

DANFOSS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31st DECEMBER 1999



REGISTERED NUMBER: 624322

DANFOSS LIMITED

DIRECTOR'S REPORT

The directors present their report and the audited accounts of the company for the year ended 31st December 1999.

STATEMENT OF DIRECTORS RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss for that period. In preparing those financial statements, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

Mr Hans Kirk (Chairman)
Mr Gerhard Strauss

None of the directors held any beneficial interests in the shares of the company during the year nor had a beneficial interest in any contract to which the company was a party.

RESULTS AND DIVIDENDS

The results for the year are shown in the profit and loss account on Page 2. The directors recommend the payment of a £2,000,000 dividend. Payment of a final dividend relating to the year ended 31st December 1998 of £1,000,000 was declared and paid during the year.

REVIEW OF THE BUSINESS

The company's principal activity during the year was the sale of instrumentation, controls and variable speed drives in the electrical and refrigeration industries and of refrigeration compressors. The company is well equipped to improve its position in the relevant market places.

CHARITABLE DONATIONS

The company made charitable donations of £500 during the year. (1998 : £1,050).

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG as auditors of the Company, is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board



J W LEWIS
Secretary

27 April 2000

DANFOSS LIMITED**PROFIT AND LOSS ACCOUNT**

	Notes	Year ended 31.12.99		Year ended 31.12.98	
		£'000	£'000	£'000	£'000
TURNOVER	2		28,490		38,911
Other operating income		234		1,058	
Materials and other external charges		(23,244)		(32,095)	
Staff Costs	3	(3,404)		(3,718)	
Depreciation		(254)		(383)	
Other operating charges		<u>(1,859)</u>		<u>(2,177)</u>	
			<u>(28,527)</u>		<u>(37,315)</u>
OPERATING PROFIT			(37)		1,596
Profit on sale of fixed assets	6		<u>1,306</u>		<u>-</u>
Profit on ordinary activities before interest			1,269		1,596
Interest receivable and similar income			134		8
Interest payable	3		<u>(156)</u>		<u>(239)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION			1,247		1,365
Tax on profit on ordinary activities	5		(50)		(485)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			<u>1,197</u>		<u>880</u>
RESERVES BROUGHT FORWARD			<u>1,157</u>		<u>1,277</u>
AVAILABLE FOR DISTRIBUTION			2,354		2,157
DIVIDENDS			<u>(2,000)</u>		<u>(1,000)</u>
RESERVES CARRIED FORWARD			<u>354</u>		<u>1,157</u>

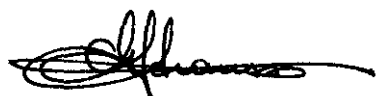
The company has no recognised gains or losses other than the result for the period, which is all in respect of continuing operations.

The notes on pages 4 to 9 form part of these accounts.

DANFOSS LIMITED**BALANCE SHEET - 31 DECEMBER 1999**

	Notes	31.12.99 £'000	31.12.98 £'000
FIXED ASSETS			
Tangible assets	6	170	2,563
Long -Term loan		<u>1,351</u>	<u>nil</u>
TOTAL FIXED ASSETS		<u>1,521</u>	<u>2,563</u>
CURRENT ASSETS			
Stocks		1,128	2,293
Debtors	7	5,974	5,717
Cash at bank and in hand		<u>1,072</u>	<u>12</u>
		<u>8,174</u>	<u>8,022</u>
CREDITORS (amounts falling due within one year)	8	<u>(6,091)</u>	<u>(6,148)</u>
NET CURRENT ASSETS		<u>2,083</u>	<u>1,874</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,604	4,437
PROVISIONS FOR LIABILITIES AND CHARGES	9	<u>nil</u>	<u>(30)</u>
		<u>3,604</u>	<u>4,407</u>
CAPITAL AND RESERVES			
Called up share capital	10	3,250	3,250
Profit and loss account		<u>354</u>	<u>1,157</u>
		<u>3,604</u>	<u>4,407</u>

These Financial Statements were approved by the Board of Directors on 31st March 2000
and were signed on its behalf by:



Director
G Strauss

The notes on pages 4 - 9 form part of these accounts

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999

1 ACCOUNTING POLICIES

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards. The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements. Under Financial Reporting Standard No.1, the Company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary of Danfoss A/S which includes the Company's cash flow in its own published consolidated financial statements.

