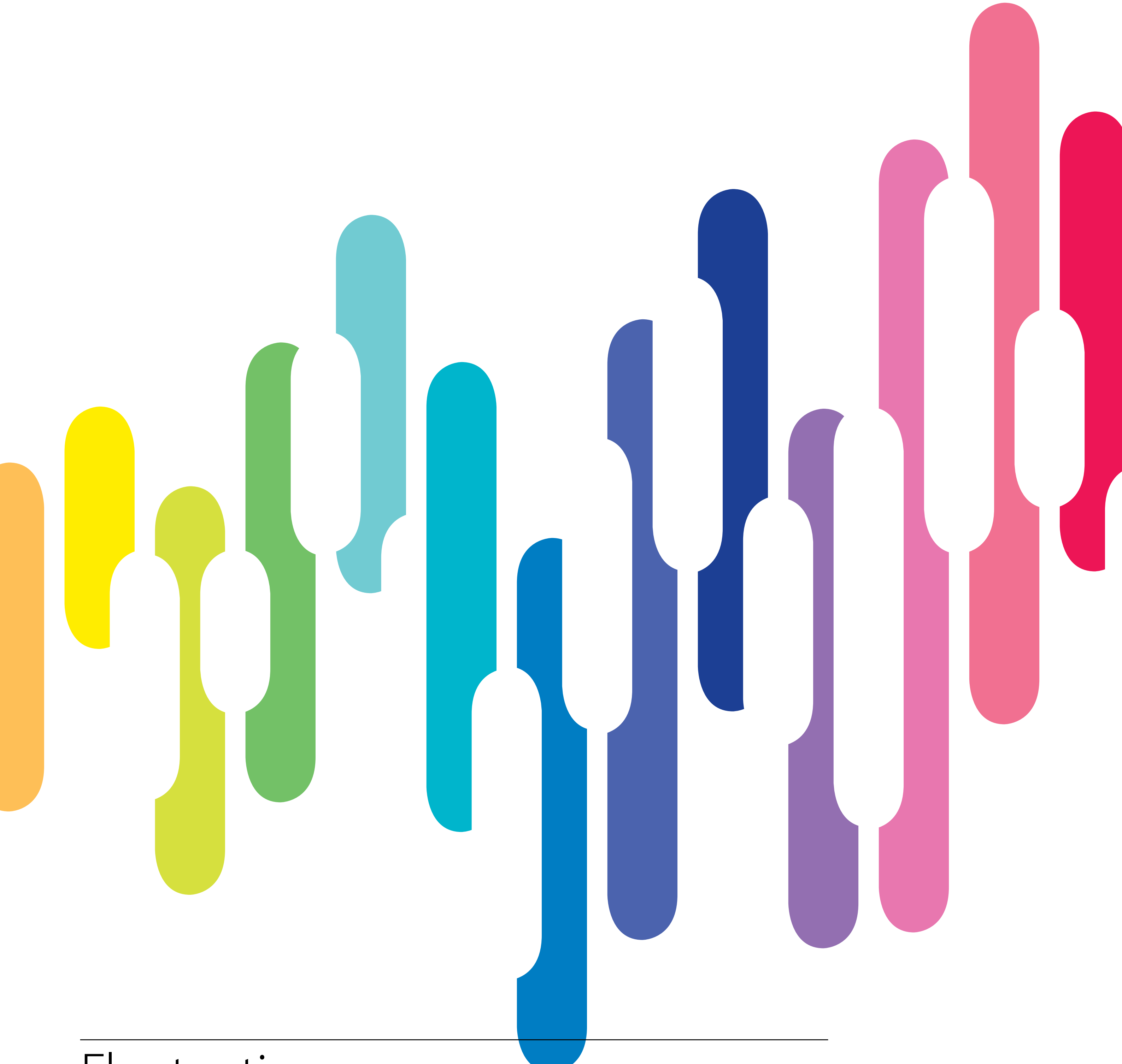
Financial highlights (EUR)

mill EUR	2004	2005	2006	2007	2008*	2008**
PROFIT AND LOSS ACCOUNT						
Net sales	2,197	2,203	2,605	2,979	3,056	3,638
Operating profit added depr., amort. and impairments (EBITDA)	235	228	325	346	282	281
EBIT excl. other income, etc.	122	123	189	219	154	92
Adjusted EBIT	152	128	219	226	149	120
Operating profit (EBIT)	144	127	215	217	135	55
Income from associates and joint ventures after tax	13	11	12	28		6
Financial items, net	-32	-3	-39	-60		-78
Profit before tax	125	135	188	185		-17
Net profit	94	99	139	143		-21
BALANCE SHEET						
Total non-current assets	873	1,027	1,359	1,482		2,850
Total assets	1,761	1,952	2,486	2,663		4,419
Equity	1,029	1,137	1,212	1,307		1,593
Net interest-bearing debt	22	111	384	501		1,312
Net assets	942	1,122	1,440	1,640	1,545	2,862
Capital expenditure	203	250	456	259	249	1,693
CASH FLOW STATEMENT						
Cash flow from operating activities	166	160	177	136	124	192
Cash flow from investing activities	-128	-218	-405	-214		-609
hereof acquisition of intangible and tangible fixed assets	-173	-138	-122	-188		-291
hereof acquisition of subsidiaries and activities	48	-68	-260	-42		-320
Free cash flow before M&A	-7	10	53	-57	-114	-86
Free cash flow	38	-58	-228	-77		-418
Cash flow from financing activities	-95	24	252	58		409
NUMBER OF EMPLOYEES						
Number of employees (headcount)	17,543	18,168	20,612	22,323	22,133	31,717
CONVERSION FACTOR BETWEEN DKK AND EUR						
P&L account and cash flow statement (average exch. rate 100 EUR)	743.98	745.19	745.91	745.06	745.59	745.59
Balance sheet (exchange rate at 31 December, 100 EUR)	743.81	746.05	745.60	745.66	745.06	745.06
KEY FIGURES						
EBIT margin excl. other income, etc.	5.6%	5.6%	7.3%	7.4%	5.0%	2.5%
EBIT margin	6.6%	5.8%	8.2%	7.3%	4.4%	1.5%
Adjusted EBIT margin	6.9%	5.8%	8.4%	7.6%	4.9%	3.3%
EBITDA margin	10.7%	10.4%	12.5%	11.6%	9.2%	7.7%
RONA	15.6%	12.3%	16.8%	14.1%		2.4%
Return on equity	9.4%	9.2%	11.9%	11.4%		-0.9%
Equity ratio	58.4%	58.2%	48.6%	49.0%		36.0%
Leverage ratio	2.2%	9.7%	31.8%	38.4%		82.4%
Dividend ratio	15.0%	18.0%	20.0%	25.0%	20.0%	20.0%

* Financial highlights are exclusive of the Sauer-Danfoss Inc. acquisition and are therefore comparable with previous years.

** Financial highlights include the Sauer-Danfoss Inc. acquisition and are therefore not immediately comparable with previous years.

In the case where the Danish Association of Financial Analyst defines the above ratios, the ratios are computed according to these definitions.



Fluctuation

Constantly in motion, societies worldwide live through cycles of prosperity and challenge. Companies battle in swiftly adapting to the always changing needs of their customers. The softly moving curtains of Northern Lights illuminate the dark, arctic night with spectacular colour. The main graphic element running through this year's annual report shows that things never stand still. But there is always progress. Also at Danfoss.

In July 2008, the competition authorities approved Danfoss' acquisition of an additional 17.4% of share capital in Sauer-Danfoss Inc. Danfoss A/S now owns 55.4% of Sauer-Danfoss Inc. and the company is fully consolidated into the accounts of the Danfoss Group, with effect from July 1.

Acquisition of additional shares in Sauer-Danfoss Inc.

Accounting impact

As a result, Sauer-Danfoss will be consolidated 100% according to current accounting policies. Danfoss has the option to acquire an extra 20.8% of the share capital in Sauer-Danfoss over the next three years. From an accounting point of view, the acquisition of the extra 20.8% is already regarded as in place according to IFRS. Therefore, the acquisition price is recorded as a liability in the Annual Report, not as a minority interest.

Consequently, the fact that Sauer-Danfoss is not included in the 2007 figures will impact comparison, as Sauer-Danfoss is fully consolidated from and including July 1, 2008. This means that Sauer-Danfoss is recognised in the Danfoss Group's 2008 accounts with net sales of 4,376m DKK and an operating profit of –596m DKK. In the first half of 2008, the Sauer-Danfoss result is recorded with 91m DKK under the item "Income from associates and joint ventures".

The calculation of Sauer-Danfoss' assets, liabilities, and contingent liabilities at market value with effect from the takeover date, July 1, is completed. Amendments can still occur; however, they are expected to be minor. The adjustments impacted the EBIT in 2008 and will do so in the years to come. The EBIT will be impacted in the Profit & Loss Account by –386m DKK for 2008. The figure is recognised in Sauer-Danfoss' operating profit, amounting to –596m DKK. The expected negative impact on the EBIT recorded in the 2009 Profit & Loss Account will be in the range of 315 and 340m DKK. The figure will particularly depend on the development of the USD.

Despite its controlling interest in Sauer-Danfoss, a number of Danfoss' policies relating to issues such as risk management, Corporate Governance, environment and CSR have not yet been implemented in Sauer-Danfoss.

Danfoss strives to reach its goals with the minimum consumption of raw materials and energy, the least possible impact on the environment and an efficient use of resources.
Danfoss has a long-standing tradition of social responsibility towards employees and the external environment.

Vision/strategy
Danfoss' strategy is based on the Danfoss Vision which was formulated in 2001.
"Danfoss will be a global leader within our core businesses, as a highly respected company, which improves quality of life by mastering advanced technologies in customer applications while creating value for all stakeholders."

The Danfoss Group 2008 in brief

2008 highlights

In 2008, Danfoss acquired the controlling interest in Sauer-Danfoss Inc. Sauer-Danfoss is not included in the 2007 figures, which impacts comparisons. Sauer-Danfoss is fully consolidated in the accounts from and including July 1, 2008.

Danfoss, excluding Sauer-Danfoss, developed reasonably well during the first nine months of the year, with the market development changing dramatically during the fourth quarter. Growth in the net sales for the first nine months amounted to 5%, but decreased by 8% in the fourth quarter (adjusted for acquisitions and divestments and calculated at last year's exchange rate). The reduced net sales resulted in a reduced use of capacity, which had a negative impact on earnings, because it was not possible to introduce corresponding cost reductions.

Unfortunately, the reduction in earnings also meant that Danfoss, excluding Sauer-Danfoss, was forced to reduce the workforce. In connection with the reduction in workforce, non-recurrent costs and provisions amounting to 145m DKK for the entire year are included in the Profit & Loss Account.

In the course of the second half-year, Sauer-Danfoss' net sales and profits were hard hit by the financial crisis. Net sales fell by 9% during the second half-year. This trend – along with the fact that the company's primary off-peak period is the second half-year – meant that the company ended the second half-year with a deficit. As Sauer-Danfoss' profit is only included in the group accounts in the second half-year, the result also had a negative effect on Danfoss' result. Therefore, the development of Sauer-Danfoss' result does not live up to the management's expectations and is not considered satisfactory.

Accounting adjustments relating to the acquisition of the Sauer-Danfoss shares had a negative impact on earnings amounting to 386m DKK in 2008.

- Net sales increased by a total of 22% to reach 27,127m DKK from 22,196m DKK in 2007. Calculated at last year's exchange rate and adjusted for acquisitions and divestments, growth amounted to 2%, compared with 12% in 2007.
- The operating profit excl. other income and expenses fell to 687m DKK from 1,634m DKK the year before.
- The adjusted EBIT reached 891m DKK compared to 1,687m DKK in 2007, which equals a decrease of 47%.

- The operating profit (EBIT) was 410m DKK compared to 1,616m DKK the year before.
- The result before tax was –125m DKK compared to 1,378m DKK in 2007.
- The result for the year showed a deficit of 157m DKK compared to a profit of 1,063m DKK in 2007.
- Cash flow before M&A was –639m DKK compared to –423m DKK last year.
- The adjusted EBIT margin was 3.3% compared to 7.6% in 2007.
- The proposed dividend rate is 20%. The dividend rate is paid immediately following the Danfoss Annual General Meeting, which is held on April 24, 2009.

Expectations for 2009

The global recession is again expected to characterise the group's markets in 2009. Reluctance, major uncertainty and nervousness are expected to influence the markets. Danfoss expects the current market situation to continue over the next two years. The first half of 2009 in particular is expected to be very difficult and the major uncertainty on the markets will cause a decrease in the group's production capacity to a non-optimal level.

- In spite of the full year effect of Sauer-Danfoss, net sales are expected to fall slightly compared with 2008.

The profit in 2009 will again be affected by accounting adjustments of between 315 and 340m DKK following the acquisition of the controlling interest in Sauer-Danfoss. At the same time, the recognition of the expected negative earnings of Sauer-Danfoss in 2009 will have a negative effect on the group's earnings

Furthermore, restructuring costs, non-recurrent expenses and provisions made for the reduction in staff will also impact earnings.

- In total, following the recognition of Sauer-Danfoss, Danfoss expects to end 2009 with a negative result.

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

The international recession hit Danfoss hard in 2008, affecting both the net sales and the profit. Group net sales increased by 22% to 27.1bn DKK. Calculated at last year's exchange rate and adjusted for acquisitions (including Sauer-Danfoss) and divestments, however, growth was only 2% compared with 12% in 2007. The lack of orders, non-recurrent expenses connected with reduction in workforce, accounting adjustments and an unsatisfactory Sauer-Danfoss result prevented the group from reaching its profit target. The operating profit (EBIT) was 410m DKK compared with 1,616m DKK the year before.

Management Report for the Danfoss Group

The Group

Net sales increased by 22% to 27,127m DKK from 22,196m DKK in 2007. Calculated at last year's exchange rate and adjusted for acquisitions (including Sauer-Danfoss) and divestments, growth amounted to 2%, compared to 12% in 2007. Organic growth in the divisions was 9% in the Danfoss Motion Controls Division, 4% in the Danfoss Heating Division, whereas net sales in the Danfoss Refrigeration & Air Conditioning Division experienced a drop of 3%. The Sauer-Danfoss growth rate was 2%.

Danfoss, excluding Sauer-Danfoss, developed reasonably well during the first nine months of the year, with the market development changing dramatically during the fourth quarter. Growth in net sales during the first nine months amounted to 5%, whereas it decreased by 8% in the fourth quarter (adjusted for acquisitions and divestments and calculated at last year's exchange rate).

The reduced net sales resulted in a reduced use of capacity, which had a negative impact on profit, because it was not possible to introduce corresponding cost reductions.

Unfortunately, the reduction in profit also meant that Danfoss, excluding Sauer-Danfoss, was forced to reduce the workforce. In connection with the reduction in staff, non-recurrent costs and provisions amounting to 145m DKK for the entire year are included in the Profit & Loss Account.

In the course of the second half-year, Sauer-Danfoss' net sales and profits were hard hit by the financial crisis. This trend – along with the fact that the company's primary off-peak period is the second half-year – meant that the company ended the second half-year with a deficit. As Sauer-Danfoss' profit is only included in the group accounts in the second half-year, the result also has a negative effect on Danfoss' result. Therefore, the development of Sauer-Danfoss' result does not live up to the management's expectations and is not considered satisfactory.

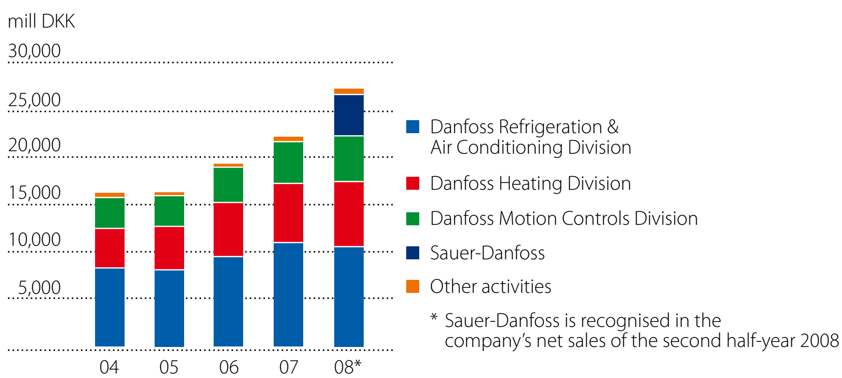
On the whole, the 2008 accounting year did not live up to the group's expectations from the beginning of the year. The financial crisis on the American market, which had a negative effect on sales during the second half of 2007, continued and strengthened in 2008. During the first half-year, the financial crisis extended to several of the group's markets and the crisis rapidly developed into a global recession.

In the course of the first half-year, the setback and initial nervousness in several markets had varying degrees of impact on Danfoss' product

Executive Vice President & CFO, Frederik Lotz
President & CEO, Niels B. Christiansen
Executive Vice President & COO, Kim Fausing

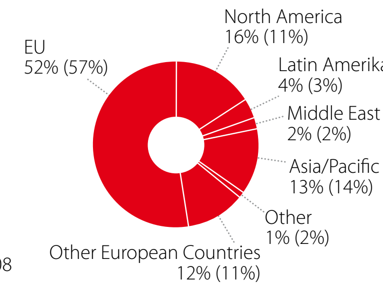
Group sales

Distributed by divisions



Net sales

Distributed by regions



areas and markets. However, this led to a downward adjustment of the expectations of Danfoss' net sales and profit after the first half of the year. The adjusted expectations included net sales of 28-29bn DKK and operating profit (EBIT) of between 1.2-1.8bn DKK. As a result of the acquisition of the Sauer-Danfoss shares, the profit was also negatively affected by accounting adjustments, which at the time were estimated to be between 300 and 600m DKK.

The setback and the nervousness on the markets intensified during the third quarter and in particular, the decline in sales to construction projects, infrastructure and manufacturers of household appliances characterised the group's situation. As a result of the development of the first nine months and the major uncertainty concerning the fourth quarter result in particular, a downward adjustment of the expectations for the net sales and the profit was made for the second time in 2008: expectations for net sales were reduced to between 27-28bn DKK, while expectations for EBIT were changed to between 0.6bn DKK and 1bn DKK.

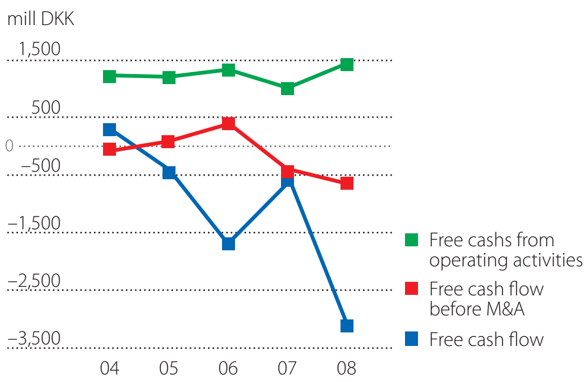
An assessment and adjustment of the cost level of the affected business areas was initiated to adapt the group to the altered market conditions and the financial situation. Unfortunately, the development also meant that the group had to reduce the number of employees because of lack of orders. As a consequence of the market trends, a full hiring freeze was implemented throughout the group in the autumn. The purpose was to avoid having to carry out any more layoffs than absolutely necessary to counter the current financial situation. The practical implications of the hiring freeze are that any vacant position must be filled through internal redeployments, revised working routines or the redistribution of job assignments. More workforce reductions may be necessary both in and outside Denmark, should the current situation continue or worsen. Furthermore the layoffs resulted in non-recurrent expenses and provisions made for future liabilities in the Profit & Loss Account.

The insecurity and the decline in the markets intensified in the fourth quarter which meant, among other things, that a long range of the group's customers were reluctant to place orders, and shut down their production sites earlier than usual before the holiday season. While growth increased by 5% during the first nine months of the year, the net sales fell by 8% in the fourth quarter.

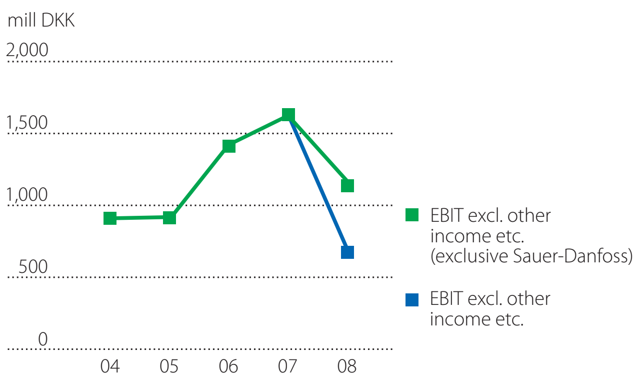
The sales on the European main market fell marginally compared with the year before, but in spite of the setback, sales did increase in a few markets such as in Poland, Germany and the UK. The markets in Latin America, Russia and China also showed growth, though considerably less than before. The American market development was somewhat favourable.

The unexpected reduction in net sales in the 4th quarter resulted in a reduced use of capacity. This had a negative impact on earnings, because it was not possible to bring down the

Cash flow



Group result



operational costs at the same rate. In order to optimise the processes even more, Danfoss has a sharpened focus on the group's cross-divisional improvement projects, which are gathered under the Danfoss Business System. The projects are cost-intensive in the short-term, but will help the long-term protection and improvement of Danfoss' competitiveness.

The high price of raw materials and the low US dollar exchange rate in the first half-year of 2008 had a negative impact on the net sales and profit. Falling prices and the fluctuating US dollar in the autumn did not have a noticeable effect on the group's result. Danfoss has hedged some of the currency exposures for a period of up to 12 months and large parts of its consumption of raw materials for up to 15 months.

In conclusion, the 2008 financial result does not live up to the expectations of the management and is, therefore, not considered satisfactory. Thanks to increased cost control, the drop in earnings was minimised without having to cut back the projects which will help secure the long-term development of the group's competitiveness.

Profit before other operating income and expenses fell to 687m DKK from 1,634m DKK in 2007, which was a decrease of 58%. The result was affected by, among other things, accounting adjustments amounting to 386m DKK following the purchase of the controlling interest in Sauer-Danfoss. The profit before other operating income and expenses for Danfoss (excl. Sauer-Danfoss) was 1,146m DKK compared with 1,634m DKK in 2007.

Adjusted EBIT was 891m DKK compared with 1,687m DKK the year before. The result is negatively influenced by the inclusion of the Sauer-Danfoss result. Sauer-Danfoss' result is included for the second half-year, where the company presented a deficit. The decline in the net sales in the fourth quarter was more extensive than anticipated, resulting in a very low degree of capacity utilisation. Therefore, the profit was lower than expected, because it was not possible to make corresponding reductions in the operational cost level.

Adjusted EBIT margin, measured against the EBIT before costs and depreciations as a result of the reevaluation of assets and liabilities in connection with company acquisitions, was 3.3% compared with 7.6% last year. Earnings were put under pressure, and as a result the group's target for the adjusted EBIT margin was not reached.

Operating profit (EBIT) was 410m DKK compared with 1,616m DKK the year before. The result was affected by accounting adjustments following the acquisition of the controlling interest in Sauer-Danfoss amounting to –386m DKK. It was also affected by costs incurred in connection with workforce reductions. For further information about the

Niels B. Christiansen succeeded Jørgen M. Clausen as CEO. Danfoss acquired the controlling interest in Sauer-Danfoss. Entrance into a cooperation with former Soviet nuclear weapons researchers on the development of energy-efficient solenoied valves. And the fifth Man on the Moon competition was held.

accounting adjustments, please refer to the section "Accounting impact", page 7.
The lack of orders, non-recurrent expenses for the workforce reductions and an unsatisfactory result for Sauer-Danfoss meant that the group did not reach its profit targets.

The share of profit from associates/joint ventures was 44m DKK compared with 210m DKK the year before. Sauer-Danfoss is included in the result in the period up to and including the second quarter. It should also be considered that, in 2007, this item was affected positively in 2007 by the 186m DKK gained from the divestment of Damcos A/S.

The profit before tax decreased to –125m DKK from 1,378m DKK. **Profit for the year** was –157 m DKK with 1,063m DKK in 2007. Danfoss' profit for the year (excl. Sauer-Danfoss) was 342m DKK compared with 1,063m DKK the year before. The bottom-line result is clearly not satisfactory.

The equity was 11,867m DKK at the end of 2008 compared to 9,744m DKK the year before. The increase is mainly a result of the inclusion of minority interests in Sauer-Danfoss, minus the year's dividends.

Intangible fixed assets rose to 10,580m DKK from 4,159m DKK.

Financial resources

Net-interest bearing debt amounted to 9,776m DKK compared to 3,737m DKK in 2007. The increase in debt was primarily due to loans used to invest in new companies, primarily Sauer-Danfoss, and fixed assets as well as an increased amount of funds tied up in working capital. For the same reason, the group's gearing (net-interest bearing debt as a percentage of the equity) increased to 82.4% from 38.4% the year before. It is Danfoss' principle to maintain considerable long-term financial resources. On December 31, 2008, the group had untapped long-term credit commitments amounting to 6.3bn DKK (2007: 3.9bn DKK).

Cash flow from operating activities was 1,428m DKK, which equals an increase of 412m DKK. In spite of the major decline in activities, the cash flow from operating activities in Danfoss (excl. Sauer-Danfoss) was largely at level with that of the year before.

Cash flow from investing activities was –4,543m DKK, which is an increase in investments of 2,950m DKK. The increase was primarily due to the acquisition of companies, including Sauer-Danfoss. In 2008, five acquisitions were carried out which influenced the cash flows by –2,385m DKK. In addition, the cash flows were influenced by investments in expansions and new construction for production capacity carried out in 2007 and 2008 at both Danfoss and Sauer-Danfoss, totalling 2,084m DKK.

Free cash flow, which is a combination of cash flows from operating activities amounting to 1,428m DKK and cash flows from investing activities amounting to –4,543m DKK, was –3,115m DKK, which is a decrease of 2,538m DKK compared with 2007. Free cash flow before M&A was –639m DKK compared with –423m DKK in 2007, where the decrease was primarily caused by the increased investments in machines and buildings.

Accounting policies

The annual report is prepared in accordance with the International Financial Reporting Standards (IFRS) and additional Danish information regulations for annual reports for accounting class D. The accounting policies were amended in 2008 as a result of newly implemented accounting standards and interpretation contributions. The amendments did not impact recognition and measurement.

Innovation

In order for Danfoss to be able to reach its goals in the future, it is vital that the company is innovative, continuously renews itself and creates products which support growth. In order to support this process, Danfoss Business System has launched a product development program which will add the right products to the product portfolio more rapidly. This is achieved through, among other things, a closer relationship with the customers. In order to stress the importance of research and development activities, the group has decided to maintain the investment level – in spite of the global crisis.

In 2008, Danfoss spent 4.4% (2007: 4.0%) of net sales, equalling 1,186m DKK, on innovation including venture activities, which was an increase of 33%. Of this, 150m DKK (115m DKK) was spent on strategic development projects.

Another crucial aspect of research and development is patenting the results and avoiding infringement of existing Danfoss patents, which would damage the business. Every year, the group produces around 450 inventions of which approx. 25% are patented. In 2008, 108 new patent applications were filed, compared with 67 the year before, and the group obtained approvals of 196 patents compared to 119 in 2007. At the end of 2008, the total number of group patents was 1,857 (including Sauer-Danfoss), compared with 982 the previous year. Patents are also a key consideration when acquiring companies.

Danfoss Ventures

In 2008, Danfoss Ventures retained its position as an important developer of business ideas. The creation of projects and investments continued and the network and marketing activities were carried on, strengthening the external network activities. Examples include: Danfoss' participation in Connect Denmark and the group's commitment to the Danish government's recently established Cleantech-Partnership, which requires participating companies to support entrepreneurial companies in the cleantech sector.

In 2008, Danfoss spent 121m DKK on venture activities, compared to 74m DKK in 2007.

Last year, Danfoss expanded its business with four new investments, two previous investments were transferred to Danfoss' core business areas, and one investment was shut down. The net increase in investments in 2008 was one, for a total of 20 current investments.

In the course of the year, Danfoss Ventures kept its focus on water and renewable energy.

Sales to the wind turbine industry, among others, have become one of Danfoss' strategic business areas.

Danfoss Ventures' fifth Man on the Moon competition involved 12 teams from China, India, France, Australia, USA, Poland and Denmark. Prizes were awarded to the two teams with the best ideas and, as in previous competitions, at least two of the business ideas are expected to be realised.

In 2008, a new activity was launched: the systematic application of patents and know-how within areas where Danfoss has rights, but that are so far removed from its core business that it does not wish to make use of them internally. Within these areas, the function will sell rights and licenses, or set up a company owned by partners with the knowledge to commercialise the relevant patents or know-how. Several companies – which were fostered in Danfoss' Entrepreneurial Park, the Mads Clausen Entrepreneurial Park – relocated from the Park in 2008 and successfully set up business within extended and more appropriate settings.

Knowledge

In order for Danfoss to reach its long-term goals, it is important that Danfoss' employees are skilled and prepared to deal with the business challenges facing the group. Building and enhancing employee competencies through challenging job assignments, work-related training and other courses and education, are vital elements of global competitiveness. Danfoss sees this as a life-long process, and the company spends considerable resources on supplementary training for employees. Training improves an employee's ability to adapt, as well as his/her value on the labour market.

In 2008, Danfoss invested 104m DKK in supplementary training at external institutions, which is approximately on par with the year before.

Corporate Citizenship

Danfoss strives to actively contribute to a global, sustainable development where social responsibility, and a high regard for people and the environment, go hand in hand with sound business development.

Danfoss' overriding goal within Corporate Citizenship is to "keep our own house in order". For employees, this means maintaining an attractive workplace and a healthy working environment. Regarding the environment, this means Danfoss products contribute to energy savings, and the environmental impact of their production is constantly being reduced.

The goal also applies, in a broad sense, to social and ethical responsibility. Danfoss is constantly intensifying its efforts, because it believes that when employee satisfaction is high, environmental impact is as low as possible, and the company's ethics and reputation are good, the result is a positive effect on the accounting bottom line.

In 2003, Danfoss introduced its CSR policy and since then has submitted reports about social responsibility which covers human rights, labour rights, ethics and anti-corruption.

Once a year, Danfoss conducts a CSR survey on social responsibility. The survey covers all of the group's plants and sales companies and deals with issues such as human rights, labour rights, corruption and bribery.

In the long term, Danfoss is working towards making the entire Corporate Citizen report the subject of external verification. Therefore, in the course of 2008, Danfoss cooperated with PricewaterhouseCoopers on data validity. The cooperation resulted in the integration of relevant indicators from the Global Reporting Initiative (GRI) into the annual CSR questionnaire.

In 2008, Danfoss published an internal Ethics Handbook, detailing ethical guidelines for all Danfoss employee globally. The Ethics Handbook describes the unwritten rules for what Danfoss employees should be particularly aware of, and what is not acceptable. Each manager with direct employees is asked to sign a declaration stating that they will comply with the guidelines in the Ethics Handbook and that they will communicate the contents of the Ethics Handbook to their employees.

Danfoss has also set up a call service to answer questions about ethical issues and an Ethics Hotline for reporting cases where ethical guidelines may have been violated.

Over the past four years, Danfoss has reported on dismissals and voluntary resignations caused by unethical conduct which violated the company policies. In 2007, there were 36 cases of dismissals caused by unethical conduct; in 2008 there were 64. The causes of the 64 dismissals and voluntary resignation due to unethical conduct included: disloyal or threatening behaviour; conflict of interest; theft or fraud with company funds; misuse of confidential information; abuse of alcohol or drugs; and time account fraud.

Danfoss contributes as much as possible to global efforts to reduce CO_2 emissions from energy-consuming processes and systems. Danfoss' products save energy for the customer as well as run as efficiently as possible. The company also wants to take its own medicine by using its knowledge and products to reduce Danfoss' emission of greenhouse gases resulting from production and transport.

In 2008, the group began setting ambitious targets for the development of energy consumption and the emission of greenhouse gases. At the end of 2008, the work resulted in a climate strategy which has been approved by top management.

Danfoss' climate strategy aims for an annual cut of 1% in total CO_2 emissions related to transport and energy consumption in the period until 2025. The end result will be a 25% reduction compared with 2007 emission levels – and more important: the target is in absolute figures.

No matter how much Danfoss expands, the annual CO_2 emissions must be reduced by 5,000 tonnes compared with the level in 2007. The 2007 level was approx. 250,000 tonnes, which covers both transport and energy consumption. In real terms, the annual CO_2 emissions must be reduced by more than 5%.

The climate strategy also specifies that the share of CO_2 neutral sources of energy should be increased by 25% before 2025.

To ensure that the climate strategy is embedded at Danfoss in the best possible way, a large part of the activities which are being implemented will be administered by Danfoss Business System. Danfoss Business System is set to make sure that energy savings and energy-efficient conduct are developed, implemented and embedded in the organisation. It is also expected that Danfoss Business System will contribute to the development of future climate initiatives, including transport, energy supply and infrastructure.

Please refer to the Corporate Citizenship section for more information about the group's social responsibility and environmental activities.

Employee numbers

At the end of 2008, the Danfoss Group employed 31,717 people, an increase of 9,394 employees compared with 2007. During the course of 2008, the number of employees increased by 9,584 as a result of the acquisition of additional shares in Sauer-.Danfoss Inc. The group's employees are distributed as follows: 13,410 in Europe (excl. Denmark) (2007: 10,334); 5,165 in North America incl. Mexico (2,626); 516 (220) in Latin America; 3,912 in Asia-Pacific incl. China (2,609) and 69 in other regions (69). In Denmark, 8,645 people were employed at the end of 2008, compared with 6,465 the year before.

Danfoss Executive Committee and Board

In connection with the Danfoss Annual General Meeting held on April 25, 2008, Jørgen M. Clausen was elected as a new board member, replacing Bente Skibsted, who did not wish to stand for re-election. Subsequently, the Board elected Henrik E. Nyegaard as Chairman of the Board, Hans Michael Jebsen as First Vice-Chairman and Jørgen M. Clausen as Second Vice-Chairman.

The Board

Henrik E. Nyegaard
Member since 1995
Chairman (born 1940)
Options: 2,563

Companies with major board activities:

Chairman of
- Gyldendal A/S

Vice-Chairman of
- Rockwool A/S
- VELUX A/S
- VKR Holding A/S

Board member of
- The Bitten and Mads Clausen Foundation
- DOVISTA A/S
- Louisiana Museum

Hans Michael Jebsen
Member since 2005
Vice-Chairman (born 1956)
Options: 1,082

Companies with major board activities:

Chairman of
- Jebsen & Co. Ltd.

Board member of
- Hysan Development Co. Ltd.
- Wharf (Holdings) Ltd.

Jørgen M. Clausen
Member since 2008
Vice-Chairman (born 1948)
Warrants: 69,250

Companies with major board activities:

Chairman of
- Sauer-Danfoss Inc.
- Danish Energy Industries Federation
- Danish National Advanced Technology Foundation

Board member of
- The Bitten and Mads Clausen Foundation
- Danfoss Universe A/S

Peter J.M. Clausen
Member since 1993
President (born 1949)
Options: 4,438

Companies with major board activities:

Chairman of
- The Bitten and Mads Clausen Foundation
- The Fabrikant Mads Clausen Foundation
- Danfoss Educational Scholarship

Board member of
- Danfoss Universe A/S
- The Mads Clausen's Institute

Svend Aage Hansen
Member since 2008
HR Consultant (born 1959)
Employee Board Member
Options: 0

Companies with major board activities:

Board member of
- The Bitten and Mads Clausen Foundation

William Ervin Hoover
Member since 2007
Director (born 1949)
Options: 150

Companies with major board activities:

Vice-Chairman of
- GN (Great Nordic)

Board member of
- Sauer-Danfoss Inc.
- NorthStar Battery

Arno Knöpfli
Member since 2002
Business Development Manager (born 1959)
Employee Board Member
Options: 1,050

Companies with major board activities:

Chairman of
- The Danfoss European Information and Consultation Forum - EICF

Board member of
- The Bitten and Mads Clausen Foundation
- Danfoss Medarbejderfond

Jens Peter Nielsen
Member since 2006
Senior Shop Steward at Danfoss Kolding
Chairman of Group Club Danfoss Danmark
Employee Board Member (born 1957)
Options: 450

Companies with major board activities:

Chairman of
- Danfoss Medarbejderfond

Board member of
- The Bitten and Mads Clausen Foundation
- Metal Kolding
- LO-Kolding

Sven Murmann
Member since 2004
Managing Director (born 1967)
Options: 900

Companies with major board activities:

Chairman of
- Bibus Hydraulik AG, Schwitzerland
- Schleswig-Holstein Musik Festival Foundation Board, Germany

Vice-Chairman of
- Sauer-Danfoss Inc., USA

Bitten Clausen
Honorary Member

Executive Committee

Niels B. Christiansen
President and CEO (born 1966)
Member of EC since 2004
Warrants: 17,250

Companies with major board activities:

Board member of
- Axcel
- TrygVesta A/S
- Foss A/S
- Bang & Olufsen a/s
- Sauer-Danfoss Inc.
- Danfoss Universe A/S

Frederik Lotz
Executive Vice President and CFO (born 1969)
Member of EC since 2007
Warrants: 9,750

Companies with major board activities:

Board member of
- Sauer-Danfoss Inc.

Kim Fausing
Executive Vice President and COO (born 1964)
Member of EC since 2008
Warrants: 4,275

Companies with major board activities:

Board member of
- Sauer-Danfoss Inc.

Danfoss employees all over the world celebrated the company's 75th anniversary. Bente Skibsted stepped down from the Board after 25 years and left her seat to her brother, Jørgen M. Clausen. The 2008 Values Ambassadors were recognised, visiting Jørgen and Anette Clausen among other things.

On October 1, Niels B. Christiansen succeeded Jørgen M. Clausen as President and CEO. Jørgen M. Clausen stepped down to concentrate on his activities as the Chairman of the Board of Sauer-Danfoss and board activities in Danfoss.

Acquisition of companies, business expansions and establishments in 2008

In order to support Danfoss' strategy of being the number 1 or 2 in all of its strategic core business areas, the group acquired five companies in 2008 at a total price of 8,305m DKK. The new companies are included in the 2008 accounts with net sales of 4,453m DKK and an EBIT of –611m DKK.

Purchase of additional shares in Sauer-Danfoss

In July 2008, the competition authorities approved Danfoss' acquisition of an additional 17.4% of the share capital in Sauer-Danfoss Inc. Danfoss A/S now owns 55.4% of Sauer-Danfoss Inc. and the company is fully integrated in Danfoss' accounts as of 1 July. The acquisition followed the successful merger in 2000 of Sauer Inc. and Danfoss Fluid Power, which became Sauer-Danfoss Inc. The merger was based on an agreement between the families behind the two companies: the Murmann family from Germany and the Clausen family. As a consequence of the globalisation and consolidations taking place in the industry, the owner families were convinced that the company would be better prepared for the future by being more closely linked to a global enterprise such as Danfoss.

Divestments and activities in 2008

In 2008, Danfoss sold its surface factory in Nordborg to Sønderborg Fornikling A/S.

Intangible assets

A company's intangible assets are difficult to value and therefore are not fully included in the company's accounts. In relation to the acquisition of companies, for example, the intangible assets make up the part of the purchase price that cannot be directly assigned to physical assets. This value is made up of factors including the brand, employees' knowledge and customers. As, in accordance with IFRS, goodwill is not amortised and because Danfoss has acquired a number of companies in recent years, the entry for goodwill has grown significantly.

Acquisition of companies and activities

Company	Country	Profit and Loss account consolidated from	Holding acquired	Turnover per year m DKK *)	No. of employees	Conside-ration paid m DKK
Proenergie Wärmetechnik AG	Switzerland	January	100%	19	8	19
ECO Heat Pumps Ltd.	England	April	100%	41	30	40
Valpes SARL	France	April	100%	50	41	53
Sauer-Danfoss Inc.	USA	July	55%	10,744	9,824	8,154
Necos S.p.A.	Italy	October	100%	3	13	39

*) Unaudited sales in 2007 or the latest financial year before the acquisition

Since 2005, the goodwill entry on the balance sheet has grown from 1.4bn DKK to 4,8bn DKK in 2008, while the entry for patents, licences, etc., has increased from 0.4bn DKK to 5,8bn DKK.

At the same time, Danfoss has built up considerable value over the years that cannot be seen on the balance sheet. Know-how, customer loyalty, patents and reputation/brand all represent huge value for the group. Strength of reputation should therefore play a larger role in assessing a company's true value.

Danfoss' reputation/brand is important and of great value to the group, as it is an indication of the trust that has been built up with customers, employees, suppliers and other Danfoss stakeholders. Trust is therefore a very important factor for Danfoss in terms of achieving the stated future growth target.

The Danfoss brand is in a strong position, but more activities will be launched in 2009 to further strengthen the group's position.

One of the most important assets for Danfoss is its employees. The group has committed and competent staff and constantly focuses on training and extending its employees' expertise. Many employees have worked for Danfoss for a number of years and through their jobs they have gained great knowledge and experience of their work tasks.

The employees' know-how is not valued in the accounts, but it is of great value to Danfoss.

ENTERPRISE RISK MANAGEMENT

This section deals with the handling of Enterprise Risk Management in Danfoss, excluding Sauer-Danfoss. The two companies handle risk management individually, but efforts are being made to introduce shared policies.

Efficient risk management means improved competitiveness which, in turn, makes it possible for the company to proactively respond to opportunities and risks and, by doing so, optimise growth and profit. In order to support this work, Danfoss has introduced Enterprise Risk Management (ERM), which aims to:

- describe and document the most essential risks and the management of them
- have true reporting of the most essential risks
- encourage an open business culture with good knowledge of risks and a proactive attitude to the management of such risks.

Organisation and foundation

One element of risk management is to involve the employees. Another is to set up a culture of open and cross-functional discussions of relevant risks. The risk owners are those who know the most about specific risks and the management of them. The function in charge of Enterprise Risk Management is Corporate Risk Management which is responsible for the consolidation and reporting as well as the development of processes and tools. As there should naturally be a strong link to the divisions, a Division Risk Manager has been appointed for each division to support the process. Responsibility for risk management lies with the respective business and functions.

Risk management is an integral part of general business management and is developed as new requirements and opportunities come to light. The development can take place through improved processes, tools and personal competencies. Some risks can be insured against, which provides protection against increased financial losses. As well as the insurance required by law, the group also insures areas where management-related or administrative advantages can be achieved. Danfoss has established a global master programme in which participation is compulsory for all subsidiaries.

This master programme covers areas including all risks insurance (machinery, inventory, stock and operating loss), commercial liability and product liability insurance, as well as executive and board liability insurance.

Danfoss Captive Reinsurance A/S

As an extension and consolidation of the group's Enterprise Risk Management (ERM) processes, Danfoss established its own reinsurance company on January 1, 2008. The reinsurance company's main purpose is to reinsure selected risks that the group faces. Initially, the company will reinsure risks relating to the three existing master insurances: Commercial and product liability, All-Risk insurance and Transport insurance. Despite establishing its own insurance company, the group will only self-insure to a limited extent.

Risk Mapping

As part of its risk management strategy, Danfoss has implemented risk mapping and reporting in the three divisions. As well as identifying and evaluating risks, the process provides a complete risk profile of the units.

The need for cross-functional risk analyses and initiatives within the field of strategic risk management will increase in proportion to the group's increased involvement in more complex markets and cooperative relationships.

Vital strategic/operational risks

Generation of a free cash flow

A sound free cash flow gives more scope to act and is the basis for long-term growth. At Danfoss, risk is managed by continuously focusing on profit and costs and through intensified efforts to introduce investment principles and strategies.

Negative trend on core markets

In order to take the necessary steps in time, it is crucial to read the market trends as early as possible. The group's major growth rates over the past years in Russia, China and USA have to a large extent balanced regional margins, whereas global recession can continue to have a substantial impact. The effects include generally reduced growth rates or even decreasing net sales, but losing customers and suppliers may also occur.

Innovation – products and solutions

Globalisation facilitates access to technologies and markets which, in turn, considerably sharpens competition. This means that there is an even greater need for Danfoss to develop new and improved solutions, and the group has initiated a large number of activities within product development and solution sales concepts, especially relating to energy efficiency.

Product quality and product liability

Inadequate product quality creates hardship for the customers and leads to substantial expenses for the company. This risk is monitored and managed using quality and environmental management systems, among other things, which involve suppliers, as well as Danfoss' own production and product development. In addition to this, the group has insured against product liability and product recalls.

Pirate copying of Danfoss products

Over the past years, cases involving the pirate copying of Danfoss' brand or products have increased in numbers. The counterfeited products are poor quality and the manufacturers of counterfeited products often do not consider environmental and working environmental issues. The staff at Danfoss' department for the protection of intellectual property rights (IP rights), which has offices in Denmark and China, cooperate with lawyers and public authorities to investigate any suspicions of illegal copying.

Danfoss' reputation

Danfoss is aware of the need and value of being a sustainable company, both in social, environmental and financial terms. The group therefore works with global programs regarding issues such as social responsibility, environmental management and employee ethics.

Pension obligations

Danfoss has pension obligations in the form of Defined Benefit schemes (pledge schemes) in subsidiaries in a few countries. Danfoss is actively working to reduce this risk through such measures as closing existing schemes to new members and not setting up any new schemes.

Financial and treasury risk management

The company's profitability and cash flows are exposed to financial risk, due to factors such as Danfoss' international business profile. Exposure appears in relation to currency rates, interest levels, raw materials, cash flows and financial counterparts. Activities to manage risks are coordinated centrally by Corporate Treasury and focus on hedging and minimising exposure, with particular focus on reducing the variations in the company's cash flows and profitability in local currencies within a period of 12-18 months.

Currency exposure

Currency exposure consists of three elements:

1. Transaction risk

Considerable consolidated risks and 12 months expected cash flows in foreign currencies (excl. cash flows from countries with inconvertible currencies) are hedged on an ongoing basis.

2. Translation risk

Generally, Danfoss does not hedge translation risks, because they do not have a direct effect on the underlying cash flows. As far as possible, translation risks are, however, attempted reduced via geared local currencies.

3. Financial/structural risk (strategic risk)

Financial instruments cannot be used to hedge financial structural currency exposure, so this kind of exposure is not included in Corporate Treasury's operational financial risk management strategy. Yet, the risks are managed strategically to make sure that the products are manufactured in as close a cooperation with the customers as possible.

Interest rate risk

The group's interest rate risk comes primarily from interest-bearing debt and cash funds. The group makes use of both fixed-rate and variable loans, as well as derived interest products. Based on an increase in the market rate of interest of 1%, the interest risk was recorded as 28m DKK at the end of 2008.

Raw materials risk

Developments in the global price of raw materials can have an effect on the group's earnings. As well as having fixed price agreements with suppliers, Danfoss uses financial instruments to cover risks relating to its purchase of certain metals and electricity.

