

DANFOSS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

31st DECEMBER 1998

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 1998.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

Mr Hans Kirk (Chairman)

Mr G. Strauss

Mr J Kristensen

retired 1.4.98

None of the directors held any beneficial interests in the shares of the company during the year.
None of the directors 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 3. The directors do not recommend the payment of a dividend. Payment of a final dividend relating to the 15 months ended 31st December 1997 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 and hydraulic components. The company is well equipped to improve its position in the relevant market places.

POST BALANCE SHEET EVENT

On the 1st January 1999, the assets of the Fluid Power division were sold at their book value.

CHARITABLE DONATIONS

The company made charitable donations of £1,050 during the year (1997:£1,845).

YEAR 2000

Danfoss Ltd is participating in the Danfoss A/S Group's worldwide programme which is addressing the impact of Year 2000 on technology, computer and business critical systems. The programme is addressing administration, trading, telecommunications, security and process control systems used in manufacturing plants. The programme has included a detailed review of all Danfoss systems around the world and plans have been implemented to address the completion of all major issues by February 1999.

We are addressing the business risk from third parties with whom we deal on business or financial matters including key customers and suppliers. Contingency plans are being developed to minimise risk of non-compliance caused by disruption from areas where we do not have direct control. There is insignificant incremental expenditure for ensuring that all technology systems will be Year 2000 compliant.

EUROPEAN MONETARY UNION

The Euro will be introduced from 1st January 1999 and the implications for Danfoss Ltd are not significant. The Company continues to develop strategies to address the issues. These matters are headed by Danfoss A/S and working parties were and are preparing Danfoss Ltd to deal with the ensuing business issues. Incurred and future costs on Danfoss Limited's Euro programme are not projected to be significant.

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

J W LEWIS
Secretary

23rd April

1999

DANFOSS LIMITED

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;
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

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

AUDITORS REPORT TO THE MEMBERS OF DANFOSS LIMITED

We have audited the financial statements on pages 3 to 10.

Respective responsibility of directors and auditors

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 relevant 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 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 31 December 1998 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
30 April 1999

DANFOSS LIMITED

PROFIT AND LOSS ACCOUNT

| | Notes | 12 months ended 31.12.98 £'000 | 15 months ended 31.12.97 £'000 |
|--|-------|--------------------------------------|--------------------------------------|
| TURNOVER | 2 | 38,911 | 38,887 |
| Other operating income | | 1,058 | 1,467 |
| Materials and other external charges | | (32,095) | (31,120) |
| Staff Costs | 3 | (3,718) | (4,498) |
| Depreciation | | (383) | (566) |
| Other operating charges | | (2,177) | (2,602) |
| | | <u>(37,315)</u> | <u>(37,319)</u> |
| OPERATING PROFIT | | 1,596 | 1,568 |
| Interest receivable and similar income | | 8 | 18 |
| Interest payable | 3 | <u>(239)</u> | <u>(243)</u> |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | 3 | 1,365 | 1,343 |
| Tax on profit on ordinary activities | 5 | (485) | (597) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | <u>880</u> | <u>746</u> |
| RESERVES BROUGHT FORWARD | | <u>1,277</u> | <u>1,331</u> |
| | | 2,157 | 2,077 |
| DIVIDENDS | | <u>(1,000)</u> | <u>(800)</u> |
| RESERVES CARRIED FORWARD | | <u>1,157</u> | <u>1,277</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 5 to 10 form part of these accounts.

DANFOSS LIMITED

BALANCE SHEET - 31 DECEMBER

| | Notes | 31.12.98 £'000 | 31.12.97 £'000 |
|--|-------|-----------------------------|-----------------------------|
| FIXED ASSETS | | | |
| Tangible assets | 6 | <u>2,563</u> | <u>2,762</u> |
| CURRENT ASSETS | | | |
| Stocks | | 2,293 | 2,361 |
| Debtors | 7 | 5,717 | 5,760 |
| Cash at bank and in hand | | 12 | 155 |
| | | <u>8,022</u> | <u>8,276</u> |
| CREDITORS (amounts falling due within one year) | 8 | <u>(6,148)</u> | <u>(6,451)</u> |
| NET CURRENT ASSETS | | <u>1,874</u> | <u>1,825</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 4,437 | 4,587 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 9 | <u>(30)</u> <u>4,407</u> | <u>(60)</u> <u>4,527</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 10 | 3,250 | 3,250 |
| Profit and loss account | | <u>1,157</u> | <u>1,277</u> |
| | | <u>4,407</u> | <u>4,527</u> |

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

23rd April 1999



Director
G Strauss

The notes on pages 5 - 10 form part of these accounts

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998

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 assets and depreciation

Tangible 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 1998 (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/(crediting) the following amounts:

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Wages and salaries | 3,398 | 4,002 |
| Social security costs | 263 | 352 |
| Other pension costs | 57 | 144 |
| Auditors' remuneration | 23 | 22 |
| Interest payable on bank and other borrowings repayable within five years. | 74 | 30 |
| Interest payable on amounts owed to group undertakings | 165 | 212 |
| Directors' emoluments | 139 | 208 |
| Depreciation | 383 | 566 |