(1) Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided in equal instalments at rates estimated to write off the cost of the assets over their expected useful lives. These lives are as follows:

Freehold buildings - 25 years
Plant and Equipment - 3 - 6 years
Motor Vehicles - 3 years
Freehold land is not depreciated

(2) Stock

Stock represents goods purchased for resale and is stated at the lower of cost and net realisable value.

(3) Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Trading transactions are translated at the rate ruling on the date of the relevant transaction. Exchange differences are charged or credited to the profit and loss account.

(4) Provision for guarantee claims

Guarantees covering labour and materials are granted on certain products from the date of manufacture or sale, as applicable. At each balance sheet date a provision is made to cover the estimated cost of services under these guarantees.

(5) Deferred taxation

Provision is made at appropriate rates of taxation for the tax liabilities arising from all timing differences other than those which are expected with reasonable probability to continue in the foreseeable future.

(6) Pensions

The regular cost of providing benefits under the company's defined benefit scheme is charged to the profit and loss account. The assets of the scheme are held separately from those of the Company, being invested with insurance companies. Any actuarial surplus or deficit arising on the scheme is spread over the average remaining service lives of current employees.

(7) Leases

The rental charges for operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

DANFOSS LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)****2 TURNOVER**

The turnover for the year represents the total amount invoiced to customers for goods and services net of value added tax.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging the following amounts

	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
Wages and salaries	3,074	3,398
Social security costs	273	263
Other pension costs	57	57
Auditors' remuneration	24	23
Interest payable on bank and other borrowings repayable within five years.	98	74
Interest payable on amounts owed to group undertakings	58	165
Directors' emoluments	146	139
Depreciation	254	383

An amount of £13,000 (1998: £5,000) was paid to the company's auditors in respect of non-audit services.

4 DIRECTORS' EMOLUMENTS

	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
Remuneration as executive	130	115
Benefits in kind	14	17
Pension	2	7
	<u>146</u>	<u>139</u>

The emoluments , excluding pension contributions of the Chairman were £nil (1998:£nil) and those of the highest paid director were £133,000 (1998: £132,000). The details of remuneration benefits for the director resident in Denmark is disclosed in the accounts of the ultimate parent company, Danfoss A/S.

	<u>Number of Directors</u> <u>1999</u>	<u>1998</u>
Retirement benefits are accruing to the following number of directors under Defined Benefit Scheme	<u>1</u>	<u>1</u>

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
UK corporation tax at 30.25% (1998 - 31%)		
- current year	50	511
- prior years	nil	(26)
	<u>50</u>	<u>485</u>

6 TANGIBLE ASSETS

	<u>Freehold Land and Buildings £'000</u>	<u>Plant and Equipment £'000</u>	<u>Motor Vehicles £'000</u>	<u>Total £'000</u>
<u>Cost</u>				
At 1 January 1999	4,504	2,383	7	6,894
Additions and transfers		74	-	74
Disposals	(4,504)	(367)	-	(4,871)
At 31 December 1999	nil	2,090	7	2,097
<u>Depreciation</u>				
At 1 January 1999	2,190	2,134	7	4,331
Charge for the year	159	95		254
Disposals	(2,349)	(309)		(2,658)
At 31 December 1999	nil	1,920	7	1,927
<u>Net Book Amount</u>				
At 31 December 1999	nil	170	nil	170
At 31 December 1998	2,314	249	nil	2,563

Of the £nil (1998: £2,314,000) net book value relating to freehold land and buildings buildings, £nil (1998: £166,000) relates to freehold land.