Danfoss' overriding policy is to ensure that significant raw materials risks are reduced through a combination of risk coverage and active price adjustment.

The expected metal and electricity consumption is covered for at least six months and at most 18 months in advance, where they are deemed significant.

Cash flows risk

Danfoss' policy is to ensure at all times that the group has the cash available necessary to meet its obligations and to finance its planned strategic action.

The group minimises its cash flows risk through a combination of effective cash management and planning, by establishing irredeemable loan facilities and by ensuring that cash funds are accessible.
Danfoss' financing policy is to qualify for an investment grade credit rating:

- to have substantial cash reserves in the form of unused irredeemable credit facilities and cash funds;
- to make sure that a maximum of 25% of loan facilities are due within 12 months;
- and to make sure that the due date of the loan portfolio is an average of at least two years.

At the end of 2008, Danfoss' financial reserves, i.e. cash funds, redeemable and irredeemable facilities, were 7.8bn DKK and 5.5bn DKK, respectively, when adjusted for facilities for specific purposes, of which the irredeemable facilities and cash funds were 6.9bn DKK and 4.6bn DKK, respectively. Danfoss estimates that the cash resources are sufficient to cover the existing plans and the general market situation.

Counterpart risk

Danfoss' policy is to minimise the risk that one or more of its financial partners is unable to meet their obligations. Danfoss tries to avoid such situations by, where possible, only using financial partners who have at least an "A" credit rating in Standard & Poor's credit rating terminology.

Corporate Governance

Corporate Governance is based on the key concepts of responsibility and integrity, as well as the vital aspect of transparency. Within the scope of Corporate Governance is also the management of the company and the overall principles and structures governing the interaction between the company's executives, the owners and other stakeholders. It is therefore important that individual managers are able to conduct themselves in this respect and that they act within their own powers and the framework of the law.

Danfoss has a two-tier management system consisting of a Board and an Executive Committee.

The Articles of Association of the company, its values and regulations as well as a large number of procedures for management and control are also included in Danfoss' Corporate Governance.

With a few exceptions, Danfoss' Corporate Governance policy is in accordance with the "Recommendations of corporate governance", which companies listed on the OMX Nordic Exchange have a duty to disclose. Danfoss is a family-owned and foundation-owned company and, consequently, does not share the same duty of disclosure as those of listed companies, but the group chooses to comply with many of the guidelines applying to listed companies.

Please refer to Danfoss homepage at www.danfoss.com for more details on Danfoss' approach to Corporate Governance and management and control systems, including a review of the group's exceptions to "Recommendations of corporate governance", by the OMX Nordic Exchange Copenhagen.

RELATIONSHIP WITH SHAREHOLDERS

Danfoss' share capital amounts to 1,027m DKK and is divided into two share classes:
A-shares account for 425m DKK and B-shares for 602m DKK.

A-shares entitle the holder to ten votes for every 100 DKK share (nominal value) while

B-shares entitle the holder to one vote for every 100 DKK share (nominal value). The holders of A-shares also have pre-emptive rights to A-shares in the event of any increases in share capital. Otherwise no shares have special rights.

The Bitten and Mads Clausen Foundation and the Clausen family jointly own all A-shares and a number of B-shares corresponding to 99.5% of the votes. The remaining votes are assigned to employees shares. At the end of 2008, Danfoss had approximately 6,200 registered, named employee shareholders, of which approximately one quarter are no longer employed at Danfoss. Around three quarters of shareholders reside in Denmark, while the remaining shareholders live outside Denmark.

The employee shareholders and senior management own about 3% of the share capital and hold about 0.5% of the votes.
All employee shares are B-shares.

Shareholders with more than 5% share capital

	Shares	Votes
The Bitten and Mads Clausen Foundation, Nordborg, Denmark	49.21%	85.54%
Clausen Controls A/S, Sønderborg, Denmark	23.12%	4.89%
Henrik Mads Clausen, Lake Forrest, USA	10.71%	2.27%
Bente Skibsted, Copenhagen, Denmark	5.55%	1.17%

Price development of Danfoss shares

The market price for Danfoss shares is set once a year, based on the valuation made by Danske Markets (a branch of Danske Bank A/S) immediately before the Ordinary Annual General Meeting in April.

The first employee shares were issued in 2001 and this was also the first time that the market price of Danfoss shares was calculated. In 2001, the market price was set at 749. The market price calculation is based on the economic development of Danfoss, the group's expectations for the next few years, the ability to meet these expectations, the economic development of other similar companies and their future expectations together with the general trend on the stock market. The 2008 price was set at 2,127 DKK per share.

The new share price will be announced at the Danfoss A/S Annual General Meeting in April 2009.

Dividends and Annual General Meeting

The Board proposes that the dividend for the 2008 financial year be fixed at 20%, compared with 25% in 2007, corresponding to approx. 205m DKK (2007: 255m DKK). The dividend will be paid in Danish kroner and 28% Danish dividend tax will be deducted from dividends paid to Danish shareholders. For shareholders outside Denmark, dividend tax will be deducted according to the joint taxation agreements held at VP Securities Services.

The Ordinary Annual General Meeting will take place in Nordborg, Denmark, on April 24, 2009.

Employee bonds

The year 2007 was the first time that the employees in Denmark were able to subscribe for employee bonds as part of the salary package. The first bonds were issued in 2008 as a result. A total of 1,500 employees joined the scheme and subscribed for a total of 28.5m DKK.

EVENTS AFTER THE END OF THE ACCOUNTING YEAR

In January, Sauer-Danfoss announced redundancies of approx. 400 people in Denmark, due to lack of orders. This also led to a further

70 layoffs in Sauer-Danfoss sales and marketing functions in February.

In February, as a result of the continuing dramatic slowdown on the markets, Danfoss announced the cut of 850 positions worldwide and the discontinuation of a range of projects.

The continuing decline on the markets in January and February resulted in the announcement in March of an additional round of reductions of about 330 positions in Nordborg by Sauer-Danfoss: about 270 positions in production and around 60 salaried positions.

These moves should only be considered structural adjustments, and are not expected to give rise to considerable losses or impairments.

On February 17, the competition authorities carried out an unannounced inspection at Danfoss in Nordborg, Flensburg, Germany and Torino, Italy. At the same time, two of Danfoss' companies in the USA were inspected by the American competition authority. The reason for the inspection and the ongoing investigation was the suspicion of entrance into illegal pricing agreements within the household compressor market. Danfoss top management is completely unaware of any possible entrance into such an agreement. Danfoss policy and ethical guidelines should ensure that Danfoss did not take part in any illegal and anti-competitive pricing agreements. The management will closely monitor the situation, but has no knowledge of the authorities' conclusions at present.

EXPECTATIONS FOR 2009

The global recession is also expected to characterise the group's markets in 2009, which are anticipated to be influenced by reluctance, major uncertainty and nervousness. Danfoss estimates that the current market situation will continue over the next two years. The first half of 2009 in particular is expected to be very difficult and the major uncertainty on the markets will cause a decrease in the group's production capacity to a less than optimal level.

In spite of Sauer-Danfoss' effect on the full year, net sales are expected to fall slightly compared with 2008.

The profit in 2009 will again be affected by accounting adjustments of between 315 and 340m DKK following the acquisition of the controlling interest in Sauer-Danfoss. At the same time, the recognition of the expected negative earnings of Sauer-Danfoss in 2009 will have a negative effect on the group's earnings.

Furthermore, restructuring costs, non-recurrent expenses and provisions made for the reduction in staff will also impact earnings.

In total, following the recognition of Sauer-Danfoss, Danfoss expects to end 2009 with a negative result.

Since it is not possible to minimise the operational costs proportionally with the development of activities, there is a risk that Danfoss' profit for the first half-year will be more negative compared with 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 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.

Finally, the situation on the global financial markets increases the uncertainty to the group's expectations for 2009.

Even though the setback does not have a general positive effect on the business, it does lead to opportunities for Danfoss to strengthen its position on the global markets: markets are declining and this is expected to speed up the process of consolidations within the group's business areas. With unused credit facilities of 6.3bn DKK, the group is prepared to acquire companies, should favourable candidates appear. The struggle for market shares is also expected to intensify in 2009, so Danfoss aims to make additional investments in order to win market share.

2009 will see a sharpened focus on creating a positive cash flow, through an increased focus on tied stocks, improved supplier control and improved credit control.

Although 2009 is expected to be difficult to tackle, the group maintains its investments in product development which is a fundamental prerequisite for reaching its future targets. In order to support the process, a product development program was launched, under the Danfoss Business System, which will help add the right products in the product portfolio more quickly. This will be done in close cooperation with the customers, among others.

The expectations for 2009 include Sauer-Danfoss' expectations regarding net sales and profit as announced in Sauer-Danfoss' press release on the 2008 annual accounts, and adjusted in accordance with Danfoss' accounting policies.

Prerequisites

The recession is expected to continue in 2009, and it is highly likely that it will take another few years before the financial trends improve. 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 weak growth rates.

To meet the targets, it is vital that costs are strictly monitored and expectations are that the cost level will not increase compared with 2008. One major contributor is the intensified focus on cross-functional improvement projects controlled by Danfoss Business System.

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.

Long-term growth and profit perspectives

In 2006, Danfoss launched a perspective plan for the period to 2011. The plan contains a number of financial targets and priority areas, which will improve the group's development and value in the long term. The present financial crisis means that it is no longer feasible to reach the financial targets of the plan within the set period. The target remains for net sales to grow by an average of 10% per year and for the EBIT margin to exceed an average of 10%.

PROFILES OF THE DIVISIONS AND SAUER-DANFOSS

The Danfoss Refrigeration & Air Conditioning Division consists of five business units and three sales units. The five business units, Danfoss Automatic Controls, Danfoss Household Compressors, Danfoss Commercial Compressors, Danfoss Electronics & Sensors and Danfoss Heat Exchangers are responsible for product development, production and sales to key customers within their product areas. The products are manufactured at 21 factories in 13 countries. The division also sells its products on the international market through a dedicated sales organisation within the division's main business areas, Refrigeration and Air conditioning, Food Chain and Industrial automation.

The Danfoss Heating Division offers a wide range of components and solutions for the generation, distribution and optimum use of heating in order to provide comfort and energy savings in private households and small commercial buildings. All in all, the division is one of the leading competence centres in the global industry, with production facilities in more than 15 countries and sales companies and agents on all water-based heating markets worldwide. The constant improvement of products and services has enabled the Danfoss Heating Division to build strong relationships with customers and business partners throughout the value chain. The Danfoss Heating Division also produces and supplies components for the water industry in the form of valves and related products, also via a strong global organisation.

The Danfoss Motion Controls Division had four business units at the end of 2008: Danfoss Drives, Danfoss Gearmotors, Danfoss Silicon Power and Danfoss Solar Inverters. The Division has factories in Denmark, China, Slovakia, Germany and the USA. The business units operate as independent business areas with a global network of sales offices that provide professional service to customers. Danfoss Drives is a world-leading supplier of frequency converters to a wide range of industries including HVAC, Refrigeration, Food & Beverage, Water & Wastewater and Industry. Danfoss Gearmotors delivers gear motors for industrial applications and occupies a strong position within the steel, materials handling and automotive industries. Danfoss Silicon Power is a leading global supplier of power modules to a range of industries, including the automotive industry. Danfoss Solar Inverters sells grid-connected inverters to the solar cell industry.

Sauer-Danfoss Inc. is one of the world's leading producers and suppliers of mobile hydraulics and electronic components and integrated system solutions for off-road vehicles in the following sectors: Agriculture, Construction, Materials Handling, Road Building, Turf Care and special applications. Sauer-Danfoss Inc. is listed on the New York Stock Exchange and the company's share price can be monitored using the code SHS. Sauer-Danfoss Inc. was established in 2000 through the merger of the mobile hydraulic activities of Danfoss A/S and Sauer-Sundstrand Inc.

In 2008, the Danfoss Refrigeration & Air Conditioning Division achieved net sales of 10,783m DKK compared to 11,187m DKK in 2007, which equals a fall of 4%. Operating profit (EBIT) was 334m DKK compared to 856m DKK in 2007, a decrease of 61%.

Danfoss Refrigeration & Air Conditioning Division

Net sales fell to 10,783m DKK from 11,187m DKK in 2007, a fall of 4% on the previous year. Calculated at last year's exchange rate and adjusted for acquisitions and divestments, growth fell by 3%, compared to a growth of 11% in 2007.

The fall in net sales was triggered by the financial crisis on the American market, which started in the second half of 2007 and which spread to the rest of the division's markets as the international financial crisis took hold in 2008 and developed into an economic crisis.

In the first half of 2008, the division was affected by the high price of raw materials and the fall in prices in the autumn had only a limited impact on the year, as the most important raw materials are traded on long-term contracts.

The decrease in net sales meant that production capacity could not be fully utilised, which in turn put increased pressure on earnings in the division.

In order to meet the challenges of the market, major restructuring was carried out in the division and non-recurring costs connected with these changes and redundancies amounted to 114m DKK.

The year's major challenges meant that EBIT ended at 334m DKK, compared with 856m DKK in 2007, a decrease of 61%. The EBIT margin was 3.1% compared with 7.7% in the previous year.

Free cash flow was 358m DKK, compared with 336m DKK the year before. Cash flow from operating activities amounted to 1,161m DKK, compared with 1,102m DKK in the previous year. The negative earnings trend was thus partially offset by an increase in working capital. Investments in tangible and intangible assets were around 87m DKK higher than in the previous year and the total cash flow from investment activities was –802m DKK compared with –766m DKK in the previous year.

Market development

The fall in net sales growth was characterised by large regional differences, but growth fell on all markets during the year and the division's sales failed to live up to expectations.

Asian markets showed moderate growth, while the Chinese market experienced double-

The Division's products are used for refrigeration in households, shops and in industry. Furthermore, products are used in industrial systems for air conditioning and controls in specific industrial sectors. The products optimise energy and contribute to the reduction of CO_2 emissions.

digit growth, but this was not at the same level as before. Growth also remained in double figures on the other markets in Asia and in the Pacific region, except Australia. Growth in Latin America was mainly driven by Argentina, but the Brazilian market also showed some progress. In contrast, the main European market suffered a general downturn. However sales did increase in Germany and Poland. The North American market was hit by the economic crisis for the whole of 2008.

Business development

As part of the ongoing effort to increase the profitability of the business, a range of changes were introduced in 2008.

The TR6 valve was launched on the American air conditioning market in 2006 with great success. This success on the American market and a desire for closer proximity to the key customers led to the decision to consolidate future production in Mexico from the end of 2008. On the contrary, the decision was taken to end production of mechanical thermostats in Mexico as a result of a declining market for mechanical thermostats for refrigeration, strong price competition and general overcapacity on the market.

An increased focus on the division's key business areas led to the sale of the surface treatment factory to Sønderborg Fornikling A/S in the autumn. The company took over all the employees and the handover of the factory will take place gradually until the end of April 2009.

Having thus far held 50% of the shares in Necos S.p.A., which produces programmable electronic controls for heating, ventilation, air conditioning and refrigeration, the division acquired the remaining shares in October. This acquisition will support the division's activities on the commercial air conditioning market.

As part of its efforts to expand activities in China, the division entered into a joint venture agreement in September with Tianjin Sanhua Refrigeration Equipment Co. Ltd., (TSRE), which is China's largest sales and distribution network for refrigeration. Once the agreement comes into effect in January 2009, Danfoss will own 51% of the joint venture.

As a result of developments in the global economy and the major downturn in demand, the management of the compressor factory in Flensburg, Germany, was forced to make redundancies.

Products, research and development

Increasing the use of energy-saving and environmentally friendly products has always been one of Danfoss core values and many of the division's products help to combat the effects of global warming. Research into and development of solutions to reduce CO_2 emissions and general energy consumption will therefore be particular areas of focus in the next few years.

At the international AHR exhibition in New York in January, it was announced that Danfoss had won the innovation prize for 2009 for its new pioneering variable speed compressor solution. This new compressor solution was developed in conjunction with the Danfoss Motion Controls Division.

The division carried out the first pilot project for the Danfoss Product Development Program (PDP) in 2009. This project focused on developing product concepts for cold storage rooms in supermarkets, corner shops and restaurants. The result was seven new product concepts and the PDP processes and tools demonstrated their value. These processes will now be implemented in other parts of the Danfoss organisation.

Earlier in the year, an unusual collaboration was established between Danfoss in Kolding and former Russian nuclear weapons researchers. The researchers work in Sarov, Russia, which was the birthplace of the Russian nuclear weapons programme. Some of the researchers are now involved in peaceful projects and the collaboration with Danfoss is the first with a Danish company. This collaboration came about after the division became aware of the extraordinary expertise available there and the project was launched in the summer, following a lengthy approval procedure involving the Russian Agency for Atomic Energy (RusAtom), among others. The aim is to create a solenoid-valve that uses less energy than current models.

Expectations for 2009

Sales in 2009 will again be affected by the downturn on international markets resulting from the financial crisis and developments for the year are therefore very uncertain. Moderate growth is expected in China and India. On the other markets no growth is expected at best.

The division is adapting its activity level to these lower expectations and in order to alleviate the effects of the international financial crisis, the division is maintaining its present tight control on costs. The overall cost level is therefore not expected to rise compared with the previous year. At the same time, it is important to limit the effects of not fully utilising capacity by making targeted efforts to increase sales and at the same time reduce production costs. An important condition for doing this is that the activities planned in the Danfoss Business System are carried out, not least in terms of implementing improvement projects and optimising production.

The division will also continue its activities in relation to "total quality" in 2009, with the aim of establishing the same quality standards in selected areas of production as those established in the automotive industry.

In light of the global slowdown, the division expects to invest 325m DKK in 2009, the majority of which is expected to be used for investment in maintenance and for adapting the existing production capacity, with only a small portion expected to be used to increase capacity, which under the present market conditions is considered to be adequate.

Long-term perspective plans

The division's long-term goals remain unchanged, but in the short term the focus will be on exploiting the current crisis to gain additional market share and thereby attain a greater production volume and so also achieve the goal of increasing the profitability of the business so that the division's EBIT margin is comparable with that of our main competitors.

The challenges posed by global climate change require new, environmentally friendly solutions, which are a natural extension of the Danfoss product range. In relation to CO_2 emissions and energy consumption in particular, the division expects to be able to offer a range of interesting solutions for customers. The environmental benefits that can be achieved by reducing energy consumption in refrigeration and air conditioning is one of the most important areas for action in the division.

For compressors, there will be a major focus on expanding the product portfolio to include new types of compressors, while the relocation of some production capacity to areas with lower cost levels will also continue.

The division also has great expectations for expanding its existing solutions within electronics, so that electronics will in future play a greater role in the current mechanical solutions. The focus on globalisation in recent years will continue in the perspective period. Markets outside Europe are therefore expected to be the largest growth areas in the next few years. China, Russia and Latin America in particular are expected to experience growth and concesequently activities on these markets are being increased. Activities in India will also be gradually increased, but they still do not represent a significant proportion of total net sales.

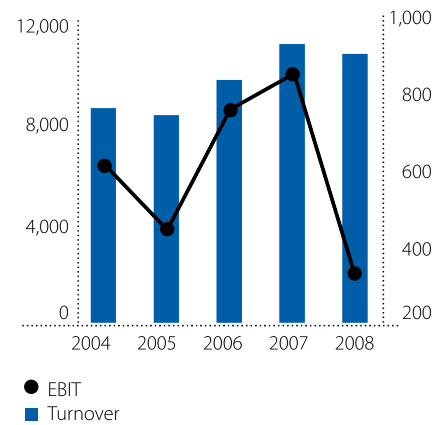
Financial highlights for Danfoss Refrigeration & Air Conditioning Division

mill DKK

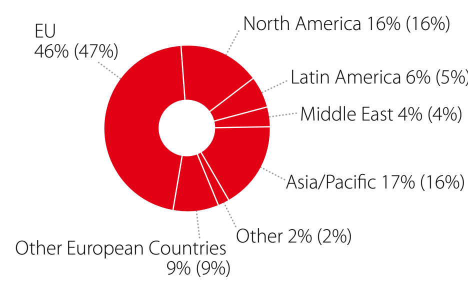
	2007	2008
PROFIT AND LOSS ACCOUNT		
Net sales	11,187	10,783
EBITDA excl. other operating inc./exp.	1,418	1,019
EBIT excl. other operating inc. and exp.	923	481
Operating profit (EBIT)	856	334
Income from associates and joint ventures after tax	-50	-30
Profit before finance	807	305
BALANCE SHEET		
Intangible fixed assets	1,572	1,721
Tangible fixed assets	2,326	2,474
Investment in associates and joint ventures	149	181
Total assets	8,048	7,964
Non-interest-bearing debt	2,125	2,050
Net assets	5,774	5,734
OTHER INFORMATION		
Capital expenditure	680	803
Depreciation/amortisation	494	538
CASH FLOW STATEMENT		
Cash flow from operating activities (excl. paid tax and financial items)	1,102	1,161
Cash flow from investing activities	-766	-802
hereof acquisition of intangible and tangible fixed assets	-574	-661
hereof acquisition of subsidiaries and activities	-146	-51
Frit cash flow	336	358
NUMBER OF EMPLOYEES		
Number of employees	11,116	10,757
KEY FIGURES		
EBIT margin	7.7%	3.1%
RONA	15.0%	5.8%

Turnover and EBIT

M DKK



Net sales (2007)



In 2008, the Danfoss Heating Division achieved net sales of 6,797m DKK, compared with 6,238m DKK in 2007, an increase of 9%. Operating profit (EBIT) was 602m DKK, compared with 632m DKK in 2007 which represents a decrease of 5%.

Danfoss Heating Division

Net sales increased to 6,797m DKK from 6,238m DKK in 2007, representing an increase of 9% on the previous year. Calculated at last year's exchange rate and adjusted for acquisitions and divestments, growth amounted to 4%, compared to 9% in 2007. The division's expectations of a growth in net sales were therefore met despite the financial crisis. Earnings did come under pressure, however, as a result of falling sales in the final quarter, which is traditionally the peak season for this division.

The Danfoss Heating Division mainly supplies heating components and systems to the construction industry. As the division's products are primarily used at the later stages of the construction process, the business was relatively slow to feel the impact of the global financial crisis, which originated in the housing market and therefore resulted in a slowdown in the construction industry. From November, however, the crisis took full effect on the division's sales and contributed to the division's profit for the year being somewhat below expectations, despite overall growth.

Operating profit (EBIT) was 602m DKK, compared with 632m DKK in the previous year. The division's overall EBIT margin was 8.9% compared with 10.1% in 2007.

Free cash flow was 398m DKK, compared with -184m DKK the year before. Cash flow from operating activities amounted to 939m DKK, an increase of 542m DKK, which was mainly the result of improvements in working capital, and cash flow from investment activities was –541m DKK, compared with −581m DKK in the previous year.

Market developments

The division's markets are largely driven by growth in new construction and by the renovation of buildings and energy systems to achieve greater energy efficiency. Demand for and interest in the latter is constantly increasing as a result of the global climate debate and the legal measures and regulations the debate has prompted – first and foremost in Europe, but also in the division's other two main markets, Russia and China.

The division has experienced particularly strong growth in Russia and Eastern Europe in recent years. The advantage that Danfoss has is that customers experience good quality, reliability and safety, and great emphasis is placed on defending this position in the future, as in the long term Danfoss' primary competitors are expected to be manufacturers of low-cost products.

The Heating Division's versatile product range is characterised by a combination of energy savings, maximum comfort and reliability for professionals and end-customers.

On the Russian market, growth is particularly driven by a general increase in wealth as well as favourable financing conditions and construction terms – and to a lesser degree by legislation and regulations concerning energy savings. It is plain to see, therefore, that the financial crisis will have a greater effect on the Danfoss Heating Division in Russia than in the EU, which continues to be the division's main market.

There is growing interest in energy savings in the EU. The EU's framework directives are defining to an increasing extent the priorities within the energy sector, resulting in more and more specific requirements for energy efficiency in buildings and heating systems. The result of this is that the market has developed in two different directions this year: a traditional component market with a primary focus on price and simplicity and a market for total systems where the suppliers provide their expertise for total indoor climate solutions that meet the increasingly specific and complex energy requirements. In 2008, the Danfoss Heating Division took heed of this development and established two new business units, Danfoss Heating Controls and Danfoss Heating Solutions, with the aim of achieving a sharper focus on the two different directions in which the market is developing.

In China, the Danfoss Heating Division has been particularly successful in the district heating sector. There has also been growth on the market for components to control and regulate indoor temperature. There is still considered to be great potential as a result of significant building activity in the towns and cities, while the market for heating systems and energy savings will for the foreseeable future be characterised by a large number of players with different technologies and a relatively strong focus on price.

The USA is not considered to be a major market for the Danfoss Heating Division, primarily because of the lack of widespread use of water-based heating technologies. There is continued good growth, however, for Danfoss' business in terms of electric floor heating and oil nozzles.

Business development

In 2008, the Danfoss Heating Division restructured its organisation. As a result, the number of business units has decreased from six to five. A common sales organisation has also been established for the division.

Danfoss Heating Controls had a successful year in 2008. At the end of the year there was some stagnation in new construction, but this was offset by an increased focus on renovation sales. Sales of balancing valves, which regulate water flow in heating and cooling systems in larger buildings, in particular exceeded all expectations in 2008. Radiator thermostats and electronic room control units also returned continued good results on the key European market. There was good growth in the sale of components for oil burners in the first half of the year, which levelled off in the second half of the year.

Danfoss District Heating experienced a growing market up to the end of September, after which the economic crisis had a major effect, resulting in a dramatic fall in growth on all markets. However, Danfoss believes that Danfoss District Heating has overall maintained and even strengthened its market shares and market position in 2008.

The business unit has in recent years developed a specialization for micro combined heat and power plants, which are small systems – often powered by sustainable energy such as biomass, heat pumps and/or solar energy – that typically provide heating to 50-100 households. Growth in this area has continued to be good.

In the longer term, it is still the expectation that district heating, and not least district cooling, will be of increasing importance in densely populated areas, where significant improvements in energy efficiency and reductions in CO_2 emissions are to be had through the better use of modern district heating technology.

Danfoss Heating Solutions was established in 2008 to focus on the development of expertise, products and services for total indoor climate systems for buildings. This unit covers the business areas of electric floor heating, water-based floor heating, ventilation and application technology. The last two are currently under development. Sales of floor heating fell overall compared with 2007 as a result of the introduction of new restrictions in several European countries concerning heating using electricity. The sale of water-based floor heating continued to grow, thanks in particular to the CF2 wireless control unit.

Danfoss Heat Pumps continued to grow in 2008. Its aim, as before, is to be among the leading European suppliers of heat pumps that can provide hot water for domestic use and for room heating. Over the last three years, Danfoss has invested in the acquisition of seven different companies in Europe and has also set up a production unit in Poland. During the course of 2008, Danfoss took over the British heat pump company Eco Heat Pumps and also opened new production facilities at the factory in Grodzisk, Poland.

Danfoss Water Controls experienced great success in the first nine months of the year on all established markets with good results in Russia, China and Poland. The exception was the USA, where the slowdown in construction activities had a negative effect on Danfoss Water Controls for the entire year. In April, Danfoss took over French electric actuator manufacturer, Valpes, which was subsequently integrated into Danfoss Water Controls.

Products, research and development

A large proportion of the division's development work and focus is on total systems and solutions for controlling the indoor climate of residential and small business properties.

In 2008, Danfoss Heating Solutions developed a completely new range for ventilation using heat recovery technology. The products are scheduled to be launched on the market during spring 2009.

In 2008, **Danfoss District Heating** started to introduce a completely new range of larger district heating stations, while a new range of heat exchangers was also launched with the aim of strengthening Danfoss' overall position in the sector.

Danfoss Heat Pumps launched a new range of heat pumps for large buildings called DHP-R. The range includes heat pumps with an output of 20-42 kW, which can be connected in series to provide output of up to 500 kW.

Expectations for 2009

The current global crisis means that there is uncertainty regarding how the markets will react in 2009. The expectation for the Danfoss Heating Division is a slowing of market growth, which will affect both sales and earnings.

At the beginning of the year, the division adjusted cost levels to match expectations of a slight decrease in the 2009 net sales. The relatively low oil price at the beginning of the year is considered to have been a contributory factor in the slowdown on the division's markets. This particularly applies to Russia, where growth is expected to reoccur when and if the price of oil returns to 2006 level.

With a product portfolio well balanced with the current increasing focus on energy savings, Danfoss Heating Division expects to solidify its overall market position in 2009 and in the years to come. Furthermore, investments will still be made in the required long-term development activities such as shared product designs and marketing.

Danfoss Heating Controls expects to expand production in Wuqing in China – initially with a view to improving the cost level for products and components, which have so far been sourced from external suppliers.

The expansion of Danfoss District Heating's production in Popesti, Romania is also expected to be completed in 2009.

Long-term perspective plans

Europe, Russia and China are the geographical focus areas for the further development of the Danfoss Heating Division's core business. The overriding goal is for continued profitable growth and there is still significant potential for this despite the current downturn in the world economy.

In Europe, the strategy is for the ongoing development of skills and solutions for total indoor climate solutions for residential and small business properties. Growth in Europe is particularly expected in new product areas such as heat pumps, ventilation and floor heating. However, it is Russia and China that are expected to drive the vast majority of the division's growth over the next few years. The main challenge here is to maintain and strengthen Danfoss' position and to stave off competition from local suppliers.

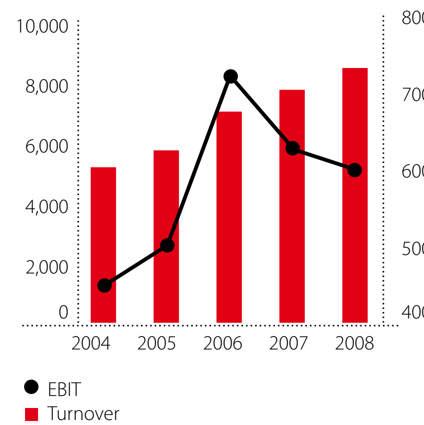
Financial highlights for Danfoss Heating Division

mill DKK

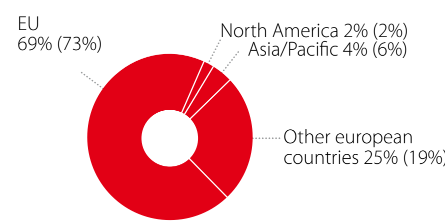
	2007	2008
PROFIT AND LOSS ACCOUNT		
Net sales	6,238	6,797
EBITDA excl. other operating inc./exp.	833	902
EBIT excl. other operating inc. and exp.	622	630
Operating profit (EBIT)	632	602
Profit before finance	632	602
BALANCE SHEET		
Intangible fixed assets	2,150	2,157
Tangible fixed assets	1,162	1,272
Total assets	5,654	5,756
Non-interest-bearing debt	1,121	1,093
Net assets	4,533	4,662
OTHER INFORMATION		
Capital expenditure	762	477
Depreciation/amortisation	211	272
CASH FLOW STATEMENT		
Cash flow from operating activities (excl. paid tax and financial items)	397	939
Cash flow from investing activities	-581	-541
hereof acquisition of intangible and tangible fixed assets	-456	-400
hereof acquisition of subsidiaries and activities	-128	-144
Frit cash flow	-184	398
NUMBER OF EMPLOYEES		
Number of employees	5,870	5,925
KEY FIGURES		
EBIT margin	10.1%	8.9%
RONA	15.4%	13.1%

Turnover and EBIT

M DKK



Net sales (2007)



In 2008, the Motion Controls Division achieved net sales of 4,755m DKK, compared with 4,371m DKK in 2007, an increase of 9%. Operating profit (EBIT) was 352m DKK compared with 322m DKK in 2007, which was also an increase of 9%.

Danfoss Motion Controls Division

In the first six months of 2008, the Danfoss Motion Controls Division achieved a high level of growth, while sales in the second half of the year slowed sharply as a result of the global economic crisis. Nevertheless, the division achieved a growth in sales of 9%, which is equivalent to 4,755m DKK, compared with 4,371m DKK in 2007. Calculated at last year's exchange rate and adjusted for acquisitions and divestments, growth amounted to 9%, compared to 18% in 2007.

Earnings in 2008 were negatively affected by the additional costs involved in keeping up with the high order volume in the first few months of the year, while the economic slowdown later in the year resulted in overcapacity in some production areas and in lower sales. Earnings were also affected by the delayed launch of the TripleLynx range and the parallel production of the old VLT®5000 and the new VLT®AutomationDrive platform while the division phased out the old frequency converter platform and gradually introduced the new one during 2008. Towards the end of the year, the division was again ready to focus to an even greater extent, on production costs and quality, which is expected to result in improved earnings in 2009.

Operating profit (EBIT) was 352m DKK in 2008. In 2007, EBIT was 322m DKK. The EBIT margin was 7.4%, which is the same as in 2007.

Free cash flow was 136m DKK, compared with 0m DKK the year before. Cash flow from operating activities was 424m DKK. Cash flow from investment activities was –288m DKK, compared with –282m DKK the year before.

Market development

Sales increased in all regions in the first half of the year, but almost all regions were affected by the slowdown in the second half of the year. There was continued growth in Europe, the division's largest market, but this was at a lower level than expected. The same was true of sales in China and North America. The Asia-Pacific region was unable to increase sales in 2008, whereas sales in Latin America continued to grow strongly over the year and remained unaffected by the slowdown.

Although there has been a fall in demand as a result of the economic crisis, growth has generally continued to be driven by customer demand for energy efficiency and automation and by the increased international focus on the effects of climate change. The division supplies energy-efficient solutions to customers across a range of industries, such as HVAC (heating,

Danfoss Motion Controls Division produces and markets VLT® electronic motor controls, Bauer® geared motors, solar inverters and power modules. Electronic motor controls optimise processes within air conditioning, refrigeration, water and heat supply and any kind of manufacturing application.
Geared motors are used in industrial applications, such as material handling and in the steel industry. Power modules are used in electronic motor controls, power supplies and electric vehicles, for example. And solar inverters are used in residential and commercial solar energy applications

ventilation and air conditioning) and refrigeration, food and beverage, water and wastewater, the automotive industry and sustainable energy.

These solutions include speed control for electric motors using VLT® frequency converters with a large potential for energy savings in HVAC of around 30-70 per cent, which reduces CO_2 emissions by millions of tonnes per year. Danfoss is one of the world's leading suppliers of frequency converters and has 40 years' experience in this field. This is a business with a large potential for growth, as only 10 percent of the world's motors currently use speed control. The division succeeded in strengthening its frequency converter business in 2008, even though sales did not live up to expectations as a result of the economic slowdown.

The division also sells power modules, solar inverters and gear motors. The power module business experienced strong growth over the course of the year, driven by the continued increase in demand for solutions from the automotive industry. In 2008, the division also started to supply solutions to the wind turbine industry, which is a rapidly growing sector within power electronics.

As a result of increased demand for alternative energy, the solar inverter business also experienced strong growth in 2008, as customers showed great interest in solutions for both private and commercial grid-connected solar cell applications. A new product, TripleLynx, is now also providing access to the high power sector, including large solar power plants.

The gear motor business occupies a strong position and has 80 years' experience in gear motor solutions for materials handling and the metal and crane sectors. The business has now also entered the food and beverage sector with a new gear motor solution called Hygienic Drive. Despite the economic downturn, the business achieved a good level of growth in 2008.

Business and market development

The Danfoss Motion Controls Division consists of four business units: Danfoss Drives, Danfoss Gearmotors, Danfoss Silicon Power and Danfoss Solar Inverters. These business units each concentrate on their core business in order to realise their growth and earnings potential.

Danfoss Drives continued to grow in terms of both standard and customised frequency converters, but at a lower rate than expected as a result of the downturn in the second half of 2008. Although the business unit's sales grew on the North and Latin American, European and Chinese markets, the Asia-Pacific market lagged behind.

In recent years, the high-power frequency converter business has experienced significant growth. In addition to being the global market leader in the low and medium power sectors, Danfoss Drives is one of the world's leading suppliers of frequency converters in the low voltage sector.

In 2008, Danfoss Drives focused on launching its new VLT®AutomationDrive range and phasing out the old VLT® 5000 product range. Product development work concentrated on fine tuning the functionality of the new product range, while at the same time a range of new product development projects were implemented.

One of these projects is the development of a variable speed-controlled compressor for air conditioning and heat pumps, which has been developed in conjunction with the Danfoss Refrigeration & Air Conditioning Division. The solution, Apexx VSH, which won the distinguished 2009 AHR EXPO® Innovation Award in the USA, ensures continuous cooling capacity matched to the load, resulting in a high level of energy efficiency and enhanced cooling comfort. The Apexx VSH combines a compressor and a frequency converter, which provides a unique level of control.

Danfoss Gearmotors achieved strong growth in 2008, particularly driven by sales in Germany, China, Russia and North America. The business unit launched the Hygienic Drive concept on the market with great success. The economic slowdown on the global market only started to affect the gear motors business towards the end of the year.

Danfoss Silicon Power continued to grow at double-digit rates in 2008. While there was a high level of activity for the automotive industry at the beginning of the year, the business unit experienced a slowdown in the industry towards the end of 2008.

Danfoss Solar Inverters achieved strong growth in 2008 through the sale of energy-efficient solutions on the European markets. There was also great interest from customers in the new TripleLynx product range.

Expectations for 2009

The Danfoss Motion Controls Division expects that there will be continued demand from customers for solutions that ensure the optimum use of energy and automation. At the same time, the division anticipates improved earnings as a result of lower production costs, better quality and more efficient processes and tools in production, sales and purchasing as part of the Danfoss Business System programs. These factors will create a solid base for continued growth and improved earnings in 2009. Against a background of great uncertainty on the markets resulting from the economic recession and lower sales in the second half of 2008, expectations for 2009 are uncertain. However, the Danfoss Motion Controls Division anticipates that growth in 2009 will be at a lower level than expected at the beginning of 2008, as the division's markets had not yet been affected by the economic slowdown.

Long-term perspective plans

The demand for solutions that ensure energy efficiency and automation continue to drive growth on the frequency converter market. Danfoss Drives aims to increase its market share in the entire low voltage sector by further developing its strong business areas and its OEM and customised business on all markets across the world. The business unit is investing in production capacity in Denmark, the USA and China in order to meet future demand from customers.

Danfoss Gearmotors has achieved strong growth in recent years. The business unit will continue to grow and to increase earnings by focusing on the European market and on developing markets and by improving productivity and sales processes.

Danfoss Silicon Power will continue to increase its standard and customised power modules business, but will also enter onto new markets across the world.

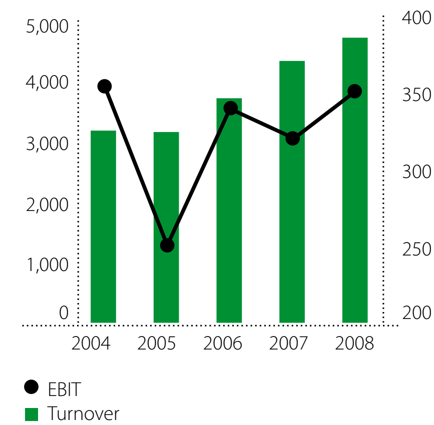
With increasing demand for sustainable energy, **Danfoss Solar Inverters** is ready to develop its business over the next few years. The business unit will concentrate on gaining a foothold on the European market and on improving its competitiveness by fully exploiting the economies of scale that result from having a focused product and market supply and from synergies within the Danfoss Group.

Financial highlights for Danfoss Motion Controls Division

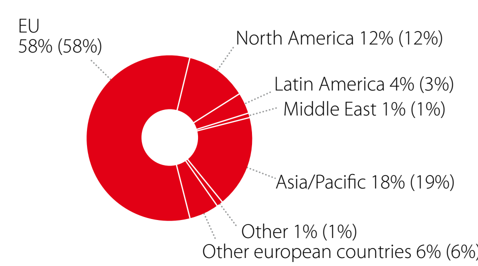
mill DKK

	2007	2008
PROFIT AND LOSS ACCOUNT		
Net sales	4,371	4,755
EBITDA excl. other operating inc./exp.	502	533
EBIT excl. other operating inc. and exp.	320	336
Operating profit (EBIT)	322	352
Profit before finance	322	352
BALANCE SHEET		
Intangible fixed assets	307	277
Tangible fixed assets	855	970
Total assets	2,352	2,476
Non-interest-bearing debt	1,016	937
Net assets	1,336	1,539
OTHER INFORMATION		
Capital expenditure	368	295
Depreciation/amortisation	182	197
CASH FLOW STATEMENT		
Cash flow from operating activities (excl. paid tax and financial items)	282	424
Cash flow from investing activities	-282	-288
hereof acquisition of intangible and tangible fixed assets	-245	-285
hereof acquisition of subsidiaries and activities	-44	-3
Frit cash flow	0	136
NUMBER OF EMPLOYEES		
Number of employees	3,859	3,976
KEY FIGURES		
EBIT margin	7.4%	7.4%
RONA	27.6%	24.5%

Turnover and EBIT
M DKK



Net sales (2007)



In 2008, Sauer-Danfoss achieved net sales of 2,091m USD, compared with 1,973m USD in 2007, an increase of 6%. Operating profit (EBIT) was 27m USD compared with 110m USD in 2007. Sauer-Danfoss is listed on the New York Stock Exchange and the company's share price can be monitored using the code SHS. The figures stated in this section are the figures officially announced by Sauer-Danfoss in accordance with US GAAP; not the figures that are recognised in Danfoss' group accounts.

Sauer-Danfoss Inc.

Net sales increased to 2,091m USD from 1,973m USD in 2007, representing an increase of 6% on the previous year. Calculated at last year's exchange rate and adjusted for acquisitions and divestments, there was a growth of 2%.

The year's developments were characterised by sharp contrasts. At the end of the second quarter, growth was at 20% compared with the same period in the previous year and a number of business areas were unable to keep up with demand due to insufficient production capacity. This was especially true of customers in Europe and because of this the company missed out on a number of attractive business opportunities.

In order to meet the strong demand, several projects were launched to increase capacity and reduce the number of lost orders. At the end of the third quater, Sauer-Danfoss had growth of 8% and until then had been largely unaffected by the financial crisis. The turning point came in October, when the markets suddenly ground to a halt. Sales fell by around 25% in the fourth quarter, which is the largest fall since Sauer and Danfoss merged their hydraulics operations in 2000.

In order to counter the effects of the downturn on the markets, the company adjusted its cost levels in the affected areas in the fourth quarter. This adjustment unfortunately also meant that it was necessary to adjust the number of employees. The decision was also taken to end the production of HIC valves in Hillsboro, Oregon. In future, the production of HIC valves in North America will be concentrated in the valve factory at Easley, South Carolina.

As part of these efforts to focus its strategy, Sauer-Danfoss sold its AC motor production business in Odense in December. The Propel business unit increased its earnings in 2008, but unfortunately not by enough to cover the losses of the Controls and Work Functions business units.

Operating profit (EBIT) was 27m USD, compared to 110m USD in the previous year. Results were negatively affected by restructuring costs and non-recurring costs relating to the reduction in employees totalling 24m USD.

According to US GAAP, the major drop in the share price in 2008 meant that Sauer-Danfoss had to reassess the value of its goodwill and long-lived assets. The result of this reassessment was a write-down of 58m USD, which has impacted on the income statement.


HITACHI
4WS

Sauer-Danfoss is a leader within the design, manufacture and sale of hydraulic, electrical and electronic systems and components, mainly used for mobile equipment, such as components and systems for off-road vehicles in the following sectors: agriculture, construction and transport – and for special applications within forestry, road building and turf care.

Free cash flow was –3m USD, compared to –24m USD in the year before. Cash flow from operating activities amounted to 184m USD, representing an increase of 86m USD, which was primarily the result of the negative growth at the end of the year which led to considerably reduced funds tied up in debtors. The investments in tangible and intangible assets were at a much higher level compared with the year before and cash flows from investment activities were –187m USD compared to –122m USD the year before.

Market development

The global slowdown has had very different effects on the business areas of Sauer-Danfoss. Material Handling applications have been hardest hit, suffering a drop in sales of more than 15%. In contrast, the market for agricultural machinery saw growth throughout the year and ended with a final growth rate of around 25%.

Sales on the markets in Europe and Latin and North America were largely at the same level as in the previous year. In contrast, there was a positive development in sales in Asia, which saw good double-digit growth levels. The Chinese market in particular developed very positively and the market was driven by strong demand for road-building and rail-laying vehicles throughout the year.

Suspension of dividends

As a result of the financial developments at Sauer-Danfoss, the Company's quarterly cash dividend was suspended until further notice.

Expectations for 2009

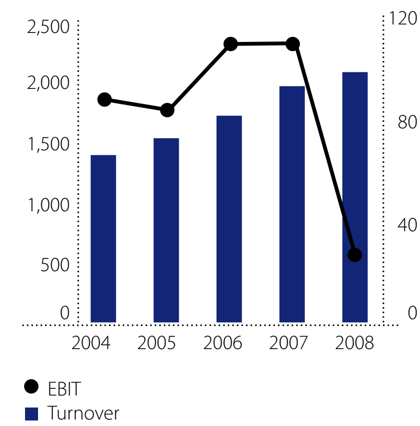
The 2009 outlook will be characterised by major uncertainty and any upturn in the group's markets is not expected to take place in 2009. Based on the current rather unclear overview of our markets, along with the ongoing cost reduction actions, a loss is expected to occur in 2009 in the range of 1.60 USD to 2.40 USD per share, including workforce reduction and restructuring costs of 0.40 USD to 0.60 USD per share. Expectations are that net sales will decline by 30-40% compared with 2008.

Financial highlights for Sauer-Danfoss Inc.

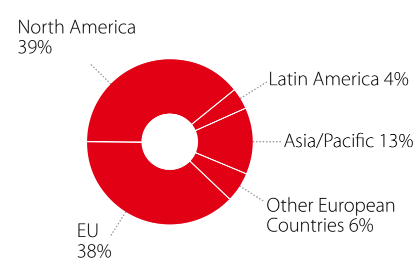
mill USD (US GAAP)

	2007	2008
PROFIT AND LOSS ACCOUNT		
Net sales	1,973	2,091
Operating profit (EBIT)	110	27
BALANCE SHEET		
Intangible fixed assets	140	110
Tangible fixed assets	563	598
Total assets	1,500	1,468
OTHER INFORMATION		
Capital expenditure	136	199
Depreciation/amortisation	102	113
CASH FLOW STATEMENT		
Cash flow from operating activities (excl. paid tax and financial items)	98	184
Cash flow from investing activities	-122	-187
hereof acquisition of intangible and tangible fixed assets	-136	-198
Free cash flow	-24	-3
NUMBER OF EMPLOYEES		
Number of employees	9,756	9,584
KEY FIGURES		
EBIT margin	5.6%	1.3%
SHARE PRICE		
Share price	25.05	8.75

Turnover and EBIT
M USD



Net sales (2007)



Recognition of the Sauer-Danfoss profit in group accounts

Sauer-Danfoss is fully consolidated from and including July 1, 2008. This means that Sauer-Danfoss is recognised in the Danfoss Group's 2008 accounts with net sales of 4,376m DKK and an operating profit of –596m DKK. In the first half of 2008 the Sauer-Danfoss result is recorded with 91m DKK under the item "Income from associates and joint ventures".

