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## Sauer-Danfoss Inc. Q1 2008 Earnings Call Transcript

### Question-and-Answer Session

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#### Operator

(Operator Instructions) Your first question comes from Amit Daryanani - RBC Capital Markets.

#### Amit Daryanani - RBC Capital Markets

The capacity additions that you're doing in Europe, I believe a lot of that should be coming live in the June quarter if not the September quarter timeframe. And I'm just curious and I know this will alleviate some of the capacity issues we have, but can you just talk about how you go through a learning curve given all the new capacity and how that might play out on the margin line?

#### Karl J. Schmidt

Well, there are two aspects to this. I think, yes, the capacity that was put on order already last year is coming in and we expect some relief in the summer quarter out of that and once it's phased into the line, it should result in an increased number of products. I think what we expect in terms of margin is really also a derivative of the fact that we currently really have difficulties and need to allocate some products.

That means not all of our customers get products in equal share. And as we've stated before some of the pitfalls of such a program is that some of the larger customers which have a lot of our products on their systems, they get the bulk of the quantities and we have to curtail the more margin bearing accounts, the smaller accounts in Europe and that has put a damper on the margin, and I hope we can get some relief once we have new capacity in place to serve all the market equally again.

#### Amit Daryanani - RBC Capital Markets

Karl, you don't see an impact maybe from incremental capacity and the fact that a factory has to go through a learning curve. Do you think that's going to be an issue or that should be fairly muted?

#### David J. Anderson

I don't think there's a learning curve as far as installing the capacity. I think the pain that we're feeling right now is going to diminish. We're at the higher levels experiencing at this point. And as we put the capacity in place, we'll be able to do two things.

One, operate more efficiently and that's going to improve our margins, as Karl pointed out. And the second one, which Karl talked about is we'll be able to serve a broader range customer base, where

we've really been unable to supply product to some of our higher margin accounts, the lower margin medium-sized accounts.

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