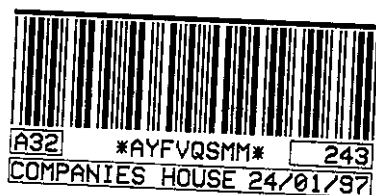


DANFOSS LIMITED

DIRECTORS' REPORT AND ACCOUNTS

30TH SEPTEMBER 1996

REGISTERED NUMBER: 624322



DANFOSS LIMITED

DIRECTOR'S REPORT

The directors present their report and the audited accounts of the company for the year ended 30th September 1996.

DIRECTORS AND THEIR INTERESTS

The following directors held office during the year:

	Appointed	Resigned
Mr Hans Kirk (Chairman)	1st April 1996	
Mr H Petersen		1st April 1996
Mr G. Strauss		
Mr J. Kristensen		

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 5. The directors do not recommend the payment of a dividend. Payment of a final dividend relating to the year ended 30th September 1995 of £700,000 was made 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.

CHARITABLE DONATIONS

The company made charitable donations of £ 1,275 during the year.

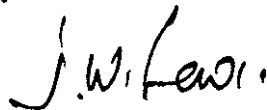
AUDITORS

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.

FIXED ASSETS

Movement in tangible fixed assets are disclosed in Note 6 to these accounts.

By Order of the Board



J W LEWIS
Company Secretary

19th November 1996

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.

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 4 to 13.

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 30 September 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

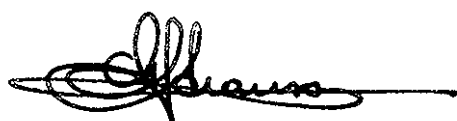
London

Date 3 December 1996

DANFOSS LIMITED**BALANCE SHEET - 30 SEPTEMBER 1996**

	Notes	1996 <u>£'000</u>	1995 <u>£'000</u>
FIXED ASSETS			
Tangible assets	6	<u>3,251</u>	<u>3,633</u>
CURRENT ASSETS			
Stocks		2,149	2,366
Debtors	7	5,681	6,892
Cash at bank and in hand		492	1
		<u>8,322</u>	<u>9,259</u>
CREDITORS (amounts falling due within one year)	8	<u>(6,932)</u>	<u>(8,211)</u>
NET CURRENT ASSETS		<u>1,390</u>	<u>1,048</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,641	4,681
PROVISIONS FOR LIABILITIES AND CHARGES	9	<u>(60)</u> <u>4,581</u>	<u>(117)</u> <u>4,564</u>
CAPITAL AND RESERVES	11		
Called up share capital	10	3,250	3,250
Profit and loss account		<u>1,331</u>	<u>1,314</u>
		<u>4,581</u>	<u>4,564</u>

These Financial Statements were approved by the Board of Directors on 7th November 1996 and were signed on its behalf by:



Director
G Strauss

The notes on pages 7 - 13 form part of these accounts

DANFOSS LIMITED

PROFIT AND LOSS ACCOUNT - 30 SEPTEMBER 1996

	Notes	<u>£'000</u>	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
TURNOVER	2		31,370	29,098
Change in Stocks of goods held for resale		(110)		(191)
Other operating income		1,345		1,210
Materials and other external charges		(24,403)		(22,572)
Staff Costs	3	(3,705)		(3,359)
Depreciation		(465)		(468)
Other operating charges		(2,601)		(2,548)
			<u>(29,939)</u>	<u>(27,928)</u>
OPERATING PROFIT			1,431	1,170
(Loss)/ Profit on disposal of fixed assets			(1)	28
Interest payable	3		<u>(232)</u>	<u>(219)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3		1,198	979
Tax on profit on ordinary activities	5		(481)	(358)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION			<u>717</u>	<u>621</u>
RESERVES BROUGHT FORWARD			<u>1,314</u>	<u>693</u>
			2,031	1,314
DIVIDENDS			<u>(700)</u>	<u>-</u>
RESERVES CARRIED FORWARD			<u><u>1,331</u></u>	<u><u>1,314</u></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 7 to 13 form part of these accounts.

DANFOSS LIMITED

CASHFLOW STATEMENT - 30 SEPTEMBER 1996

	Notes	1996 £'000	1995 £'000
Net cash inflow from operating activities	15a	3,034	1,178
Return on investment and servicing of finance			
Interest paid		(233)	(219)
Dividends paid		<u>(700)</u>	<u>(1,300)</u>
Net cash outflow from investment and servicing of finance		(933)	(1,519)
Taxation			
Corporation tax paid		(344)	(188)
Investing activities			
Purchase of tangible fixed assets		(86)	(247)
Sale of tangible fixed assets		<u>2</u>	<u>67</u>
Net cash (outflow) / inflow from investing activities		(84)	(180)
Net cash inflow/(outflow) before financing		<u>1,673</u>	<u>(709)</u>
Financing			
Loan from parent undertaking		-	1,096
Increase in cash and cash equivalents	15c	<u><u>1,673</u></u>	<u><u>387</u></u>

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1996

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.