Group projects

Danfoss Business System

Danfoss Business System (DBS) encompasses a range of improvement programs in production, sales, purchasing and product development. All the programs focus on introducing optimised working methods, building up the necessary skills and creating a culture of continuous improvement. To further support this initiative, DBS made the first steps towards establishing a training academy in 2008, which, together with local improvement offices at Danfoss locations around the world, will help to guarantee the continuous formation and maintenance of key skills as well as ongoing improvements to operations.

Danfoss Productivity Programs have now been rolled out across the majority of Danfoss factories. In 2008, the program focused on optimising the bottom line, increasing productivity and strengthening the foundation for anchoring in the local business units. Among other measures, local improvement offices have been set up at 12 of Danfoss' business units to support the production areas in improving results and optimising operations.

The Danfoss Sales Program is in place across all sales organisations in Europe and is about to be launched in the Asia-Pacific region. The program continues to focus on tools and processes to maximise value added for customers and to support Danfoss' profitable growth.

During 2008, the purchasing program (Full Potential Purchasing) continued to support Danfoss' purchasing organisations in making savings on raw materials and components. Around two-thirds of the purchasing organisations have been trained to use the purchasing program's methods in their daily work.

The Danfoss Product Development Program was expanded in 2008. The first phase dealt with creating and selecting new product ideas and involving customers in the process. So far, workshops have been held with customers in China, India, Russia, France, the USA, Germany, the UK and Denmark.

Danfoss Global Services

Danfoss Global Services delivers a broad spectrum of services to the Danfoss units and other businesses outside the group. The former Danfoss Service Division was restructured in 2008 to combine the three previous units, Danfoss Industri Service, Danfoss Information Technology and Global Business Services into one unit: Danfoss Global Services. A large part of Global Human Resources was also transferred to Danfoss Global Services by integrating Human Resources in Denmark and the regional representatives in EMA, APAC and the Americas into the organisation.

Danfoss Global Services works to consolidate the group's internal service functions in order to exploit opportunities for economies of scale and synergies as well as to reduce overall costs.

The task of Danfoss Global Services is to help the business divisions to increase their profit, to make it easier to reduce the costs of operating the business and to reduce internal costs by streamlining Danfoss Global Services' processes.

Danfoss Global Services will increase its activity in China over the next few years, as an agreement has been entered into to set up a new central distribution centre based on the model for the current logistics centre in Rødekro, Denmark.

In 2009, Danfoss Global Services will continue to develop the organisation, both within services and also with a focus on making an important contribution to Danfoss' EBIT and cash flow.

Danfoss A/S is the parent company of the Danfoss Group. A number of production facilities within Danfoss Refrigeration & Air Conditioning Division and Danfoss Heating Division are part of the parent company. In addition, the parent company includes the major part of the group's Corporate Functions, Danfoss IT and Danfoss Industri Service.

Management report for Danfoss A/S

Net sales rose to 5,730m DKK from 5,654m DKK in 2007, representing growth of 1%.

Operating profit (EBIT) was –131m DKK, compared with –82m DKK in 2007.

Net financial income was 92m DKK compared with 503m DKK in the previous year. A higher dividend was received from subsidiaries in 2008 and the share price adjustment and the adjustment for share remuneration schemes also had a positive impact. Conversely, increased borrowing exchange rate adjustments and write-downs at subsidiaries resulted in higher financial costs. Finally, the result for 2007 was positively affected by gains from the sale of the company's shareholding in Damcos.

Profit after tax was 43m DKK, compared with 460m DKK in 2007. Equity fell to 6,140m DKK from 6,543m DKK.

At the end of 2008, Danfoss A/S employed 4,003 people, which was 260 employees more than in the previous year.

2009 net sales are expected to fall slightly compared with 2008. In total, Danfoss is expected to end 2009 with a deficit.

Please refer to the Management Report for the Danfoss Group for a review of the other significant areas that have affected the Parent Company.

In February, as a result of the continuing dramatic slowdown on the markets, Danfoss announced it would reduce positions and discontinue a range of projects. No other significant events were recorded after the balance sheet date that have not been disclosed in the Annual Report.

Management statement

Management statement

The Board and Executive Committee have today considered and approved the Danfoss A/S Annual Report 2008. The Annual Report has been presented in accordance with the International Financial Reporting Standards, which have been approved by the EU, and other Danish disclosure requirements regarding the annual reports.

In our view, the accounting policies selected are appropriate and the Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position as of December 31, 2008, and of the results of the Group's and the Parent Company's assets and cash flows of the financial year January 1-December 31, 2008. The supplementary report on Corporate Citizenship at Danfoss A/S gives a true and fair view within the scope of common, recognised guidelines.

We also consider the Management Report to give a true and fair view of the development of the Group's and Parent Company's activities and financial conditions, the profit for the year and the overall financial position of the Group and the Parent Company and a description of the most significant risks and security factors faced by the Group and the Parent Company.

We recommend that the Annual General Meeting adopts the Annual Report.

Nordborg, March 27, 2009

Executive Committee

Niels B. Christiansen	Kim Fausing	Frederik Lotz

Board of directors

Henrik E. Nyegaard *Chairman*	Hans Michael Jebsen *Vice-chairman*	Jørgen M. Clausen *Vice-chairman*
Peter J.M. Clausen	Svend Aage Hansen	William Ervin Hoover
Arno Knöpfli	Sven Murmann	Jens Peter Nielsen

Audit report

Independent auditors' report

To the shareholders of Danfoss A/S
We have audited the Annual Report of Danfoss A/S for the financial year January 1-December 31, 2008; including the Group's and the Parent Company's management statement, management report, profit and loss account, balance sheet, total recognised income and expenses, cash flow and notes (pages 1-119). The Annual Report is presented according to the International Financial Reporting Standards, which have been approved by the EU, and other Danish disclosure requirements regarding the annual reports.

The audit did not include the supplementary report on Corporate Citizenship.

Management's responsibility for the Annual Report
The management is responsible for the preparation and presentation of an Annual Report which provides a true and fair view in accordance with the EU-approved International Financial Reporting Standards, and other Danish disclosure requirements regarding annual reports. The responsibility includes the structure, implementation and maintenance of internal checks relevant to the preparation and presentation of an annual report: a report which gives a true and fair view without significant misstatement, regardless whether the misstatement is due to fraud or errors; and the choice and use of appropriate accounting policies and the practise of accounting estimates which are reasonable under the circumstances.

Auditors' responsibility and the implemented audit
It is our responsibility to express a conclusion on the Annual Report on the basis of our audit. We have conducted our audit in accordance with Danish auditing standards. These standards require that we comply with ethical demands and plan and perform the audit to obtain a high degree of assurance that the Annual Report does not include material misstatement.
An audit involves activities to obtain an audit proof of the figures and information stated in the Annual Report. The chosen activities depend on the assessment of the auditor, including the assessment of the risk of material misstatement in the Annual Report, irrespective of whether the misstatement is due to fraud or errors. In connection with the risk assessment, the auditor takes into account the internal checks which are relevant to the company's preparation and presentation of an annual report, which gives a true and fair view, in order to conduct audit activities which are suitable under the circumstances. However, the purpose is not to express any conclusion about the efficiency of the company's internal checks.
An audit should also decide upon the appropriateness of the accounting policies used by the management, upon the fairness of the accounting estimates performed by the management and it should include an assessment of the overall presentation of the Annual Report.
In our opinion, the audit proof obtained is sufficient and qualifies as the basis for our conclusion.

The audit did not result in any qualification.

Conclusion
In our opinion, the Danfoss A/S Annual Report gives a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at December 31, 2008, and of the results of the Group's and the Parents Company's assets and cash flows for the financial year January 1-December 31, 2008, in accordance with the International Financial Reporting Standards, which have been approved by the EU, and other Danish disclosure requirements regarding annual reports.

Nordborg, March 27, 2009

KPMG C.Jespersen
Statsautoriseret Revisionspartnerselskab

Finn L. Meyer
State Authorised Public Accountant

Helge Kallesøe
State Authorised Public Accountant

Profit and loss account

1 January to 31 December

mill DKK		Parent Company		Group	
	Note	**2007**	**2008**	**2007**	**2008**
Net sales	4	5,654	5,730	22,196	27,127
Net sales Global Services etc.	4	1,002	1,122	537	408
Cost of sales	5	-5,656	-5,772	-16,256	-20,846
Gross profit		**1,000**	**1,080**	**6,477**	**6,689**
Distribution expenses	5	-627	-642	-4,125	-4,808
Administration expenses	5	-446	-552	-718	-1,194
Operating profit excl. other income and expenses		**-73**	**-114**	**1,634**	**687**
Other operating income	5	6	27	151	109
Other operating expenses	5	-15	-44	-169	-386
Operating profit (EBIT)	4	**-82**	**-131**	**1,616**	**410**
Income from associates and joint ventures after tax	6			210	44
Financial income	7	846	839	43	68
Financial expenses	8	-343	-747	-491	-647
Profit before tax		**421**	**-39**	**1,378**	**-125**
Corporate tax expenses	9	39	82	-315	-32
Net profit		**460**	**43**	**1,063**	**-157**
Net profit is distributed as follows:					
Transferred to the proposed dividends reserve		255	205		
Transferred to other reserves		205	-162		
		460	**43**		
Earnings per share (share of nominel 100 DKK)	10			103.9	-7.6
Earnings per share, diluted (share of nominel 100 DKK)	10			101.5	-7.4

Balance sheet

As per 31 December

mill DKK		Parent Company		Group	
ASSETS	Note	**2007**	**2008**	**2007**	**2008**
Non-current assets					
Goodwill		10	19	2,949	4,744
Other intangible fixed assets		250	266	1,210	5,836
Intangible fixed assets	11	**260**	**285**	**4,159**	**10,580**
Land and buildings		41	40	1,961	2,893
Machinery		553	555	2,191	4,704
Equipment		183	172	325	380
Buildings and machinery under construction		153	221	585	1,214
Tangible fixed assets	12	**930**	**988**	**5,062**	**9,191**
Investments in subsidiaries	6	3,989	8,860		
Investments in associates and joint ventures	6	1,413	391	1,075	196
Other investments	6	137	3	196	104
Deferred tax assets	19			562	1,166
Financial assets		**5,539**	**9,254**	**1,833**	**1,466**
Total non-current assets		**6,729**	**10,527**	**11,054**	**21,237**
Current assets					
Raw materials and consumables		145	147	1,288	2,186
Work in progress		113	121	405	807
Finished goods and goods for resale		449	459	1,670	2,317
Inventories	13	**707**	**727**	**3,363**	**5,310**
Trade receivables	14	236	249	3,748	4,679
Receivables from subsidiaries	14	4,769	6,102		
Receivables from associates and joint ventures		36	3	74	12
Receivable corporation tax	22	9		147	210
Other receivables		206	189	752	884
Accounts receivable		**5,256**	**6,543**	**4,721**	**5,785**
Cash and cash equivalents	21	**2**	**15**	**719**	**596**
Total current assets		**5,965**	**7,285**	**8,803**	**11,691**
Total assets		**12,694**	**17,812**	**19,857**	**32,928**

As per 31 December

mill DKK		Parent Company		Group	
LIABILITIES AND SHAREHOLDERS' EQUITY	Note	**2007**	**2008**	**2007**	**2008**
Shareholders' equity					
Share capital	15	1,024	1,027	1,024	1,027
Reserves		5,264	4,908	8,446	8,575
Proposed dividends		255	205	255	205
Danfoss A/S' share of equity		6,543	6,140	9,725	9,807
Minority interest				19	2,060
Total shareholders' equity	16	**6,543**	**6,140**	**9,744**	**11,867**
Liabilities					
Provisions for warranty and other provisions	17	92	1,568	431	1,925
Provisions for stock options and warrants	18		95		100
Deferred tax liabilities	19	153	166	399	1,835
Defined benefit plans	20	15	33	389	1,097
Debt, unsecured	21	1,497	6,756	1,598	6,857
Debt, secured	21			214	243
Non-current liabilities		**1,757**	**8,618**	**3,031**	**12,057**
Debt, unsecured	21	2,130	336	2,610	3,218
Debt, secured	21			34	54
Trade creditors		421	406	1,857	2,388
Debt to subsidiaries	21	1,135	1,579		
Debt to associates and joint ventures		1	4	16	28
Corporation taxes	22		17	131	156
Provisions for warranty and other provisions	17	54	24	378	459
Provisions for stock options and warrants	18	169	228	273	251
Other debt		484	460	1,783	2,450
Current liabilities		**4,394**	**3,054**	**7,082**	**9,004**
Total liabilities		**6,151**	**11,672**	**10,113**	**21,061**
Total liabilities and shareholders' equity		**12,694**	**17,812**	**19,857**	**32,928**

Contingencies etc.	27
Related parties	28
Government grants	29
Events after the balance sheet date	30
Forthcoming IFRSs	31

Statement of cash flow

As per 31 December

mill DKK	Note	Parent Company 2007	Parent Company 2008	Group 2007	Group 2008
Operating profit (EBIT)		-82	-131	1,616	410
Adjustments for non-cash transactions	23	115	463	920	2,037
Changes in working capital	24	-53	-343	-837	-140
Cash flow generated from operations before interest		**-20**	**-11**	**1,699**	**2,307**
Financial income		194	231	40	37
Financial expenses		-302	-372	-395	-580
Dividends received		440	577	93	105
Cash flow from operations before tax		**312**	**425**	**1,437**	**1,869**
Paid tax		28	90	-421	-441
Cash flow from operating activities		**340**	**515**	**1,016**	**1,428**
Acquisition of intangible fixed assets		-100	-112	-238	-261
Acquisition of tangible fixed assets		-257	-292	-1,255	-2,084
Proceeds from sale of tangible fixed assets		2	41	94	178
Acquisition of subsidiaries etc.	25	-196	-2,694	-384	-2,385
Proceeds from disposal of subsidiaries etc.	25	67	90	74	2
Acquisition (-) and sale of other investments etc.	26	-575	-996	116	7
Cash flow from investing activities		**-1,059**	**-3,963**	**-1,593**	**-4,543**
Free cash flow		**-719**	**-3,448**	**-577**	**-3,115**
Financing by non-shareholders:					
Repayment of (-)/proceeds from interest-bearing debt		943	3,675	708	3,345
Financing by shareholders:					
Issuing of shares			41		41
Repurchase (-)/sale of own shares		-25		-25	
Addition/disposal of minority interest				-43	-12
Dividends paid		-204	-255	-209	-324
Cash flow from financing activities		**714**	**3,461**	**431**	**3,050**
Net change in cash and cash equivalents		**-5**	**13**	**-146**	**-65**
Cash and cash equivalents at 1 January		7	2	886	719
Foreign exchange adj. of cash and cash equivalents				-21	-58
Cash and cash equivalents at 31 December		**2**	**15**	**719**	**596**

Specification: Statement of Free cash flow adjusted for acquistion and disposal of subsidiaries etc.

	Note	Parent Company 2007	Parent Company 2008	Group 2007	Group 2008
Free cash flow		-719	-3,448	-577	-3,115
Acquisition of subsidiaries etc.	25	196	2,694	384	2,385
Proceeds from disposal of subsidiaries etc.	25	-67	-90	-74	-2
Purchase and sale of shares and other securities	26	-179	104	-156	93
Free cash flow before M&A		**-769**	**-740**	**-423**	**-639**

The cash flow statement cannot be derived on the basis of the annual financial statements alone. As part of the Group's stand-by liquid funds there are unused long-term binding credit facilities of approximately 6.3 bn DKK (2007: 3.9 bn).

Total recognised income and expenses

1 January to 31 December

mill DKK		Parent Company		Group	
	Note	2007	2008	2007	2008
Foreign exchange adjustments *)				-142	-93
Foreign exchange adjustments regarding net investments in subsidiaries *)					-293
Fair value adjustment of hedging reserve:					
Fair value adj. transfered to the profit and loss account		-18	-46	-86	-112
Other fair value adjustments		56	-22	-38	-133
Revaluation related to step acquisitions of Sauer Danfoss Inc.					1,200
Actuarial gain/loss (-) on defined benefit plans	20			98	-189
Actuarial gain/loss (-) on defined benefit plans ass./JV	6			10	
Tax on items recorded directly in equity	9	-9	17	7	226
Net income/expenses(-) recognised in equity		**29**	**-51**	**-151**	**606**
Net profit		460	43	1,063	-157
Total recognised income and expenses		**489**	**-8**	**912**	**449**
Distributed on:					
Shareholders of Danfoss A/S				910	522
Minority interests				2	-73
				912	**449**

*) Foreign exchange adjustments from conversion of foreign entities into DKK etc.

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1. Basis of preparation

Danfoss A/S is a public limited company domiciled in Denmark. The annual report for the period 1 January-31 December 2008 comprises both the group accounts of Danfoss A/S and its subsidiaries (the Group) and separate accounts of the parent company, according to the requirement of the Danish Financial Statements Act regarding annual reports.

The annual report of Danfoss A/S for 2008 has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of reporting class D companies, see the statutory order on the adoption of IFRS by enterprises subject to the Danish Financial Statements Act issued pursuant to the Danish Financial Statements Act. In addition, the annual report has been prepared in compliance with the International Financial Reporting Standards (IFRS) issued by the IASB. International Financial Reporting Standards are the standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC/SIC).

The annual report has been presented in DKK, rounded to the nearest million.

The annual report has been prepared on the historical cost basis except for the following assets and liabilities which are measured at fair value: derivatives, financial instruments classified as available for sale, liabilities related to share options and warrants and pension obligations. Non-current assets and disposal groups classified as held for sale are measured at the lower of the carrying amount before the changed classification and fair value less costs to sell.

The accounting policies set out below have been used consistently in respect of the financial year and to comparative figures.

The accounting policies used in the preparation of the annual report are consistent with those of last year except for the changes described below which have not had an effect in amounts.

The standards and interpretations effective at 31 December 2008 are used, except for IFRIC 14 (cf. below) which was implemented prior to the mandatory effective date according to EU's implementing regulations.

Changes in accounting policies

Effective from 1 January 2008, Danfoss A/S implemented changes to IAS 39/IFRS 7, IFRIC 11 "IFRS 2 Group and Treasury Share Transactions" and IFRIC 14 IAS 19 "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The changes to IAS 391, IFRS 7 and the new interpretative documents did not affect recognition and measurement, and therefore the accounting policies are consistent with those of last year. The changes to IAS 39/IFRS 7 and the new interpretative documents did not affect the result per share and diluted result per share.

Acquisition of more shares in Sauer-Danfoss

In July 2008, the competition authorities approved Danfoss' acquisition of an additional 17.4% of the Sauer-Danfoss share capital. Consequently, Danfoss A/S owns 55.4% of Sauer-Danfoss Inc. The company is fully consolidated in the Danfoss Group accounts, with effect from July 1.

Thereby, the comparison opportunities are influenced by the fact that Sauer-Danfoss is not included in the 2007 figures, but will be fully consolidated from and including July 1, 2008.

2. Significant accounting policies and estimates and judgements

Determining the carrying amount of certain assets and liabilities requires estimates over how future events will affect the value of these assets and liabilities at the balance sheet date. As a result of the financial trend of the global economy and the financial markets in 2008, the uncertainty of some future key prerequisites – such as liquidity risk, credit risk, interest level and capital control – has been significantly adjusted compared with that of previous years. Therefore, Danfoss provides more information about items whose accounting value is very likely to be adjusted considerably over the next years. Estimates, which are significant for the preparation of the financial statements, are i.e. made by making a computation of the fair value of assets and liabilities acquired in business combinations, assessment of depreciation, amortisation and impairment of non-current assets, and measurement of inventories, trade receivables, warranty obligations and other provisions, liabilities related to share options and warrants and defined benefit pension plans. The estimates used are based on assumptions which by Management are assessed to be reliable, but which by nature are associated with uncertainty. Accordingly, the Company is subject to risks and uncertainties which may result in the fact that actual results may differ from these estimates. For the Group the measurement of intangible fixed assets could be materially affected by significant changes in estimates and assumptions on which the measurement is based.

Statement of conditional payments in connection with business combinations

On acquisition of enterprises, the cost prise is the fair value of the agreed payment, including payments conditional on future events. Most often the conditional payments depend on the estimated long-term and realised growth and/or profit of the acquired company. Management is in charge of preparing the estimates, based on the business case that management used as a basis for the acquisition. Any changes which are caused by the estimated payments are adjusted in the goodwill in the period until the conditions have been fulfilled. The stated conditional payments are discounted and recorded as an allocated liability, cf. note 17. Provisions.

Fair value of assets and liabilities acquired in business combinations

On acquisition of enterprises the acquired identifiable assets and liabilities, including contingent liabilities, are determined at fair value at the acquisition date. For a majority of the assets and liabilities acquired no active market exists which can be used to determine the fair value. This applies in particular to acquire intangible fixed assets. Other methods are then used based on Management's estimates and judgments, e.g. the income approach, which is based on the net present value of future cash flows e.g. royalty payments or other expected net cash flows associated with an asset, or the cost method, which is based on e.g. the replacement cost. The difference between the carrying amounts in acquired enterprises and the fair value of identifiable assets, liabilities and contingent liabilities is specified in note 25. Acquisition and sale of subsidiaries etc.

Impairment of goodwill

In performing the annual impairment test of goodwill an assessment is made of how the individual units of the enterprise (cashgenerating units) to which goodwill relates will be able to generate sufficient positive net cash flows to support the value of goodwill and other net assets of the unit. Due to the nature of the Company's operations, estimates have to be made of cash flows many years in the future, which will be subject to some degree of uncertainty. This uncertainty is reflected in the selected discount rate. The impairment test and the particularly sensitive parts of the test, including the allocation of goodwill on cash generating units, are described in detail in note 11. Intangible fixed assets.

Useful life and residual value of noncurrent assets

Non-current assets are measured at cost less accumulated amortisation, depreciation and impairment. Amortisation and depreciation is made on a straight-line basis under consideration of the asset's residual value. Expected useful lives and residual values are determined based on historical experience and expectations of the future use of the non-current assets. The expectations for future use and residual values may not be met, which may lead to a future reassessment of the useful life and residual values, the need for impairment write-downs or the incurrence of losses on the disposal of the non-current assets. The amortisation and depreciation periods used are described in note 3 to the accounting policies, and the value of non-current assets is disclosed in notes 11. Intangible fixed assets and 12. Tangible fixed assets.

Measurement of inventories

Inventories are measured at the lower of cost or the net realisable value. The net realisable value of inventories is calculated based on the size of the inventory and decreases in the recoverable amount of purchased raw materials, technical obsolescence (e.g. faulty products), physical obsolescence (e.g. damaged products) or financial obsolescence (e.g. reduced demand). Write-downs of inventories are based on an individual assessment of a product or product group and expected product sales. The value of inventories and write-downs of inventories are disclosed in note 13. Inventories.

Write-down for bad debt losses

Receivables are measured at nominal value/amortised cost less write-down for expected bad debt losses. Write-downs for expected bad debt losses are based on an individual assessment of each receivable. If a customer's financial condition deteriorates, and thus the ability to meet the financial obligation to Danfoss A/S, further write-downs may be required in future periods. Based on actual losses incurred, uncertainties associated with write down for bad debt losses are considered limited. Write-downs for expected bad debt losses are disclosed in note 14. Trade receivables and receivables from subsidiaries.

Warranty and other provisions

As part of its normal business policy Danfoss A/S supplies its products with ordinary and extended warranties. Warranty provisions are recognised based on actual historical warranty costs and expected changes in future warranty costs related to the Group's products. Future warranty costs may differ from past experience. The Company assesses other provisions, contingent assets and contingent liabilities and the likely outcome of pending or threatened lawsuits on an ongoing basis. The outcome depends on future events that are by nature uncertain. In assessing the likely outcome of

2. Significant accounting policies and estimates and judgements (continued)

lawsuits and tax disputes etc. Management bases its assessment on external legal assistance and decided cases. Further information is disclosed in note 17. Provisions.

Liabilities related to share options and warrants
For share options and warrants where employees upon exercise receive shares, the cost is measured at the fair value at the grant date. The corresponding entry is recognised in equity. The fair value at the grant date is calculated using the Black & Scholes model. For share options and warrants where employees can select cash settlement of the option or right, a liability is recognised in the balance sheet. The liability is recognised at fair value at the balance sheet date and calculated using the Black & Scholes model. A significant parameter in the measurement of the fair value of the liability is the price of the Danfoss share, which is assessed annually by the Danske Bank at the general assembly after the end of a fiscal year. On the date where the general assembly approves the annual report for the previous year the share price for the coming year is published. As the Danfoss share is unlisted, some uncertainty will be associated with the measurement of the fair value. If the future price of the Danfoss share increases, this would also increase the liability related to share options and warrants. Further information on the assumptions made is provided in note 18. Equity compensation benefits.

Defined benefit plans
The Group has established defined benefit plans with certain employees at some of the Group's foreign companies. The plans place the Group under an obligation to pay a certain consideration in connection with retirement (e.g. in the form of a fixed amount at retirement or a share of the employee's exit salary). The pension obligations are determined by discounting the pension obligations at the present value. The present value is determined on the basis of assumptions about the future development in variables such as interest rates, inflation, mortality and disability probabilities, which are associated with some degree of uncertainty. External actuaries are used for the measurement of all significant defined benefit plans. The assumptions used are disclosed in note 20. Defined benefit plans.

3. Accounting policies

Group accounts
The group accounts include Danfoss A/S and subsidiaries in which Danfoss A/S directly or indirectly hold more than 50% of the voting rights or in another way has control.
Companies in which the Group has between 20% and 50% of the voting rights and exercises significant influence, but which it does not control, are considered associates or jointly controlled entities (joint ventures) when the joint venture conditions of IAS 31 are complied with.
The group accounts are prepared by aggregating the financial statements of the parent company and those of the individual subsidiaries which have all been prepared in accordance with Danfoss A/S' accounting policies.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of the identifiable net assets and recognised contingent liabilities at the acquisition date. On consolidation, intragroup income and expenses, shareholding, internal balances and dividends and realised and unrealised profits and losses on transactions between the consolidated companies are eliminated. In the group accounts, the items of subsidiaries are recognised in full. The minority interests' proportionate share of the profit/loss for the year is recognised as part of the Group's profit/loss for the year and as a separate share of the Group's equity.
The companies included in the Group are disclosed in the section "Danfoss Group Companies".

Business combinations
Newly acquired or established companies are recognised in the group accounts from the acquisition date, and divested companies are recognised in the consolidated profit and loss account until the time of divestment. Comparative figures are not adjusted for companies acquired through acquisition or merger or for divested companies. When the Danfoss Group takes over the controlling interest in acquired companies , the acquisition method is applied. This means that the identifiable assets and liabilities, including contingent liabilities, of the acquired companies are stated at fair value at the acquisition date. Identifiable intangible fixed assets are recognised if they can be separated or arise from a contractual right, and the fair value can be reliably measured. The tax effect of revaluations is taken into consideration. The time of takeover is the day when the Danfoss Group de facto obtains control of the acquired company.
The cost of a business combination comprises the fair value of the consideration agreed upon and costs directly attributable to the acquisition. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the amount of that adjustment is included in the cost of the combination if the adjustment is probable and can be measured reliably.
Changes resulting from estimates of contingent purchase consideration are adjusted in goodwill until the conditions are met. Put options issued in connection with the acquisition of companies, whose value is conditional on future events, are recognised in the cost price at fair value at the day of takeover. Subsequently, the issued put options are measured at amortised cost price. Changes resulting from the estimate of future payments related to the issued put options are adjusted in goodwill in the period until the issued put option is executed.
Any excess of the cost over the fair value of the identifiable assets and liabilities, including contingent liabilities, acquired (goodwill) is recognised as intangible fixed assets. Goodwill is not amortised, but is subject to annual impairment tests. The initial impairment test is carried out before the end of the acquisition year. At the acquisition, goodwill is allocated to the cash-generating units which form the basis for subsequent impairment tests.
Identification of cash-generating units is based on the internal financial reporting, which in some cases do not follow the management structure. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with another functional currency than the presentation currency used in the Danfoss A/S' group accounts are treated as assets and liabilities belonging to the foreign entity and translated into the foreign entity's functional currency at the exchange rate at the transaction date.
If uncertainties regarding measurement of identifiable assets and liabilities, including contingent liabilities, exist at the acquisition date, initial recognition will take place on the basis of preliminary fair values. If identifiable assets and liabilities, including contingent liabilities, are subsequently determined to have different fair value at the acquisition date than first assumed, goodwill is adjusted up until 12 months after the acquisition. The effect of the adjustments is recognised in the opening balance of equity and the comparative figures are restated accordingly.
Subsequently, goodwill is only adjusted as a result of changes in estimates of contingent purchase considerations and issued put options, except in cases of material error. However, subsequent realisation of the acquired enterprise's deferred tax assets not recognised at the acquisition date will require adjustment of goodwill.

When a business combination is achieved in stages (step acquisition), each significant transaction is accounted for separately to determine the cost and fair value of identifiable assets, liabilities , contingent liabilities and goodwill if any.

The fair value of identifiable assets, liabilities and contingent liabilities acquired may differ at the various acquisition dates. When a transaction in a step acquisition results in control, previously acquired interests in identifiable assets, liabilities and contingent liabilities associated with existing ownership interests are revaluated at fair value at the acquisition date. The revaluation is accounted for as a revaluation adjustment and recognised in equity.
Gains or losses on disposal of subsidiaries and associates are stated as the difference between the sales amount and the carrying amount of net assets at the date of disposal, including goodwill, plus anticipated disposal costs.

Acquisition of minority interests
In case the issue of put options forms part of the payment transferred in connection with business combinations, the minority interests which receive put options are considered to be paid at the day of takeover. Any subsequent dividend payments to option owners are recognised as financial costs in the Profit & Loss Account.

Upon acquisition of minority interests (i.e. when the acquisition takes place after the Group has obtained the controlling interest), a reassessment of the acquired net assets at market value is not performed. The difference between the cost price and the accounting value of acquired minority shares at the time of takeover is recognised directly in the equity.

Foreign currency
For each of the reporting enterprises in the Group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting enterprise operates. Transactions denominated in other currencies than the functional currency are considered transactions denominated in foreign currencies.
On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the balance sheet date. Currency gains and losses arising on translation are recognised in the profit and loss account under financial items. Non-monetary assets and liabilities denominated in foreign currencies are recognised at the foreign exchange rates at the transaction date.

On recognition in the group accounts of foreign enterprises, including associates and jointly controlled entities, with another functional currency than DKK, the profit and loss accounts are translated at the exchange rates at the transaction date and the balance sheet items are translated at the exchange rates at the balance sheet date. An average exchange rate for the month is used as the exchange rate at the transaction date to the extent that this does not significantly distort the presentation of the underlying transactions than if the exchange rate at the transaction date had been used. Foreign exchange differences arising on translation of the opening balance of equity of such enterprises at the exchange rates at the balance sheet date and on translation of the profit and loss accounts from the exchange rates at the transaction date to the exchange rates at the balance sheet date are recognised directly in equity. Currency translation adjustments of balances which are considered part of the investment in subsidiaries are also recognised in equity in the same way as stated above. On complete or partial disposal of a foreign operation or on repayment of balances which constitute part of the net investment in the foreign operation, the share of the cumulative amount of the exchange differences recognised directly in equity relating to that foreign operation is recognised in the profit and loss account when the gain or loss on disposal is recognised.

Profit and loss account

Net sales
Net sales of goods for resale and finished goods are recognised in the profit and loss account, provided delivery and transfer of risk to the purchaser has taken place before the year end, and the income can be reliably measured and payment is expected to be received. Net sales are recorded at the fair value of the consideration received exclusive of VAT, duties and discounts in relation to the sale. Related service income is recognised in the profit and loss account as the services are performed. Accordingly, the recognised sale corresponds to the selling price of the work performed during the year. The sale of services is recognised in the profit and loss account when the aggregate income and expenses of the service contract can be reliably determined, and it is probable that the Group will receive the financial benefits, including payments.

Net sales Danfoss Global Services etc.
Net sales Danfoss Global Services etc. primarily cover the units Danfoss Industrial Service, Danfoss Distribution A/S and Danfoss IT's sale of services etc. to associates, joint ventures and other external parties.

Cost of sales
Cost of sales includes costs incurred in generating the year's net sales. Such costs include cost of sales or manufacturing costs, including direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases, and depreciation. Cost of sales also includes research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Distribution costs
Distribution costs include expenses related to distribution of products sold during the year and sales staff, advertising and exhibition costs etc., including depreciation. Furthermore, provisions for bad debt is included.

Administrative expenses
Administrative expenses include expenses in relation to administrative staff, management, offices, office costs etc., including depreciation.

Other operating income and expenses
Other operating income and expenses comprise items secondary to the principal activities of the companies, including gains/losses on disposal of non-current assets and companies, impairment losses and employee termination costs.

Profits/losses from investments in associates and joint ventures (jointly controlled enterprises)
The proportionate share of the results of associates and jointly controlled enterprises after tax is recognised in the consolidated profit and loss account after elimination of the proportionate share of intra-group profits/ losses and less goodwill impairment.

Financial income and expenses
Financial income and expenses comprise interest income and expenses as well as realised and unrealised gains and losses on securities, debt and transactions denominated in foreign currencies and amortisation of financial assets and liabilities. Also included is the interest element of finance leases and gains and losses on derivatives which are not designated as hedging arrangements. Dividends to owners of capital who have received put options are recognised as financial costs. Dividends from subsidiaries, associates and joint ventures are recognised in the parent company profit and loss account at the declaration date. If declared dividends exceed accumulated earnings after the acquisition date, dividends are not recognised in the profit and loss account, but are instead recognised as a write-down of the cost of the investment.

Balance Sheet

Intangible fixed assets

Goodwill
Goodwill is initially recognised in the balance sheet at cost and allocated to cash-generating units as described under "Business combinations". Subsequently, goodwill is measured at cost less accumulated impairment losses.

Goodwill is not amortised.

Development projects, software, patents, licenses and other intangible fixed assets
Development projects that are clearly defined and identifiable, where the technical utilisation degree, sufficient resources and a potential future market or development opportunities in the company are evidenced, and where the company intends to produce, market or use the project, are recognised as intangible fixed assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings or the net sales price can cover cost of sales, selling and administrative expenses and development costs. Other development costs are recognised in the profit and loss account when incurred.

Expenses for the purchase and development of development projects are recognised at cost less accumulated amortisation and impairment. Cost includes direct and indirect expenses, including salaries. Development projects, including software, are generally amortised over 4 to 5 years.

Patents and licenses are recognised at cost less accumulated amortisation and impairment. Patents are amortised on a straight-line basis over the patent period and licenses are amortised over the contract period or the useful life if this is shorter. Patent and contract periods are normally 5-10 years.

Other intangible fixed assets, including intangible fixed assets acquired in a business combination, which typically includes technology and customer relations, are amortised over the expected useful life which is typically a period of 10 to 20 years.

Intangible fixed assets including trade marks with indefinite useful lives and development projects in progress are not amortised, but are tested annually for impairment.

Gains and losses on the disposal of intangible fixed assets are determined as the difference between the sales price less sales expenses and the carrying amount at the time of the sale. Gains or losses are recognised in the profit and loss account under other operating income and expenses.

Tangible fixed assets
Land and buildings, plant and machinery and equipment are recognised at cost less accumulated impairment and depreciation.

Cost includes expenses for materials, components, sub suppliers, direct salary expenses and for own manufactured assets indirect cost of sales. Where individual components of an item of tangible fixed assets have different useful lives, they are accounted for as separate items, which are depreciated separately. Interest and other borrowing costs are not included in cost.

Subsequent costs, e.g. in connection with replacement of components of tangible fixed assets, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits. All costs

3. Accounting policies (continued)

incurred for ordinary repairs and maintenance are recognised in the profit and loss account as incurred.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets.

Expected useful lives:	
Buildings	15-30 years
Plant and machinery	4-10 years
Equipment	2-6 years

The depreciable amount of an asset is determined based on the residual value of the asset and any impairment charges. The residual value is determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount of the asset, depreciation is discontinued. When changing the depreciation period or the residual value, the effect on the depreciation is recognised prospectively as a change in accounting estimates.

Gains and losses on disposal of tangible fixed assets are determined as the difference between the sales price less selling costs and the carrying amount at the selling date. Gains or losses are recognised in the profit and loss account under other operating income and expenses.

The cost of assets held under finance leases is recognised at the acquisition date at the lower of fair value of the assets and the present value of the future lease payments. For the calculation of the net present value, the interest rate implicit in the lease or an approximation thereof is used as discount rate. Assets held under finance leases are depreciated and written down as other tangible fixed assets.

Operating leases are systematically expensed over the lease term.

Impairment of non-current assets

Goodwill and intangible fixed assets with indefinite useful lives are tested annually for impairment, initially before the end of the acquisition year. Similarly, projects in progress are subject to an annual impairment test. Deferred tax assets are subject to annual impairment tests and are recognised only to the extent that it is probable that the assets will be utilised.

The carrying amount of other non-current assets is tested annually for indications of impairment. When there is an indication that assets may be impaired, an impairment test is made.

Impairment is tested by calculating the recoverable amount. The recoverable amount is the higher of an asset's fair value less expected selling costs and its capital value. The capital value is determined as the present value of expected future cash flows from activities or the cash-generating unit (CGU). If the fair value or value in use cannot be determined on individual assets, the recoverable amount is determined as the fair value of expected future cash flows from activities or the cash-generating unit (CGU) to which the asset belongs.

Impairment of assets is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortisation had the asset not been impaired.

Financial assets

Investments in associates and jointly controlled enterprises are recognised in the group accounts according to the equity method and measured at the proportionate share of the enterprises adjusted for the carrying amount of goodwill and unrealised intra-group profits and losses.

The parent company's investments in subsidiaries and associates are measured at cost. Where the recoverable amount is lower than cost, investments are written down to this lower value.

The cost is written down to the extent received dividends exceed accumulated earnings after the acquisition date.

Securities classified as available-for-sale are recognised under non-current assets at fair value at the trade date and are subsequently measured at fair value, corresponding to market price or an estimated fair value. If the fair value cannot be determined reliably, the assets are measured at cost. Unrealised value adjustments are recognised directly in equity except for impairment losses and reversals. On realisation, the accumulated value adjustment recognised in equity is transferred to financial items in the profit and loss account.

Inventories

Inventories are measured at cost. Where the estimated selling price less any costs of completion and selling (net realisable value) is lower than cost, inventories are written down to this lower value.

Cost is calculated on the basis of the weighted average method or the FIFO method. The cost of goods under manufacturing and manufactured finished goods includes expenses for raw materials and consumables, conversion costs and other costs, which directly or indirectly can be related to the goods.

Indirect cost of sales includes maintenance and depreciation of production facilities and plants as well as administration and management of factories. Interest and other borrowing costs are not included in cost.

Accounts receivable

Accounts receivable are measured at amortised cost. Receivables are written down for bad debt losses on the basis of customers' anticipated ability to pay and expectations of any changes to this ability, taking into account historical payment patterns, terms of payment, customer segment, creditworthiness and prevailing market conditions in the individual markets. Impairment losses are calculated as the difference between carrying amount and net realisable value, including the expected net realisable value of any collateral provided.

Equity

Share capital

The share capital includes the nominal portion of the amounts paid in accordance with the subscription for shares. Share capital can only be released according to the rules relating to capital reduction.

Reserve for proposed dividends

Dividends are recognised as a liability at the time of the decision at the Annual General Meeting. Proposed dividends for the financial year are included in equity.

Hedging reserve

Refer to the section "Derivatives" below.

Translation reserve

Foreign exchange differences arising on the translation of the opening balance of equity of foreign companies at the exchange rates at the balance sheet date, and on translation of profit and loss accounts from the exchange rates at the transaction date to the exchange rates at the balance sheet date, are recognised directly in a separate translation reserve in equity. Exchange rate adjustments of noncurrent balances with foreign subsidiaries and associates, which are considered additions or deductions of the subsidiaries' equity as well as exchange rate adjustments of hedging transactions which have the purpose of hedging the group's net investments in subsidiaries, are also recognised directly on equity. On disposal of investments in foreign companies, the accumulated net effect is recognised in the profit and loss account.

Reserve for own shares

The acquisition price and disposal price of own shares are recognised directly in equity under reserves. The same applies to dividends from own shares. Proceeds from the disposal of own shares and issue of shares in connection with exercise of share options or employee shares are recognised directly in equity.

Minority interests

Minority interests' proportionate share of the results and equity of subsidiaries is recognised separately in equity. On initial recognition, minority interests are recognised based on the Group's revaluation of acquired identifiable assets and liabilities, including contingent liabilities.

At the issue of put options as part of the payment transferred in connection with business combinations the minority interests, which receive put options, are considered to be paid at the day of takeover.

3. Accounting policies (continued)

Provisions
A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event in the financial year or previous years, and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation which can be determined reliably at the balance sheet date. The amount recognised as a provision is Management's best estimate of the expenses required to settle the obligation. In measuring provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability.

Warranty provisions are recognised as the underlying goods and services are sold based on warranty costs incurred in the financial year and in previous years.

Restructuring and employee termination costs are recognised under provisions when the Group has decided on a detailed and formal plan, and the Group has started the implementation or the Group has announced the plan to the persons affected. Restructuring provisions do not include costs for the ongoing operations during the restructuring phase.

Liabilities for earn-out agreements and put options for the purchase of additional shares in acquired companies are recorded as a provision. The measurement of the provisions allows for the discounting of the payments necessary to settle the liability, if this has a significant impact on the liability. The applied pre-tax discount factor reflects the Group's interest rate level for loans..Any adjustments caused by changes made to the fair value are recorded in the goodwill, cf. the note Business combinations.

Share-based remuneration
The Board, Executive Committee and several senior employees are included in the option and warrant schemes based on the parent company's shares.

The value of services received in exchange for granted options/warrants is measured at the fair value of the options/warrants.

For equity-settled schemes the fair value is measured at the grant date and recognised in the profit and loss account as personnel costs over the period during which the employees become unconditionally entitled to the options and warrants. The corresponding entry is an increase in equity.

For share options and warrants where the option or warrant holder has the right to receive cash settlement of the option or warrant, fair value of the instruments is initially measured at the grant date and recognised as personnel costs over the period during which the employees become unconditionally entitled to the instruments. Subsequently, the fair value of the instruments is measured at the balance sheet date and changes in value are recognised in the profit and loss account under financial items.

On initial recognition of the share options and warrants, the Company estimates the number of options and warrants expected to vest, cf. the service condition described in note 18. That estimate is subsequently revised for changes in the number of options expected to vest. Accordingly, recognition is based on the number of options ultimately vested.

The fair value of granted instruments is measured based on the Black & Scholes model taking into account the terms and conditions upon which the instruments were granted.

Employee shares
On the allotment of employee shares, the bonus element of share options is recognised as an expense under personnel costs. The corresponding entry is recognised directly in equity.

The bonus element is determined at the subscription date as the difference between the fair value and the subscription price of the shares.

Pension obligations
The Group has entered into pension schemes and similar arrangements with the majority of the Group's employees.

Contributions to defined contribution plans where the Group currently pays fixed pension payments to independent pension funds are recognised in the profit and loss account in the period to which they relate and any contributions outstanding are recognised in the balance sheet as other payables.

For defined benefit plans the Group is under obligation to pay a fixed amount upon retirement (e.g. a fixed amount or a percentage of the exit salary). For these plans an annual actuarial calculation (Projected Unit Credit method) is made of the present value of future benefits under the defined benefit plan. The present value is determined on the basis of assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment with the Group. The actuarial present value less the fair value of any plan assets is recognised in the balance sheet under pension obligations.

Pension costs for the year are recognised in the profit and loss account based on actuarial estimates and financial expectations at the beginning of the year. Any difference between the expected development in pension plan assets and liabilities and realised amounts determined at year end constitutes actuarial gains or losses and is recognised directly in the statement of total recognised income and expenses.

If changes in benefits relating to services rendered by employees in previous years result in changes in the actuarial present value, the changes are recognised as historical costs. Historical costs are recognised immediately, provided employees have already earned the changed benefits. If employees have not earned the benefits, the historical costs are recognised in the profit and loss account over the period in which the changed benefits are earned by the employees.

If a pension plan constitutes a net asset, the asset is only recognised if it offsets future refunds from the plan or will lead to reduced future payments to the plan.

Health benefit plans
As a result of the incorporation of Sauer-Danfoss some health benefit plans have been added into the Group accounts. The plans contribute with payment for medical expenses for certain employee groups in the USA after their retirement. These plans are recognised and measured according to the same principles as stated above under defined benefit plans. A present value of these obligations is determined, mainly based on the medical cost trend rate, the interest rate (discount rate) and the expected average life expectancy.

Other long-term employee benefits
Similarly, other long-term employee benefits are recognised based on an actuarial calculation. However, actuarial gains and losses are recognised in the profit and loss account immediately. Other long-term employee benefits include jubilee benefits.

Liabilities
Liabilities are initially recognised at fair value less transaction costs. Subsequent measurement is made at cost/amortised cost, implying the recognition of a constant effective interest rate to maturity.

Amortised cost is calculated as initial cost minus any principal repayments and plus or minus the cumulative amortisation of any difference between cost and nominal amount.

Any capitalised residual obligation on finance leases is recognised in the balance sheet as a liability. The interest element of the lease payment is expensed in the profit and loss account statement under financial items.

Government grants
Government grants, which are received as compensation for expenses eligible for grants, are recognised systematically in the profit and loss account as the expenses which the grants are intended to compensate are incurred.

Grants relating to investments (non-current assets) are deducted from the cost of the non-current assets.

Corporation tax and deferred tax

Generally
Danfoss A/S' companies are liable to pay tax in the countries where they are domiciled. The current tax includes both Danish and foreign income tax. Danfoss A/S is jointly taxed with its Danish subsidiaries and fellow subsidiaries. Current tax and deferred tax is allocated between the jointly taxed companies. The

3. Accounting policies (continued)

jointly taxed companies are taxed under the on-account tax scheme.

Profit and loss account

The current and deferred taxes for the year are recognised in the profit and loss account, except from tax related to adjustments, which are recognised in equity.

Surcharges, premiums and refunds relating to tax payments are recognised in financial income and expenses.