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

4 DIRECTORS' EMOLUMENTS

| | 1998 £'000 | 1997 £'000 |
|---------------------------|---------------|---------------|
| Remuneration as executive | 115 | 144 |
| Benefits in kind | 17 | 15 |
| Pension | 7 | 49 |
| | <u>139</u> | <u>208</u> |

The emoluments, excluding pension contributions of the chairman were nil (1997: nil) and those of the highest paid director were £132,000 (1997: £159,000). The details of remuneration benefits for directors resident in Denmark are disclosed in the accounts of the ultimate parent company, Danfoss /AS.

| | 1998 | 1997 |
|---|----------|----------|
| Retirement benefits are accruing to the following number of directors under Defined Benefit Scheme: | <u>1</u> | <u>1</u> |

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

| | 1997 £'000 | 1996 £'000 |
|--|---------------|---------------|
| UK corporation tax at 31% (1997 - 33%) | | |
| - current year | 511 | 598 |
| - prior years | <u>(26)</u> | <u>(1)</u> |
| | <u>485</u> | <u>597</u> |

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

6 TANGIBLE ASSETS

| | Freehold Land and Buildings £'000 | Plant and Equipment £'000 | Motor Vehicles £'000 | Total £'000 |
|-------------------------|--|--|-------------------------------------|------------------------|
| <u>Cost</u> | | | | |
| At 1 January 1998 | 4,504 | 2,199 | 7 | 6,710 |
| Additions and transfers | | 184 | - | 184 |
| Disposals | - | - | - | - |
| At 31 December 1998 | 4,504 | 2,383 | 7 | 6,894 |
| <u>Depreciation</u> | | | | |
| At 1 January 1998 | 2,016 | 1,925 | 7 | 3,948 |
| Charge for the year | 174 | 209 | | 383 |
| Disposals | - | - | - | - |
| At 31 December 1998 | 2,190 | 2,134 | 7 | 4,331 |
| <u>Net Book Amount</u> | | | | |
| At 31 December 1998 | 2,314 | 249 | nil | 2,563 |
| At 31 December 1997 | 2,488 | 274 | nil | 2,762 |

Of the £2,314,000 (1997: £2,488,000) net book value relating to freehold land and buildings, £166,000 (1997: £166,000) relates to freehold land.

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

| | 1998 £'000 | 1997 £'000 |
|-------------------------------|-----------------------|-----------------------|
| Authorised and contracted for | Nil | Nil |

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

7 DEBTORS

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|------------------------------------|----------------------|----------------------|
| Trade Debtors | 5,055 | 5,510 |
| Amounts owed by group undertakings | 453 | 99 |
| Prepayments & other debtors | 209 | 151 |
| | <u>5,717</u> | <u>5,760</u> |

8 CREDITORS (Amounts falling due within one year)

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|---|----------------------|----------------------|
| Trade creditors | 239 | 109 |
| Amounts owed to group undertakings | 2,899 | 2,325 |
| Short term loan owed to group undertaking | - | 2,250 |
| Short term bank overdraft | 1,148 | - |
| Corporation Tax | 511 | 599 |
| Other taxation and social security | 1,025 | 912 |
| Accruals and sundry creditors | 326 | 256 |
| | <u>6,148</u> | <u>6,451</u> |

9 PROVISION FOR LIABILITIES AND CHARGES

| | <u>1998</u> £'000 | <u>1997</u> £'000 |
|----------------------|----------------------|----------------------|
| Guarantee provisions | 30 | 60 |
| | <u>30</u> | <u>60</u> |

No provision for deferred tax has been made. The company has an unprovided potential deferred tax asset of £121,000 (1997 - £129,000) 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 1998 and 31 December 1997 | 3,250,000 | 3,250 |
| | <u>3,250,000</u> | <u>3,250</u> |

DANFOSS LIMITED**NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)****11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

| | <u>1998</u> <u>£'000</u> | <u>1997</u> <u>£'000</u> |
|---|---|---|
| Shareholders' funds at 31 December 1997 | 4,527 | 4,581 |
| Profit for the financial year | 880 | 746 |
| Dividends | <u>(1,000)</u> | <u>(800)</u> |
| Shareholders' funds at 31 December 1998 | <u><u>4,407</u></u> | <u><u>4,527</u></u> |

12 CONTINGENT LIABILITIES

There were no contingent liabilities not provided for at 31 December 1998 (1997 - nil)

13 EMPLOYEES

The average number of persons employed by the Company was 136 (1997 - 125)
all of whom were located in the United Kingdom.

14 OPERATING LEASES

As at 31 December 1998, the Company had annual commitments under non-cancellable operating leases as set out below:

| | <u>1998</u> <u>£000</u> | <u>1997</u> <u>£000</u> |
|---------------------------------|--|--|
| Operating leases which expire: | | |
| within one year | 151 | 82 |
| within the second to fifth year | <u>260</u> | <u>437</u> |
| | <u><u>411</u></u> | <u><u>519</u></u> |

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1998 (CONTINUED)

15 PENSION COMMITMENTS

The company participate 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 (1997: £144,000).

The last actuarial valuation of the Holding Scheme was made at 31st 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 | 4.0% pa |
| assumed net dividend yield | 3.5% pa |

The actuarial value of the Company's share of the Holding Scheme's assets, as at 31st March 1997, represented 131% of the actuarial value of accrued benefits. The market value of the Holdings Scheme's assets as at 31st 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,