Freehold land and buildings was disposed in the year and the building leased back. On the basis that the sales proceeds were in excess of the fair value, an element of profit has been deferred. This amount will be amortised over the lease term. Profit not deferred is recorded as a non-operating exceptional item.

Future capital expenditure not provided for in the accounts is as follows:

	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
Authorised and contracted for	Nil	Nil

DANFOSS LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)****7 DEBTORS**

	<u>1999</u> £'000	<u>1998</u> £'000
Trade Debtors	5,154	5,055
Amounts owed by group undertakings	686	453
Prepayments & other debtors	134	209
	<u>5,974</u>	<u>5,717</u>

8 CREDITORS (Amounts falling due within one year)

	<u>1999</u> £'000	<u>1998</u> £'000
Bank overdrafts and loans	nil	1,148
Dividend payable	2,000	nil
Trade creditors	55	239
Amounts owed to group undertakings	1,723	2,899
Corporation Tax	13	511
Other taxation and social security	1,438	1,025
Accruals and sundry creditors	862	326
	<u>6,091</u>	<u>6,148</u>

9 PROVISION FOR LIABILITIES AND CHARGES

	<u>1999</u> £'000	<u>1998</u> £'000
Guarantee provisions	nil	30

No provision for deferred tax has been made. The company has an unprovided potential deferred tax asset of £79,000 (1998 - £121,000) in respect of depreciation charged in advance of capital allowances being claimed.

10 CALLED UP SHARE CAPITAL

	<u>Number</u>	<u>£'000</u>
Authorised, allotted and fully paid ordinary shares of £1 each:		
At 31 December 1999 and 31 December 1998	3,250,000	3,250

DANFOSS LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)****11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
Shareholders' funds at 31 December 1998	4,407	4,527
Profit for the financial year	1,197	880
Dividends	<u>(2,000)</u>	<u>(1,000)</u>
Shareholders' funds at 31 December 1999	<u>3,604</u>	<u>4,407</u>

12 CONTINGENT LIABILITIES

There were no contingent liabilities not provided for at 31 December 1999 (1998 - nil)

13 EMPLOYEES

The average number of persons employed by the Company was 105 (1998 - 125)
all of whom were located in the United Kingdom.

14 OPERATING LEASES

As at 31 December 1999, the company had annual commitments under non-cancellable operating leases as set out below:

	<u>1999</u> <u>£000</u>	<u>1998</u> <u>£000</u>
Operating leases which expire:		
within one year	478	151
within the second to fifth year	<u>755</u>	<u>260</u>
	<u>1,233</u>	<u>411</u>

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1999 (CONTINUED)

15 PENSION COMMITMENTS

The company participates in the Danfoss Holdings (UK) Pension Scheme which provides benefits based upon a final pensionable pay and pensionable service completed with the Company.

The company pays contributions determined on the advice of the Scheme's actuary that are calculated to be sufficient to secure the benefits promised after making allowances for future salary and pension increases. The pension cost for the company during the period is equal to the contributions paid of £57,000 (1998: £57,000).

The last actuarial valuation of the Holding Scheme was made at 31 March 1997 using the Projected Unit method. The most significant assumptions were:

rate of interest	9% pa (pre-retirement), 8% pa (post retirement)
rate of increase in salaries	6.5% pa
rate of pension increases	4% pa
assumed net dividend yield	3.5% pa

The actuarial value of the company's share of the Holding Scheme's assets as at 31 March 1997 represented 131% of the actuarial value of accrued benefits. The market value of the Holdings Scheme's assets as at 31 March 1997 was £19.8m.

16 ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Danfoss A/S which is incorporated in Denmark and is the holding company of the largest group to consolidate the accounts of the company. Group accounts can be obtained from the following address:

Danfoss A/S
DK - 6430
Nordborg
Denmark

The Company's immediate holding company is Danfoss Holding UK Limited.

DANFOSS LIMITED

AUDITORS REPORT TO THE MEMBERS OF DANFOSS LTD

We have audited the financial statements on pages 2 to 9.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 1, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31st December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

Chartered Accountants
Registered Auditors
London

4 May 2000