Balance sheet

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax paid on account.

Deferred tax liabilities and deferred tax assets are recognised in the balance sheet on all temporary differences between the carrying amount and the tax base of assets and liabilities.

Exceptions are the tax which is incurred by selling shares in subsidiaries and which the Group can identify as being a tax liability and tax relating to goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a setoff against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. In Denmark, the tax rate was 25% in 2008 (2007: 25%).

Derivatives

Derivatives, such as foreign exchange contracts or options and raw material contracts, are recognised and measured at fair value. Positive and negative fair values of derivatives are included in other receivables and payables, respectively, and set-off of positive and negative values is only made when the Company has the right and the intention to settle several financial instruments net.

Provided that the documentation requirements etc. are met, the instruments are subject to hedge accounting. By hedging future sales and purchase transactions (cash flow), changes in the fair value of instruments meeting the hedge accounting criteria are recognised in equity under the hedging reserve until the hedged transaction is realised. At this point, gains or losses relating to such hedging transactions are transferred from the equity and are recognised in the same item as that of the hedged transaction.

If the criteria for hedge accounting are not fulfilled, changes in market value are recognised directly in the profit and loss account under financial items.

Assets held for sale

Assets held for sale comprise non-current assets and disposal groups held for sale.

Disposal groups are defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction. Liabilities associated with assets held for sale are those liabilities directly associated with the assets that will be transferred in the transaction.

Assets are classified as held for sale if the carrying amount will be recovered principally through a sale within 12 months in accordance with a formal plan rather than through continuing use.

Assets or disposal groups held for sale are measured at the lower of carrying amount or fair value less costs to sell. Assets are not depreciated or amortised from the date when they are reclassified as held for sale.

Impairment losses on initial recognition as held for sale and gains and losses on subsequent remeasurement at the lower of carrying amount and fair value less costs to sell are recognised in the profit and loss account in the items to which they relate. Gains and losses are disclosed in the notes.

Significant assets and liabilities are recognised separately in the balance sheet and main items are specified in the notes.

Cash flow statement

Generally

The cash flow statement shows the cash flows from operating, investing and financing activities for the year and cash equivalents at the beginning and end of the year.

Cash generated from the acquisition and sales of companies is showed separately under cash flows from investing activities. Cash flows relating to acquired companies are recognised in the cash flow statement at the acquisition date, and cash flows relating to divested companies are included until the disposal date.

Cash flows from operations

Cash flows from operations are recognised by the indirect method on the basis of the operating profit and adjusted for non-cash operating items, changes in working capital, paid financial items, received dividends and paid corporation taxes.

Cash flows from investing activities

Cash flows from investing activities include payment in connection with the acquisition and sale of companies and activities, intangible and tangible fixed assets as well as securities related to investing activities.

Cash flows from finance leases are treated as non-cash transactions.

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the share capital, the raising and repayment of longterm and short-term bank debt, acquisition of minority interests, acquisition and disposal of own shares and payment of dividends to shareholders.

Cash and cash equivalents

Cash and cash equivalents include bank account deposits and cash balances.

Segment information

Segment information is provided on business segments (primary) and geographical segments (secondary). Segment information is prepared in accordance with the Group's internal financial control and reporting. Segment information is provided in accordance with the Group accounting policies. The income, expenses, assets and liabilities of the segment include those which can be allocated on a reasonable basis. Deferred tax (assets and liabilities), outstanding and payable tax, cash and interest-bearing liabilities are not allocated to the segments. Trade between segments generally takes place at arm's length prices on a cost covering basis.

Financial ratios

Earnings per share (EPS) and diluted earnings per share (DEPS) are calculated in accordance with IAS 33. Where the financial ratios are defined, other financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2005".

4. Segment reporting

mill DKK

Main business segments	2007 Danfoss Refrigeration & Air Conditioning Division	2007 Danfoss Heating Division	2007 Danfoss Motion Controls Division	2007 Corporate/not allocated/ eliminations	2007 **Group**	2008 Danfoss Refrigeration & Air Conditioning Division	2008 Danfoss Heating Division	2008 Danfoss Motion Controls Division	2008 Sauer-Danfoss Inc.	2008 Corporate/not allocated/ eliminations	2008 **Group**
PROFIT AND LOSS ACCOUNT											
Net sales	11,187	6,238	4,371	400	**22,196**	10,783	6,797	4,755	4,376	416	**27,127**
hereof internal net sales	46	3	50	-99		32	4	45	35	-116	
Net sales, external	11,141	6,235	4,321	499	**22,196**	10,751	6,793	4,710	4,341	532	**27,127**
Net sales Danfoss Services etc.	509	337	141	-450	**537**	521	354	180		-647	**408**
Operating profit (EBIT)	856	632	322	-194	**1,616**	334	602	352	-596	-282	**410**
Income from associates and JV after tax	-50			260	**210**	-30				74	**44**
Profit before finance	807	632	322	65	**1,826**	305	602	352	-596	-209	**454**
Financial items, net					**-448**						**-579**
Profit before tax					**1,378**						**-125**
Tax expenses					**-315**						**-32**
Net profit					**1,063**						**-157**
BALANCE SHEET											
Intangible fixed assets	1,572	2,150	307	130	**4,159**	1,721	2,157	277	6,268	157	**10,580**
Tangible fixed assets	2,326	1,162	855	719	**5,062**	2,474	1,272	970	3,586	889	**9,191**
Investment in associates and JV	149			926	**1,075**	181				15	**196**
Total assets *)	8,048	5,654	2,352	3,803	**19,857**	7,964	5,756	2,476	13,150	3,582	**32,928**
Non-interest-bearing debt *)	2,125	1,121	1,016	1,395	**5,657**	2,050	1,093	937	3,712	2,546	**10,338**
Interest-bearing debt					**4,456**						**10,723**
Total liabilities					**10,113**						**21,061**
OTHER INFORMATION											
Capital expenditure	680	762	368	121	**1,931**	803	477	295	10,758	281	**12,614**
Depreciation/amortisation	494	211	182	54	**941**	538	272	197	507	62	**1,576**
Impairments/reversal of impairment losses (Income (-))	20			1	**21**	26	5		83		**114**
CASH FLOW STATEMENT											
Cash flow from operating activities (segments excl. paid tax and financial items)	1,102	397	282	-765	**1,016**	1,161	939	424	674	-1,770	**1,428**
Cash flow from investing activities	-766	-581	-282	36	**-1,593**	-802	-541	-288	-2,700	-212	**-4,543**
hereof investment in tangible and intangible fixed assets	-574	-456	-245	-124	**-1,399**	-661	-400	-285	-567	-254	**-2,167**
hereof investment in subsidiaries and business activities	-146	-128	-44	8	**-310**	-51	-144	-3	-2,144	-41	**-2,383**
NUMBER OF EMPLOYEES											
Number of employees	11,116	5,870	3,859	1,478	**22,323**	10,757	5,925	3,976	9,584	1,475	**31,717**
KEY FIGURES											
EBIT margin	7.7%	10.1%	7.4%		**7.3%**	3.1%	8.9%	7.4%	-14.0%		**1.5%**
RONA	15.0%	15.4%	27.6%		**14.1%**	5.8%	13.1%	24.5%	-13.0%		**2.4%**

The three divisions, "Danfoss Refrigeration & Air Conditioning Division", "Danfoss Heating Division" and "Danfoss Motion Controls Division" together with Sauer-Danfoss Inc. are further described in separate reports. As described in "Accounting policies" for segment information, the items cash and cash equivalents, interest-bearing debt and deferred taxes are not allocated to the divisions.

*) Cash and cash equivalents, Interest-bearing debt and deferred taxes have been recorded in the column "Corporate/not allocated/eliminations".

In the column "Corporate/not allocated/eliminations" net costs for Corporate Functions are included with 247 mill DKK. (2007: 198 mill).

4. Segment reporting (continued)

Geographical segments (secondary segments)

mill DKK	Group 2007								
	EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	**Total**
Net sales	12,553	2,464	2,635	2,551	334	370	765	524	**22,196**
Total assets *)	13,624	820	1,529	2,669	169	145	298	41	**19,295**
Capital expenditure	1,534	58	150	182			7		**1,931**

	Group 2008								
	EU	Other Europe	Asia	North America	Africa	Pacific	Latin America	Middle East	**Total**
Net sales	14,284	3,174	3,250	4,221	327	368	1,040	463	**27,127**
Total assets *)	18,165	1,913	2,227	8,546	79	216	571	45	**31,762**
Capital expenditure	8,324	149	320	3,796			25		**12,614**

*) Deferred tax assets are not included.

The geographical distribution of "Net sales" is based on the external customers' country of residence. The distribution of "Total assets" and "Capital expenditure" after internal eliminations is based on the actual geographical location of the assets.

5. Expenses and other operating income

mill DKK

A. Personnel expenses

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Salaries and wages	1,678	1,678	5,397	7,026
Termination benefits	2	3	58	153
Equity compensation benefits *)	43	34	63	28
Social security	20	23	533	655
Defined contribution plans	118	124	294	319
Defined benefit plans			23	52
	1,861	1,862	6,368	8,233
Average number of employees	4,262	4,132	21,714	27,386
Total number of employees as per end of the year	4,263	4,003	22,323	31,717

*) Benefits cf. further information in note 18. Equity compensation benefits.

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Personnel expenses divided into functions:				
Production	1,464	1,444	4,002	4,898
Distribution	166	172	1,908	2,390
Administration	229	243	400	792
Other operating income and expenses	2	3	58	153
	1,861	1,862	6,368	8,233

Expenses for defined benefit plans are described in note 20. Defined benefit plans.

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Executive Committee:				
Salaries	17	18	17	18
Pension expenses for defined contribution plans	2	1	2	1
Bonus	11	7	11	7
	30	26	30	26
Board of Directors:				
Directors' fees	3	3	3	4
Total compensation	33	29	33	30

Further to the above mentioned compensation in cash, a number of equity compensation benefit programmes have been established for the Board and for the Executive Committee cf. note 18. Equity compensation benefits. Under administration expenses an amount of 2.8 mill DKK (2007: 2.3 mill) has been recognised for the Board and 10.8 mill DKK (2007: 17.5 mill) for the Executive Committee regarding the programme established in 2004 and 2007. A value adjustment was recognised under financial expenses with -2.1 mill DKK (2007: 6.2 mill) for the Board and -4.3 mill DKK (2007: 39.5 mill) for the Executive Committee.

B. Depreciation/amortisation and impairment losses

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Divided into categories:				
Amortisation of intangible fixed assets	73	91	178	434
Depreciation of tangible fixed assets	175	190	763	1,142
Impairment on intangible fixed assets	1		17	7
Impairment on tangible fixed assets	3	1	4	107
	252	282	962	1,690
Divided into functions:				
Cost of sales	208	224	824	1,279
Distribution expenses	7	13	74	223
Administration expenses	33	44	43	74
Other operating expenses	4	1	21	114
	252	282	962	1,690

5. Expenses and other operating income (continued)

mill DKK

C. Research and development expenses

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Research and development costs	246	253	889	1,186
Capitalised development costs	-40	-34	-115	-150
Amortisation development costs	4	4	38	32
	210	223	812	1,068

Research and development expenses are included in "Cost of sales".

D. Other operating income

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Gain on disposal of activities		5	4	
Gain on disposal of tangible fixed assets	1	18	51	44
Other	5	4	96	65
	6	27	151	109

The most significant amount of the item "Other" is an insurance compensation of 15 mill DKK regarding a fire in 2006. The figure for 2007 includes 49 mill DKK as a remaining part of the deferred gain related to the sale of a subsidiary in 2005, where Danfoss received shares in the disposed company as part of the sales price.

E. Other operating expenses

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Loss on disposal of activities		-4	-36	-4
Loss on disposal of tangible fixed assets	-4	-8	-11	-33
Impairments	-3	-1	-21	-114
Other	-8	-31	-101	-235
	-15	-44	-169	-386

Impairments are based on expected utilisation values. The impairment of the year is mainly regarding a building in Sauer-Danfoss Inc. and machinery in the AP business unit, a minor part of the RA division, due to excess capacity. The item "Other" comprises employment termination indemnities and related expenses. The most significant item amounts to 115 mill DKK and concerns further initiatives regarding the restructuring of the compressor activities in Flensburg, Germany. The two major items in 2007, amounting to 41 mill DKK, were related to the restructuring of compressor activities in Flensburg, Germany, and to closing down the factory in Turin, Italy, in connection with relocating the thermostats production to Slovakia.

F. Fees to the auditors appointed at the Annual General Meeting

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
KPMG:				
Audit fee	5	6	21	28
Other fees	3	2	8	6
Total	8	8	29	34

Other fees are primarily related to tax advice and financial due diligence in connection with acquisitions.

6. Non-current financial assets

mill DKK	Parent Company 2007				Group 2007	
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Investments in associates and joint ventures	Other investments
Balance at 1 January	3,849	128	1,373	92	926	164
Foreign exchange adjustments etc.					-4	-3
Acquisitions	211		55	60	64	66
Transfers	-5		5			
Other adjustments					33	
Disposals	-66	-128	-20	-15		-15
Balance at 31 December	3,989		1,413	137	1,019	212
Adjustments balance at 1 January					106	-15
Foreign exchange adjustments etc.					27	
Actuarial gains/losses(-) on defined benefit plans recognised in equity					10	
Net profit					24	-1
Dividends					-95	
Disposals					-16	
Adjustments balance at 31 December					56	-16
Carrying amount at 31 December	3,989		1,413	137	1,075	196

"Other investments" are recorded at fair value, if a reasonable amount can be estimated. If this is not the case they are recorded at cost price minus accumulated impairment losses. The "Income from associates and joint ventures after tax" of 44 mill DKK in the profit and loss statement contains 24 mill DKK from "Profit before tax" minus "Tax expenses" cf. above table.

	Parent Company 2008				Group 2008	
	Investments in subsidiaries	Receivables from subsidiaries	Investments in associates and joint ventures	Other investments	Investments in associates and joint ventures	Other investments
Balance at 1 January	3,989		1,413	137	1,019	212
Disposal through merger with subsidiary	-25					
Foreign exchange adjustments etc.					-14	-3
Acquisitions	4,045		103	3	109	12
Addition through business combinations						41
Transfers	1,125		-1,125		-76	76
Disposal through step acquisitions					-654	
Disposals	-55			-137		-156
Balance at 31 December	9,079		391	3	384	182
Balance at 1 January					55	-16
Foreign exchange adjustments etc.					-4	
Unrealised fair value adj. on bonds and shares recognised in equity					-9	-9
Transfers					53	-53
Impairment	-219					
Net profit					44	
Dividends					-87	
Disposal through step acquisitions					-240	
Balance at 31 December	-219				-188	-78
Carrying amount at 31 December	8,860		391	3	196	104

"Other investments" are recorded at fair value, if a reasonable amount can be estimated. If this is not the case they are recorded at cost price minus accumulated impairment losses. Impairment in "Investments in subsidiaries" concerns Danfoss Ventures A/S that wass impaired to utilisation value.

Further information about associated companies and joint ventures is provided in the notes 7. Financial income, 8. Financial expenses, 21. Financial instruments and 28. Related parties.

7. Financial income

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Interest from subsidiaries	184	222		
Interest from associates and joint ventures	9	8	9	9
Interest from banks etc.	1	1	31	28
Unrealised/realised gains bonds and shares			3	
Fair value adjustment for stock options and warrants *)		11		31
Dividend from subsidiaries	363	508		
Dividend from associates and joint ventures	78	89		
Gain on disposal of associates and joint ventures	211			
	846	839	43	68

*) cf. note 18. Equity compensation benefits.

8. Financial expenses

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Interest to subsidiaries	-29	-36		
Interest to bank etc.	-157	-261	-232	-407
Interest on discounted provisions		-32		-32
Foreign exchange losses, net	-39	-199	-131	-181
Dividend regarding put options for purchase of Sauer-Danfoss shares				-18
Fair value adjustment for stock options and warrants *)	-82		-125	
Impairment/loss on disposal of shares in subsidiaries and associates/JV	-33	-219		
Loss on other investments	-3		-3	-9
	-343	-747	-491	-647

*) cf. note 18. Equity compensation benefits.

9. Corporation tax expenses

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Current tax expenses	-24	19	-399	-341
Change in deferred taxes	62	16	76	292
Adjustments concerning previous years	1	47	8	17
	39	82	-315	-32
Reconciliation of effective tax rate:				
Income tax using the company's domestic tax rate	25.0%	25.0%	25.0%	-25.0%
Income from associates and joint ventures after tax			-4.4%	-9.3%
Adjustment of tax in foreign subsidiaries calculated at 28%/25%			2.6%	-25.4%
Impairment goodwill				25.6%
Tax exempt income/non-deductible expenses	-5.3%	280.9%	1.5%	24.1%
Adjustment conc. tax loss carry-forwards for setoff or joint taxation			-1.1%	30.9%
Tax-free dividends	-30.8%	-386.2%		
Adjustments regarding prior years		-121.4%		7.0%
Other adjustments *)	1.8%	-9.1%	-0.7%	-2.6%
Effective tax rate	-9.3%	-210.8%	22.9%	25.3%

*) 2007 includes reduction in Danish company tax rate from 28% to 25%.

	Parent Company		Group	
	2007	2008	2007	2008
Corporation tax expenses	39	82	-315	-32
Tax on changes in equity	-9	17	7	226
Total taxes	30	99	-308	194

10. Earnings per share

mill DKK	Group	
	2007	2008
Net profit	1,063	-157
Minority interests	-2	79
The Group's share of net profit	1,061	-78
Nominel value (mill DKK)		
Average number of ordinary shares	1,023.5	1,026.1
Average number of own shares	-2.4	-3.0
Average number of shares issued	1,021.1	1,023.1
Effect of share options/warrants on issue	24.1	28.1
Diluted average number of ordinary shares issued	1,045.2	1,051.2
Earnings per share (share of nominel 100 DKK)	103.9	-7.6
Earnings per share, diluted (share of nominel 100 DKK)	101.5	-7.4

11. Intangible fixed assets

mill DKK	Group 2007							
	Goodwill	Software	Brand	Techno-logy	Customer relations	Patents, trademarks etc.	Develop-ment costs	Total
Cost at 1 January	2,822	383		430	234	267	139	1,453
Foreign exchange adjustments	-91	-3		-33	-10			-46
Acquisitions through business combinations	206			99	34	38		171
Additions	12	104				9	115	228
Disposals		-3				-27	-16	-46
Cost at 31 December	2,949	481		496	258	287	238	1,760
Depr. and impairment losses at 1 January		218		15	9	146	13	401
Foreign exchange adjustments		-2						-2
Amortisation for the year		72		32	18	34	22	178
Impairments for the year		1					16	17
Disposals		-3				-25	-16	-44
Depr. and impairment losses at 31 December		286		47	27	155	35	550
Carrying amount at 31 December	2,949	195		449	231	132	203	1,210

	Group 2008							
	Goodwill	Software	Brand	Techno-logy	Customer relations	Patents, trademarks etc.	Develop-ment costs	Total
Cost at 1 January	2,949	481		496	258	287	238	1,760
Foreign exchange adjustments	27			12	5	1	1	19
Acquisitions through business combinations	1,763	14	869	2,359	1,449	102		4,793
Additions	5	108				35	150	293
Disposals		-15				-18	-25	-58
Cost at 31 December	4,744	588	869	2,867	1,712	407	364	6,807
Depr. and impairment losses at 1 January		286		47	27	155	35	550
Foreign exchange adjustments					-1	1		
Amortisation for the year		87		118	82	115	32	434
Impairments for the year						7		7
Disposals						-16	-4	-20
Depr. and impairment losses at 31 December		373		165	108	262	63	971
Carrying amount at 31 December	4,744	215	869	2,702	1,604	145	301	5,836

Impairment tests

At the end of 2008, impairment tests have been performed on goodwill and brand (assets with indefinable useful life). The impairment tests were on product lines representing the base level of Cash Generating Units (CGU) within the divisions to which the value of goodwill and brand can be allocated with a fair degree of accuracy. This enhanced split of the divisions into product lines is also being used in Danfoss' internal financial reporting. Acquired activities and companies are either being established as new product lines, or they are being integrated as soon as possible into existing product lines to make use of possible synergies.

For the acquisitions not being established as individual product lines, it will soon become impossible to allocate the goodwill value on acquired companies and activities with sufficient accuracy, thus it will no longer be possible to perform impairment tests on these individual acquisitions.

At the impairment test the net present value of the estimated net cash flow from the CGU's are compared with the net book values of the assets. The estimated cash flow is based on budgets and forecasts for the years 2009-2018 prepared and approved by management in the respective CGUs and group management. The forecasts were elaborated for a 10 year period in accordance with the fact that decisions on acquisitions are made on the basis of 10 year forecasts. The primary variables are sales, EBIT, working capital and investments. The discount rates are set under consideration of the individual CGU's size, main geographical markets, risks and the coherence with Danfoss' core business areas.

11. Intangible fixed assets (continued)

The most significant goodwill allocations as well as the most essential assumptions for the performed impairment tests have been described below.

Group 2007	Danfoss Floor Heating Electrical	Danfoss District Heating	Danfoss Heat Pumps	Danfoss Commercial Compressors	Other
Share of the Group's goodwill at the end of 2007	15%	16%	22%	17%	30%
Expected growth in sales 2008 - 2017 in %	8%	12%	17%	6%	
Expected average EBIT margin	16%	15%	12%	10%	
Expected growth in net cash flow during the terminal period in %	2%	2%	2%	2%	0-2%
Discounted cash flow rate before tax in % as per 31 December	10-12%	10-12%	10-12%	10-12%	10-12%
Sensitivity analysis of the impairment test:					
Possible growth reduction in the terminal period (percentage pts.)	<100	<100	<10	<40	
Possible increase in the discounted cash flow rate during the terminal period (percentage points)	<20	<20	<5	<10	

Group 2008	Sauer-Danfoss Inc.	Danfoss Floor Heating Electrical	Danfoss District Heating	Danfoss Heat Pumps	Danfoss Commercial Compressors	Other
Share of the Group's goodwill at the end of 2008	37%	10%	8%	14%	11%	20%
Share of the Group's brand at the end of 2008	100%					
Expected growth in sales 2009 - 2018 in %	*)	5%	9%	11%	8%	
Expected average EBIT margin	*)	11%	13%	9%	12%	
Expected growth in net cash flow during the terminal period in %	3%	2%	2%	2%	2%	0-2%
Discounted cash flow rate before tax in % as per 31 December	12-13%	12-13%	12-13%	12-13%	12-13%	12-13%
Sensitivity analysis of the impairment test:						
Possible growth reduction in the terminal period (percentage pts.)	0.5	<30	<100	4-5	<100	
Possible increase in the discounted cash flow rate during the terminal period (percentage points)	0.3	<5	<10	2-3	<10	

*) The expected future growth rates and EBIT margins have not been disclosed for confidentiality reasons as Sauer-Danfoss Inc. is a listed company.

Sauer-Danfoss Inc.

The intangible fixed assets with indefinable useful lifetime, assigned to Sauer-Danfoss Inc., comprise goodwill and brand and derive from Danfoss' financial recognition of the purchase of additional 17.4% of the share capital in Sauer-Danfoss Inc. in 2008 and from issued put options regarding the purchase of further 20.8% of the share capital. The result for Sauer-Danfoss Inc. has been under pressure in 2008. 2009 and 2010 are expected to become difficult years as well. However, hereafter the result is expected to return to a satisfactory level.

The weighted average growth rate up to 2018 is estimated to be at the same level as the general market development. Therefore a constant market share is assumed. The expected net cash flow growth rate in the terminal period from 2019 and onwards is estimated to be 3% and is assessed to be at or below the market development. EBIT margin in the terminal period is expected to remain unchanged, and this is also the case for the working capital in % of sales. Investments are assumed to be at the same level as the book depreciations. The sensitivity analysis indicates that the growth during the terminal period can be decreased by up to 0.5 percentage points or that the discount rate can be increased by up to 0.3 percentage points without causing a need for impairment.

Danfoss Floor Heating Electrical (Danfoss Heating Division)

The goodwill allocated to Floor Heating Electrical (FHE) is deriving primarily from the acquisition of the Devi Group in 2003. The result in FHE has been under pressure in 2008, on the other hand a reasonable cash flow was generated. The result is expected at a satisfactory level in the future.

The weighted average growth rate until 2018 is estimated at the same level as the general market development and therefore assuming a constant market share. The net cash flow during the terminal period from 2019 and onwards is estimated at a 2% annual growth level, which is assumed to be at or below the market development. EBIT margin is expected to remain unchanged during the terminal period, and so is the working capital in % of sales. Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced by 30 percentage points (2007: 100 percentage points) or that the discounted cash flow rate can be increased by up to 5 percentage points (2007: 20 percentage points) without causing a need for impairment.

11. Intangible fixed assets (continued)

Danfoss District Heating (Danfoss Heating Division)
The goodwill allocated to Danfoss District Heating (DH) is deriving primarily from the acquisition of a number of smaller companies, a.o. Proenergie Wärmetechnik AG in Switzerland acquired in 2008 and ZAO Ridan, Russia, acquired in 2007. The result in DH has been satisfactory in 2008 and is expected to continue on a satisfactory level in the future. The weighted average growth rate until 2018 is estimated at a lower level than the expected general market development and therefore assuming a decreasing market share. The net cash flow during the terminal period from 2019 and onwards is estimated at a 2% annual growth rate, which is assumed to be at or below the market development level. EBIT margin is estimated to remain unchanged during the terminal period, and so is the working capital in % of sales. Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period like in 2007 can be reduced by 100 percentage points (discontinuation of the business) or that the discounted cash flow rate can be increased by up to 10 percentage points (2007: 20 percentage points) without causing a need for impairment.

Danfoss Heat Pumps (Danfoss Heating Division)
The goodwill allocated to Danfoss Heat Pumps (HP) is deriving from the acquisition of Thermia Wärme AB, Sweden, in 2005, and the acquisition of Avenir Energie, France in 2006. The result in HP has not been satisfactory in 2008. However, the result is expected to improve significantly in the future. The weighted average growth rate until 2018 is estimated at the same high growth rates as the expected market development in general and therefore assuming a constant market share in the future. The cash flow in the terminal period from 2019 and onwards is estimated to grow by 2% as the market growth and the growth in Danfoss Heat Pumps is not expected to be able to continue on the very high level as of today. Growth is not expected to be reduced to 2% from 2019 to 2020, but due to the uncertainty in this respect, it has not been considered in the impairment test. EBIT margin is estimated to remain unchanged during the terminal period, and so is the working capital in % of sales. Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced by 4-5 percentage points (2007: 10 percentage points) or that the discounted cash flow rate can be increased by up to 2-3 percentage points (2007: 5 percentage points) without causing a need for impairment.

Danfoss Commercial Compressors (Danfoss Refrigeration and Air Conditioning)
The goodwill allocated to Danfoss Commercial Compressors (CC) was primarily acquired in 2006 in connection with the acquisition of Scroll Technologies, USA. The result in CC has been satisfactory in 2008, and based on the expected growth scenario for the coming 2-5 years, the result is assumed to improve significantly. The CGU's RONA for 2008 does not exceed the Group's minimum target of 14%. The weighted average growth rate until 2018 is estimated at the same level as the general market development and therefore assuming a constant market share. The net cash flow during the terminal period from 2019 and onwards is estimated at a 2% annual growth level, which is assumed to be at or below the market development level. EBIT margin is estimated to remain unchanged during the terminal period, and so is the working capital in % of sales. Investments are assumed at the same level as the book depreciations. The sensitivity analysis concludes that growth during the terminal period can be reduced by up to 100 percent points (2007: 40 percent points) or that the discounted cash flow rate can be increased by up to 10 percent points (2007: 10 percent points) without causing a need for impairment.

Impairment tests of the remaining goodwill have been performed as well, with similar assumptions as mentioned above. None of the impairment tests have indicated any basis for impairment.

Software and development cost
Software in progress amounts to 19 mill DKK (2007: 48 mill) and is primarily concerning SAP implementations. Capitalised development expenditure in progress amounts to 160 mill DKK (2007: 95 mill). Development activities in progress are regarding a larger amount of development projects in several divisions. Software and capitalised development expenditure was mainly built up internally.

In 2008 the Group has performed impairment tests of the carrying amount for software and development in progress. The project development process related to the actual expenses and achieved milestones has been evaluated according to the approved project and business plans. The recoverable amount is estimated to be above the carrying amount.

11. Intangible fixed assets (continued)

mill DKK	Parent Company				
	2007				
	Goodwill	Software	Patents, trademarks etc.*)	Develop-ment costs	Total
Cost at 1 January	10	237	174	21	432
Acquisitions through business combinations			28		28
Additions		61		40	101
Disposals			-26		-26
Cost at 31 December	10	298	176	61	535
Depreciation and impairment losses at 1 January		122	110	4	236
Amortisation for the year		52	17	4	73
Impairments for the year		1			1
Disposals			-25		-25
Depreciation and impairment losses at 31 December		175	102	8	285
Carrying amount at 31 December	10	123	74	53	250

	Parent Company				
	2008				
	Goodwill	Software	Patents, trademarks etc.*)	Develop-ment costs	Total
Cost at 1 January	10	298	176	61	535
Addition through merger with subsidiary	9		17		17
Additions		73	8	34	115
Disposals			-18	-25	-43
Cost at 31 December	19	371	183	70	624
Depreciation and impairment losses at 1 January		175	102	8	285
Acquisitions, business combinations			2		2
Amortisation for the year		59	28	4	91
Disposals			-16	-4	-20
Depreciation and impairment losses at 31 December		234	116	8	358
Carrying amount at 31 December	19	137	67	62	266

*) The amounts under Patents, trademarks etc. are mainly related to non competition clauses.

At the end of 2008 the parent company has performed impairment tests of the book value of intangible fixed assets. Further information can be found under "Impairment tests" in the group section of this note.

12. Tangible fixed assets

mill DKK	Group 2007 Land and buildings	Machinery	Equipment	Work in progress
Cost at 1 January	3,315	7,127	1,088	576
Foreign exchange adjustments	-16	-49	-9	-8
Acquisitions through business combinations		30	10	9
Transfers	261	465	41	-767
Additions	139	289	60	778
Disposals	-31	-414	-147	-3
Cost at 31 December	3,668	7,448	1,043	585
Depreciations and impairment losses at 1 January	1,616	5,109	769	
Foreign exchange adjustments	-3	-27	-7	
Transfers		1	-1	
Depreciations for the year	120	543	100	
Impairments for the year		4		
Disposals	-26	-373	-143	
Depreciations and impairment losses at 31 December	1,707	5,257	718	
Carrying amount at 31 December	1,961	2,191	325	585
Hereof financial leasing contracts	2	56	4	

	Group 2008 Land and buildings	Machinery	Equipment	Work in progress
Cost at 1 January	3,668	7,448	1,043	585
Foreign exchange adjustments	-68	-112	-25	-34
Acquisitions through business combinations	690	2,398	78	521
Transfers	251	687	41	-979
Additions	285	611	54	1,126
Disposals	-46	-450	-97	-5
Cost at 31 December	4,780	10,582	1,094	1,214
Depreciations and impairment losses at 1 January	1,707	5,257	718	
Foreign exchange adjustments	-8	-4	-13	
Transfers	1	5	-2	
Depreciations for the year	145	894	103	
Impairments for the year	57	50		
Disposals	-15	-324	-92	
Depreciations and impairment losses at 31 December	1,887	5,878	714	
Carrying amount at 31 December	2,893	4,704	380	1,214
Hereof financial leasing contracts	1	47	70	

The Group's financial leasing contracts are mainly concerning machinery. At the expiration of the leasing contracts the Group has an option to acquire the leased machinery at favourable prices. The leased assets are pledged as collateral for the leasing obligations.

12. Tangible fixed assets (continued)

mill DKK

Parent Company 2007	Land and buildings	Machinery	Equipment	Work in progress
Cost at 1 January	246	2,199	497	118
Transfers	6	186	31	-223
Additions				258
Disposals	-1	-140	-85	
Cost at 31 December	251	2,245	443	153
Depreciations and impairment losses at 1 January	205	1,698	303	
Depreciations for the year	6	127	42	
Impairments for the year		3		
Disposals	-1	-136	-85	
Depreciations and impairment losses at 31 December	210	1,692	260	
Carrying amount at 31 December	41	553	183	153

Parent Company 2008	Land and buildings	Machinery	Equipment	Work in progress
Cost at 1 January	251	2,245	443	153
Additions from merging with subsidiary			2	
Transfers	7	184	29	-220
Additions				292
Disposals	-10	-146	-52	-4
Cost at 31 December	248	2,283	422	221
Depreciations and impairment losses at 1 January	210	1,692	260	
Depreciations for the year	5	144	41	
Impairments for the year		1		
Disposals	-7	-109	-51	
Depreciations and impairment losses at 31 December	208	1,728	250	
Carrying amount at 31 December	40	555	172	221

13. Inventories

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Inventories before provision for obsolescence	765	791	3,667	5,793
Provision for obsolescence	-58	-64	-304	-483
Inventories	707	727	3,363	5,310
Inventories stated at net realisable value	43	46	249	393
Write-downs of inventories to net realisable value amount are included in cost of sales	25	22	107	131
Cost of goods sold included in cost of sales	3,555	3,550	11,694	14,828

14. Trade receivables and receivables from subsidiaries

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Trade receivables before provision for bad debts	243	255	3,843	4,821
Provision for bad debts	-7	-6	-95	-142
Trade receivables	236	249	3,748	4,679
Hereof trade receivables due after 1 year	7		19	36
Provision for bad debts 1 January	-6	-7	-85	-95
Foreign exchange adjustments			3	6
Additions through business combinations			-5	-25
Change in provisions during the year	-1		-22	-41
Realised loss during the year		1	14	13
Provision for bad debts 31 December	-7	-6	-95	-142
Trade receivables from subsidiaries	868	1,229		
Short-term borrowings to subsidiaries	3,901	4,873		
Receivables from subsidiaries	4,769	6,102		

Allocation of trade receivables due as per 31 December:

	Parent Company		Group	
Due date maturity:	2007	2008	2007	2008
Up to 30 days due		6	136	299
From 30 to 90 days due	7	11	93	195
More than 90 days due	10	10	105	184
	17	27	334	678

The carrying amount of trade receivables is estimated to represent their fair value.

Credit risk and quality of credit

Trade receivables are allocated on a number of customers and geographical areas. The allocation on geographical areas is not significantly different from the allocation of Net sales according to note 4. Segment reporting. A systematic credit rating is carried out on all customers, and any write down carried out to meet a loss on trade receivables is made on the basis of this credit rating. The rating also serves as the basis for the terms of payment offered to the customers. The credit risk is insured when considered necessary. Historically, the Group has only had limited losses on bad debts.

15. Share capital

Shareholders holding more than 5% of the shares or 5% of the votes

	Shares	Votes
Bitten & Mads Clausen Foundation, Nordborg, Denmark	49.21%	85.54%
Clausen Controls A/S, Sonderborg, Denmark	23.12%	4.89%
Henrik Mads Clausen, Lake Forrest, USA	10.71%	2.27%
Bente Skibsted, Copenhagen, Denmark	5.55%	1.17%

Distribution of shares

2007							
A-shares			B-shares			Total shares	
Pcs.	Nominal value	mill DKK	Pcs.	Nominal value	mill DKK	Pcs.	mill DKK
4,250,000	100 DKK	425.0	5,985,144	100 DKK	598.5	10,235,144	1,023.5

2008							
A-shares			B-shares			Total shares	
Pcs.	Nominal value	mill DKK	Pcs.	Nominal value	mill DKK	Pcs.	mill DKK
4,250,000	100 DKK	425.0	6,019,028	100 DKK	601.9	10,269,028	1,026.9

A-shares entitle the holder to ten votes for each share while B-shares entitle the holder to one vote for each share. The holders of A-shares also have pre-emptive rights to A-shares in the event of any increases in share capital. Otherwise no shares have special rights.
Amendments to the Articles of Association or Danfoss A/S's dissolution require at least two-thirds of the votes cast as well as two-thirds of the voting share capital represented at the general meeting to be adopted.

Issue of shares

	2004	**2005**	**2006**	**2007**	**2008**
Mill DKK	11	1	1		3

Dividend per share (DKK)

	2007	**2008**
Dividend per 100 DKK share	25.0	20.0

Dividend payment to shareholders has no tax consequences for Danfoss A/S.

The development in the Group's holding of own shares (pcs.) is as follows (B-shares of 100 DKK)

	2007	**2008**
Holding at 1 January	19,253	29,534
Acquired in the year from Bitten & Mads Clausen Foundation	13,571	
Sold in the year to employees	-3,290	
Holding at 31 December	29,534	29,534

The primary purpose of holding own shares is to secure the share option programme in Danfoss A/S. The total cost price in 2008 for own shares amounts to 0 mill DKK (2007: 31 mill). Total sales price relating to own shares amounts to 0 mill DKK in 2008 (2007: 6 mill). The Group's holding of own shares represents 0.29% (2007: 0.29%) of the Group's share capital. The value of own shares held amounts to 63 mill DKK (2007: 67 mill).

Capital management

It is the policy of the Group only to execute investments that al all times will allow the Group to qualify for a comfortable "investment grade credit rating".

16. Capital and reserves

mill DKK

Group

	Share capital	Hedging reserve	Translation reserve	Reserve own shares	Other reserves	**Reserves**	Proposed dividends	**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 inc. and exp.		-89	-142		886	**655**	255	**910**	2	**912**
Dividends to shareholders							-204	**-204**	-5	**-209**
Transfers				-3	3					
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 inc. and exp.		-180	-389		886	**317**	205	**522**	-73	**449**
Dividends to shareholders							-255	**-255**	-68	**-323**
Purchase of minority interest					-10	**-10**		**-10**	-2	**-12**
Additions from acquisition of subsidiaries									2,184	**2,184**
Shares issued/capital reduction	3				38	**38**		**41**		**41**
Share based payment					-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**

Parent Company

	Share capital	Hedging reserve	Reserve own shares	Other reserves	**Reserves**	Proposed dividends	**Danfoss A/S' share of equity**	**Total equity**
Balance at 1 January 2007	1,024	-1	-19	4,983	**4,963**	204	**6,191**	**6,191**
Total recognised inc. and exp.		29		205	**234**	255	**489**	**489**
Dividends to shareholders						-204	**-204**	**-204**
Transfers			-3	3				
Shares issued			-25		**-25**		**-25**	**-25**
Share based payments				92	**92**		**92**	**92**
Balance at 31 December 2007	1,024	28	-47	5,283	**5,264**	255	**6,543**	**6,543**
Total recognised inc. and exp.		-51		-162	**-213**	205	**-8**	**-8**
Dividends to shareholders						-255	**-255**	**-255**
Additions in the year				-11	**-11**		**-11**	**-11**
Transfers								
Shares issued	3			38	**38**		**41**	**41**
Share based payments				-170	**-170**		**-170**	**-170**
Balance at 31 December 2008	1,027	-23	-47	4,978	**4,908**	205	**6,140**	**6,140**

Share capital and other shareholder information is described in note 15. Share capital and in "Management Report for the Danfoss Group" under shareholder information.

16. Capital and reserves (continued)

mill DKK

Specification of hedging reserve

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Hedging reserve at 1 January	-1	28	176	87
Foreign exchange adjustment				-3
Transferred to the profit and loss account*)	-18	-46	-86	-112
Additions and disposals	56	-22	-38	-133
Tax effect	-9	17	35	68
Hedging reserve at 31 December	28	-23	87	-93

*) Income in profit and loss account (-)

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedging of transactions that have not yet occured.

The income of 112 mill DKK (2007: 86 mill) that was transferred to the profit and loss account is affecting net sales with 46 mill DKK (2007: 18 mill) and, via inventory, cost of sales with 66 mill DKK (2007: 68 mill).

Specification of other reserves

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Other reserves at 1 January	4,983	5,283	7,879	8,805
Transferred from net profit	205	-162	806	-283
Actuarial gain/loss (-) on defined benefit plans			108	-189
Revaluation related to step acquisition of subsidiaries				1,200
Tax effect			-28	158
Shares issued		38		38
Share based payment	92	34	63	24
Reclassification of share based payment to provisions*)		-204		-240
Transferred from reserve for own shares	3		3	
Purchase of minority interest		-11	-26	-10
Other reserves at 31 December	5,283	4,978	8,805	9,503

*) As per 31 December 2008 Danfoss A/S has taken over the Bitten and Mads Clausen Foundation's obligation to repurchase shares under the share option programmes cf. note 18. Equity compensation benefits. As a consequence hereof a reserve was built in the balance of 31 December 2008 for the share option programme for 2004 and the subsequent share option programmes.

Other reserves comprise transferred profit from the profit and loss account as well as other equity adjustments such as actuarial gains and losses on defined benefit plans. Furthermore, other reserves comprise share based payments that are recorded directly on the equity account without having to be tied up as a separate reserve.

17. Provisions

mill DKK	Group 2008				
	Warranty	Restruc-turing	Contingent consideration	Other	Total
Balance at 1 January	256	18	390	145	809
Foreign exchange adjustments	-6		158	-2	150
Additions through business combinations	131			77	208
Provisions used in the year	-194	-4	-110	-31	-339
Provisions reversed in the year	-60	-5	-81	-24	-170
Provisions made in the year	234	61	1,344	55	1,694
Interest element on provisions			32		32
Balance at 31 December	361	70	1,733	220	2,384

	Group	
Estimated maturity of above provisions:	2007	2008
Within 1 year	378	459
Between 1 and 5 years	369	1,879
After more than 5 years	62	46
	809	2,384

	Parent Company 2008				
	Warranty	Restruc-turing	Contingent consideration	Other	Total
Balance at 1 January	22	1	72	51	146
Foreign exchange adjustments			151		151
Provisions used in the year	-4		-21	-1	-26
Provisions reversed in the year	-11		-42	-18	-71
Provisions made in the year	9		1,341	10	1,360
Interest element			32		32
Balance at 31 December	16	1	1,533	42	1,592

	Parent Company	
Estimated maturity of above provisions:	2007	2008
Within 1 year	54	24
Between 1 and 5 years	71	1,552
After 5 years	21	16
	146	1,592

Provisions for warranty comprise expected costs arising during the warranty period of the Group's products. Some of the warranty obligations are expected to be covered by the Group's insurance companies. These expected compensations of 65 mill DKK are recognised under receivables as part of assets.

The Group's provision for restructuring comprises mainly termination benefits.

Contingent consideration comprises earn-out agreements in connection with acquisition of subsidiaries together with issued options to acquire 20.8% of the shares in Sauer-Danfoss Inc. with 10.4% in 2010 and further 10.4% in 2012. The options to acquire Sauer-Danfoss Inc. shares are accounted for as a provision consistent with IFRS.

Other provisions comprise mainly certain costs related to employees, including jubilee costs.

Provisions have been discounted to net present value. A risk-free interest rate of 1.5% has been used as discount rate.

18. Equity compensation benefits

There are two general share schemes in the Danfoss Group: The programme established by Danfoss A/S and respectively the programme established in the subsidiary Sauer-Danfoss Inc. The two general programmes are described in separate sections below.

Danfoss A/S share schemes

Since 2001 Danfoss has had share scheme programmes as described individually below.

The calculation of fair values for the balance sheet as per balance sheet dates and for stating the values of the 2004 and subsequent programmes as per the allotment dates is based on the Black & Scholes model. The assumptions for the statement of outstanding options and warrants are:

	2007	**2008**
Share price	2,273	2,127
Expected volatility	23.0%	33.0%
Expected dividends	1.0%	1.0%
Risk-free interest rate	4.4%	4.4%
Exercise prices and terms of maturity for the programmes	See below	

Since Danfoss is not a listed company, the calculation of the above share prices has been based on comparison with a number of comparable domestic and international listed companies. The share price for 2008 of 2,127 has been regulated at the general assembly in 2008 while the new share price will be fixed at the annual general assembly in 2009.

Equity compensation benefits established in 2001

In 2001 Danfoss established a share option programme for the Board and a warrant programme for executives and senior managers. In addition to the share scheme programme a phantom share scheme programme was established for a few nonresident senior managers. This programme applies the same principles as the original share scheme programme and is therefore being accounted for correspondingly.

Participation in the programme was conditioned by purchasing shares at the market value before the annual general assembly in 2002. One third of the share options/warrants were granted at the start-up of the programme in 2001. The main condition for achieving the right to receive the remaining options/warrants was for RONA to exceed a certain minimum level for the accounting years 2002 and 2003. Based on this condition, options and warrants were granted in 2003 and in 2004.

The granted share options and warrants entitle to purchasing or subscribing for B-shares (at 100 DKK each), respectively, from the year Danfoss will be listed on the stock exchange, at various exercise prices according to the below statement. If Danfoss is not going to be listed on the stock exchange, the value of the options and warrants can be cashed in as from the 6 April 2006. When cashing in an option or a warrant, the value will be calculated as the current share price minus the exercise price. The warrants must be exercised or cashed in before the date of the general assembly in 2011.

Holdings and exercises/transfers of options/warrants in relation to the above programme are specified below:

Outstanding at 31 December 2007	The Board (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (mill DKK)
Options/warrants - exercise price at 749	3,101	13,333	32,575	1,558	76
Options/warrants - exercise price at 752	7,999	26,667	91,850	1,556	197
	11,100	40,000	124,425		273
Exercise/transfer(-) in 2008:				Exercise price	Paid out 2008 (mill DKK)
Options/warrants - exercise price at 749	11,032	-13,333	-21,875	2273/2127	37
Options/warrants - exercise price at 752	20,268	-26,667	-69,720	2273/2127	116
	31,300	-40,000	-91,595		153
Outstanding at 31 December 2008				Fair value (DKK each)	Fair value (mill DKK)
Options/warrants - exercise price at 749	14,133		10,700	1,414	35
Options/warrants - exercise price at 752	28,267		22,130	1,411	71
	42,400		32,830		106

18. Equity compensation benefits (continued)

Equity compensation benefits established in 2004 and subsequent programmes

In 2004 and 2007 Danfoss established a share option programme for the Board and a warrant programme for executives and senior managers. The condition for participation in the programme was for the executives and the senior managers to purchase compulsory shares. Equivalent to the previous share scheme programme, the main condition for achieving the right to receive the remaining options/warrants was for RONA to exceed a certain minimum level for the respective accounting years. The granted options and warrants give the right to purchase/subscribe to B-shares (at 100 DKK each) 3 years after the allotment date at the earliest, at fixed exercise prices. The exercise prices are set at the latest published price minus 15%. Per 31 December 2008 Danfoss A/S has taken over Bitten & Mads Clausen Foundation's obligation to repurchase shares under the share schemes. As a consequence the Group has provided for a reserve in the balance sheet for the 2004 and subsequent schemes.

Information on the 2004 and subsequent programmes	Granted (year)	Granted (number)	Fair value at date of allotment (DKK each)	Earliest exercise	Latest exercise
Options/warrants - exercise price at 1,222	2005	86,459	564	May 2008	May 2015
Options/warrants - exercise price at 1,522	2006	84,895	762	May 2009	May 2016
Options/warrants - exercise price at 1,932	2007	97,121	983	May 2010	May 2017
Options/warrants - exercise price at 1,932	2008	59,053	895	May 2011	May 2014
		327,528			

Grants and exercises etc. of options/warrants in relation to the 2004 and subsequent programmes are specified below:

Granted options/warrants 31 December 2007:	The Board (number)	Executives (number)	Other (number)	Fair value (DKK each)	Fair value (mill DKK)
Options/warrants - exercise price at 1,222	3,000	23,000	59,692	1,277	109
Options/warrants - exercise price at 1,522	3,300	20,000	60,661	1,137	95
Options/warrants - exercise price at 1,932	3,375	26,000	65,946	983	94
	9,675	69,000	186,299		298
2008:					
Granted options/warrants - exercise price at 1,808	1,594	14,250	43,209	895	53
Exercised(-) at exercise price 1,222	-1,000	-15,000	-17,884	905	-31
Exercise/transfer due to retirements:					
Options/warrants - exercise price at 1,222	7,067	-8,000	33	1,277	-1
Options/warrants - exercise price at 1,522	7,067	-14,000	6,033	1,137	-1
Options/warrants - exercise price at 1,932	7,491	-11,600	3,209	983	-1
Options/warrants - exercise price at 1,808	5,588	-3,375	-3,038	895	-1
	27,213	-36,975	6,237		-4
Changes in the share price / fair value:					
Options/warrants - exercise price at 1,222				-80	-16
Options/warrants - exercise price at 1,522				-42	-3
Options/warrants - exercise price at 1,932				4	
Options/warrants - exercise price at 1,808					
					-19
Granted options/warrants:					
Options/warrants - exercise price at 1,222	9,067		41,841	1,197	61
Options/warrants - exercise price at 1,522	10,367	6,000	66,694	1,095	91
Options/warrants - exercise price at 1,932	10,866	14,400	69,155	987	93
Options/warrants - exercise price at 1,808	7,182	10,875	40,171	895	52
	37,482	31,275	217,861		297

The total provision per 31 December 2008 for 2004 and subsequent share schemes is calculated at 240 mill DKK.

18. Equity compensation benefits (continued)

Equity compensation benefit Sauer-Danfoss Inc.

In Sauer-Danfoss Inc. a number of equity compensation plans are established. The below specifications are starting as of 1 July 2008 – the point in time from which Sauer-Danfoss Inc. is consolidated into the Danfoss Group.

Programme for Employees

In 1998 Sauer-Danfoss Inc. established a performance programme for their senior management and a new programme was established in 2006. The condition for receiving performance units is a set of performance goals, which are conditioned by growth in net sales and RONA performance. The settlement of performance units is in shares of Sauer-Danfoss Inc. stock or cash as determined by the Compensation Committee of Sauer-Danfoss Inc. The compensation committee sets performance goals for each performance unit grant and depending on the extent to which these goals are met will determine the number of performance units that will be paid out to the participants.

Based on performance results for 2006 through 2008 the performance units granted in 2006 are expected to be settled at 37.5% (equivalent to 82,000 shares for the part that are equity based and 1 mill DKK for the part that are cash based). The CEO of the Sauer-Danfoss Inc. company retired on January 1, 2009 and in accordance with the terms of his performance units grants, the grants related to performance periods after he left the company will be paid at 100% of the performance target. Therefore the grants for 2007 and 2008 were expensed in 2008, rather than over the tree year performance period.

The performance units entitle the participants to receive an amount equal to Sauer-Danfoss Inc' dividends during the vesting period. The total number of shares that can be issued under the 1998 and 2006 programmes cannot exceed 2.4 million shares and 3.5 million, respectively.

Holdings, grants and settlements of "performance units" in relation to the above programmes are specified below:

1998 and 2006 programmes

Equity based:	Equity units	Weighted Average Grant date fair value (USD each)	Fair value (USD each)	Fair value (mill DKK)
Units outstanding at 1 July	720,860	25.68	31.15	106
Units settled				
Units granted				
Units forfeited	-15,251	23.76		
Units outstanding at 31 December	705,609	24.34	8.75	33

Cash based:	Cash units		Fair value (USD each)	Fair value (mill DKK)
Units outstanding at 1 July	117,304		31.15	17
Units settled				
Units granted				
Units forfeited				
Units outstanding at 31 December	117,304		8.75	5

Programme for Non-employee members of the board of directors for Sauer-Danfoss Inc.

In 2006 a programme was established for certain members of the board of directors of Sauer-Danfoss Inc. The programme permits the granting of non-qualified stock options and restricted common stock to directors of Sauer-Danfoss Inc. who are not employees of Sauer-Danfoss Inc.

Shares granted vest over tree years. Unvested shares are restricted as to disposition and subject to forfeiture under certain conditions. In the period July 1 to December 31, no shares have been granted under this programme. Outstanding unvested restricted shares under this programme amounts to 42.000. The total number of shares of common stock to be issued under this plan shall not exceed 250 thousand.
Members of the board of directors of the Danfoss Group have been granted 9,000 options for restricted common stock.

The fair value of performance units is determined at the share price for the Sauer-Danfoss Inc. share at the given dates.

18. Equity compensation benefits (continued)

Recognition of equity compensation programmes

mill DKK

Recognition of programmes in Profit and loss account

	2007	2008	2007	2008
	Financial items		Fixed expenses	
Subsidiaries	43	-20	20	-6
Parent company	82	-11	43	34
The Danfoss Group	125	-31	63	28

Recognition of programmes in balance sheet

	2007	2008	2007	2008
Short term debt	169	228	273	251
Long term debt		95		100
	169	323	273	351

	Koncern	
	2007	2008
Equity compensation benefits established in 2001	273	106
Equity compensation benefits established in 2004 and subsequently*)		240
Equity compensation benefits established in Sauer-Danfoss Inc.		5
	273	351

*) Since the fair value of the share schemes is accrued up to the first possible vesting date the above fair values for the 2004 and subsequent programmes (297 mill DKK) can not be reconciled with the recognised long term liabilities (240 mill DKK).

19. Deferred tax assets and liabilities

mill DKK

Changes in deferred taxes

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Balance at 1 January, (net) *)	-206	-153	-47	163
Additions through business combinations		-46	132	-1,289
Foreign exchange adjustment			5	-61
Changes in the year	53	33	83	518
Disposals related to sale of subsidiaries			-10	
Balance at 31 December, (net) *)	-153	-166	163	-669

*) Liability (-)

Deferred tax assets and liabilities attributed to accounting items

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
	Deferred tax asset	Deferred tax asset	Deferred tax asset	Deferred tax asset
Intangible fixed assets			9	96
Fixed assets and non-current financial assets	37	93	154	299
Current assets	2	59	86	188
Liabilities	85	103	362	831
Gross tax value of loss carry-forwards			350	618
Impairment of tax value			-73	-134
	124	255	888	1,898
Set-off of tax	-124	-255	-326	-732
Deferred tax assets	0	0	562	1,166

	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
	Deferred tax liability	Deferred tax liability	Deferred tax liability	Deferred tax liability
Intangible fixed assets	55	62	193	1,589
Fixed assets and non-current financial assets		21	196	422
Current assets	12	60	104	224
Liabilities	27	99	49	153
Deferred tax regarding Danish joint taxation	183	179	183	179
	277	421	725	2,567
Set off of tax	-124	-255	-326	-732
Deferred tax liabilities	153	166	399	1,835

A major part of the tax asset related to carry-forward tax losses of 484 mill DKK net (2007: 277 mill) is deriving from companies that have suffered tax losses in the last three years.. This tax asset is expected to be utilised primarily through higher future taxable income in the respective companies.

The tax value of unrecognised tax assets related to carry-forward tax losses amounts to 134 mill DKK (2007: 73 mill). The amount is not recognised as an asset, as the carry-forward tax losses are not expected to be utilised.

Of the Parent Company's deferred tax liability of 166 mill DKK (2007: 153 mill), 179 mill DKK (2007: 183 mill) can be attributed to taxes relating to joint taxation with foreign subsidiaries in previous years.

20. Defined benefit plans

The major part of the Group's pension plans are defined contribution plans. However, a number of foreign subsidiaries have defined benefit plans plans with obligations that are not funded or only partly funded in some cases. As a consequence of the acquisition of Sauer-Danfoss Inc. there was an increase in the extent of defined benefit plans and health benefit plans.

It is the Group's policy that pension plans within the Group should be arranged as defined contribution plans. However, in countries like USA, Great Britain, Germany, the Netherlands and Norway there is a tradition for defined benefit plans. Defined benefit plans that are unfunded are mainly located in the subsidiaries Sauer-Danfoss Inc., Danfoss Bauer GmbH and Danfoss Compressors GmbH. In these companies unfunded plans amount to approximately 588 mill DKK (2007: 351 mill). The obligations in these plans are slowly being reduced, as benefits are only indexed and not offered to new employees.

Funded and partly funded plans are mainly located in USA, England, Germany, the Netherlands and Norway. All significant defined benefit plans are calculated by independent actuarial advisors.

mill DKK

The Group's defined benefit plan obligations

	Group	
	2007	**2008**
Present value of funded and unfunded obligations	1,018	2,250
Fair value of the assets connected to the plan	-629	-1,153
	389	1,097
Above obligations are recorded as follows:		
Defined benefit plans, liabilities	389	1,097

Development in the present value of defined benefit plan obligations

	Group	
	2007	**2008**
Net liability at 1 January	1,178	1,018
Additions through business combinations	2	1,479
Foreign exchange adjustments	-44	-187
Pension expenses in the year	20	30
Interest	52	90
Actuarial gains(-)/losses	-121	-112
Gains from reductions and redemptions	-5	
Disbursed pensions from the Group	-35	-31
Disbursed pensions from pension plan assets	-25	-51
Transfer from other long term debt		14
Disposals related to sale of subsidiaries	-4	
Net liability at 31 December	1,018	2,250

Development in the fair value of pension plan assets

	Group	
	2007	**2008**
Pension plan assets at 1 January	651	629
Additions through business combinations		932
Foreign exchange adjustments	-35	-175
Estimated return on pension plan assets	44	68
Actuarial gains/losses(-)	-23	-301
Payments by the Group	21	49
Disbursed pensions	-25	-49
Disposals related to sale of subsidiaries	-4	
Pension plan assets at 31 December	629	1,153

Actual return on the pension plan's assets

	Group	
	2007	**2008**
Estimated return on the pension plans' assets	44	68
Actuarial gains/losses(-)	-23	-301
	21	-233

20. Defined benefit plans (continued)

mill DKK

Expenses recognised in the profit and loss account

	Group	
	2007	2008
Pension expenses in the year	20	30
Interest	52	90
Estimated return on pension plan assets	-44	-68
Gains from reductions and redemptions	-5	
Expensed in profit and loss account	23	52

Health benefit plans

In the above specifications the following health benefit plans are included. The plans are all included in the Sauer-Danfoss Inc. company and are covering certain employees in the United States. Sauer-Danfoss Inc. has the right to modify or terminate any of these plans in the future. The development in the health benefit plans is specified below.

Development in the present value of health benefit plans

	Group
	2008
Net liability at 1 January	0
Additions through business combinations	171
Foreign exchange adjustments	22
Service costs	0
Interest	7
Actuarial gains(-)/losses	25
Disbursed payments	-8
Net liability at 31 December	217

Development in the fair value of plan assets

	Group
	2008
Assets at 1 January	0
Additions through business combinations	0
Payments by the Group	8
Benefit payments	-8
Assets at 31 December	0

In the statement of recognised gains and losses, the following accumulated actuarial gains/losses(-) since 1 January 2005 have been recorded directly on the equity account:

	Group	
	2007	2008
Danfoss subsidiaries total	62	-127

Pension plan assets consist of the following:

	Group		Group	
	2007	2007	2008	2008
Shares and similar securities	390	62%	643	56%
Bonds	159	25%	442	38%
Active currency investment	49	8%		
Other	32	5%	68	6%
	630	100%	1,153	100%

20. Defined benefit plans (continued)

Principal actuarial assumptions at the balance sheet date

	Group		Group	
	2007	**2007**	**2008**	**2008**
	Range	Weighted average	Range	Weighted average
Discount rates	4.5-5.9%	5.6%	4.5-6.5%	6.1%
Estimated future salary increases	1.5-4.5%	3.5%	1.5-4.5%	3.4%
Estimated return on pension plan assets	4.5-8%	7.5%	3.5-8.5%	7.8%

The estimated return on the pension plan assets is based on external actuary advice and determined from the composition of the assets and considering the general expectations to the economic development.

The assumed weighted average annual rate of increase in the per capita cost of medical benefits is 10% for 2008 and is assumed to decrease gradually in 2009 through 2014 to a level of at 4.5%. After 2014 the rate of increase is expected at 4.5% per year. A one percent increase or decrease in the annual health care trend rate would have increased or decreased the Net liability at 31 December 2008 by 16 mill DKK.
The weighted average discount rate is fixed at 6.25%.

The Group expects to pay in 91 mill DKK to defined benefit plans in 2009. In 2008 49 mill DKK was paid in.

The Group's pension obligations for the present year and for the previous 4 years amount to:

	Group				
	2004	**2005**	**2006**	**2007**	**2008**
Present value of provision for pension	-	-1,174	-1,178	-1,018	-2,250
Present value of the pension plan assets	-	588	651	629	1,153
Surplus-/insufficient(-) cover	-	-586	-527	-389	-1,097
Actuarial gains(-)/losses, obligations	-	119	7	-121	-112
Actuarial gains/losses(-), pension plan assets	-	54	36	-23	-301
Net changes (reduced net obligations (-))	-	65	-29	-98	189

21. Financial instruments

Financial risks

Danfoss' international business profile is one reason why the company's profitability and cash flows are exposed to financial risks, including currency, interest rate, raw materials and financial counterpart risks. Risk management activities are centrally coordinated by Corporate Treasury and focus is on risk coverage and minimisation, with a particular emphasis on reducing fluctuations in the company's cash flows and profitability in local currency within a 12-18 month horizon.

It is the Group's policy not to undertake active speculation regarding financial risks. The Group's financial control is therefore heading towards controlling and reducing the financial risks that are a direct result of the Group's activities, investments and financing.

For a description of accounting policies and procedures such as applied recognition criteria and basis of measurement, please see the disclosure under note 3. Accounting policies.

Currency exposure

Currency exposure consists of three elements:

1. *Transaction risk:* Major consolidated risks and 12 months' expected cash flows in foreign currency (excluding cashflow from certain countries with in-convertible currencies) are covered on an ongoing basis.
2. *Translation risk (conversion risk):* Danfoss does not generally cover translation risks, as these do not directly affect the underlying cash flows. It does however try to reduce translation risks through loan financing in local currencies as much as possible.
3. *Economic/structural risk (strategic risk):* Economic/structural currency exposure cannot be covered effectively using financial instruments and is therefore not part of Danfoss' financial risk management strategy, although it is as close to the costumer as possible.

mill DKK	Isolated decline	Expected effect on cash flow in 2008	Expected effect on cash flow in 2009
DKK/EUR	1%	20	10
DKK/USD	10%	80	80
DKK/GBP	10%	50	6

The amounts are based on the exchange rate of 31 December 2008 and expected net cash flow in 2009 in foreign currency. In this context the incurred financial instruments recognised per 31 December 2008 have been taken into consideration.

Interest rate risk

The Group's interest rate risk comes primarily from interest-bearing debt and cash funds. The Group makes use of both fixed-rate and variable loans, as well as derived interest products.

A 1 percent point increase in the interest level compared to the balance date is estimated to have an isolated negative effect on profit before tax in 2009 of 28 mill DKK (2008: 16 mill). The amounts are based on interest bearing liabilities with variable interest rates as per the balance date, i.e. liabilities with no derived interest products associated.

Raw materials risk

Developments in the global price of raw materials can have an effect on the Group's earnings. As well as having fixed price agreements with suppliers, Danfoss uses financial instruments to cover risks relating to its purchase of certain metals and electricity. Danfoss' overriding policy is to ensure that significant raw materials risks are reduced through a combination of risk coverage and active price adjustment. Expected consumption of metals and electricity is covered for at least six months and at most 18 months in advance, where they are deemed significant. In 2008 only copper, aluminium and zink is covered by the central risk management strategy through hedging instruments.

Credit risk

The Group's credit risks primarily apply to trade receivables and bank deposits (the so-called counterpart risk). For further information on credit risk on trade receivables see note 14. Trade receivables and receivables from subsidiaries. The counterpart risk is prevented, as far as possible, by only using financial partners with a minimum credit rating of "A" according to Standard & Poors credit rating terminology.

Liquidity risk

Danfoss' policy is to ensure at all times that the Group has the liquidity necessary to meet its obligations and to finance its planned strategic action. The Group minimises its liquidity risk through a combination of effective liquidity management and planning, by establishing irredeemable loan facilities and by ensuring that cash funds are liquid and accessible. It is Danfoss policy to have a qualified investment grade credit rating, to have a significant liquidity reserve in the form of unused irredeemable credit facilities and cash assets, to make sure that a maximum of 25% of loan facilities are due within 12 months and to make sure that the average due date for the loan portfolio is at least two years.

At the end of 2008, Danfoss' financial resources were approximately 6.3 bn DKK (2007: 3.9 bn). The Group consideres the liquidity reserve to be sufficient in relation with actual plans and the market situation in general.

21. Financial instruments (continued)

mill DKK

The Group's cash and cash equivalents

The major part of the Group's cash and cash equivalents of 596 mill DKK (2007: 719 mill) is placed on short term deposits, with an interest rate below 2% p.a.

The Group's debt categories and maturities

	Group 2007				Group 2008			
		Maturity				Maturity		
	Carrying amount	0-1 year	1-5 years*)	Over 5 years	Carrying amount	0-1 year	1-5 years*)	Over 5 years
Debt:								
Gross payment	4,746	2,683	1,714	349	11,853	3,324	5,309	3,220
Interest element deducted	-368	-60	-214	-94	-1,607	-75	-664	-868
Finance leases:								
Gross payment	89	23	50	16	146	27	106	13
Interest element deducted	-11	-2	-7	-2	-20	-4	-15	-1
	4,456	2,644	1,543	269	10,372	3,272	4,736	2,364

*) Maturity is evenly spread over the period.

The above debt is recorded as follows:

	Group	
	2007	**2008**
Current liabilities	2,644	3,272
Non-current liabilities	1,812	7,100
	4,456	10,372

Financial covenants

The Danfoss Group does not have any financial covenants on the Group's borrowings beyond the committed loans raised by Sauer-Danfoss. In conducting its annual financial audit and reviewing its borrowing covenants, the company determined that it will likely fall out of compliance with the debt-to-trailing EBITDA ratio covenants in its existing credit agreements by the end of the first quarter. Therefore the parent company has granted a loan to Sauer-Danfoss Inc. as per 12 March 2009 to refinance Sauer-Danfoss' debt with covenants. Hereafter the Group has no financial covenants on the Group's borrowings. The loans that Sauer-Danfoss Inc. had per 31 December 2008 have been considered as current liabilities.

21. Financial instruments (continued)

Fair value of financial instruments for the Group

	Group		Group	
	2007	**2007**	**2008**	**2008**
	Carrying amount	Fair value	Carrying amount	Fair value
Investments in associates and joint ventures *)	1,075	2,526	196	
Financial assets measured at equity	1,075	2,526	196	
Other investment	196	196	104	104
Financial assets available-for-sale	196	196	104	104
Derivatives	137	137	64	64
Financial assets used for hedging	137	137	64	64
Trade receivables	3,748	3,748	4,679	4,679
Other receivables	689	689	832	832
Cash and cash equivalents	719	719	596	596
Loans and receivables	5,156	5,156	6,107	6,107
Interest-bearing debt	4,456	4,462	10,372	10,338
Treade creditors and other debt	3,656	3,656	4,866	4,866
Financial liabilities measured at amorised cost	8,112	8,118	15,238	15,204

The fair value of the interest-bearing debt is calculated as the net present value of future installments and interest payments. The Group's actual interest rates for similar maturities have been used as discount rates.

*) The difference between "Carrying amount" and "Fair value" in 2007 is primarily due to Sauer-Danfoss Inc. where "Fair value" corresponds to the current market value of the shares. A "Fair value" for 2008 has not been stated as there are no markets where these investments are traded.

21. Financial instruments (continued)

Derivatives as per 31 December for the Group

	Group 2007				**Group 2008**			
	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Maturity	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Maturity
Derivatives, sale/buy:								
USD sale	1,349	32	3	2008	3,063	21	81	2009
USD buy	303	-3	-1	2008	391	-1	-6	2009
CHF sale	94	1		2008	97	-6		2009
CHF buy	9			2008	14	1	1	2009
GBP sale	308	16		2008	322	53		2009
GBP buy				2008	36	-1	-1	2009
Other currencies sale	645	7	1	2008	4,684	209	48	2009
Other currencies buy	910	14	14	2008	599	-46	-3	2009
Foreign exchange contracts		67	17			230	120	
Rawmaterial contracts (sale)	171	-38		2008-2010	31	13		2009
Rawmaterial contracts (buy)	395	109		2008-2010	276	-134	-14	2009
Other derivatives*)	-3	-3	-3	2008-2009	3,181	-90	-1	2009-2014
		68	-3			-211	-15	
Derivatives end of year		135	14			19	105	

*) Mainly regarding incurred interest swap agreements.

At the end of the year 2008, unrealised gains on derivatives recognised in equity amounted to -86 mill DKK (2007: 121 mill).
In the specification of hedging reserve in note 16. Capital and reserves, the unrealised net value has been stated net of tax on the Group's cash flow hedge transactions, and a remaining adjustment of hedging reserve regarding the opening balance of Sauer-Danfoss Inc. Of this amount (-86 mill) -15 mill DKK will be expensed in 2009, and the remaining -71 will mature and be expensed until 2014.

Derivatives are primarily being used for full or partial hedging of future cash flow in selected currencies, and heding of future procurement of selected raw materials.

21. Financial instruments (continued)

mill DKK

Parent Company's non-current receivables from subsidiaries

The interest rates concerning the above receivables have typically been at the level of 5.1% p.a. in 2008 (2007: 5.2%).

Parent Company's cash and cash equivalents

The major part of the Parent Company's cash and cash equivalents of 15 mill DKK (2007: 2 mio.) is placed on short term deposits, with an interest rate below 2% p.a.

Parent Company's debt categories and maturities

	Parent Company 2007				Parent Company 2008			
		Maturity				Maturity		
	Carrying amount	0-1 year	1-5 years*)	Over 5 years	Carrying amount	0-1 year	1-5 years*)	Over 5 years
Debt:								
Gross payment	4,926	3,187	1,599	140	9,953	1,716	5,127	3,110
Reduced by interest part	-368	-126	-205	-37	-1,549	-68	-657	-824
Finance leases								
Gross payment	1	1			1	1		
	4,559	3,062	1,394	103	8,405	1,649	4,470	2,286

*) Maturity is equally distributed over the whole period.

The above debt is recorded as follows:

	Parent Company 2007	Parent Company 2008
Current liabilities	2,130	336
Non-current liabilities	1,497	6,756
Debt to subsidiaries	932	1,313
	4,559	8,405

Besides interest-bearing debt of 1,313 mill DKK (2007: 932 mill) the line "Debt to subsidiaries" in the balance sheet contains accounts payables etc. of 266 mill DKK (2007: 203 mill). In total 1,579 mill DKK (2007: 1,135 mill).

21. Financial instruments (continued)

mill DKK

Fair value of financial instruments for the Parent Company

	Parent Company		Parent Company	
	2007	**2007**	**2008**	**2008**
	Carrying amount	Fair value	Carrying amount	Fair value
Investments in associates and joint ventures *)	1,413	2,618	391	
Financial assets measured at cost price	1,413	2,618	391	
Other investment	137	137	3	3
Financial assets available-for-sale	137	137	3	3
Derivatives	137	137	53	53
Financial assets used for hedging	137	137	53	53
Trade receivables	236	236	249	249
Other receivables	5,110	5,110	6,490	6,490
Cash and cash equivalents	2	2	15	15
Loans and receivables	5,348	5,348	6,754	6,754
Interest-bearing debt	4,559	4,564	8,405	8,485
Treade creditors and other debt	1,109	1,109	1,136	1,136
Financial liabilities measured at amorised cost	5,668	5,673	9,541	9,621

*) The difference between "carrying amount" and "fair value" in 2007 is primarily related to Sauer-Danfoss Inc., where "fair value" is the stock market value of the shares. The fair value for 2008 has not been stated as there is no free market for these capital assets.

21. Financial instruments (continued)

	Parent Company 2007				Parent Company 2008			
	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Maturity	Settlement value	Gain/loss (-) when adjusting to market value	Gain/loss (-) recorded in profit and loss accounts	Maturity
Derivatives, sale/buy:								
USD sale	1,347	32	3	2008	2,897	34	83	2009
USD buy	303	-3	-1	2008	317	5		2009
CHF sale	94	1	1	2008	97	-6		2009
CHF buy	9			2008	14	1	1	2009
GBP sale	308	16	7	2008	322	53		2009
GBP buy				2008	36	-1	-1	2009
Other currencies sale	645	6	5	2008	4,527	213	141	2009
Other currencies buy	910	14	14	2008	599	-46	-3	2009
Foreign exchange contracts		66	29			253	221	
Other derivatives*)	-3	-2	-3	2008-2009	3,181	-81	-18	2009-2014
		-2	-3			-81	-18	
Derivatives end of year		64	26			172	203	

*) Mainly regarding incurred interest swap agreements.

At the end of 2008, unrealised gains on derivatives amounted to -31 mill DKK (2007: 38 mill).
In the specification of hedging reserve in note 16. Capital and reserves, the unrealised net value of the Group's cash flow hedge transactions has been stated net of tax on the parent company's cash flow hedge transactions. Of the -31 mill DKK an amount of 19 mill DKK will mature and be taken to the P&L in 2009 as an income, and the remaining -50 mill DKK will mature and be expensed until 2014.

22. Current corporation tax

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Corporation tax payable/receivable (-) at 1 January	-62	-9	13	-16
Foreign exchange effect on corporate tax expenses	2	2	-2	1
Acquisitions, business combinations			3	78
Paid during the year	28	90	-421	-441
Tax adjustments previous years	-1	-47	-8	-17
Current tax expenses	24	-19	399	341
Corporation tax payable/receivable (-) at 31 December	-9	17	-16	-54
The above corporation tax is recorded as follows:				
Assets	9		147	210
Liabilities		17	131	156
	-9	17	-16	-54

23. Adjustment for non-cash transactions

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Depreciations/amortisations and impairments	252	282	962	1,690
Gain on disposal of tangible assets and business activities	3	-10	-8	-7
Others, including provisions	-140	191	-34	354
	115	463	920	2,037

24. Change in working capital

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Change in inventories	-149	-44	-683	-223
Change in receivables	-66	-322	-246	455
Change in payables	162	23	92	-372
	-53	-343	-837	-140

25. Acquisition and sale of subsidiaries etc.

mill DKK	Group		Group	
	2007	**2008**	**2007**	**2008**
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible fixed assets except goodwill	-171	-4,793		
Tangible fixed assets	-50	-3,686		
Financial assets	-5	-540		
Inventories	-54	-2,024		
Receivables	-78	-2,214		
Cash and cash equivalents	-3	-216		
Interest-bearing debts	60	2,559		
Provisions including deferred taxes	-74	2,561		
Payables	95	1,678		
Net assets acquired	-280	-6,675		
Goodwill(-)/gain on disposal	-206	-1,763	-33	-4
Consideration paid(-)/received	-486	-8,438	-33	-4
Cash and cash equivalents	3	216		
Net consideration paid(-)/received	-483	-8,222	-33	-4
Net consideration paid(-)/received is paid as follows:				
Cash and cash equivalents	-384	-2,385	74	2
Payable, 1 January	298	390		
Payable, 31 December	-390	-1,733		
Sauer Danfoss Inc.		-1,200		-1
Minority interests		-2,183		
Foreign exchange adjustment and interest element of payable amount		-217		
Receivable, 1 January			-135	-28
Receivable, 31 December			28	20
Shares	-7	-894		3
	-483	-8,222	-33	-4

25. Acquisition and sale of subsidiaries etc. (continued)

Specification of acquisitions:	Sauer-Danfoss Inc. Carrying amount according to IFRS prior to acquisition	Sauer-Danfoss Inc. Adjust-ment to fair value	Other *) Carrying amount according to IFRS prior to acquisition	Other *) Adjust-ment to fair value	Total Carrying amount according to IFRS prior to acquisition	Total Adjust-ment to fair value	Total Fair value at acqusition date
Intangible fixed assets except goodwill	-120	-4,586		-87	-120	-4,673	-4,793
Tangible fixed assets	-3,324	-356	-6		-3,330	-356	-3,686
Financial assets	-540				-540		-540
Inventories	-1,827	-164	-29	-4	-1,856	-168	-2,024
Receivables	-2,200		-13	-1	-2,213	-1	-2,214
Cash and cash equivalents	-201		-15		-216		-216
Interest-bearing debts	2,526		33		2,559		2,559
Provisions including deferred taxes	949	1,583	3	26	952	1,609	2,561
Payables	1,672		6		1,678		1,678
Net assets	-3,065	-3,523	-21	-66	-3,086	-3,589	-6,675
Goodwill		-1,767	-12	16	-12	-1,751	-1,763
Consideration paid	-3,065	-5,290	-33	-50	-3,098	-5,340	-8,438
Cash and cash equivalents	201		15		216		216
Net consideration paid	-2,864	-5,290	-18	-50	-2,882	-5,340	-8,222
		-8,154		-68			

Specification of net consideration paid:	Sauer-Danfoss Inc.	Other *)	Total
Paid in cash	-2,139	-123	-2,262
Acquisition cost	-5	-7	-12
Net value of investment in joint ventures	-885	-9	-894
Danfoss Inc.	-1,200		-1,200
Net present value of put options for purchase of shares	-1,517		-1,517
Earn-outs		-12	-12
Minority interests	-2,183		-2,183
Foreign exchange adjustments **)	-225		-225
Adjustment of goodwill		83	83
	-8,154	-68	-8,222

*) Including adjustments regarding acquisitions from ealier years

**) The fair value at the acquisition date has been translated at the year end rate in the statement resulting in foreign exchange adjustments of 225 mill DKK. These adjustments will only impact the presentation of the additions through acquisition of subsidiaries and the foreign exchange adjustments in the asset notes.

25. Acquisition and sale of subsidiaries etc. (continued)

Acquisition of subsidiaries etc.:

2007

Company	Country	Profit and loss account consolidated from	Holding acquired	Turnover per year mill DKK *)	No. of employees	Conside-ration paid mill DKK
Danfoss Solar Inverters A/S	Denmark	March	100%	88	76	**)
Normann Etek AS	Norway	July	100%	48	12	16
Jupiter Heizsysteme GmbH	Germany	July	100%	58	40	100
KH nordtherm A/S	Denmark	August	70%	24	16	**)
Danfoss Chatleff, LLC	USA	October	100%	250	134	171
ZAO Ridan	Russian Federation	December	100%	113	400	146

*) Unaudited sales in 2006 or the latest financial year before the acquisition.
**) According to a nondisclosure obligation the purchase price is not stated.

In 2007 Danfoss acquired 6 companies at a purchase consideration of 483 mill DKK satisfied in cash and in the form of earn-out agreements. In connection with the acquisitions, identifiable assets, liabilities and contingencies have been valued at fair values. After recognition of identifiable assets and liabilities at fair value, goodwill has been valued at 206 mill DKK of which 79 mill DKK is related to the acquisition of Chatleff, USA. The goodwill related to Chatleff mainly relates to the value of the employees, know-how and not least the expected synergies. The goodwill related to the other acquired companies mainly relates to the value of the employees, know-how and synergies. Further information about allocation on Cash Generating Units (CGUs) is provided in note 11. Intangible fixed assets.

The acquired companies contribute to the 2007 income statement with net sales of 145 mill DKK and EBIT of -60 mill DKK. If the acquisitions had occurred on 1 January 2007, the contribution to the Group EBIT would have been between -75 and -50 mill DKK and the contribution to net sales would have been approximately 500 mill DKK (unaudited).

Acquisition of subsidiaries etc.:

2008

Company	Country	Profit and loss account consolidated from	Holding acquired	Turnover per year mill DKK *)	No. of employees	Conside-ration paid mill DKK
Proenergie Wärmetechnik AG	Switzerland	January	100%	19	8	19
ECO Heat Pumps Ltd.	England	April	100%	41	30	40
Valpes SARL	France	April	100%	50	41	53
Sauer-Danfoss Inc.	USA	July	55%	10,744	9,824	8,154
Necos S.p.A.	Italy	October	100%	3	13	39

*) Unaudited sales in 2007 or the latest financial year before the acquisition.

In 2008 Danfoss acquired 5 companies at a purchase consideration of 8,305 mill DKK satisfied in cash and in the form of earn-out agreements. In connection with the acquisitions, identifiable assets, liabilities and contingencies have been valued at fair values. After recognition of identifiable assets and liabilities at fair value, goodwill has been valued at 1,763 mill DKK of which 1,767 mill DKK is related to the acquisition of Sauer-Danfoss Inc.
The termination of the fair value of identifiable assets, liabilities and contingent liabilities acquired is almost completed. For som of the estimated fair values, verification is still outstanding, and minor adjustments to the recognised fair value might occur.
The goodwill regarding Sauer-Danfoss mainly relates to the value of the employees, know-how and not least the expected synergies. The goodwill regarding the other acquired companies mainly relates to the value of the employees, know-how and synergies. Further information about allocation on Cash Generating Units (CGUs) is provided in note 11. Intangible fixed assets.

The acquired companies contribute to the 2008 income statement with net sales of 4,453 mill DKK and EBIT of -611 mill DKK. If the acquisitions had occurred on 1 January 2008, the contribution to the Group EBIT would have been between -800 and -825 mill DKK and the contribution to net sales would have been approximately 10.8 bn DKK (unaudited).

25. Acquisition and sale of subsidiaries etc. (continued)

Parent company

mill DKK	Parent Company		Parent Company	
	2007	**2008**	**2007**	**2008**
	Acquisitions	Acquisitions	Disposals	Disposals
Intangible fixed assets except goodwill	-28	-16		21
Tangible fixed assets		-2		13
Investments in subsidiaries	-211	-4,045	66	55
Inventories		-4		6
Receivables		-8		
Interest-bearing debts		1		
Provisions including deferred taxes		46		
Payables		6		-1
Net assets	-239	-4,022	66	94
Goodwill(-)/gain on disposal		-8	-29	
Net consideration paid(-)/received	-239	-4,030	37	94
Net consideration paid(–)/received is paid as follows:				
Cash and cash equivalents	-196	-2,694	67	90
Payable, 1 January	85	73		
Foreign exchange adjustment and interest element of payable amount		183		
Payable, 31 December	-73	-1,533		
Investments in subsidiaries	-5	-25		
Receivable, subsidiaries	-50	-34		
Receivable, 1 January			-50	-20
Receivable, 31 December			20	22
Shares				2
	-239	-4,030	37	94

The Parent Company's issuing of shares/acquisitions of companies and activities of -4,030 mill DKK (2007: -239 mill) are mainly issuing of shares.

The Parent Company's divestment of companies and activities of 94 mill DKK (2007: 37 mill) mainly consists of internal transfers.

26. Acquisition(-) and sale of other investments etc.

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Increase/decrease of lending	-754	-892	-40	100
Sale of shares and other securities	255	2	236	-1
Purchase of shares and other securities	-76	-106	-80	-92
	-575	-996	116	7

27. Contingencies etc.

mill DKK

Security

	Parent Company		Group	
	2007	2008	2007	2008
Land and buildings are subject to a registered debenture to secure bank loans/mortgages with a carrying amount of			630	185
Leasing assets are subject to a registered debenture to secure bank loans/mortgages with a carrying amount of			60	117
Secured loans from credit institutions			262	315

In connection with disposal of subsidiaries and activities, ordinary guarantees and warranties have been issued. These guarantees and warranties are considered to have no impact on the Group's financial position beyond what has been stated in the annual report.

Contingent liabilities
A number of claims have been raised against the Group. The opinion of the management is that the outcome of these will not materially change the financial position of the Group beyond what has been stated in the annual report.

Operating leases (lease expenses)

	Parent Company		Group	
	2007	2008	2007	2008
Operating lease rentals are payable as follows:				
Buildings:				
Less than 1 year	97	106	91	121
Between 1 and 5 years	297	209	293	329
More than 5 years	78	84	286	527
Machinery etc.:				
Less than 1 year	64	26	118	92
Between 1 and 5 years	107	34	166	113
More than 5 years	1	1	1	1

The Group has expensed 282 mill DKK in operating lease rentals in 2008 (2007: 301 mill). Expensed lease rentals relate mainly to buildings and machinery.

Operating leases (lease income)

	Parent Company		Group	
	2007	2008	2007	2008
Operating lease rentals are receivable as follows:				
Less than 1 year	64	52	68	10
Between 1 and 5 years	269	190	277	10
More than 5 years	39	67	41	

The Group has leasing income of 54 mill DKK in 2008 (2007: 67 mill). The above rentals relate mainly to buildings.

28. Related parties

Danfoss A/S' related parties include the Bitten & Mads Clausen Foundation, other shareholders, subsidiaries, associates, joint ventures, the Board of Directors, the Executive Committee and senior managers. Further related parties include companies, in which the above mentioned persons have significant interests.

Bitten & Mads Clausen Foundation, other shareholders and other related companies

Bitten & Mads Clausen Foundation holds 49.21% of the shares in Danfoss A/S and controls 85.54% of the voting power.

In the financial year a limited number of transactions have taken place between the Bitten & Mads Clausen Foundation, its other subsidiaries including Danfoss Universe, Danfoss Bionics Group and certain shareholders of the Clausen Family. The transactions comprise service and financial transactions and they have been made according to the arm's length principle or on a cost covering basis. The total payment does not exceed 25 mill DKK (2007: 20 mill). Around 97% of Danfoss A/S' dividend payments is related to Bitten & Mads Clausen Foundation and shareholders of the Clausen Family. Pr 31 December 2008 Danfoss A/S has taken over the obligation from Bitten & Mads Clausen Foundation to repurchase shares under the share schemes. As a consequence the Group has made a provision of 240 mill DKK for the 2004 and subsequent share schemes as per 31 December 2008 cf note 18. Equity compensation benefits.

Board of Directors, Executive Committee and senior managers

In the financial year, no transactions took place with the Board of Directors or the Executive Committee other than transactions as a result of conditions of employment, except for the following:

The Group has a rental agreement for a property in Italy with vice chairman of the board Jørgen M. Clausen. The rental agreement runs until 2012. The rent payment amounted to 4 mill DKK in 2008 (2007: 4 mill). The rent is set on basis of arm's length. Besides that, companies in which Jørgen M. Clausen has significant influence have sold goods and services below 5 mill DKK (2007: 5 mill) to the Danfoss Group. After retiring as CEO Jørgen M. Clausen has maintained a renumeration of 1 mill DKK to be available to the Group.

Joint ventures and associated companies

Share of joint ventures:

The following items represent the Group's share of joint ventures (in all materiality according to Danfoss' accounting policies):

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Share of:				
Non-current assets	1,535	147	1,536	146
Current assets	1,666	150	1,666	152
Total assets	3,201	297	3,202	298
Non-current liabilities	917	13	917	13
Current liabilities	1,276	102	1,277	103
Total liabilities	2,193	115	2,194	116
Equity	1,008	182	1,008	182
Net sales	4,329	2,575	4,329	2,575
Expenses	4,294	2,511	4,296	2,513
Net profit	35	64	33	62

In 2007 Sauer-Danfoss Inc. has been included in assets, liabilities and profit and loss items with 37.9%. The asset and liability figures for 2008 do not include Sauer-Danfoss inc. due to the fact that Sauer-Danfoss is included as a subsidiary as from 1 July 2008. In the profit and loss items for 2008 Sauer-Danfoss is included with 37.9% for the first half year of 2008.

Danfoss has joint venture cooperation with different manufacturing companies. For further information on joint ventures refer to the page "Danfoss Group Companies".

Share of associated companies:

The following items represent the Group's share of associated companies (in all materiality according to Danfoss' accounting policies):

mill DKK	Parent Company		Group	
	2007	2008	2007	2008
Share of:				
Total assets	11	12	73	17
Total liabilities	10	2	6	4
Equity	1	10	67	13
Net sales		5	5	5
Expenses	2	8	14	23
Net profit	-2	-3	-9	-18

For further information on associated companies please see the list of "Danfoss Group Companies".

28. Related parties (continued)

Transactions with joint ventures and associated companies:

mill DKK	Parent Company		Group	
	2007	**2008**	**2007**	**2008**
Net sales of goods and related services	10	9	10	10
Net sales Danfoss Services etc.	252	129	381	206
Purchase of goods and services	6	10	96	72

Loans, trade receivables and liabilities in relation to joint ventures and associated companies are stated separately in the balance sheet of the Parent Company and the Group.

Besides the above transactions with joint ventures and associated companies are described in the notes 6. Non-current financial assets, 7. Financial income, 8. Financial expenses and 21. Financial instruments.

Transactions between the Parent Company and the subsidiaries:

mill DKK	Parent Company	
	2007	**2008**
Net sales of goods and related services	4,495	4,554
Net sales Danfoss Services etc.	619	848
Purchase of goods and services	2,378	2,364
Purchase of intangible and tangible fixed assets	4	
Disposal of intangible and tangible fixed assets	4	19

Besides the above transactions between the Parent Company and subsidiaries are described in the notes 6. Non-current financial assets, 7. Financial income, 8. Financial expenses and 21. Financial instruments.

29. Government grants

The Group received government grants amounting to 14 mill DKK in 2008 (2007: 13 mill). The grants are primarily related to research and development projects as well as grants for the establishment of workplaces.

30. Events after the balance sheet date

In January, Sauer-Danfoss announced redundancies of approx. 400 people in Denmark, due to lack of orders. This also led to a further 70 layoffs in Sauer-Danfoss sales and marketing functions in February.

In February, as a result of the dramatic slowdown on the markets, Danfoss announced the cut of 850 positions worldwide and the discontinuation of a range of projects.

The continuing slowdown in the markets in January and February caused Sauer-Danfoss to announce a further staff reduction in March of approx. 330 in Nordborg. The 330 employees are split on approx. 270 in manufacturing and 60 white collar employees.

These moves should only be considered structural adjustments, and are not expected to give rise to considerable losses or impairment.

On February 17, the competition authorities carried out an unannounced inspection at Danfoss in Nordborg, Flensburg, Germany and Torino, Italy. At the same time, several of Danfoss' companies in the USA were inspected by the American competition authority. The reason for the inspection and the ongoing investigation was the suspicion of entrance into illegal pricing agreements within the compressor market. It is absolutely certain that top management of the Group is not aware of any such agreements having been entered into. Danfoss' policy and ethic guidelines should secure that Danfoss has not participated in any kind of illegal or competition distorting price agreements. The management will monitor the situation closely, but has no knowledge of the authorities' conclusions at present.

Subsequent to 31 December 2008 there have been no further events with any significant effect on the annual accounts beyond what has been considered and disclosed in the annual report.

31 Forthcoming IFRSs

The IASB has issued the following new standard (IFRS) that are not mandatory to the Danfoss Group for the preparation of the annual report for 2008.

Standards approved by the EU

- IAS 1 (updated 2007) "Presentation of Financial Statements" is applicable to fiscal years beginning 1 January 2009 or later. The standard will not affect recognitions or measurements in the annual report, but for the presentation of the main statements.

- IFRS 2 "Share-based Payments: Vesting Conditions and Cancellations" is applicable to fiscal years beginning 1 January 2009 or later. The standard will not affect recognitions or measurements in the annual report.

- IFRS 8 "Operating segments" is applicable to fiscal years beginning 1 January 2009 or later. The standard will solely influence the presentation of the Group's segments and will not affect recognitions or measurements in the annual report.

- IAS 23 (updated 2007) "Borrowing Costs" is applicable to fiscal years beginning 1 January 2009 or later. IAS 23 requires recognition of borrowing costs in the cost price for a qualifying asset (intangible and tangible assets and inventories). When manufacturing larger qualifying assets with a longer manufacturing period IAS 23 is expected to affect the financial statements for the Group.

Standards not approved by the EU

- IFRS 3 "Business Combinations" (and the concurrent updating of IAS 27 "Consolidated and Seperate Financial Statements") is applicable to fiscal years beginning 1 July 2009 or later. The Group does not expect to utilise the option of recognising goodwill related to minority shareholders' share of acquired companies. Technical adjustments resulting from applying the purchase method in IFRS 3 are expected to have minor influence on the financial statements. IFRS 3 and IAS 27 have not yet been approved by the EU.

IASB Interpretations (IFRIC)

The IASB has issued the following new interpretations (IFRIC) that are not mandatory for the Group for the preparation of the annual report for 2008. Unless otherwise stated, they have been approved by the EU:

- IFRIC 12 "Service Concession Arrangements" is effective for fiscal years beginning 1 January 2008 or later. The Group does not have any concession arrangements and does not expect to gain any. Therefore IFRIC 12 is not expected to have any effect on the annual reporting. (IFRIC 12 has not yet been approved by the EU.)

- IFRIC 13 "Customer Loyalty Programmes" is effective for fiscal years beginning 1 July 2008 or later. The Group does not have any customer loyalty programmes, hence IFRIC 13 is not expected to have any effect on the annual reporting.

- IFRIC 14 "IAS19 The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" is effective for fiscal years beginning 1 January 2008 or later. None of the Group's defined benefit plans are comprised by the limitations in IFRIC 14, hence IFRIC 14 is not expected to have any effect on the annual reporting.

- IFRIC 15 "Agreement for the Construction of Real Estate" is effective for fiscal years beginning 1 January 2009 or later. The Group does not have any activities covered by IFRIC 15, hence IFRIC 15 is not expected to have any effect on the annual reporting. (IFRIC 15 has not yet been approved by the EU).

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" is effective for fiscal years beginning 1 October 2008 or later. IFRIC 16 is not expected to have any effect on the annual reporting. (IFRIC 16 has not yet been approved by the EU).

- IFRIC 17 "Distribution of Non-cash Assets to Owners" is effective for fiscal years beginning 1 January 2009 or later. IFRIC 17 is not expected to have any effect on the annual reporting. (IFRIC 17 has not yet been approved by the EU).

- IFRIC 18 "Transfers of Assets from Customers" is effective for fiscal years beginning 1 July 2009 or later. IFRIC 18 is not expected to have any effect on the annual reporting. (IFRIC 18 has not yet been approved by the EU).

The Group expects to implement the above IFRS and IFRIC regulations as from the respective mandatory effective dates.

Danfoss Group Companies

December 31, 2008
Unless otherwise specified, the companies are 100% owned by Danfoss.
Sauer-Danfoss companies are marked with blue and are 100% owned by Sauer-Danfoss, unless otherwise specified.

EUROPE

Belgium
Danfoss Socla Benelux S.P.R.L., Brussels
N.V. Danfoss S.A., Groot-Bijgaarden
Sauer-Danfoss bvba, Brussels

Bulgaria
Danfoss EOOD, Sofia
DEVI EOOD, Sofia

Denmark
Danfoss A/S, Nordborg (Parent Company)
Danfoss AquaZ A/S, Nordborg - 51%
Danfoss Captive Reinsurance A/S, Nordborg
Danfoss Compressor Holding A/S, Nordborg
Danfoss Distribution Services A/S, Rødekro
Danfoss Drives A/S, Gråsten
Danfoss Ejendomsselskab A/S, Nordborg
Danfoss Innovation A/S, Nordborg
Danfoss International A/S, Nordborg
Danfoss Murmann Holding A/S, Nordborg
Danfoss Polypower, Nordborg
Danfoss Redan A/S, Risskov
Danfoss Semco A/S, Odense – 60%
Danfoss Solar Inverters A/S, Sønderborg
Danfoss Solutions A/S, Kolding
Danfoss Ventures, Nordborg
DEVI A/S, Vejle
Flexucell Aps, Østervrå - 50% (joint venture)
Gemina Ejendomsselskab A/S, Sunds
Gemina Termix Production A/S, Sunds
Issab Holding ApS, Nordborg
Piflex GP Company ApS, Løgumkloster – 50% (joint venture)
Piflex P/S, Løgumkloster – 50% (joint venture)
Tantalum Technologies A/S, Nordborg – 38.6% (associated company)
Veria ApS, Silkeborg
Sauer-Danfoss ApS, Nordborg
Sauer-Danfoss Holding Aps, Nordborg

Estonia
Danfoss AS, Tallinn
DEVI Eesti AS, Tallinn
LPM Balti AS, Tallinn
Proekspert AS, Tallinn – 55%

Finland
DEVI OY, Nummela
Oy Danfoss Ab, Leppävirta
Thermia Partners Oy, Masala – 60%
Oy Sauer-Danfoss Ab, Espoo

France
Avenir Energie, Valence
Danfoss Commercial Compressors S.A., Trevoux
Danfoss Desbordes, Villeurbanne
Danfoss S.a.r.l., Trappes
Danfoss Socla S.A.S., Virey Le Grand
Deléage S.A., Saint-Malo
Valpes S.a.r.l., Moirans
Sauer-Danfoss SAS, Dammarie-lès-Lys

Greece
Danfoss E.P.E., Moschato

Netherlands
Danfoss B.V., Schiedam
Danfoss Energie Systemen B.V., CJ Houten
Danfoss Holding B.V., Schiedam
Danfoss Turbocor Compressors B.V., Amsterdam – 50% (joint venture)
Sauer-Danfoss B.V., Gouda

Ireland
Danfoss Ireland Ltd., Dublin

Iceland
Danfoss hf., Reykjavik

Italy
Danfoss Socla Italia S.r.l., Milano
Danfoss S.r.l., Torino
Necos spa, San Vendemiano
Sauer-Danfoss S.r.l., Torino

Croatia
Danfoss d.o.o., Zagreb

Latvia
SIA Danfoss, Riga

Lithuania
Danfoss UAB, Vilnius

Norway
Danfoss AS, Skui, Oslo
Normann Etek AS, Oslo
Sauer-Danfoss AS, Skui

Poland
Danfoss LPM Sp.z.o.o., Chwaszczyno
Danfoss Saginomiya Sp.z.o.o., Grodzisk Mazowiecki – 50% (joint venture)
Danfoss Sp.z.o.o., Grodzisk Mazowiecki
Elektronika S.A., Gdynia – 50% (joint venture)
Sauer-Danfoss Sp. z o.o., Wroclaw

Portugal
Danfoss (Portugal), Lda., Carnaxide

Romania
Danfoss s.r.l., Bucharest
Schmidt-Bretten Technology S.R.L., Bucharest

Russia
OOO Danfoss Istra, Istra
OOO Gruppa LPM, St. Petersburg
OOO Danfoss, Moscow
ZAO Ridan, Nizhny Novgorod
Sauer-Danfoss LLC, Moscow

Switzerland
Danfoss AG, Frenkendorf
Danfoss Proenergie AG, Falsberg

Serbia
Danfoss d.o.o., Belgrade

Slovak Republic
Danfoss Compressors spol. S.r.o., Zlaté Moravce
Danfoss spol. S.r.o., Zlaté Moravce
DEVI s.r.o., Kúty
Sauer-Danfoss a.s.

Slovenia
Danfoss Compressors d.o.o., Crnomelj
Danfoss d.o.o., Ljubljana
Danfoss Trata d.o.o., Ljubljana

Spain
Danfoss S.A., Madrid
Danfoss Socla Iberica S.A., Madrid
Sauer-Danfoss S.A., Madrid

Great Britain
Danfoss Heat Pumps UK Ltd., South Yorkshire
Danfoss Holding UK Limited, Denham
Danfoss Limited, Denham
Danfoss Randall Limited, Bedford
DEVI Electroheat Ltd., Bury St. Edmunds
Senstronics Holding Ltd., London – 50% (joint venture)
Sauer-Danfoss Ltd., Swindon

Sweden
Danfoss AB, Linköbing
Danfoss District Heating AB, Göteborg
DEVI AB, Vällingby
DEVI Sverige AB, Vällingby
Singeln Invest KB, Vällingby
Thermia Värme AB, Arvika
Sauer-Danfoss (Älmhult) AB, Älmhult

Czech Republic
Danfoss s.r.o., Prague
DEVI s.r.o., Breclav

Turkey
Danfoss Otomasyon ve Urunleri Tic Ltd., Istanbul

Germany
Bar GmbH, Dattenberg
Danfoss Bauer GmbH, Esslingen
Danfoss Compressors GmbH, Flensburg
Danfoss GmbH, Offenbach/Main
Danfoss Silicon Power GmbH, Slesvig
Danfoss Socla GmbH, Rheinbach
Danfoss Werk Offenbach GmbH, Offenbach/Main
DEVI Deutschland GmbH, Flensborg
Jupiter Heizsysteme GmbH, Osnabrück
Promeos GmbH, Erlangen – 23,05% (associated company)
Sauer-Danfoss GmbH & Co. OHG, Neumünster
Sauer-Danfoss Informatic GmbH, Neumünster
Sauer-Danfoss GmbH, Neumünster

Ukraine
Danfoss T.o.v., Kiev

Hungary
Danfoss Ktf., Budapest

Austria
Danfoss Gesellschaft m.b.H., Guntramsdor
DEVI Austria GmbH, Salzburg

NORTH AMERICA

Canada
Danfoss Inc., Mississauga, Ontario
Danfoss Turbocor Compressors Inc., Dorval, Québec – 50% (joint venture)
Turbocor Inc., Dorval – 50% (joint venture)

Mexico
Danfoss Industries S.A. de C.V., Apodaca, Monterrey
Danfoss S.A. de C.V., Monterrey

USA
Aztec Energy Partners, Atlanta, Georgia
Danfoss AquaZ Inc., Wilmington, Ohio – 51%
Danfoss Inc., Baltimore, Maryland
Danfoss Commercial Compressors Ltd., Lawrenceville, Georgia
Danfoss Chatleff LLC, Austin, Texas
Danfoss Flomatic Corporation, Glenn Falls, New York
Danfoss Hago Inc., Newark, New Jersey
Danfoss Turbocor Compressors, Inc. Tallahassee, Florida – 50% (joint venture)
Scroll Technologies, Arkadelphia, Arkansas
Sea Recovery Corporation, Los Angeles, California
TSD Integrated Controls LLC, California - 50,1%
Hydro-Gear-IL, Sullivan, Illinois - 60%
Hydro-Gear Limited Partnership, Sullivan, Illinois – 60%
Sauer-Danfoss (US) Company, Ames, Iowa
Sauer-Danfoss Inc., Lincolnshire, Illinois

SOUTH AMERICA

Argentina
Danfoss S.A., Buenos Aires

Brazil
Danfoss do Brasil Indústria e Comércio Ltda., São Paulo
Sauer-Danfoss Hidraulica Mobil Ltda, Caxias do Sul
Sauer-Danfoss Ltda., Sao Paulo

Chile
Danfoss Industries Ltda., Santiago

Colombia
Danfoss S.A., Santiago de Cali

Venezuela
Danfoss S.A., Valencia

AFRICA

South Africa
Danfoss (Pty) Ltd., Rivonia, Johannesburg
Elsmark Investment Holdings (Proprietary) Limited, Johannesburg
Elsmark South Africa (Proprietary) Limited, Johannesburg

Namibia
Elsmark (Namibia) Commercial Wholesalers (Proprietary) Limited

ASIA

Philippines
Danfoss Inc., Manila

United Arab Emirats
Danfoss FZCO, Dubai – 95%

India
Danfoss Industries Pvt. Limited, Chennai
Sauer-Danfoss India Pvt. Ltd., Pune

Japan
Daikin-Sauer-Danfoss Manufacturing LTD, Osaka - 45%
Sauer-Danfoss-Daikin LTD., Tokyo - 65%

Kazakhstan
Danfoss LLP, Almaty

China
Anshan Danish-China Controls Co. Ltd., Anshan
Danfoss (Shanghai) Automatic Controls Co. Ltd., Shanghai
Danfoss (Tianjin) Limited, Tianjin
Danfoss Industries Limited, Hong Kong
Zheijang Holip Electronic Technology Co. Ltd., Zheijang
Danfoss Qinbao, Hangzhou
Danfoss Compressors (Tianjin) Co., Ltd., Tianjin
Danfoss Sanhua (Hangzhou) Micro Channel Heat Exchanger Co., Ltd. – 50%
Sauer-Danfoss Hydrostatic Transmission Co. Ltd., Shanghai - 65%

Sauer-Danfoss (Shanghai) Co. Ltd., Shanghai
Sauer-Danfoss-Daikin Mobile Hydraulics (Shanghai) Co., Ltd., Shanghai - 65%
Sauer-Danfoss-Daikin Pte. Ltd, Shanghai - 65%

Malaysia
Danfoss Industries Sdn Bhd, Selangor

Singapore
Danfoss Industries Pte. Ltd., Singapore
Sauer-Danfoss Pte. Ltd., Singapore - 65%

South Korea
Danfoss Ltd., Seoul
Sauer-Danfoss-Daikin LTD., Seoul - 65%

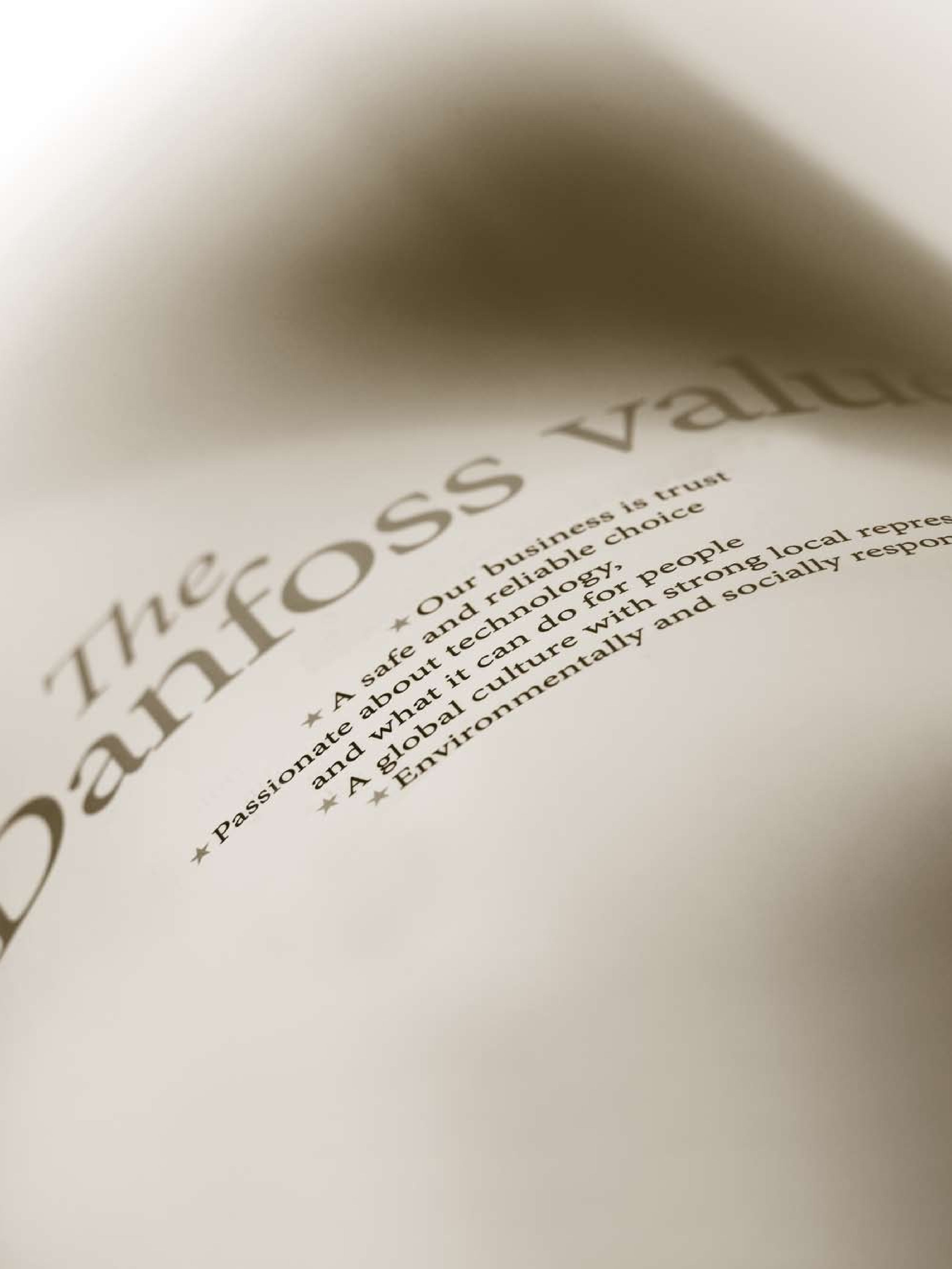
Taiwan
Danfoss Co. Ltd., Tapei

Thailand
Danfoss (Thailand) Co. Ltd., Bangkok

AUSTRALIA

Australia
Danfoss (Australia) Pty. Ltd., Melbourne
Sauer-Danfoss-Daikin Pty. Ltd. - 65%

New Zealand
Danfoss (New Zealand) Ltd., Auckland


The
Danfoss valu
* Our business is trust
* A safe and reliable choice
* Passionate about technology, and what it can do for people
* A global culture with strong local repres
* Environmentally and socially respon

Introduction to Corporate Citizenship

Danfoss is a global company, present in a large number of countries with many different cultures Because of this, it is vital that the company deals actively with the challenges facing the group where it operates.

Danfoss aims to actively contribute to a global, sustainable development where social responsibility, and a high concern for people and the environment, goes hand in hand with sound business development. A good reputation is a prerequisite for company growth at a global level; Danfoss' success depends on confidence from the outside world that Danfoss acts on the words: we live our Values.

Danfoss' overriding goal within Corporate Citizenship is to "keep our own house in order". For employees, this means they have an attractive workplace and a healthy working environment. Regarding the environment, this means Danfoss products contribute to energy savings, and the environmental impact of their production is constantly being reduced.

The goal also applies, in a broad sense, to social and ethical responsibility. Danfoss is constantly intensifying its efforts, because it believes that when employee satisfaction is high, environmental impact is as low as possible, and the company's ethics and reputation are good, the result is a positive effect on the bottom line.

In spite of the fact that Danfoss is the majority shareholder in Sauer-Danfoss, Danfoss' environmental and social responsibility policies have not yet been implemented in Sauer-Danfoss. Therefore, information and data about Sauer-Danfoss are not included in the 2008 Corporate Citizenship report.

Over the long term, Danfoss aims for the entire Corporate Citizen report to be the subject of external verification. Up until now, only the environmental section has undergone verification by a third party. In the course of 2008, Danfoss cooperated with PricewaterhouseCoopers on data validity. The cooperation resulted in the integration of relevant indicators from Global Reporting Initiative (GRI) into the annual CSR questionnaire, which is distributed to all companies, and in establishing related accounting principles.

The five main themes of GRI (human rights, society impact, labour practices, environment and product responsibility) form the basis of the contents of the Corporate Citizenship report and an extensive table of the GRI indicators which Danfoss has chosen to report.

Human rights

Social responsibility systematised

Environmental and social responsibility is an integral part of Danfoss' history. In the 1980s, Danfoss began to systematise its environmental activities and has since the joining of the UN Global Compact in 2002, initiated a similar approach for social activities. The ten principles of Global Compact have been continuously integrated into a long range of processes and business procedures.

It is most likely that companies with a global reach operate in countries that do not respect human or labour rights. Knowledge about which countries and which issues could present problems are vital.

In 2003, Danfoss partnered with the Danish Institute for Human Rights on a traineeship, resulting in country-risk analyses prepared for all countries where Danfoss has production sites. The analysis' are continually updated and used as basic information for planning responsible supplier management, but also as the basis for in-depth talks about local issues in connection with visits at suppliers and Danfoss plants.

In 2003, Danfoss implemented its CSR policy and reports on social responsibility. The

Global Compact

By joining the Global Compact, we aim to fulfil these ten principles:

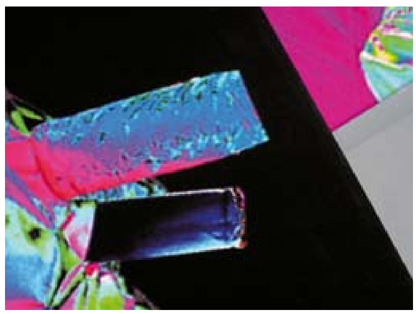
1. We will support and respect the internationally declared human rights within our spheres of influence
2. We will ensure we are not complicit in human rights abuses
3. We aim to maintain employees' rights to unionise and recognise employees' right to collective bargaining
4. We aim to actively fight all kinds of forced labour
5. We aim to actively fight child labour
6. We aim to eliminate discrimination in the workplace
7. We will support a precautionary approach to environmental challenges
8. We will undertake initiatives to promote greater environmental responsibility
9. We will encourage the development and diffusion of environmentally friendly technologies
10. We will work against corruption, including extortion and bribery

KIRA GOTTLIEB
Danish

The Danish Design School.
Copenhagen, Denmark
Visual Communication
(2nd year)

Gold Award

"Think with Your Heart." What better injunction to inject passion into your life and work? The message is reinforced by the materials used. A heart, traditionally perceived as the seat of human emotion and enthusiasm, is here constructed from modern materials more usually associated with technology and functionality. A meeting of worlds: fact infused with feeling.



company made a point of educating the relevant employee groups in social responsibility and submitting reports about the group's advances within social responsibility. In that context, social responsibility specifically covers human rights, labour rights, ethics and anti-corruption.

Danfoss reports on social issues are based on the CSR survey, a questionnaire distributed electronically once a year. The survey covers all of the group's plants and sales companies and includes questions about issues such as human rights, labour rights, as well as corruption and bribery. The 2008 CSR survey was distributed to 108 Presidents or administrative managers representing all companies in the Danfoss Group. Most of the results from the CSR survey are included in the Corporate Citizenship report.

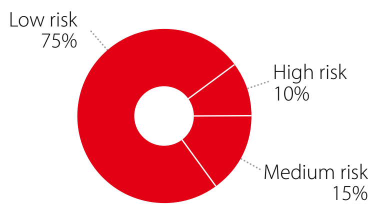
In 2008, Danfoss published an internal Ethics Handbook including ethic guidelines for every Danfoss employee globally. The Ethics Handbook describes the established rules for what Danfoss employees should particularly pay attention to, and defines unacceptable behaviour. All people manager are asked to sign a declaration that they will comply with the guidelines in the Ethics Handbook and that they will communicate the contents of the Ethics Handbook to their employees. Two months after the distribution of the Ethics Handbook, almost 1,200 out of 1,600 managers had put their signature on the document. Danfoss has also set up a call service to answer questions about ethical issues and an Ethics Hotline for the reporting of cases where ethical guidelines may have been violated. In addition to establishing these forums, managers with staff responsibility informed employees about the Ethics Handbook, and Danfoss' central CSR function has trained more than 300 employees, mainly managers, in the necessity and use of the ethical guidelines.

Since 1996, Danfoss has acquired more than 50 companies. Prior to concluding an acquisition, multiple elements are investigated, such as IT and financial structures and environmental and social matters are also scrutinised. It is a challenge to integrate so many new companies, because integration is influenced by local law, cultures and values. Danfoss requires newly acquired companies to comply with Danfoss polices within a certain time schedule.

Responsibility in the supplier chain

In addition to the four main categories of labour rights, human rights are also about a good and safe working environment, among other things. But companies are not only responsible for their

Distribution of direct suppliers



own actions; they are also to a certain extent responsible for their supplier chain, at least the first tier suppliers who are under a contractual obligation.

Danfoss cooperates with approx. 8,000 suppliers of which 3,758 supply goods for production purposes. The suppliers are located all over the world and many do business in areas where human rights and labour rights cannot automatically be assumed to be respected. So, over the past six years Danfoss has systematically implemented activities to improve the standard of the supplier chain.

All new suppliers are asked to sign Danfoss' Code of Conduct, which includes rules for social and environmental responsibility, and current suppliers are asked to sign the Code of Conduct on renewal of the contract. Any potential suppliers are also asked to fill in a self-evaluation form which concerns Danfoss' Code of Conduct.

Some countries have lower environmental and social standards when compared to others. Consequently, the suppliers are grouped in a risk-effect matrix. In this context, risk is defined as the risk that the supplier does not adhere to the Code of Conduct and effect is the effect of the supplier, by means of the size of the purchase. In 2008, 10% of suppliers of production goods were categorised as being in high-risk countries; 15% in medium-risk countries, whereas 75% were grouped as suppliers from low risk countries.

The Danfoss Group's central database for Code of Conduct audits shows that a total of 106 suppliers from high-risk countries, 46 from medium-risk and 478 from low-risk countries have signed the Danfoss Code of Conduct. Audits were carried out at 23% of suppliers in high-risk countries, at 8% of suppliers in medium-risk countries and at 4% of suppliers in low-risk countries. The actual number of signed Code of Conduct documents and implemented audits are, however, far higher. The reason is two-fold: some business areas have not been able to use the database; and the importance of entering data in the database was not prioritised. The documentation of Danfoss' activities must be improved and demands will be tightened, including quarterly follow-ups in 2009.

Problem areas typically seen at audits are poor safety measures such as lack of emergency exits and fire extinguishers, the lack of personal protective equipment, and incorrect treatment and storage of hazardous materials like chemicals. It is not unusual that some of these problems exist in the supplier chain, but the important thing is that the supplier rectifies any discrepancies. Against this background, action plans are prepared for each audit, where the supplier commits to correcting the issues. Danfoss follows up to find out whether the improvement measures have been implemented. If the issues have not be resolved, the supplier is provided with an addition deadline and informed that if the steps have not been taken to rectify the problem, they will not longer be able to be a Danfoss supplier.

In 2008, Danfoss evaluated the supplier control, interviewing the purchasers about their conduct: 32% of the purchasers taking part in the survey rejected cooperation with a new supplier on grounds of reluctance or unwillingness to live up to the Danfoss Code of Conduct, and 4% of the purchasers phased out an existing supplier because he or she did not want to or could live up to the Danfoss Code of Conduct.

In the course of 2008, it came to Danfoss' attention that one of the group's suppliers was criticised in Danish media for not respecting trade union rights at its plant in China and for not paying compensation to an employee who had been laid off. Danfoss then contacted the supplier, Ole Wolff Electronics and the United Federation of Danish Workers, 3F, who had filed the case, to get access to the documentation. An external audit was carried out at the supplier and during subsequent talks, the supplier demonstrated great flexibility, and as a result, all the problematic issues established by the audit were solved.

The supplier paid compensation to the laid off employees which was collected by the employees at the Chinese Justice Bureau, who also adjusted and approved the calculation of the size of the compensation. In addition, the supplier contacted the local section of the Chinese trade union, ACFTU, which has granted its support to the reestablishment of the local trade union. The supplier, 3F and Danfoss met and agreed that 3F will use its network to provide the appropriate support for re-establishing the local trade union. To Danfoss, this is a textbook example of how the impact of UN Global Compact should and must be: Ensuring continuous improvements.

Labour rights

The four central labour rights of UN's Global Compact are: discrimination, child labour, forced labour and the right to unionise.

Discrimination

Arkadelphia, USA; where Danfoss' compressor plant is located, has very strict anti-discrimination regulations. The OFCCP (Office of Federal Compliance Control) specifically checks that companies do not violate the law and, just like other companies, Danfoss Scroll Technologies has been subject to an audit performed by OFCCP. After the first onsite audit, OFCCP was pleased with Danfoss Scroll Technologies. However, later they returned and reviewed more than 3,000 applications in a three-year period, during which the company did a lot of hiring and, therefore, employed production workers off the street and who often did not have the necessary qualifications. OFCCP took an interest in those who had the least skills.

No evidence of discrimination was found at the audit, but statistical tests suggested that the company, unintentionally, had behaved in a discriminatory way, based on the fact that OFCCP had compared the number of minorities and non-minorities who should have been employed with the total number of applications. First and foremost, OFCCP had based their evaluation in terms of minorities, whereas the matter of qualifications did not weigh as heavily. In 32 cases, OFCCP believed that Danfoss Scroll Technologies should have hired a minority.

More than 30% of all employees in Danfoss Scroll Technologies belong to a minority group, and in the group in focus more than 50% belong to a minority group. The top manager in the company also belongs to a minority group.

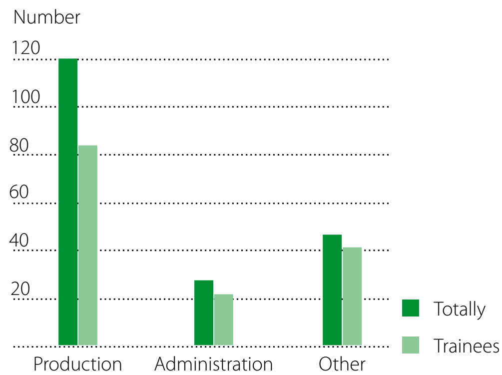
In 2008, the company entered into a voluntary agreement with OFCCP about the distribution of USD 200,000 to the minority applicants who were not hired.

Two other discrimination cases occurred in other parts of Danfoss in 2008. One was handled through the intervention of the local management; the other is awaiting court ruling.

Child labour

Since 2003, Danfoss has monitored whether the group's companies uses any form of child labour. Danfoss follows the ILO's convention regarding child labour by allowing young

Juveniles at work



people between the ages of 15 and 18 to work, provided that they do not work the night shift, are not involved in dangerous work and have more breaks than their adult colleagues. In 2008, 15 companies employed 192 youngsters between 15 and 18 years old, typically in positions related to training. 119 of them were employed in production, 27 in administration and 46 in other functions.

All of ILO's conventions concerning youngsters' jobs are being complied with.

Forced labour

In a company context, forced labour often deals with working hours and the right to days off. Danfoss monitors whether the group's companies comply with the ILO convention that establishes the weekly maximum working hours at 48 hours plus a maximum of 12 hours' overtime within a three-week period. The rules only apply to production employees.

In 2008, five companies in the USA, France and China had difficulty complying with ILO's convention regarding the rule about 48 hours plus a maximum of 12 overtime hours. Danfoss in China is one of the few sites where the working hours sometimes exceed the number required by ILO, but this is due to peak loads caused by the seasonal markets. The overtime work in question is not permanent and local laws are being respected.

The use of imprisoned labour can be an aspect of forced labour and, consequently, Global Compact signatories must be aware of potential issues. The pivotal factor is that the work must be carried out on a voluntary basis and that the working conditions must meet the rules of imprisoned labour. In Texas, USA, jobs have been created in prisons in order to accommodate the very high rate of relapse into crime after imprisonment. The use of imprisoned labour in Texas is regulated via a special programme, the PIE program (Prisoner Industry Enhancement Certification Program), which is supervised by the United States Justice Department.

In 2007, Danfoss acquired a part of the company Chatleff Controls., which makes use of imprisoned labour in the Lockhart correctional facility in Texas. According to the acquisition agreement, the company would continue to supply Danfoss Chatleff after the takeover.

In connection with the acquisition, an investigation was conducted to establish whether the takeover of Chatleff and the continuing deliveries from the prison would amount to forced labour. It was verified that forced labour does not exist, given the fact that all of the inmates under the PIE program are employed on a voluntary basis and are paid a salary which is not allowed to be below the local minimum wage level.

There are a number of deductions from the salary to pay for the imprisonment, compensation for victims, support to the PIE programme etc. When this has been distributed, approx. 20% is left for the inmates and 20% for any children. Auditors from the PIE program carry out audits at the Lockhart facility four times a year, and one solely concerns salaries.

Danfoss is in continuous contact with a large range of interest groups. In 2008, Amnesty International raised criticism of the acquisition and use of imprisoned labour at Danfoss' supplier. This resulted in the group's CSR function paying a visit to Danfoss Chatleff and the supplier at the Lockhart facility. The original owners of Chatleff and five former inmates were interviewed.

The interviews showed that inmates are on a waiting list to get a job in the prison and that several former inmates described the PIE program as very valuable: they improved their skills which, in turn, increased their job opportunities, and they got the chance to start a new life after their incarceration because they had some savings at the time of their release.

Currently, seven former inmates work at Danfoss Chatleff. Five of them have senior positions, such as team leaders or supervisors in the company.

In connection with adjusting the reporting in 2008 so as to comply with GRI guidelines, Danfoss' CSR survey 2008 was extended to include a range of questions, including whether the companies make use of imprisoned labour. Reviewing the responses, it was disclosed that DEVI A/S in Vejle, Denmark, had been cooperating with the Danish State Prison Møgelkær for more than ten years about the sub-supply of light assembly work. The extent of the cooperation differed from year to year and amounted to approx. 240,000 DKK in 2008.

Danfoss has paid the prison a visit, interviewing both the staff and the inmates, and a decision was made to continue the cooperation. Both inmates and staff marked the importance of offering meaningful jobs and, so, the jobs that companies offer are important. It is not easy to provide the inmates with meaningful work and staff and the inmates would regret any discontinuation of the cooperation.

All work carried out in Danish prisons is under supervision of the Supervisory Board concerning the employment of inmates which consists of labour and management. This is to make sure that the work is not distorting competition. DEVI pays an amount to the State Prison, equal to the Danish minimum wage for unskilled workers. Every Danish inmate has a duty to work or otherwise be occupied, and the inmates in the State Prison Møgelkær can choose between education, treatment or employment. The inmates are paid a weekly sum of approx. 500 DKK.

In addition, DEVI also has an agreement with the protected workshop TREPAS in Viborg, Denmark, for assembly work. This work was originally sourced out to the prison and TREPAS, because it was too expensive to carry out at DEVI, far higher than the minimum wage. So, the alternative to having work done in the prison or at TREPAS would be to relocate it to Poland or China.

The use of imprisoned labour in Denmark takes place within the scope of UN's rules of imprisoned labour, so Danfoss thereby operates in accordance with the principles of Global Compact.

Freedom to organise

Danfoss recognise employees' right to be members of a union and their right to collective bargaining.

In countries where employees do not have a free choice of union Danfoss ensures that the employees can meet with the management to discuss work-related issues in other ways.

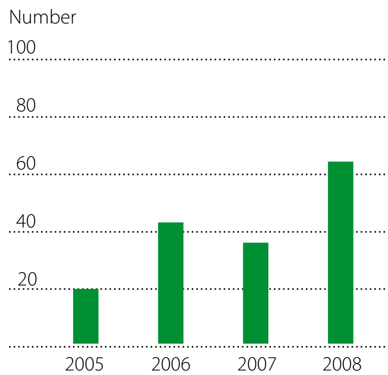
A total of 9 companies have reported that a free choice of union is not practised, which is why they have set up other forums for the management and employees to meet.

Anti-corruption

Danfoss does not tolerate corruption and bribery and taking part in such activities will result in termination of employment.

To ensure order in its own house, visits to Danfoss factories are performed on a regular basis, addressing issues relating to human rights, labour rights and anti-corruption. Training within ethics and anti-corruption is an integral part of the factory visits. During the course of 2008, managers at Danfoss in

Dismissals due to unethical behaviour



Mexico and managers at three plants in the United States received training in ethics; many were, for instance, presented with a "dilemma game" which has been specially developed on the basis of the Danfoss Ethics Handbook.

The country-risk analysis on Mexico reveals high levels of societal corruption, so corruption was one of the subjects which were discussed during the visit at Danfoss in Mexico. During the visit, the team was informed that a supplier previously offered a bribe to one of the managers. The consequence was that the supplier in question is no longer Danfoss' business partner.

In several countries, exchanging gifts is common business procedure and is considered polite and token of respect. Danfoss operates in many countries, each with its rules and customs regarding the exchange of gifts. Danfoss relies on its employees to act in accordance with the local culture, but has introduced a limit of 100 USD regarding giving or accepting gifts. If the gift exceeds 100 USD, the immediate manager must be notified. The gift limit was introduced to make the issue of gifts more transparent and to protect employees against the suspicion of bribery. About 10 companies in the group have a different maximum limit than 100 USD, most of which have set a lower limit.

Other issues: unethical behaviour

Danfoss places importance on the fact that the company's values are not only words on paper, but are lived throughout the company. Over the past four years, Danfoss has reported layoffs and voluntary resignation caused by unethical behaviour which violated the company policies. In 2007, there were 36 cases of layoffs caused by unethical conduct; in 2008 there were 64. The causes of the 64 layoffs and voluntary resignations due to unethical behaviour included: disloyal or threatening behaviour; conflict of interest; theft or fraud with company funds; misuse of confidential information; abuse of alcohol or drugs; and time account fraud.

Out of 64 cases of unethical conduct, six were reported to the group's Ethics Hotline.

Society

Danfoss aims to contribute positively to the societies where the company is present. This is one of the company's core values, and is also supported by the employees. An example is Danfoss in China, where the employees in Wuging, Beijing and Shanghai collected 22 boxes of winter clothes during one month. They were donated to the organisation Sun Village, which runs several homes for children whose parents are inmates in prisons.

In 2008, Danfoss employees in Baltimore, USA, donated both toys and money for the relief program Toys for Tots which has distributed toys for children of poor parents throughout USA since 1947. A total of five boxes containing toys were collected.

Thanks to the funds raised, it was possible to buy extra presents to make sure that children of any age received one.

Corporate Public & Government Affairs

In 2008, Danfoss decided to systemise its relations with political bodies and decision-makers. This took place in a year when energy, food and financial crises demanded responses from the industrial sector to new political challenges.

Any product is directly or indirectly influenced by the political scene. This goes for Danfoss products too, so, and the political environment is an important source of innovation. It is the responsibility of Corporate Public & Government Affairs to improve Danfoss' ability to enter into a dialogue with the political decision-makers who have an influence on Danfoss' business conditions.

Danfoss is part of the civil society and is a democratic player. It is the company's aim to be transparent concerning the company's commitment in the political process. Energy & Environment; Foods & Health; Trade & Competition and Public Diplomacy are the four main focus areas topping the priorities. Expectations are that – in the course of 2009 – Danfoss' representatives will be registered as lobbyists in Brussels and on Capitol Hill.

Danfoss Employee Foundation

The Danfoss Employee Foundation works to provide consulting and financial support to employees in Danfoss A/S, the Bitten and Mads Clausen Foundation, associates in Denmark or their Danish subsidiaries. This means that Sauer-Danfoss ApS and Danfoss Universe A/S are also covered by the Foundation's support.

In 2008, the Foundation saw an increase in the number of applications and it dealt

KARIN BJÖRSMO
Swedish
Graffitikurbits

The Royal Academy of Fine Arts - School of Architecture. Copenhagen, Denmark
Architecture, Design (5th year)

Silver Award

"Kurbits" is a traditional Swedish technique where fantasy flowers are used as ornamentation on everything. Contemporary graffiti culture shares the same urge to fill "empty" surfaces, inspiring this merging of the rural and the urban, the global and the local.

with around 400 cases. The majority of cases deal with issues relating to divorce or weakened economic circumstances.

2008 again saw many recently hired German employees applying to the Foundation for help as a result of economical straits following years of unemployment.

The lawyers at the Employee Foundation dealt with around 400 requests, which primarily concerned inheritance and testaments, divorce and division of property, debt relief and insurance matters.

The Foundation granted financial support amounting to approx. 5m DKK in 2008.

The Fabrikant Mads Clausen Foundation

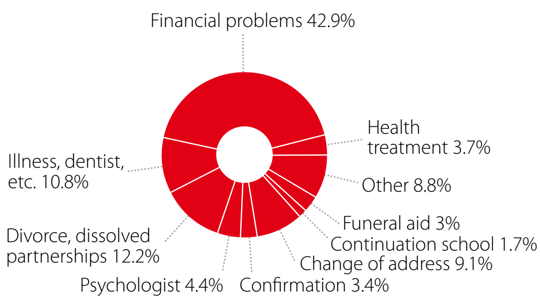
The Fabrikant Mads Clausen Foundation was established on Christmas Eve 1960, when Danfoss founder, Mads Clausen, decided to formalise his charitable activities.

The purpose of the Foundation is to grant charitable donations and over the past years, considerable support has been granted for many different purposes, in particular for activities in the local community surrounding the headquarters in Nordborg. The Foundation is a cornerstone of Danfoss' social responsibility towards the local areas where Danfoss operates, and as Danfoss expands and becomes more global the grant recipients have also increased to include Danfoss' other locations in and outside Denmark. Donations granted in recent years included a girls' school in Monterrey, Mexico, a new ambulance in Crnomelj, Slovenia and ambulance equipment for the local area of Grodzisk outside Warsaw, where the Danfoss Poland headquarters are located.

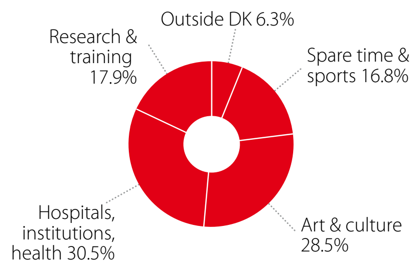
The Foundation provides financial support for training and research, Danish cultural enterprise in and outside Denmark, charitable associations and institutions and many other charitable purposes. An annual allocation is spent on the operation and maintenance of the Havnbjerg Mill at Nordborg. The mill, which is open to the public was originally purchased and restored by Mads Clausen.

In 2008, the Fabrikant Mads Clausen Foundation granted approx. 10m DKK

Danfoss Employee Foundation, allocation of grants



Donations from the Fabrikant Mads Clausen Foundation



to more than 350 recipients, including numerous associations and institutions located in the Danfoss communities. Furthermore, many Danish national relief organisations and patient associations received grants. The biggest grant of the year amounted to 1m DKK, and was given to Gigthospitalet (an arthritis hospital) in Gråsten, Denmark, to purchase up-to-date digital x-ray equipment.

In the course of 2008, the Foundation donated 600,000 DKK for humanitarian and cultural purposes outside Denmark, of which 400,000 DKK were donated as relief aid following natural disasters in China and Burma. Over the past years, the Foundation also provided donations for a long range of disaster areas, such as New Orleans, Sichuan and the tsunami-stricken areas around the Indian Ocean, doubling the amounts collected by Danfoss employees.

In 2008, the Fabrikant Mads Clausen Foundation donated 50,000 DKK, to build a children's village in the federal state of Tamil Nadu in India, where the Danfoss India headquarters are located. The construction and running of the children's village is funded by the Danish relief organisation Verdens Børn (Children of the World), and the recipient of the donation from the Fabrikant Mads Clausen Foundation. In poor regions of India girls are not always as valued, and many poor parents leave their newborn baby girls in backyards in the cities or in desolate places in the countryside. In the children's village, the orphaned girls are given food, care and medical help and begin school when they are old enough.

Labour practices

Although Danfoss is the majority shareholder of Sauer-Danfoss, Danfoss' policies for labour practices and HR have not yet been integrated in Sauer-Danfoss. This means that data and information about Sauer-Danfoss are not included in the Corporate Citizenship report for 2008.

Danfoss focuses on developing employees, leaders and our organisation. This allows the group to successfully execute its strategy and reach its business goals. Danfoss top management believe that the people who drive the engine forward – the Danfoss employees – must have world class competencies, as well as the best possible leadership so they can work towards finding better solutions for the company, while constantly striving to exceed our customers' expectations.

At Danfoss, people and leadership, as well as strong core values provide the foundation for activities and success. 2008 was a challenging year for the organisation, with ambitious financial and business targets, and volatile financial markets around the world. The purpose of the global HR organisation continued to be to contribute to these results by supporting performance improvements and by developing employees, managers and the organisation.

Danfoss Core Values

- Our Business is Trust
- A very safe and reliable choice
- Passionate about technology
- Global culture, local representation
- Environmentally and socially responsible

Supporting the Development of a high-performing organisation

The global HR organisation has developed a five-year perspective plan in close cooperation with the business units. The perspective is designed to support successful business results, in particular focusing on developing a culture which drives performance improvements and Will to Win and that is fully in line with the Core Values.

Strategic HR at Danfoss focuses on improvements through measurements including Leadership, Absence Rate, Voluntary Turnover, Employee Satisfaction and Motivation and Employee Development.

Danfoss is strongly convinced that employee satisfaction and motivation has a direct influence on the level of absence rates, voluntary employee turnover as well as employee engagement. The company also believes that good leadership and focus on employee development are main factors for

MORTEN LARSEN
Danish
On the Highway to the Beach

The Jutland Art Academy.
Aarhus, Denmark Computer,
Video, Animation, Photo,
Sound (5th year)

Silver Award

'On the Highway to the Beach' is a journey through a miniature landscape made of paper, card and concrete. Symbols from a weather forecast awaken the viewer to a new awareness of how the weather affects us, and how we affect it.

raising the level of satisfaction and motivation. Higher levels of employee motivation are directly correlated with increases in productivity and make decreasing absence and voluntary employee turnover significantly decrease fixed costs for the company.

In order to strengthen Danfoss' focus on people and organisational issues in the company, a decision was made in 2008 to reorganise HR. In the future, the HR-focus will be more clearly focused on three main areas

- Group HR focusing on global strategic human resource management, leadership development and HR strategies
- Business HR partnering with the business management focusing on leadership development and engaging employees and how these elements support the bottom line
- Operations HR focusing on regional operational HR services.

Reward is total reward

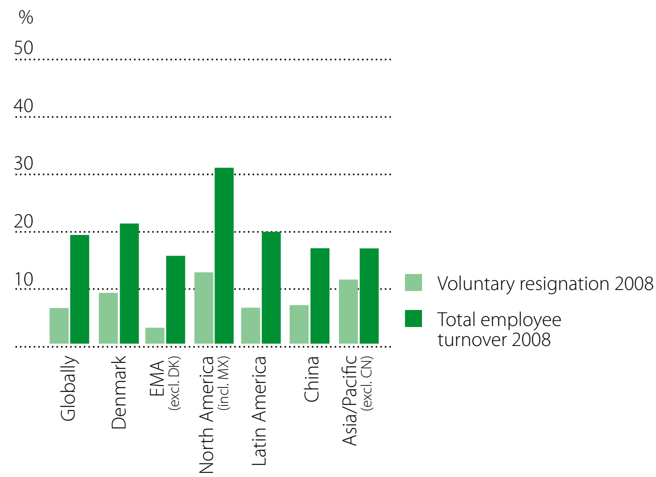
Another key aspect of supporting the development of a high performing organisation is ensuring that performance is linked with employee compensation and reward to help motivate, attract and retain employees. At Danfoss, reward is Total Reward – a holistic strategy built around five elements that can be combined as appropriate on local markets: Compensation, Benefits, Recognition, Career-Opportunities and Work-life Balance.

In 2008, a revised bonus system for salaried employees was developed and will be implemented for 70% of salaried employees in 2009, with the final 30% in 2010. It is designed to motivate employees to higher performance by closely linking job tasks and bonus agreement objectives, and ensuring that employee actions have a clear impact on what they are measured on. The bonus system will globally align bonus agreements, while at the same time allow Danfoss to have competitive compensation packages in local markets.

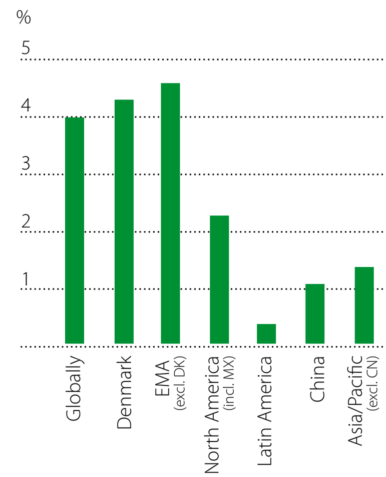
Human Capital KPIs

Danfoss' employee turnover was impacted by the turbulent markets of 2008, reaching 19.5%, a few percentage points more than in 2007. The turnover developed positively throughout most of the year, but it was severely affected by the inevitable layoffs, particularly during the course of the last quarter. This mainly applied to Europe, North America and China, whereas minor decreases were recorded in the remaining regions.

Employee Turnover



Absence



However, the company registered a slight drop in the number of voluntary redundancies: 6.8% decided to leave the company in 2008, compared with 7.8% in the previous year. One feasible explanation is that many employees – in the light of the current financial crisis – chose to keep their job, so as to avoid being the most recently hired employee at a new company. This situation applies to every region.

The greatest number of staff leaving the company was between 25-34 years old, both with regards to total and voluntary staff turnover. A relatively large proportion of the staff turnover happens at an early stage of employment: 64% of all turnover in 2008 was recorded amongst employees who had less than two years' with the company and they were primarily production employees.

In 2008, the total absence rate amounted to 4% which is on a par with previous years. Absence is defined as the result of illness, strikes and other non-approved absences. Regional figures remain unchanged, with relatively high absence rates in the main regions Europe and Denmark (4-5%) and very low rates in the remaining regions.

Responding to market challenges

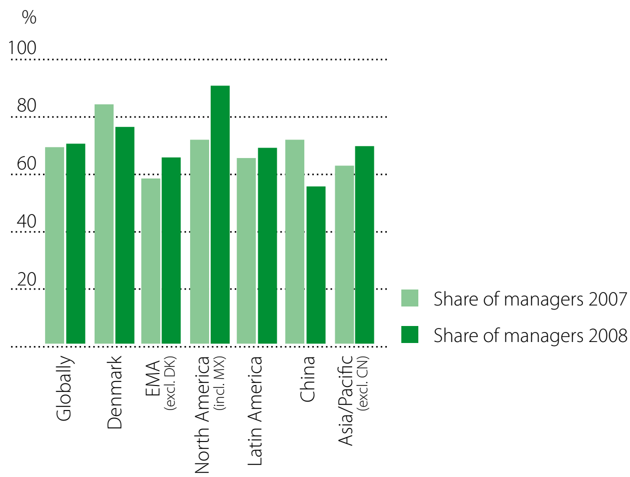
In the second half of 2008, Danfoss took the first steps to respond to the turbulent global market situation. In response to lower market demand, the company found it necessary to reduce the workforce. Wherever possible, these reductions were made through natural attrition and allowing vacant positions to remain open, but in some cases redundancies were necessary. In other locations, management and staff came up with creative solutions to both respond to market conditions and avoid redundancies.

For example, at Danfoss in Arkadelphia, USA, the plant, which employs 470 hourly-paid employees, was shut down for a total of seven weeks during the second half of the year. Employees in production, purchasing and logistics were asked to take leave in order to avoid dismissals. Of the seven weeks, one was paid vacation; employees were able to claim State unemployment benefits during the other weeks.

In December, further action was taken by the group in the form of a global full hiring freeze. This move was put in place to, if possible, avoid further redundancies, and to help the company adjust to the market situation. All vacancies must be filled through internal redeployment, adjusted working routines or redistributed assignments.

When redundancies are unavoidable, Danfoss takes action to help affected employees. For example, in Denmark, Danfoss HR staff developed individual plans based on interviews with all laid off employees, and provide information on courses and training available.

Leadership development



Leadership Development: leaders must show the way

Danfoss top management knows that in order to achieve the ambitious business goals, and to lead employees successfully during turbulent times, managers' leadership competencies need to continuously be developed. Leadership in a high performing organisation is the foundation in order to achieve Danfoss' aspirations. In 2008 the Danfoss Leadership Competencies were updated and revised to reflect the business challenges Danfoss faces, and to incorporate the necessary behaviours to develop and support a high-performing organisation.

The Danfoss Leadership competencies provide leaders, and employees, with a definition for "Will to Win" behaviour at Danfoss.

Danfoss Leadership Competencies

As Danfoss leaders we must

- Drive Customer Focus
- Role Model High Performance
- Demonstrate Global Mindset
- Inspire and Encourage People
- Differentiate through Innovation

The leadership competencies provide Danfoss leaders with a framework for leading people in local context. They also recognise that building leadership competencies is a challenge the organisation must face head on, and therefore invest considerable resources in improving leadership at Danfoss.

Top management introduced the leadership competencies in various contexts during the year and they were integrated, both locally and at a group level, into leader training courses, recruitment tools and others. At the same time various tools were developed to support the implementation process for the Danfoss Leadership Competencies. These included a feedback and dialogue tool as well as facilitation tools including a work mat and card game.

70% of leaders at Danfoss attended leadership training in 2008, which was at the same level as 2007 (69%). Of these, 15% were on training for longer than a week.

Mandatory leadership training introduced

In 2008 a three-day mandatory leadership program, Leading People at Danfoss, was launched for newly hired, acquired or appointed people–leaders in the group in order to ensure that new people-leaders at Danfoss know what is expected of them.

In 2008, 11 Leading People at Danfoss programs were delivered; three in Denmark, two in the USA and one each in Germany, Slovakia, Malaysia, China, Brazil and Spain. 198 new people-leaders attended the programme from 37 different countries.

At the end of the year, statistics on the evaluation data on global leadership programs showed that the programs met Danfoss leaders' needs; high learning outcome with relevance for their daily work. The average score on a 1 to 6 point scale was 4.88.

Leading people always happens in context, and Danfoss believes that leaders also benefit in leadership training in a Danfoss context. By training in context, leaders can address critical issues and make lasting changes. Strategic leadership dialogues, focusing on the individual organisation's critical issues and linking them to strategy, have been implemented many places in the organisation to emphasize the close link between leadership and achieving strategic goals. In 2008, seven strategic dialogues in five business units took place. In many cases, follow up included tailor-made initiatives to develop the identified required competencies.

For example, in the Heating Division's Heating Controls Business Unit, top managers went through the strategic leadership dialogue process after a reorganisation created four new strategic business areas. (SBAs) The process had two main focus areas; at the top manager level used the process to ensure alignment with the "soft side" of the business, bringing people and organisational culture issues on board in the strategic perspective process. At the same time, the process identified the direction for future leadership development in the business unit. To continue the process down throughout the Heating Controls organisation, the first strategic leadership dialogue with the leader team of one of the four SBAs was held in December, and the other three will follow in 2009.

A Senior Talent Process was introduced in 2008 to ensure a systematic, top-down process to support consistent career and succession planning for senior managers at Danfoss. This is one of the responses to the challenges of filling senior positions in the group, and is in line with the corporate aim to retain and develop the group's own people by filling a majority of positions with internal candidates.

Employee Development, Engagement and Well-being

Developing human capital

One of a Danfoss leader's most important tasks is to make sure that strategy and objectives are translated into concrete, relevant work assignments for employees. While this takes place on an ongoing basis, at least once a year it is reviewed in a development dialogue between the leader and the employee. They agree on, among other things, written personal competence development initiatives for the employee.

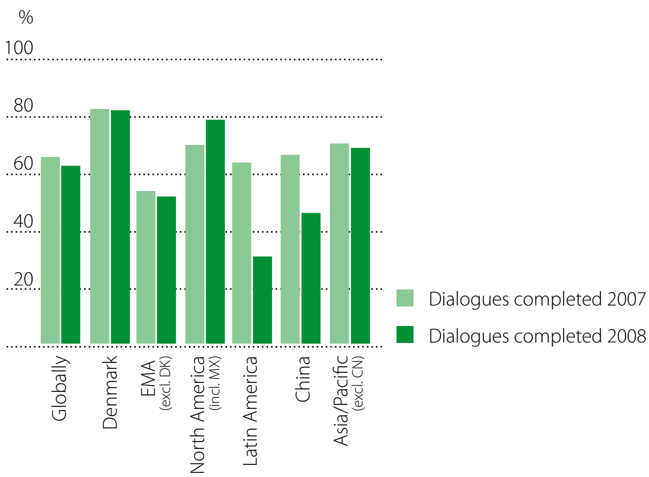
In 2008, a global, electronic system was rolled out in the Danfoss organisation, aligning the employee development process and providing employees with consistent long-term development opportunities and managers with standardized tools and reports.

63% of employees completed an employee development dialogue in 2008, a slight decrease compared to 66% in 2007. This development is unsatisfactory, especially as the goal for completion was 80%. The relatively high employee turnover rate in 2008 may have been one of the main reasons for this low result.

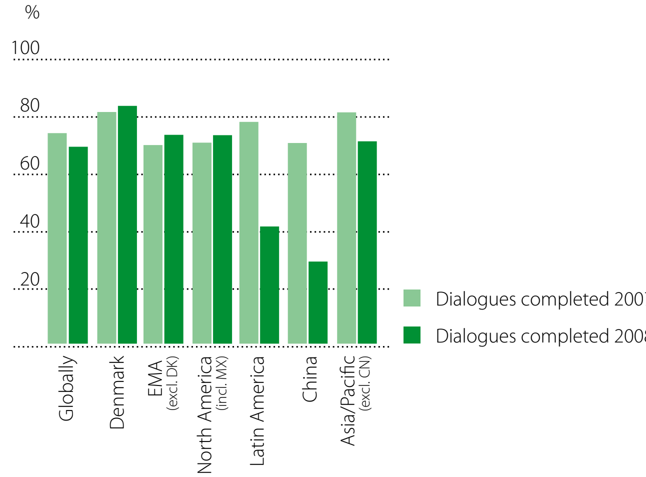
Managers' development dialogues with their own immediate managers, where the dialogue is especially important in relation to developing leader competencies, decreased slightly from 74% in 2007 to 69% in 2008.

Employee development dialogues are a central element in the company's development of employee competencies, but departments and divisions tackle the process differently throughout Danfoss. In Corporate Finance, management and staff went through a unique process to align and discuss what development means in their context. The team also agreed on a recommendation for the timing of the process to fit in their work cycle in finance so that it would get the focus it deserved.

Employee Development Dialogues



Development dialogues for managers



Identifying and retaining our best people

Motivating and nurturing talent as well as identifying and developing the talent form a critical cornerstone necessary to meet Danfoss' business goals.

Talent identification and development is the responsibility of the individual leader, but HR provides guidance and tools in the form of Danfoss Talent Management.

One of the cornerstones of Danfoss Talent Management is the Accelerated Development Programme (ADP) and the talent identification which is part of the programme's selection process. The objective of ADP is to locate and develop leader talents throughout the group. Forty talents are selected for participation in an extensive clarification and leadership development process including a course at an internationally recognised business school, followed by a development process which combines individual sessions and group work, among other things.

In addition to the five Danfoss Leadership Competencies, criteria such as the individual employee's potential for performance and ability to achieve higher-than-expected results are applied when identifying and selecting the talents. Talents are selected from business units throughout the organisation who are then evaluated by talent committees, which consist of top management and HR representatives at business unit, divisional and corporate levels.

Since its introduction in 2006, 80 leader talents have completed the ADP and 93% of these key employees remain employed with the group. More than 50% of the participants have been promoted or had their fields of responsibility extended. At the same time, feedback from 80% of the previous participants shows that 93% of them consider that participation in the programme had a significant positive effect on their personal development. Both the share of retained employees and promoted talents are estimated to be very satisfactory, but the impact on career development is yet to be reviewed in a long-term process.

At the end of June 2008, participants from both ADP and participants from Danfoss' programme for leaders with strategic impact joined Danfoss top management for a Talent Summit. CEO Jørgen M. Clausen and Vice-CEO Niels B. Christiansen led a dialogue process about the updated perspective for Danfoss. Participants in smaller groups then had the opportunity to ask questions and provide feedback to top management.

Following the 5-hour dialogue session, a special workshop was held, designed to provide inspiration for strategy implementation with violinist and Business Advisor Miha Pogačnik and the South Jutland Symphony Orchestra. Miha Pogačnik uses music as a metaphor for high performance leadership and offers an original response to the quest for creativity and innovation at Danfoss.

For new graduate recruits, Danfoss offers the Danfoss Post-Graduate Program, a two-year accelerated high-performance programme for new graduates with various backgrounds from universities all over the world. In 2008, 40 participants were given a unique possible to learn about Danfoss globally, live and work in other cultures and provide Danfoss regions and divisions business-critical competencies.

Building competencies throughout the organisation

Building employees competencies through on-the-job training and other courses and education is crucial in the sharpened global competition. Danfoss views it as a life-long process and commits major resources to supplementary training for employees. Training also improves employees' adaptability and employability. In 2008, Danfoss invested 104 million DKK in external supplementary training, which level with 2007.

At the same time, there was significantly increased focus on a wide range of internal training and supplementary training activities. In 2008, the Global Education and Training function registered 8,253 participation days compared to 5,331 participant days in 2007.

Danfoss Business System also focuses heavily on training employees and managers throughout the group in order to develop a strong culture of continuous improvement. In 2008, Danfoss Business System established the Danfoss Academy, to further systemise this training.

For example, within manufacturing productivity, focus was both on Supervisor and Team Coordinators and their roles to ensure a common leadership approach for manufacturing processes based on the 10 productivity principles as well as increasing confidence with productivity tools. Within sales, a focus area was rolling out competence assessment tools and process, among others, and within purchasing the Academy focused on sustaining lean processes. All in all, the Danfoss Academy registered 3,987 training days in 2008 with training completed at every level of the Danfoss organisation.

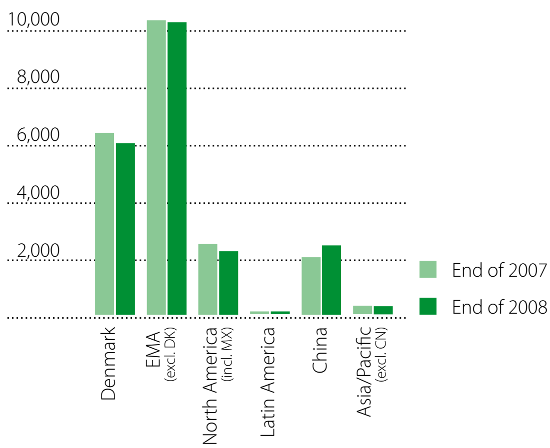
In order to focus competency development and ensure that employee development reflects the challenges and demands of the business strategy at both a departmental and individual level, Danfoss Drives rolled out a "Competence Wheel" concept in its US organisation in 2008. Through a workshop which involves a department's customers, whether they be internal or external, employees gain insight into the customer's strategy and challenges, and then work through a process to identify the department's critical competencies and then create long-term, individual development plans targeting these competencies and linking it to employee development dialogues. In 2008, 12 workshops were held in North America, and further workshops are planned for 2009.

Employee numbers

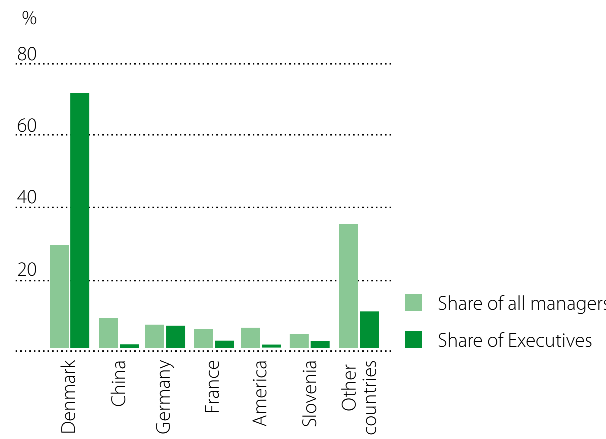
At the end of 2008, the Danfoss Group employed 31,717 (incl. Sauer-Danfoss). Despite Danfoss' controlling interest in Sauer-Danfoss, Danfoss' HR KPIs have not yet been integrated with Sauer-Danfoss'. As a result, information and data on Sauer-Danfoss is not included in the remaining employee data concerning 2008.

At the end of 2008, Danfoss employed 22,133 people, a decrease compared with 22,323 in 2007 and which was primarily caused by a high number people leaving, particularly

Headcount



National origin



in the last quarter when the effects of the crisis became very apparent.

Also, unlike previous years, Danfoss did not acquire as many companies, so the employee number includes only organic growth, like the remaining parts of the business activities.

In 2008, male employees represented 67% of the staff, while female employees represented 33% of employees. At management level, 83% were men and 17% were women.

Most managers are still from Denmark. 30% of the managers are of Danish descent, whereas 72% of the company's executives are of Danish origin. Danfoss' 2008 growth rates in China show that China is now the country that has the second-highest number of managers in Danfoss, i.e. 10%.

In decreasing order, the national origin of managers is: Germany, USA, France and Slovenia. In all, 90% of the company's executives come from these six countries.

Working environment and safety

Danfoss considers a healthy and safe working environment a requirement for running a sound and efficient business and reaching its set targets.

Working environment and safety are elements which are integrated into every company activity; at the customers, in design processes, during the production of products, and the maintenance of buildings and equipment. Making sure that all employees thrive and are not exposed to injuries is an undeniable aspect of the company's culture.

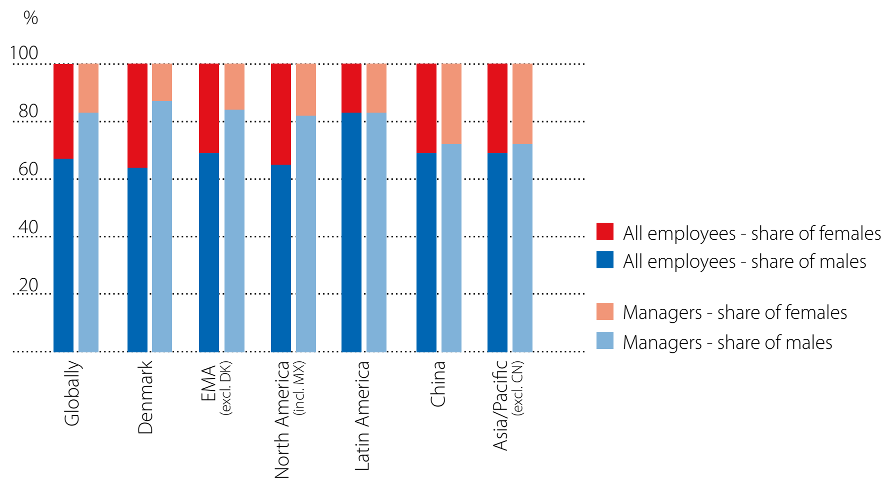
Danfoss' Working Environment Policy defines a range of issues and focus areas for the individual business unit. Consequently, every Danfoss company prioritises working environment and safety. The policy establishes that Danfoss' business activities must be planned and executed in consideration of the employee, the working environment and the external world.

Around one third of Danfoss' plants all over the world have been certified according to the working environment standard OHSAS 18001, and the rest have integrated the issues of working environment and safety into their environmental work in accordance with the ISO 14001 standard.

Work accidents

The number of work accidents at Danfoss has dropped since 1999, when the accident rate exceeded 28. In 2008, the rate was 16.8. The accident rate is defined as number of accidents per 1 million working hours.

Gender



The company had 329 accidents resulting in at least one day's absence in 2008. The injured employees were absent for a total of 6,850 days, which equals an average of 20 days of absence per accident. The compressor factories in France and Slovakia and Danfoss Socla in France experienced the highest absence rates; the average was 34 days per accident.

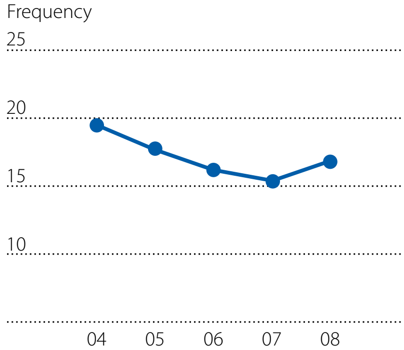
The number of accidents rose by 5% compared with 2007, whereas the accident rate increased by 9%. 60% of the accidents in 2008 were not so serious, with less than ten days of absence, which is slightly below the level in 2007. The remaining accidents were more serious, in which cases the absence rate exceeded ten days. Around 85 of the serious accidents resulted in the employee being absent for more than 20 working days.

Hands and fingers remain the most exposed to injuries, accounting for 169 accidents. This number equals half of the accidents. 9% of the accidents resulted in injuries to the head, whereas the legs/feet and the remaining parts of the body each represent 20% and 18% of the accidents, respectively. These figures are, on the whole, unchanged compared with previous-years.

Targeted safety measures

Targeted efforts to improve safety at Danfoss' plant in Mexico led to an impressive outcome. Key words in the process were management focus, continuous focus on safety at all levels and very structured follow-up procedures. In 2006, the plant had 35 work accidents. This

Accidents with absence



Distribution

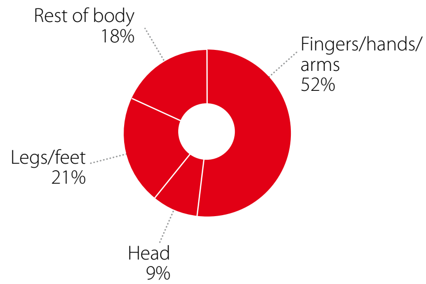


figure had dropped to just nine in 2008 of which three were fall accidents on stairs.

Parallel with the implementation of S5 (the systematic elimination of potential errors), the factory's zero-tolerance policy regarding accidents as well as the extensive use of internal audits and bonus systems have resulted in major improvements. The management meet every month to discuss safety issues, following up on the achieved results and initiating any required improvements. Each quarter, all of the employees are gathered and presented with the outcome of the safety activities and next quarter's improvement objectives.

Violations of working environment regulations

Only two violations of the working environment regulations were recorded in 2008, resulting in local authorities imposing directions, fines or filing a police report. Both matters have been rectified.

Environment

Policies and responsibility

Danfoss' long-standing environmental activities target continuous environmental improvements within its operations and products. It is important to Danfoss that the environmental impact does not increase as much as its activities and that the company constantly increases efficiency in its use of resources and raw materials.

A passion for technology is one of Danfoss' Core Values. Danfoss wishes to be at the cutting edge of technological development and strive to optimise its products and processes to have the least possible impact on the surrounding environment. Efforts to streamline the production processes are made on an ongoing basis to ensure it uses a minimum of resources and makes the least possible impact on the environment. Likewise, Danfoss aims to use as few harmful substances as possible. With this in mind, the company has prohibited or limited the use of substances which could be hazardous to humans or the environment.

Danfoss' environmental policy basic premise is that the company places strict demands on the environmental conditions existing at every Danfoss company – both in terms of the working environment and the external environment.

With the assistance of the corporate functions, the individual business unit is responsible for complying with the group values and policies. The Danfoss Executive Committee and the group's Chief Reputation Officer have the overall responsibility for Danfoss' environmental conditions, assisted by the group's environmental function, which is placed within Corporate Communications & Reputation Management.

Danfoss committed to climate improvements

Danfoss aims to contribute as much as possible to global efforts to reduce CO_2 emissions from energy-consuming processes and systems. Danfoss' products save energy for the customer and shall use as little energy as possible. The company also wishes to "take its own medicine" by using its knowledge and products to reduce Danfoss' emission of greenhouse gases resulting from production and transport.

In 2008, the group began the process of setting ambitious targets for the development

FREDRIK OLAUSSON
Swedish
Water Carrying Stone

Chalmers University of Technology - School of Architecture. Gothenburg, Sweden Architecture (4th year)

Gold Award

How can flowing water reach the supposedly impossible goal of carrying a stone? By finding the right shape for the task, transforming its structure into something new; an ice structure.

of energy consumption and the emission of greenhouse gases. At the end of 2008, the work resulted in a climate strategy which has been approved by top management.

Ambitious climate strategy

Danfoss has chosen a climate strategy aiming for an annual cut of 1% in total CO_2 emissions related to transport and energy consumption in the period until 2025. This may not sound much, but with compound interest, the end result will be a 25% reduction compared with 2007 emission levels. The target is in absolute figures.

No matter how much Danfoss expands, the annual CO_2 emissions must be reduced by 5,000 tonnes compared with the level in 2007. The 2007 level was approx. 250,000 tonnes, which covers both transport and energy consumption. In real terms, the annual CO_2 emissions must be reduced by more than 5% which equals more than 15,000 tonnes.

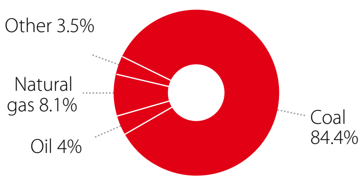
The climate strategy also specifies that the share of CO_2 neutral sources of energy should be increased by 25% before 2025. In 2008, the total share of CO_2 neutral energy amounted to 23%, whereas the share for electricity was 39%. This figure includes nuclear power as CO_2 neutral energy.

Danfoss has always considered energy savings and environmental improvements when planning the production processes. This means that the easy-wins have been achieved and that it will be a lengthy process and require substantial investments to achieve the targets.

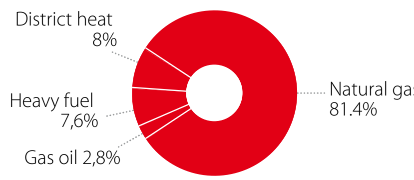
Over the past years, Danfoss has worked committed to optimising the company's processes and business routines, under the management of Danfoss Business System, a business unit which has successfully reduced costs, waste and delivery times throughout Danfoss' global organisation.

To ensure that the climate strategy is embedded at Danfoss in the best possible way, a large part of the activities which are being implemented will be administered by Danfoss Business System who makes sure that energy savings and energy-efficient behaviour are developed, implemented and embedded in the organisation. It is also expected that Danfoss Business System will contribute to the development of future climate initiatives, including transport, energy supply and infrastructure.

Sources for CO_2 emission (electricity)



Sources for CO_2 emission (other energy)



Emission of CO_2 from manufacturing

Every Danfoss production facility is asked to report their consumption of fossil fuels and renewable energy and most plants have succeeded in gathered this information from their utility company. This allows Danfoss to calculate the CO_2 emissions for each facility. The calculation is based on data from the World Resource Institute, which the UN climate panel (IPCC) uses for its reports.

In 2008, Danfoss emitted approx. 180,000 tonnes of CO_2 generated from the group's consumption of electricity and heat. The sources of the emissions are both direct (own systems for the generation of electricity and heat) and indirect (electricity and heat purchased from external producers). The emission is unchanged from 2007, which is primarily caused by higher energy consumption in the Chinese factories than savings implemented elsewhere in the group.

The electricity consumption represents 76% of the group's total emission of CO_2, equalling 137,000 tonnes in 2008, while 43,000 tonnes of CO_2 are emitted from energy sources used for heating.

The consumption of electricity generated by fossil fuels has decreased by 1.5%, while 2% more electricity generated by renewable sources was consumed in 2008, compared with 2007. The same applies to energy used for heating.

The long journey of products

The target that Danfoss has set for the reduction of CO_2 emissions also cover the transport of finished goods to customers.

Each year, more than 300,000 tonnes of cargo is transported by plane, ship, train or truck. These kinds of transport each give rise to emissions of greenhouse gases.

The ten largest plants have mapped the transport of finished products and calculations show that around 75,000 tonnes of CO_2 are emitted from the transport of products to customers. Danfoss' products travel no less than an average of 2,700 kilometres to get to the end-user. This gives a total of more than 700 million tonnes kilometres [tonne km = one tonne of cargo transported one kilometre].

Only 4% of the company's products are transported by plane, but as they are overseas transports, they are long-haul. So, air transport represents as much as 73% of the total amount of CO_2 emissions caused by transport. Transport by truck amounts to 68% of the tonnage, but only 23% of emissions. This makes it obvious for Danfoss to strive to transfer the transport of as many goods as possible from plane to train, ship or truck being the most environmentally-friendly transports.

Other CO_2 emissions

In addition to the emission sources above, Danfoss' activities give rise to other forms of CO_2, emissions. The group concentrates its focus on areas where the group has the biggest influence.

The emissions from the employees' business flights amount to approx. 23,000 tonnes of CO_2, of which almost 70% stem from overseas flights. In 2007, the employees' total mileage was close to 210 million kilometres, which corresponds to 5,000 times around the Earth.

Calculations show that if instead of business trips, video conferences or conference calls were held, it would be possible to achieve large reductions in not only the CO_2 level, but also in travel expenses. If travelling is reduced by a mere 10%, it would result in the employees saving around 30,000 hours annually in travelling and waiting time in airports etc.

Taking one's own medicine

Since its foundation 75 years ago, Danfoss has produced energy-friendly solutions and it has gained a strong global profile within the area.

One approach is to take one's own medicine by introducing the Danfoss Solutions' Montage™ system in plants that consume the most energy. Danfoss Solutions offers to guarantee savings on energy and resource consumption in a number of process industries.

In 2008, Danfoss Solutions started implementing the programme in a range of Danfoss' largest plants, including Danfoss Commercial Compressors' factory in Arkadelphia, USA. The factories were selected because they are the most energy-consuming entities in Danfoss, and because major energy savings are expected to be obtained. Studies show, for example, that 50-80% of the energy consumed is not dependent on production volume – in other words: many machines are idling.

The activities carried out at the largest plants are set to be combined with global energy-saving campaigns and efforts which ensure that Danfoss' own technologies and products are put to the best possible use.

Plants minimise CO_2 emissions

Contemporary families consume large volumes of power and when adding the annual power consumption of 10,000 families, it will correspond to CO_2 emissions amounting to 15,000 tonnes – the amount by which Danfoss aims to cut emissions each year in the future.

According to experts, CO_2 is one of the greenhouse gases which cause the temperature on Earth to rise. However, the reason that Danfoss wants to cut CO_2 emissions is not only out of consideration for the environment. Prior to the start of the projects, Danfoss' annual energy expenses were nearly 300m DKK. There is no such thing as cheap energy anymore and the power bills of some plants have increased by 240% in just six years.

Analyses carried out by Danfoss Solutions show that electricity consumption at one of Danfoss' factories in Slovenia amounted to two thirds of the factory's total energy bill – i.e. more than oil, gas and water put together.

By introducing a system for the reuse of hot air from machine dryers; an automatic standby function on the compressed air equipment; and new light bulbs in the production hall, the factory obtained annual savings of 1.5m DKK or almost 10% of the entire electricity bill.

Danfoss Solutions guarantees the customers that their investments in energy savings are realised within two years.

Environmental work in the organisation

Danfoss is a global company and it takes responsibility for the execution of a sustainable development in the areas and countries where the group operates.

For this reason, environmental and social responsibility is one of Danfoss' five Core Values and the work to live the values is high on the agenda throughout the organisation.

The group's policies concerning working environment, environment, and social responsibility ensure sharp managerial focus on the compliance with national and international guidelines and declarations. The company requires every factory with more than 20 production employees to be certified according to ISO 14001 and that all Danish plants are also certified in accordance with OHSAS 18001. In 2007, the group had 56 plants which are set to become ISO 14001-certified. Of this number, 51 have been certified, while the remaining units are preparing themselves for an impending certification.

In addition, Danfoss expects contractors and craftsmen working at Danfoss' factories and machines to live up to quality, working environment and environment standards equal to those of Danfoss. Before starting, all contractors and craftsmen receive instructions in safety and environmental issues, including the disposal of waste.

Control and reporting

Danfoss has a decentralised organisational structure, so the factories are in charge of local environmental activities.

Local management is responsible for complying with local regulations, being aware of the environmental development and making sure that the company considers issues relating to environmental and working environmental issues when the company develops and introduces new products and production processes.

Each factory has appointed employees to ensure that requirements of environmentally-friendly behaviour and production are continuously followed. This work is often performed in close cooperation with the group's or the divisions' corporate functions, which are in charge of reporting environmental information for use in the Corporate Citizenship report. Across Danfoss' global organisation, an effective network has been set up consisting of environmental coordinators who meet annually for a one-week seminar, where they are updated on current knowledge.

Danfoss carries out regular internal audits to ensure consistency between the way we work and how we aspire to work. Furthermore, the parts of the company which are certified according to environmental and working environment management standards are audited by external auditors. The audits reveal that the management systems are working as intended where they have been implemented and are efficient tools that prevent problems or offer a professional approach to deal with problems or inadvertent incidents.

Ongoing reporting of resources, waste and other effects on the environment and working environment ensures that Danfoss, at all times, has an overview of the performance in the global organisation.

A large proportion of this information is reported to the corporate environmental function, which reviews the figures and formulates the environmental section in the Danfoss Annual Report.

Danish Standards performs an annual audit of the environmental report to verify that it gives a true and fair view of Danfoss' impact on the environment and the working environment.

Employee involvement

Danfoss' environmental policy requires that group activities are planned and conducted out of consideration for people, the working environment and the community.

In order to have a successful environmental policy, employees must take responsibility for the environment and appreciate that the resources in Danfoss should be used as effectively as possible and with the least possible waste.

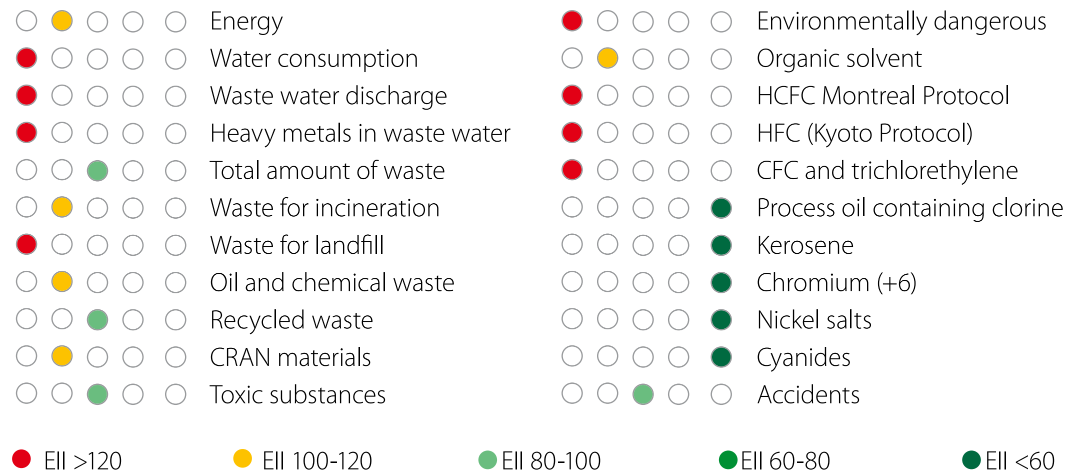
Danfoss continuously appeals to the environmental consciousness of its employees. Examples of employees' involvement in environmental activities include: education and training, keeping things in good order in the production, maintaining the environmental standard when outsourcing of the production and, finally, placing environmental demands on the suppliers.

Co-responsibility is a key word in the structuring of Danfoss' environmental activities. If the group targets concerning improved environment and working environment are to be realised, the employees must be seriously involved in the efforts.

To this end, Danfoss sets up cross-organisational working teams to a great extent when dealing with specific issues, such as ergonomics or noise.

Danfoss educates and trains employees on an ongoing basis to update them on the most recent knowledge so they have the best

Environmental indicators



possible qualifications for further improving the group environmental and safety issues.

The offer of education is adapted to local needs and amounted to more than 44,400 hours in 2008, equalling an increase of 35% compared with the previous year. The increase proves that education and training remain extensive in the individual Danfoss companies.

Corporate environmental targets

In the period 2006-2008, Danfoss set some overall targets for the group's environmental results. The targets are set to ensure continuous monitoring of whether the selected areas are decreasing compared to the group's total activity level. In other words, the efforts target a drop in the consumption of, for example, electricity, water or hazardous chemicals used per product.

The results of focus areas at the end of 2008:

	Realised index (EII)			
	2004	2006	2007	2008
Energy	100	106	108	114
Water	100	126	134	142
CRAN substances	100	115	107	107
Solvents	100	104	86	101
HFC gases	100	193	231	238
Waste	100	99	96	97
Frequency of accidents	100	83	79	86

Note: EII reflects the relative environmental impact and is calculated by comparing the consumption with Danfoss' activities (growth).

As the chart shows, the improvements anticipated for energy, water and HFC gases consumption were not achieved. One reason is that Danfoss has acquired a number of companies since 2004 which consume relatively large volumes of energy, water and HFC and which were not included in the environmental accounts in 2004.

The targets will be discontinued over the next years; they will be replaced by Danfoss' focus on climate, energy consumption and emission of CO_2.

Environmental issues at the factories

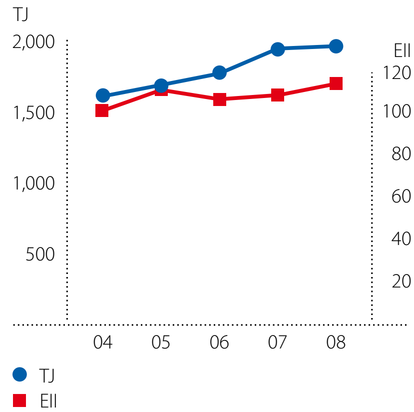
The following section deals with the most significant indicators of Danfoss' resource consumption, waste, chemical substances etc. The most important indicators ("traffic lights" indicate the development of the relative impact since 2004) will also be commented on. Green represents a positive trend, whereas red represents a comparatively increasing impact on the environment in 2008 compared with 2004.

Please refer to the GRI table and the table showing significant environmental parameters at the end of the Danfoss Annual Report for further information about Danfoss' environmental results.

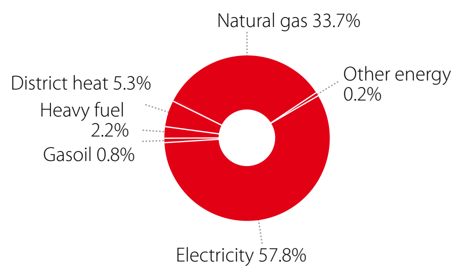
Raw materials and auxiliary materials

The majority of raw materials that Danfoss consume include metals, plastics, electronics and packaging.

Energy consumption



Distribution of energy sources



Steps are continuously taken to reduce the consumption of raw materials and other resources, by optimising the size of products, and also through improvements to production and quality to reduce the waste of materials.

The group's total raw materials consumption has dropped by 4% since 2007. The raw material volumes appear in the table on page 168.

A range of required auxiliary materials necessary for production are not included in the finished product. These are typically cutting oils and refrigerants, and materials for washing and cleaning parts.

The cooling and lubrication used for metal treatment required 669 tonnes of cutting fluids in 2008, which is a decrease of 18% compared with 2007. The compressor factories in Germany and France as well as Danfoss Hago and Scroll Technologies in USA contributed particularly to the reduction.

Energy

Electricity represents the biggest proportion (58%) of Danfoss' total energy consumption. The power consumption remained the same as 2007.

In 2008, all Danfoss plants – except two sites in Eastern Europe – recorded the sources of the energy they consume, such as wind, bio-mass or hydro-power. Keeping records is vital for the calculation of the group's total emission of greenhouse gases.

18.7% of the total electricity consumption is generated by renewable sources like solar, water, wind and bio-mass. Electricity from nuclear power accounts for 19.4% of corporate consumption, while the remaining electricity is generated by fossil fuels such as coal, oil and gas. Proportionally, coal is still the largest source of electricity, equalling 45.4% of the total power consumption.

98.6% of the energy consumption for heating stems from fossil fuels, of which natural gas is by far the largest source.

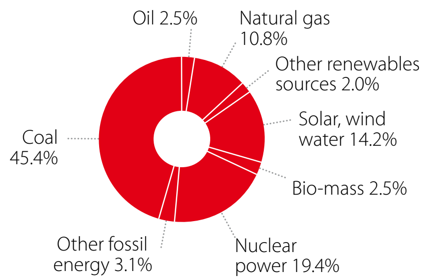
Examples of energy savings

Thanks to a more efficient use of the air conditioning system, Danfoss' plant in Tianjin, China, saved 100,000 DKK. Adjusted lighting and attention to the power use of machines has resulted in additional savings of 300,000 DKK in 2008.

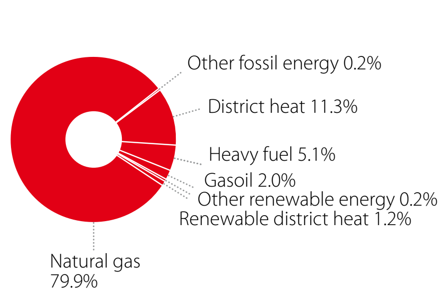
The compressor factory in France has introduced energy-saving measures within air conditioning, ventilation and related areas, which has led to savings of more than 4 mil. kWh since 2005, reducing CO_2 emission by almost 900 tonnes.

Danfoss Drives' factory in Loves Park, USA, is working on a very ambitious plan to obtain the American LEED certification of its premises. The LEED certification is an independent third-party verification to ensure that construction projects comply with the highest standards regarding

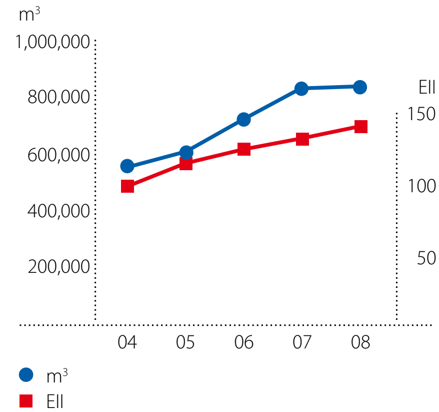
Consumption of electricity per source



Consumption of other energy



Water consumption



environmentally-friendly and energy-efficient construction. More than 14,000 LEED projects exist in the USA and 30 other countries globally.

The factory in Loves Park expects to carry out the certification in 2009. Goals include: to reuse 75% of the construction waste from the expansion of the plant; to reduce water consumption by 20%; to discontinue the use of pesticides; and to reserve special parking for fuel efficient cars and for employees who car-pool.

Water, wastewater and waste

The group's consumption of water remains the same as 2007.

The consumption of groundwater remains 60% of the total volume of water, while the remaining part is surface water from lakes or water reservoirs and re-used water from other external sources.

Industrial wastewater is discharged from around one third of Danfoss' plants and the total volume of industrial waster increased by nearly 2% in the period from 2007. Expectations are that the volume will drop in 2009 as a result of the divestment of the Surface Treatment Factory in Nordborg. The Surface Treatment Factory was divested in October 2008, so wastewater used in surface treatment is included in the 2008 environmental accounts, as it is not possible to split up the accounts.

The heavy metals discharged via the wastewater in 2008 account for 185 kilos, which equals decrease of 3% compared with the previous year.

The volume of waste decreased by 4% in 2008 compared with the previous year. The recommended disposal continues to be recycling of waste, and more than 80% of waste was recycled in 2008. 90% of the recycled waste consists of metal waste from processing machines, among others.

Only 2% of the total waste volume is incinerated while 14% is oil and chemical waste. The volume of chemical waste remains unchanged.

Use of refrigerants

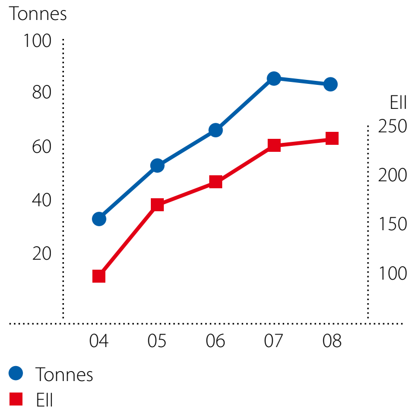
Danfoss uses the refrigerants HCFC and HFC for the production or testing of a range of products. Approximately 85% of the refrigerants are collected and reused. The record in this report shows the total purchased volume of greenhouse gases, independent of whether or not they are emitted into the atmosphere.

The consumption of HCFC in Danfoss' plants amounted to 8.8 tonnes in 2008. Consumption fell by 13% compared to 2007, primarily as a result of reduced consumption at Scroll Technologies in USA and Danfoss' factory in Mexico.

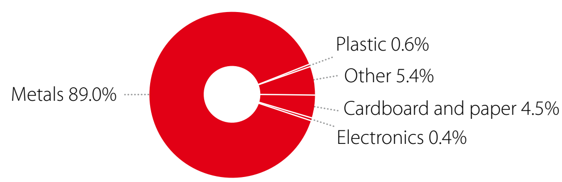
The volume of HFC gases fell by 2% compared to previous year.

CFC is used only for laboratory purposes at Household Compressors in Slovenia (16 kilos in 2008) and at the central laboratories in Nordborg (45 kilos in 2008).

HFC



Recycled waste



The refrigerants CFC and HCFC are ozone depleting and Danfoss' consumption has an ODP (Ozone Depleting Potential) of 533 kg CFC-11 equivalents. CFC, HCFC and HFC all contributes to global warming and Danfoss' consumption has a GWP (Global Warming Potential) of 178.000 ton CO_2 equivalents.

Danfoss and REACH

Danfoss set up a working group to ensure the necessary evaluation and implementation of EU's very extensive chemical reform, REACH (Registration, Evaluation, Authorisation and restriction of CHemicals).

Danfoss aims to fully comply with the requirements of the REACH regulation and make sure that customers and suppliers are informed and involved as far as necessary in the evaluation and possible registering of chemicals.

Danfoss' plants located in the EU do not import or produce chemicals, oils or metals for re-melting which come from countries outside the EU. Also, Danfoss does not produce or import articles with intentional release of chemicals while in use, which means that Danfoss is only considered a downstream user in a REACH context.

Negative list of chemical substances

Potentially harmful substances are substances and materials which can pose a risk to humans or the environment. The substances are used in the manufacturing of products and if they cannot directly be dispensed with or replaced, they must be utilised as efficiently as possible and measures must be taken to protect the employees and the environment.

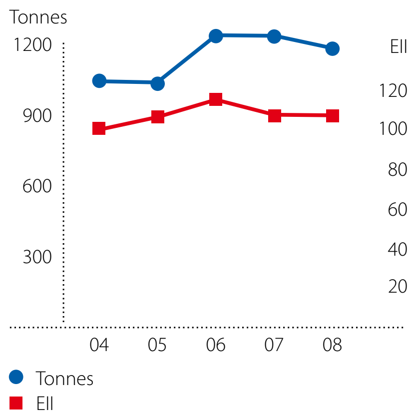
Danfoss maintains a list of chemical substances which are prohibited in Danfoss and which suppliers are required to phase out as soon as possible. The list is called the Negative List.

Danfoss' Negative List forms the cornerstone of efforts and most of the factories target the reduction of harmful substances. The Negative List is a vital guideline in the development of products to make sure that unwanted substances are not applied in the production or filled in Danfoss' products.

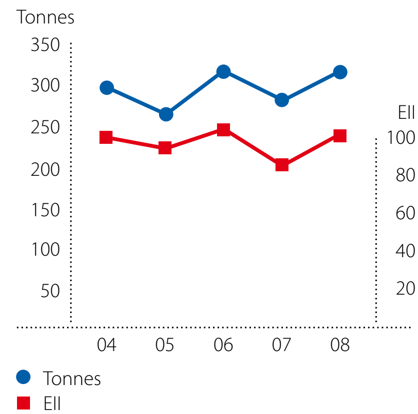
To safeguard that Danfoss has the required competencies, 40% of the plants offer newly appointed development engineers training in how to use the List. The Negative List is also applied in dialogues with suppliers, and an internal survey conducted at the plants showed that the List is implemented in the majority of purchasing functions at Danfoss.

The interviews with the core suppliers showed that 68% of the purchasers hand out the Negative List together with general quality agreements or separately. The same survey disclosed that Danfoss verifies the supplier's compliance with the requirements of the Negative List by demanding they sign or by carrying out own audits or third party audits.

CRAN substances



Organic solvents



CRAN substances

CRAN is the overall term for substances which are unwanted because they are carcinogenic (C), harmful to the ability to reproduce healthy children (R), cause allergies (A) or harm the central nervous system (N). Examples of materials containing the CRAN effect are glue, moulding masses, paint or detergents.

An internal survey conducted at Danfoss' plants show that two thirds of the plants include the target of phasing out of CRAN substances in their environment management system. The Danfoss Group's total use of CRAN substances has dropped by 4% since 2007, which equals 50 tonnes. This amount includes 40 tonnes used by the Surface Treatment Factory in 2007; the rest originates from the substitution of substances. The Surface Treatment Factory, which belonged to Danfoss Automatic Controls, was divested to Sønderborg Fornikling A/S with effect from September 2008. The relocation to Sønderborg Fornikling is expected to be completed in April 2009. In cooperation with the municipality of Sønderborg, the area is surveyed and assessed for any pollution on the site. The divestment of the Surface Treatment Factory supports Danfoss' overall wish to focus on its core competencies.

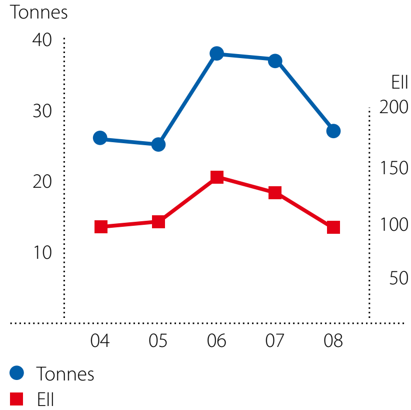
Sønderborg Fornikling has competencies within surface treatment and the production takes place under environmentally-friendly conditions. Since the divestment of the Surface Treatment Factory took place in 2008, the environmental impact of the activities is no longer included in the Danfoss A/S environmental accounts. This is in accordance with the guidelines, but it gives a different picture of the consumption of the CRAN substances and toxins such as cyanides and chrome which have not been used since 2008.

The refrigerants CFC and HCFC are ozone depleting and Danfoss' consumption has an ODP (Ozone Depleting Potential) of 533 kg CFC-11 equivalents. CFC, HCFC and HFC all contributes to global warming and Danfoss' consumption has a GWP (Global Warming Potential) of 178.000 ton CO2 equivalents.

Solvents

Organic solvents are absorbed through the respiratory system and skin and can result in permanent injuries. Danfoss has stopped using large quantities of solvents in their pure form, except for the solvent trichloroethylene (TRI) which is used for degreasing at Danfoss Chatleff in USA. Danfoss acquired Chatleff at the end of 2007 and the company reported data for the

Substances toxic to man



environmental accounts for the first time in 2008. In 2008, Chatleff's consumption of TRI was 4,491 kgs. Danfoss Chatleff has prepared a plan to phase out TRI and replace it with less hazardous detergents. The company expects to stop the use of TRI at the end of May 2009.

Toxic substances

Toxic substances are chemicals which have an acute lethal effect when handled incorrectly. These are primarily nitrite and cyanides which are used in surface treatment systems in Mexico and Nordborg. The employees have received training in how to correctly handle the substances and in Nordborg, consumption has ceased as a result of the divestment of the Surface Treatment Factory.

The group's total consumption of toxic substances amounted to 27 tonnes in 2008, which is a decrease of 26% compared to the previous year.

Environmentally dangerous substances

Environmentally dangerous substances have a harmful effect on plants, animals, water, water organisms and the ozone layer. At Danfoss, environmentally dangerous substances are primarily oils that are stored in sealed systems with waste trays which limit the discharge to the surrounding environment as much as possible.

Danfoss used 262 tonnes of environmentally dangerous substances in 2008, a decrease of 9% compared to 2007. An increase only took place at Danfoss' plant in Tianjin, China, which increased consumption by 16 tonnes. The remaining plants reduced their consumption by a total of 42 tonnes, equalling 22% of their consumption.

Violations of environmental regulations

Danfoss believes that transparency about environmental issues is an important element of a good relationship with neighbours and the authorities. The factories have entered into agreements with the environmental authorities and local regulations are observed.

Infractions of environmental permissions or regulations occurred 30 times, 18 at the factory in Nordborg where the company exceeded the required concentration of nickel and the required acidity of waste water was exceeded for a period of 24 hours. Approval has been given for an evaporation system, which will considerably reduce the number of violations.

The remaining violations do not have any impact on the environment.

Product responsibility

When applied, the majority of Danfoss' products are in themselves not hazardous, but they can be used as components in end products which could pose a risk to the environment.

The risk is monitored and controlled using quality and environment management systems that include suppliers, as well as Danfoss' production and product development.

The system is designed to ensure consistent high quality and limit environmental and working environmental impacts caused by production, application and disposal of Danfoss' products.

For many years, Danfoss has had rules for how business units handle product liability and safety. The rules are included in corporate standards for product liability and recall of defective products. Together with Corporate Risk Management, the management of each business unit must make sure that no products, processes or services lead to injuries to people or equipment. This applies to installation, storage, use and disposal.

Chinese customs chase Danfoss copies

The customs authorities in China have begun to seize counterfeit products before their export. But, it is often difficult to differentiate falsified products from genuine products.

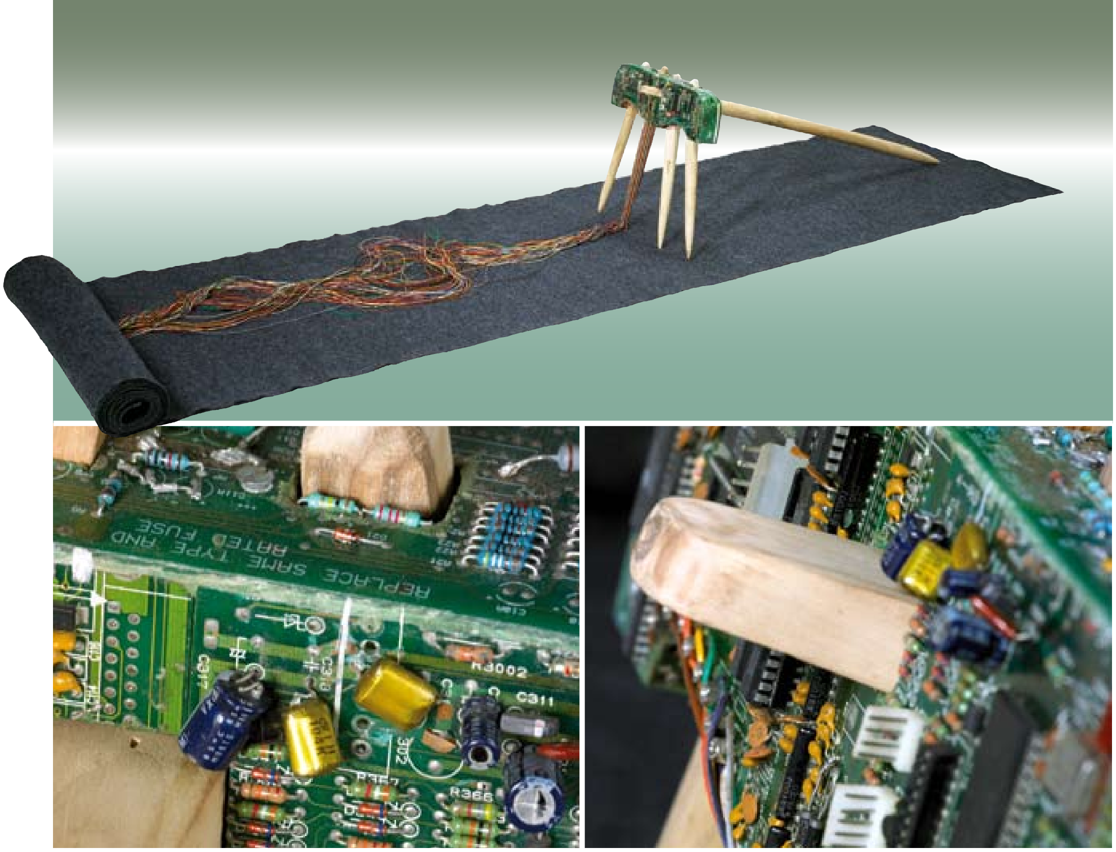
The Danfoss logotype has gradually become well-known with the Chinese customs officers in a range of ports of shipment, and has been supplemented by intensive training.

Most recently, Chinese customs officers withheld goods with the Danfoss logotype, and they were all counterfeit products. The motherload was 6,900 filter dryers used in refrigeration and air-conditioning systems. Danfoss in China employs lawyers to fight the counterfeiting, in cooperation with the Patent and Trademark Department in Nordborg.

Danfoss has made its mark via the Quality Brands Protection Committee, which is an interest organisation for foreign producers. The organisation cooperates with the Chinese ministry of external trade and therefore has a high degree of attention of top-level Chinese politicians.

Danfoss believes that the Chinese authorities take the problem very seriously and are aware of the negative consequences of counterfeiting: the existence of a number of low-quality products in China; and the continuing image of China as a place where everything is copied.

In a seizure procedure, the assumed injured party must provide a financial guarantee upon which the party has a few days to prove that the products are false.



SANDIP PISALKAR
Indian
"Dataar 2"

The Maharaja Sayajirao University of Baroda.
Baroda, India
Sculpture (7th year)

Gold Award

Old and new meet in "Dataar 2" in a startling blend of history and high-tech. What seems familiar at turns out to be made of unexpected materials, offering a fresh look at the relationship between history and technology.

The Patent and Trademark Department has therefore prepared proposals which specify how Danfoss can label its products using state-of-the-art labelling technology. It is possible to copy Danfoss products and product labelling, so it is often difficult to spot the difference. At the same time, the pirates have become more skilled and it is necessary for Danfoss to improve the labelling to ensure easy recognition of genuine products. The labelling proposal includes nano-technology, advanced holograms and micro-printing, among other things.

Assisted by Beijing West City Administration of Industry and Commerce, Danfoss representatives raided one of the streets in Beijing where numerous refrigeration shops are located in June 2008. Seven shops were visited simultaneously and filter dryers and expansion valves were seized.

Closer inspection showed that the shops had been selling both counterfeit and genuine Danfoss products. The shop owners will be fined.

Danfoss has carried out several actions in the past against agents and producers of counterfeit Danfoss products in order to protect its rights.

Danfoss' sponsorship policy

Danfoss aims to sponsor forward-looking initiatives for the benefit of the company and others located in the local areas where Danfoss operates.

In Denmark, sponsorships are granted to cultural, sport and environmental associations, such as the outdoor annual concert 'En søndag på Als' held in the park surrounding Augustenborg Palace, Sønderjysk Elitesport A/S and the Danish national icehockey team.

Danfoss supports recognised and established organisations, for example sports clubs with a primary affiliation to Danfoss' employees or other stakeholders in the areas where Danfoss is present.

Sponsorships are a significant element of Danfoss' visibility and, therefore, it is vital that sponsorships are in keeping with Danfoss' Core Values. Examples include sponsoring CopenMind, Nordic Climate Solutions and the COP 15 summit in Copenhagen.

Danfoss bases its sponsorships on the International Chamber of Commerce's (ICC) code of sponsoring, which defines guidelines for companies' ethically sound application of sponsorships.

Through sponsorships and other forms of support, Danfoss wants to increase awareness of the company and its products to the general public.

This happens via activities such as:

- An efficient build-up of the company profile and awareness
- Establishing knowledge of and preference for Danfoss and its products
- Commitment and pride among current and future employees
- Access to interesting events for stakeholders, including customers and employees.

Danfoss aims for:

- Harmony between the target groups of the sponsorship and Danfoss
- An obvious link between the sponsorship and Danfoss
- Recipients of sponsorships that represent the Danfoss Values
- Few extensive and long-term sponsorships
- Active use of sponsorships, internally and externally

Danfoss sponsors:

- Elite before general interests
- Teams or groups before individuals

Danfoss does not sponsor:

- Motorcross or the like, as it does not comply with the company's environmental profile
- Political or religious associations
- Purposes or activities which conflict with Danfoss' reputation or values
- Projects which are closely linked with Danfoss' competitors.

Danfoss employees with outstanding performance within special areas have preferential positions.

Accounting principles, CSR

Collecting data
Data in the CSR section of Danfoss' Corporate Citizenship report is collected via four channels:

- An annual electronic questionnaire (CSR survey) distributed to all of the group's factories and sales companies
- Factory visits during which data is collected using observation, interviews and dialogues
- Supplier data is gathered in SCoCIS (Supplier CoC Information System), a database maintained by Global Procurement
- Data on supplier conditions is also collected from Danfoss' purchasers who are interviewed about their experiences with activities in the supplier chain.

The accounting period is from January 1 until December 31, 2008.

Reporting guideline
Since 2003, Danfoss has conducted an annual CSR survey about human rights, labour rights, business ethics and anti-corruption of all of the group's factories and sales companies. The results are reported to the respondents and the Executive Committee. If critical conditions are established, the companies involved are approached with the purpose of rectifying the matters.

Most results from the CSR survey are included in Danfoss' Corporate Citizenship report, which is published as part of the company's efforts to make Danfoss' activities and results transparent. Some results are only included in the internal report.

In 2008, Danfoss applied the guidelines of the Global Reporting Initiative (GRI) for the first time. This took place for the sake of transparency and completeness in the reporting of the results relating to HR, CSR and environment. Organisations are free to decide whether they want to adopt the guidelines when reporting economic, environmental and social dimensions of their activities.

The GRI table on page 170 includes a list of the indicators covered by the Corporate Citizenship report.

Since Danfoss has signed the UN Global Compact, the company is under an obligation to prepare an annual Communication on Progress (CoP) for UN. The paper discusses the work with human rights, labour rights and anti-corruption. Danfoss' CoP is the Corporate Citizenship report.

Preparation of accounting principles
In 2008, Danfoss began to collaborate with PricewaterhouseCoopers on the review of the company's Corporate Citizenship reporting with respect to the guidelines of GRI. The CSR survey was reviewed to improve interview techniques and the validation of data and accounting principles (description of data collection and calculations) have been prepared for all of the social indicators that are incorporated in the CSR survey. In connection with the preparation of the accounting principles, the company has applied the reporting guidelines and principles as defined by GRI, concerning materiality, involvement of stakeholders and completeness.

Any GRI-related activity must aim for balanced, reliable results that are comparable over time. At the same time, the work with GRI has prepared the way for Danfoss to eventually report at a higher level which would facilitate external verification of Danfoss' entire Corporate Citizenship report.

CSR data
The Corporate Citizenship report's section on social responsibility covers data describing handling of recruitment and the right to privacy (recruitment processes), the collection of personal information, the use of health tests and the number of discrimination cases. The report also includes data on: the scope of child labour, youngsters at work, the freedom to unionise, maximum number of working hours and the use of imprisoned labour.

Other data covers corruption and bribery which involves, among other things, the data concerning grey areas such as size of gifts etc.

Unethical conduct is treated separately in the report. The report deals with the number of dismissals and voluntary resignations caused by the violation of the company's ethical guidelines or other policies.

Data about Danfoss' interaction with the community concerns the number of complaints received from the local community in which it operates. It also deals with the scope and worth of charitable donations made.

CSR survey and calculation methods
The CSR survey 2008 was distributed to 108 contact persons: Presidents or General Managers who were asked to fill in the questionnaire on behalf of all of the group's 137 factories and companies. Due to the Danfoss organisational structure, there are fewer respondents than companies: all of the sales companies are organised in Global Business Service (GBS) where shared administrative functions, such as HR, are the responsibility of a GBS manager who, thereby, covers several countries.

The factories are asked more questions than the sales companies and where the factory and the sales company are located at the same site, the plant manager is asked to reply on behalf of both.

Of the 108 recipients of the CSR survey, 104 responded, covering 125 companies which employ a total of 20,800 of the group's employees. Therefore, more than 95% of the Danfoss Group's employees are covered by the survey.

The CSR section of the Corporate Citizenship report covers all of the companies in which Danfoss had the controlling interest throughout 2008. Companies which were acquired in 2008 will be included in the 2009 CSR section.

The CSR survey as a tool

The Danfoss CSR survey uses SurveyXact designed by Rambøll Management. All relevant information about the respondents are transferred to SurveyXact; country, company code, e-mail addresses and the number of employees.

The number of employees is gathered from HR SAP.

Two Danfoss companies do not use HR SAP and have, therefore, been individually informed about the number of employees in the CSR survey.

Validation, consolidation and calculation

Validation of data takes place after deadline. Respondents whose replies are controversial, questionable or self-contradictory are contacted in order to correct or clear up any errors. If there is a need to include supplementary explanations in the Corporate Citizenship report or in the internal reporting, the companies in question are asked to provide the necessary information.

The data is analysed in a spread-sheet and form the basis for the survey conclusions. The internal reporting of social issues also includes a wide range of graphs.

Factory visits

During a calendar year, visits are paid to the factories, gathering information about environmental and social issues in Danfoss' companies.

Some of the information in the Corporate Citizenship report is based on reports, minutes and e-mail correspondence relating to the factory visits.

In 2008, eight factory visits were performed in: Finland (1), Denmark (3), USA (3) and Mexico (1). The CSR function also paid a visit to two suppliers; one is located in Mexico, and one who does business in a prison in the USA.

Accounting principles, environment

Data in the Environmental Accounts
The Danfoss Environmental Accounts cover input data in the form of raw materials, energy, water and potentially harmful substances and output data in the form of wastewater, heavy metals, and waste. The factories report on these data once a year. Other outputs in the form of emission of flue gases are centrally calculated, cf. the calculation principles later in this document.

In addition to the aforementioned environmental data, the factories must report the number and type of accidents and if they have exceeded the terms of the environmental approvals or other agreements with the environmental authorities.

The data are collected by Danfoss' Corporate Environment Function. Data from the factories are collected and reported according to defined procedures and in a standardised format. The development of the environmental data is monitored constantly.

A corporate standard defining the data collection and data formats is maintained including definitions of quality control of data.

Standards and databases
The foundation of the reporting of data for the group Environmental Accounts is available in two Danfoss standards: The first, "Corporate Environmental Reporting" (corporate standard 500B0806), defines the general guidelines for reporting of data. The second, "Reporting of raw materials, auxiliary materials and potentially harmful substances" (corporate standard 500B734), defines the precise guidelines for the reporting of raw materials, auxiliary materials and potentially harmful substances. The latter also defines what to observe in order to avoid reporting by double entry due to internal trading with other Danfoss factories and what should be done to ensure inclusion of all relevant data in the reporting.

In order to support the factories in their work to provide valid data to be used in the Environmental Accounts, a group environmental reporting seminar is held once a year and training also takes place during factory visits.

The factories must report a total of 103 different parameters (data types) via Hyperion Financial Management (HFM), which is also used for reporting of financial figures in the group. To ensure a uniform and valid reporting of data, guidelines and help texts are available for each parameter.

Accounting principles
The overall principles of the preparation of the accounts are materiality, relevance and transparency.

Environmental Impact Index (EII)
The Environmental Accounts include an environmental impact index (EII), to express the group's relative environmental impact. EII reflects how efficiently resources are used and of the group's ability to reduce the discharges relative to the volume of production. A decreasing EII indicates a lower relative environmental impact.

The environmental impact index is calculated as follows:

$$\text{EII} = \frac{\text{index for environmental data}}{\text{index for activity (production)}}$$

Environmental data and activities are compared to 2004, for which the index is 100, since the accounts show environmental data for the past five years. The activity index is calculated on the basis of the raw material consumption level, since the latter best reflects the size of the production.

Danfoss is a growing enterprise, and consequently the company's environmental impact is growing in absolute terms. Most figures in these accounts show both the relative and absolute development of the group's impact on the environment.

Increases in the consumption level, which exceed the group's total activity development, will be reflected in an increasing relative environmental impact in the shown charts.

Calculation of consumption
Consumption of raw material and potentially harmful substances occurs according to two principles: either at the registering of movements in stock or at purchasing. Most factories of the group use the latter. Other data is mainly stated in proportion to drawn up invoices in connection with purchasing/sales. This applies for example to the purchasing of energy and water or generation of waste. Heavy metals in wastewater data is normally measured by external laboratories.

Raw materials and auxiliary materials
The consumption of raw materials is reported as 26 different types of raw materials. The raw material types have been selected for their significance as to volume or since they include important information on the sectors in which Danfoss is active. Raw material types that cannot be related to a specific raw material type are reported under "Other raw materials".

Auxiliary materials have been added as a new category in 2005 and consist of cutting fluids and cleaning agents used in production processes.

Potentially harmful substances
The materiality criterion of potentially harmful substances in the Environmental Accounts is the volume or hazardousness of the substances, or that they are covered by the factories' environmental approvals. In order to facilitate clarity, the substances are grouped. It should be noted that some substances are only

included in regard to the work environment. This applies for example to the substances that are called CRAN substances. These substances are considered carcinogenic, harmful to the ability to reproduce healthy children, allergenic, or harmful to the central nervous system.

15 substance groups exist in the potentially harmful substances category. Some substances are found in several substance groups, for example the chlorinated refrigerants HCFC, HFC and CFC, which, apart from being individually reported, are also included in the group of organic solvents. Danfoss has selected this approach to show the development in consumption of the substances that are particularly important in the public environmental issues debate but also to emphasise that the substances often have several characteristics.

The CRAN substances are stated according to national law on the labelling of substances, to ensure best possible coherence with the factories' environmental management systems.

Erroneous reporting

If systematic errors are revealed in the reported data or in the foundation of the data, the data in question are corrected five years back to ensure comparability. If changes are made to the classifying of chemical substances, the change only takes effect as of the year referred to, since it creates an entirely new situation.

Changes in historical data must be approved by the external audit (refer below).

Internal audit of data prior to consolidation

An internal audit team reviews a total of about 5,000 data reported each year by the factories, before the consolidation of data. During the internal audit comparisons are made on basis of previous years' of data, and a number of correlations between different data are reviewed. An example is the correlation between raw material consumption, energy consumption and waste, or the question whether the different kinds of waste types or potentially harmful substances have been correctly reported.

The Environmental Accounts includes 51 reporting entities. Some factories are split into several reporting entities (mostly located in Nordborg and China). Other factories make an aggregate reporting because a split of e.g. electricity is impossible between the factories if located at the same premises.

Consolidation

When consolidating data, extracts are made for the different kinds of information and these are being consolidated at group level. This applies for example to raw materials and potentially harmful substances. It is also checked that data are in accordance with previous years' consolidated data.

Due to the fact that Danish factories have access to Danfoss' Material Safety Data Sheet system, separate calculation of the factories' consumption of potentially harmful substances is made. The calculation is centrally made since the data are compared with the central consumption database and the Danish Material Safety Datasheet database.

Central reporting of wastewater emission data, energy and water consumption and consumption of piped media is performed for the factories in Nordborg, since these are shared facilities. Examples of piped media are petroleum and spirits. Subsequently, these data are checked and consolidated with other data on group level.

Calculation of flue gas emissions

The calculation of flue gas emissions is made on basis of the energy consumption multiplied by relevant emission factors. The source of the emission factors is the Danish Energy Agency and World Resources Institute/IPCC. The calculation is based on Danfoss' consumption of oil and gas, its own energy production and heating consumption as a result of purchased electricity and district heating at external energy manufacturers. Each factory reports their consumption of energy as coming from renewable and non-renewable sources. For factories unable to supply this information, the calculations will be based on EU standards, where about half of all electricity is manufactured from fossil fuels.

Average considerations like these do not accurately reflect the actual conditions, but Danfoss believes that this amounts to a distinct improvement when it comes to showing the environmental impact from the group's production plants.

Transport

The environmental impact of internal transport is not included in the Environmental Accounts 2008. This is due to the weighing between the impacts on the factories and on the other hand lack of methodical simplicity in the statement of the environmental impact of transport.

Factories included in the environmental accounts

The accounts include all the factories of which Danfoss had the majority share throughout 2008. Danfoss' Surface Treatment factory in Denmark is not a part of the statement in 2008. Danfoss Solar Inverters in Denmark and Danfoss Chatleff in USA are new in 2008.

Divisions' environmental conditions

Danfoss' Divisions have, to a large extent, similar environmental conditions and impact: consumption of resources, substances and materials and generation of waste and emissions.

It would not be logical to detail each Division's environmental impact. However, if specific environmental impacts in the Divisions influence the overall environmental impacts in the group, they will be described in this report.

External verification

External, independent third-party verification of the environmental accounts is performed. As the factories gain more experience with environmental management, Danfoss has extended the area of external verification to include all Danfoss factories globally. The verification is performed as spot checks, site audits and in the form of verification of the applied data reporting procedures.

All factories are subject to third-party verifications.

Audit endorsement, environment

The conducted audit

We have systematically reviewed the recorded information, calculations, and disclosures in the environmental section of the Corporate Citizenship Report for 2008 for the Danfoss Group.

The audit has been performed in accordance with generally accepted principles and standards.

The audit has been planned and performed to ensure to a high degree that the environmental part of the Corporate Citizenship Report does not contain significant misinformation.

The audit has been performed through extensive review of the accounting material and through extensive random sampling of the accounting material for selected group factories.

The audit also includes assessing the accounting principles used, the quality of Danfoss' internal audit of data and an evaluation of the overall presentation of the environmental part of the Corporate Citizenship Report. It is our opinion that the audit provides a sound basis for our conclusion.

Conclusion

In our opinion, the Environmental Statement and Accounts give a true and fair presentation of the environmental impacts from activities at the Danfoss Group's factories.

Factories in Denmark, England, France, China, Slovakia Slovenia, Germany and USA have been subjected to audit.

For the factories that have not been subjected to audit, we have assessed the procedure used for collecting data.

Nordborg, February 19, 2009

Steen Chr. Larsen
Lead auditor
DS Certificering A/S

Tommy Lund
Lead auditor
DS Certificering A/S

Significant HR parameters

Headcount per region	GLOBAL	Denmark	EMA	NAM	LAM	CHINA	APA
End of 2008	22,133	6,150	10,351	2,365	227	2,591	450
End of 2007	22,323	6,465	10,403	2,626	220	2,152	457

Headcount per employment type	TOTAL	Executi-ves	Managers	Salary paid	Hourly paid	Trainee Appren
End of 2008	22,133	103	2,252	8.210	11,165	403

Employees & managers per gender (%)	GLOBAL	Denmark	EMA	NAM	LAM	CHINA	APA
All employees - Males	67	64	69	65	83	69	69
All employees - Females	33	36	31	35	17	31	31
Managers - Males	83	87	84	82	83	72	72
Managers - Females	17	13	16	18	17	28	28

Employee categories by gender	Males	Females
Total	14,895	7,238
Executives	101	2
Managers	1,855	397
Salary paid employees	5,601	2,609
Hourly paid employees	7,046	4,119
Trainees/ Apprentices	292	111

Employee categories by age group	15-24	25-34	35-44	45-54	55+
Total	1,972	7,043	5,607	4,993	2,518
Executives	-	-	28	38	37
Managers	8	469	949	592	234
Salary paid employees	332	3,022	2,426	1,497	933
Hourly paid employees	1,312	3,484	2,190	2,866	1,313
Trainees/ Apprentices	320	68	14	-	1

Manager national origin (%)	Denmark	China	Germany	France	USA	Slovenia	Others
Executives	71.7	2.0	7.1	3.0	2.0	3.0	11.2
Total managers	29.7	9.5	7.5	6.4	6.7	4.8	35.4

Employee turnover by region (%)	GLOBAL	Denmark	EMA	NAM	LAM	CHINA	APA
Total turnover	19.5	21.5	15.9	31.2	20.1	17.2	17.2
Voluntary resignation	6.8	9.4	3.4	13.0	6.8	7.3	11.7

Employee turnover by service length (%)	TOTAL	0-2	2-4	5-9	10-19	20+
Total turnover 2008	19.5	33.4	14.3	12.4	7.0	8.6
Voluntary resignation rate 2008	6.8	11.3	7.2	5.0	2.4	0.9

Employee turnover by employee group (%)	TOTAL	Executi-ves	Managers	Salary paid	Hourly paid	Trainee Appren
Total turnover 2008	19.5	8.2	8.0	13.3	24.3	71.8
Voluntary resignation rate 2008	6.8	3.1	3.8	6.9	6.8	22.5

Employee turnover by age group (%)	TOTAL	15-24	25-34	35-44	45-54	55+
Total turnover 2008	19.5	14.5	25.0	16.6	14.3	26.7
Voluntary resignation rate 2008	6.8	4.3	8.7	7.0	5.7	5.1

Employee turnover by gender (%)	TOTAL	Males	Females
Total turnover 2008	19.5	18.7	21.1
Voluntary resignation rate 2008	6.8	6.9	6.7

Absence rate per region (%)	GLOBAL	Denmark	EMA	NAM	LAM	CHINA	APA
Total absence rate	4.0	4.3	4.6	2.3	0.4	1.1	1.4

Total EDDs completed (%)	GLOBAL	Denmark	EMA	NAM	LAM	CHINA	APA
Dialogues 2008	63.4	82.1	52.4	78.9	31.7	46.6	69.2
Dialogues 2007	65.9	82.5	54.0	70.0	64.2	66.6	70.5

Manager EDDs completed (%)	GLOBAL	Denmark	EMA	NAM	LAM	CHINA	APA
Dialogues 2008	69.5	83.6	73.7	73.5	41.8	29.9	71.7
Dialogues 2007	74.2	81.5	70.3	71.1	78.1	71.0	81.4

Leadership development per region (%)	GLOBAL	Denmark	EMA	NAM	LAM	CHINA	APA
Share of managers 2008	70.6	76.5	65.9	90.9	69.1	55.7	69.7
Share of managers 2007	69.3	84.1	58.6	72.0	65.6	72.2	62.9

Leadership training (participants days)	TOTAL
No. of days 2008	2,505
No. of days 2007	815

"Leading people at Danfoss" (participant days)	TOTAL
No. of days 2008	488
No. of days 2007	51

Abbreviations:
EMA: Europe, Middel East and Africa
NAM: North America
LAM: Latin America
APA: Asia/Pacific

Significant environmental parameters

Energy	2004	2005	2006	2007	2008
Energy consumption (TJ)	1,626	1,689	1,777	1,940	1,965
EII - Energy	100	111	106	108	114
Natural gas (%)					33.7%
Electricity (%)					57.8%
Gasoil					0.8%
Heavy fuel					2.2%
Waste oil					
District heat					5.3%
Other energy					0.2%

Electricity	2004	2005	2006	2007	2008
Non renewables					
Coal					45.4%
Oil					2.5%
Gas					10.8%
Misc.					3.1%
Renewables					
Solar, wind					14.2%
Biomass					2.5%
Misc.					2.0%
Nuclear					19.4%

Water	2004	2005	2006	2007	2008
Water consumption (m^3)	558,031	607,567	722,762	829,793	839,069
EII - Water	100	116	126	134	142
Surface water consumption (m^3)					32.9%
Ground water consumption (m^3)					60.2%
Recycled water (m^3)					6.9%

Raw materials (tonnes)	2004	2005	2006	2007	2008
Iron	194,553	177,429	191,523	202,669	189,522
Stainless steel	3,903	3,714	4,013	5,474	4,971
Brass and copper (incl. alloys)	25,320	24,931	26,334	25,579	29,688
Aluminium and aluminium alloys	6,477	7,440	7,176	8,084	8,157
Other metals	69	225	285	168	164
PVC	637	661	796	684	723
Plastics with formaldehyde emission	185	240	243	276	228
Other plastics types (incl. rubber)	4,939	4,560	5,189	5,575	5,081
Electronic and electro-mechanical components	11,764	12,294	18,122	23,014	20,610
Printed circuits (with and without components)	289	281	369	366	453
Soldering materials (incl. leaded)	34	38	55	60	65
Wood (incl. Wooden pallets)	10,230	9,863	10,145	11,619	11,967
Packaging of cardboard and plastics	5,317	5,403	6,580	6,973	6,933
Other raw materials (incl. filling media and chemicals in products)	7,504	7,061	7,873	9,362	8,217
Group's total raw material volume	271,222	254,140	278,702	299,906	286,779

Auxillary materials	2004	2005	2006	2007	2008
Cutting fluids and coolants (tonnes)		517	594	816	669
Cleaning agents used in processes (tonnes)		256	315	465	396

Potentially harmful substances	2004	2005	2006	2007	2008
CRAN materials (tonnes)	1,040	1,030	1,229	1,226	1,177
EII - CRAN materials	100	106	115	107	107
Substances toxic to man (tonnes)	26	25	38	37	27
EII - Toxic substances	100	103	141	128	98
Dangerous for the environment (tonnes)	192	151	232	288	262
EII - Dangerous for the environment	100	84	118	136	129
Organic solvents (tonnes)	296	264	316	281	316
EII - Organic solvents	100	95	104	86	101
SO_2 (tonnes)	59	57	59	62	60
EII - Sulphur dioxide	100	103	97	95	97
NO_X (tonnes)	247	256	271	296	301
EII - Nitrogen oxides	100	111	107	108	115
CO_2 (tonnes)				179,216	180,139

Potentially harmful substances (continued)	2004	2005	2006	2007	2008
HCFCs (tonnes)	3.2	5.6	4.7	10.1	8.8
EII - HCFC	100	187	144	285	260
HFCs (tonnes)	33	53	66	85	83
EII - HFC	100	172	193	231	238
CFC/TRI (tonnes)	0.6	0.2	0.1	<0.1	4.6
EII - CFC/TRI	100	34	14	5	703
Chlorinated oils (tonnes)	12.5	11.2	9.1	9.5	6.7
EII - Chlorinated oil containing clorine	100	96	71	69	51
Kerosene (tonnes)	60	45	53	31	28
EII - Kerosene	100	80	85	46	44
Hexavalent Chromiums (tonnes Chromium)	0,1	0,1	0,4	0,0	-
EII - Chromium (+6)	100	108	261	23	-
Nickel salts (tonnes Nickel)	4.8	4.4	4.1	4.9	1.8
EII - Nickel salts	100	98	83	92	35
Cyanides (tonnes)	5.8	6.0	6.7	5.5	-
EII - Cyanides	100	110	112	85	-

Waste water	2004	2005	2006	2007	2008
Discharged industrial waste water (m^3)	140,459	184,945	169,498	256,465	261,179
EII - Discharged industrial waste water	100	141	117	165	176
Heavy metals in waste water (kg)	79	133	104	192	186
EII - Heavy metals in waste water	100	180	128	221	223

Waste	2004	2005	2006	2007	2008
Waste (tonnes)	75,001	67,569	76,066	79,912	76,710
EII - Waste	100	96	99	96	97
Waste for incineration (tonnes)	1,493	1,579	1,514	1,668	1,776
EII - Incineration	100	113	99	101	113
Waste for landfill (tonnes)	1,736	1,294	1,454	2,882	3,201
EII - Landfill	100	80	81	150	174
Oil and chemical waste (tonnes)	9,693	8,647	10,479	10,829	10,828
EII - Oil and chemical waste	100	95	105	101	106
Waste for recycling (tonnes)	62,079	56,049	62,619	64,532	60,905
EII - Recycled waste	100	96	98	94	93

Accidents	2004	2005	2006	2007	2008
Number of accidents	313	298	292	312	330
Frequency of accidents	19.5	17.8	16.2	15.5	16.8
Total number of days of absence	4,788	4,282	4,406	5,438	6,864
Finger/Hand/Arm accidents					52.1%
Head accidents					9.1%
Legs/Feet accidents					20.6%
Other parts of body accidents					18.2%

GRI INDICATOR TABLE

		Compliance	GC principle	Page	Results/Comments
PROFILE					
Strategy & Analysis					
1.1	Statement from the most senior decision-maker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy				Global Compact statement of continued support
Organisational Profile					
2.1	Name of the organisation			3	
2.2	Primary brands, products, and/or services			2, 28	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures			2, 116	
2.4	Location of organisation's headquarters			3	Nordborgvej 81, DK-6430 Nordborg, Denmark
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report			116	
2.6	Nature of ownership and legal form			65, 113	
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)			28	Information in Annual Report
2.8	Scale of the reporting organisation, including: • Number of employees; • Net sales (for private sector organisations) or net revenues (for public sector organisations); • Total capitalization broken down in terms of debt and equity (for private sector organisations); and • Quantity of products or services provided			4	Quantities not described
2.9	Significant changes during the reporting period regarding size, structure, or ownership including: • The location of, or changes in operations, including facility openings, closings, and expansions; and • Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organisations)			10	See Management Report
2.10	Awards received in the reporting period				Not described
Report Parameters					
3.1	Public policy positions and participation in public policy development and lobbying. (Core)			159	Reporting period is January 1 - December 31, 2008
3.2	Date of most recent previous report (if any)				Annual Report 2007 published on March 19, 2008
3.3	Reporting cycle (annual, biennial, etc.)				Annual
3.4	Contact point for questions regarding the report or its contents				Corporate Communications & Reputation Management, Chief Reputation Officer
3.5	Process for defining report content, including: • Determining materiality; • Prioritizing topics within the report; and • Identifying stakeholders the organisation expects to use the report				Detailed accounting principles are available on the Danfoss Group webpage under Corporate Citizenship
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance			159, 162	The report include all compagnies where Danfoss has an owner share exceeding 50% for the whole year 2008
3.7	State any specific limitations on the scope or boundary of the report			159, 162	See Accounting principles

GRI INDICATOR TABLE

		Compliance	GC principle	Page	Results/Comments
Report Parameters (cont.)					
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations			159, 162	See Accounting principles
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods)			159, 162	See Accounting principles
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report				No significant changes
3.12	Table identifying the location of the Standard Disclosures in the report Identify the page numbers or web links where the following can be found: • Strategy and Analysis 1.1 – 1.2; • Organisational Profile 2.1 – 2.10; • Report Parameters 3.1 – 3.13; • Governance, Commitments, and Engagement 4.1 – 4.17; • Disclosure of Management Approach, per category; • Core Performance Indicators; • Any GRI Additional Indicators that were included; and • Any GRI Sector Supplement Indicators included in the report			This table	
Governance, Commitments & Engagement					
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight				www.danfoss.com
4.2	Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organisation's management and the reasons for this arrangement)			17	Governance section on: www.danfoss.com
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members			18	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body • The use of shareholder resolutions or other mechanisms for enabling minority shareholders to express opinions to the highest governance body; and • Informing and consulting employees about the working relationships with formal representation bodies such as organisation level 'work councils', and representation of employees in the highest governance body				Governance section on: www.danfoss.com
4.14	List of stakeholder groups engaged by the organisation				Information is not available at present
4.15	Basis for identification and selection of stakeholders with whom to engage				No formal basis is established

GRI INDICATOR TABLE

		Compliance	GC principle	Page	Results/Comments
SOCIETY					
SO	**Community**				
SO1	Nature, scope, and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting. (Core)	Partly	1	124	Requirements in terms of how to operate is described in the Ethics Handbook that all leaders must sign
SO	**Corruption**				
SO2	Percentage and total number of business units analyzed for risks related to corruption. (Core)	Full	10	123	All factories and sales companies are asked questions about corruption related risk in the annual CSR survey. Furthermore, country risk analyses are available for all the 25 countries where Danfoss has production facilities. The country risk analyses are updated on a regular basis and are used as a starting point for reviewing the current situation in terms of human rights, labour rights, community relations and corruption when visiting factories
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures. (Core)	Partly	10	123	Danfoss has developed a dilemma game on corruption and bribery, based on dilemmas that regional sales managers have experienced. Similarly, a dilemma game on ethics has been developed. The dilemma games are used when visiting factories and the dilemma game on corruption and bribery is also available in an on-line version at the Intranet. During 2008, more than 300 Danfoss employees (mainly leaders) have been trained in ethics and/or anti-corruption
SO4	Actions taken in response to incidents of corruption. (Core)	Full	10	129	All presidents/general managers are asked questions about corruption and bribery in the annual CSR survey. All results of the Survey are sent to the respondents and the Executive Committee. If a risk or non-compliance occurs, the company in question will be asked to remedy the situation immediately
SO	**Public Policy**				
SO5	Public policy positions and participation in public policy development and lobbying. (Core)	Partly	10	131	Danfoss has established a function; Corporate Public Affairs during 2008.
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. (Additionel)	Partly	10	129, 131	Danfoss' Ethics Handbook states that employees must not use Danfoss' letter head/e-mail address to express personal political views or to link Danfoss' name with party-specific political activities of any kind. Furthermore it is not allowed to financially support political parties on behalf of the company and to use Danfoss effects when taking part in party-specific political activities
SO	**Anti-Competitive Behavior**				
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.(Additional)	Not reported	10		
SO	**Compliance**				
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations. (Core)	Full	7,8	10, 143, 155	All signifant fines (if any) are mentioned in the Management Report section of the Annual Report. All breaches of laws are mentioned in the Environmental Part of the Annual Report
LABOUR PRACTICES					
LA	**Employment**				
LA1	Total workforce by employment type, employment contract, and region. (Core)	Full		141, 166	
LA2	Total number and rate of employee turnover by age group, gender, and region. (Core)	Full	6	136, 166	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations. (Additional)	Not reported	6		

GRI INDICATOR TABLE

		Compliance	GC principle	Page	Results/Comments
LA	**Labour/Management Relations**				
LA4	Percentage of employees covered by collective bargaining agreements.(core)	Not reported	3		
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. (Core)	Partly	3		We follow local law
LA	**Occupationel Health and Safety**				
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. (Additional)	Full	1		79% of all companies have formal committees where all hourly paid employees are represented. In 3% of the companies, some of the hourly paid employees are represented while the remaining companies did not offer this. 70% of all companies have formal committees where all salary paid employees are represented. In 11% of the companies, some of the salary paid employees are represented in formal committees while the remaining companies did not offer this
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region. (Core)	Partly	1	142, 168	Danfoss report the frequency of accidents as well as the severity of the accidents
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.(core)	Not reported	1		
LA9	Health and safety topics covered in formal agreements with trade unions.Health and safety topics covered in formal agreements with trade unions. (Additional)	Not reported	3		
LA	**Training and Education**				
LA10	Average hours of training per year per employee by employee category. (Core)	Partly		149	Danfoss reports the number of hours used for environmental training
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. (Additional)	Partly		137, 166	
LA12	Percentage of employees receiving regular performance and career development reviews. (Additional)	Full		139, 166	
LA	**Diversity and Equal Opportunity**				
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity. (Core)	Full	1,6	141, 166	
LA14	Ratio of basic salary of men to women by employee category. (Core)	Not reported	1,6		
HUMAN RIGHTS					
HR	**Investment and Procurement Practices**				
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening. (Core)	Not reported	1,2,3,4,5,6		
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken. (Core)	Full	1,2,3,4,5,6	125	Audits were carried out at 23% of suppliers in high-risk countries, at 8% of suppliers in medium-risk countries and at 4% of suppliers in low-risk countries. The figures represents suppliers of production goods
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.(Additinal)	Partly	1,2,3,4,5,6	123	59 leaders have been trained in Human Rights and Ethics during 2008

GRI INDICATOR TABLE

		Compliance	GC principle	Page	Results/Comments
HUMAN RIGHTS (continued)					
HR	**Non-discrimination**				
HR4	Total number of incidents of discrimination and actions taken. (Core)	Full	1,6	126	
HR	**Freedom of Association and Collective Bargaining**				
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. (Core)	Full	1,3	128	In countries where national law does not give employees the right to freely choose a trade union or where an established trade union system is not possible, Danfoss will make sure that employees can meet with management in other ways to discuss work-related conditions. This has been established at nine Danfoss sites
HR	**Child Labour**				
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. (Core)	Full	1,5	127	
HR	**Forced and Compulsory Labour**				
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor. (Core)	Full	1,4	127	
HR	**Security Practices**				
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.(Additional)	not reported	1		
HR	**Indigenous Rights**				
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken. (Additional)aspects of human rights that are relevant to operations.(Additional)	Full	1		The CSR survey 2008 disclosed no negative impact on indigenous people
PRODUCT RESPONSIBILITY					
PR	**Customer Health and Safety**				
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. (Core)	Partly	8	156	All new and changed products must be subjected to safety assessments in accordance with valid standards before being released for sale. The assessment must be carried out for all relevant life cycle stages including use and service
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. (Additional)	Not reported	8		
PR	**Customer Health and Safety**				
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. (Core)	Not reported	8		
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.(Additional)	Not reported	8		
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. (Additional)	Not reported			

GRI INDICATOR TABLE

		Compliance	GC principle	Page	Results/Comments
PR	**Non-discrimination**				
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. (Core)	Partly		157	
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes. (Additional)	Not reported			
PR	**Customer Privacy**				
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. (Additional)	Not reported			
PR	**Compliance**				
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. (Core)	Full		10	All signifant fines (if any) are mentioned in the Management Report section of the Annual Report
ENVIRONMENT					
EN	**Materials**				
EN1	Materials used by weight or volume. (Core)	Full	8,9	150, 168	
EN2	Percentage of materials used that are recycled input materials. (core)	Partly	8,9	168	Only paper and cardboard are recycled materials. Most aluminium is also recycled but amount is not recorded
EN	**Energy**				
EN3	Direct energy consumption by primary energy source. (Core)	Full	8	151, 168	
EN4	Indirect energy consumption by primary source. (Core)	Full	8	147, 168	
EN5	Energy saved due to conservation and efficiency improvements. (Additional)	Full	8,9	148, 151	
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives. (Additional)	Partly	8,9	145	Additional information in the Annual Reports sections about the divisions
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.(Additional)	Partly	8,9	145	
EN	**Water**				
EN8	Total water withdrawal by source. (Core)	Full	8	151, 168	
EN9	Water sources significantly affected by withdrawal of water. (Additional)	Not reported	7,8		
EN10	Percentage and total volume of water recycled and reused. (Additional)	Partly	8,9	151, 168	Only limited amount of recycled water from external sources is used. Amount of internally rececled water is not recorded
EN	**Biodiversity**				
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. (Core)	Not reported	8		
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. (Core)	Not reported	7,8		

GRI INDICATOR TABLE

		Compliance	GC principle	Page	Results/Comments
ENVIRONMENT (continued)					
EN	**Diversity cont.**				
EN13	Habitats protected or restored. (Additional)	Not reported	8		
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity. (Additional)	Not reported	8		
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. (Additional)	Not reported	7,8		
EN	**Emissions, Effluents and Waste**				
EN16	Total direct and indirect greenhouse gas emissions by weight. (Core)	Full	7,8,9	146, 168	
EN17	Other relevant indirect greenhouse gas emissions by weight. (Core)	Full	7,8,9	147	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved. (Additional)	Full	7,8,9	145	
EN19	Emissions of ozone-depleting substances by weight. (Core)	Partly	7,8,9	152	
EN20	NO_x, SO_x, and other significant air emissions by type and weight. (Core)	Partly	8	168	Only SO_2 and NO_x are calculated and reported
EN21	Total water discharge by quality and destination. (Core)	Full	8	151, 168	
EN22	Total weight of waste by type and disposal method. (Core)	Full	8	152, 168	
EN23	Total number and volume of significant spills. (Core)	Partly	8	155	Spills are only recorded when they are violating local legislation or requirements
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally. (Additional)	Not reported	7,8		
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff. (Additional)	Not reported	7,8		
EN	**Products and Services**				
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. (Core)	Partly	8,9	149, 156	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category. (Core)	Not reported	8,9		
EN	**Compliance**				
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. (Core)	Partly	8	10	All signifant fines (if any) are mentioned in the Management Report section of the Annual Report
EN	**Transport**				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce. (Additional)	Partly	8	147	
EN	**Overall**				
EN30	Total environmental protection expenditures and investments by type. (Additional)	Not reported	7,8		