(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 Equipmen - 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 - 30 SEPTEMBER 1996 (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:

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Wages and salaries	3,246	2,950
Social security costs	263	240
Other pension costs	196	169
Hire of plant and machinery including computer rentals		11
Auditors' remuneration	17	19
Profit/(Loss) on sale of fixed assets	(1)	28
Interest payable on bank and other borrowings repayable within five years.	58	81
Interest payable on amounts owed to group undertakings	174	138
Directors' emoluments	139	134
Depreciation	465	468

An amount of £7,300 was paid to the company's auditors in respect of non-audit services.

4 DIRECTORS' EMOLUMENTS

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Remuneration as executive	115	104
Benefits in kind	15	23
Pension	9	6
	<u>139</u>	<u>133</u>

The emoluments, excluding pension contributions of the chairman were nil (1995: NIL) and those of the highest paid director were £130,281 (1995: £77,378).

The emoluments, excluding pension contributions of the directors (including the chairman and highest paid directors) were within the following ranges:-

	<u>Number of Directors</u>	
	<u>1996</u>	<u>1995</u>
£0 - £5,000	3	3
£50,001-£55,000	-	1
£75,001-£80,000	-	1
£130,000-£140,000	1	-

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
UK corporation tax at 33% (1995 - 33%)		
- current year	485	349
- prior years	(4)	9
	<u>481</u>	<u>358</u>

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1996 (CONTINUED)

6 TANGIBLE ASSETS

	Freehold Land and Buildings £'000	Plant and Equipment £'000	Motor Vehicles £'000	Total £'000
<u>Cost</u>				
At 1 October 1995	4,457	2,253	7	6,717
Additions and transfers	41	45		86
Disposals		(164)		(164)
	<u>4,498</u>	<u>2,134</u>	<u>7</u>	<u>6,639</u>
At 30 September 1996	<u>4,498</u>	<u>2,134</u>	<u>7</u>	<u>6,639</u>
<u>Depreciation</u>				
At 1 October 1995	1,627	1,451	6	3,084
Charge for the year	172	292	1	464
Disposals		(161)		(161)
	<u>1,799</u>	<u>1,582</u>	<u>7</u>	<u>3,388</u>
At 30 September 1996	<u>1,799</u>	<u>1,582</u>	<u>7</u>	<u>3,388</u>
<u>Net Book Amount</u>				
At 30 September 1996	2,699	552	0	3,251
At 30 September 1995	2830	802	1	3633

Of the £2,699,061 (1995: £2,830,000) net book value relating to freehold land and buildings, £166,091 (1995: £166,091) relates to freehold land.

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

	1996 £'000	1995 £'000
Authorised and contracted for	Nil	Nil

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1996 (CONTINUED)

7 DEBTORS

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Trade Debtors	5,417	6,393
Amounts owed by group undertakings	118	377
Prepayments & other debtors	146	122
	<u>5,681</u>	<u>6,892</u>

8 CREDITORS (Amounts falling due within one year)

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Bank overdrafts and loans	0	1,182
Trade creditors	200	248
Amounts owed to group undertakings	2,851	2,857
Short term loan owed to group undertaking	2,600	2,600
Corporation Tax	485	349
Other taxation and social security	430	602
Accruals and sundry creditors	366	373
	<u>6,932</u>	<u>8,211</u>

9 PROVISION FOR LIABILITIES AND CHARGES

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Guarantee provisions	60	117
	<u>60</u>	<u>117</u>

No provision for deferred tax has been made. The company has an unprovided potential deferred tax asset of £100,000 (1995 - 100,000) 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 30 September 1995 and 30 September 1996	3,250,000	3,250
	<u>3,250,000</u>	<u>3,250</u>

DANFOSS LIMITED**NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1996 (CONTINUED)****11 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	<u>1996</u> <u>£'000</u>	<u>1995</u> <u>£'000</u>
Shareholders' funds at 30 September 1995	4,564	3,943
Profit for the financial year	717	621
Dividends	<u>(700)</u>	<u>-</u>
Shareholders' funds at 30 September 1996	<u>4,581</u>	<u>4,564</u>

12 CONTINGENT LIABILITIES

There were no contingent liabilities not provided for at 30 September 1996 (1995 - nil)

13 EMPLOYEES

The average number of persons employed by the Company was 121 (1995 - 120)
all of whom were located in the United Kingdom.

14 OPERATING LEASES

As at 30 September 1996, the company had annual commitments under non-cancellable operating leases as set out below:

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Operating leases which expire:		
within one year	82	291
within the second to fifth year	518	186
	<u>600</u>	<u>477</u>

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1996 (CONTINUED)

15 CASHFLOW STATEMENT

a. Reconciliation of operating profit to net cash inflow from operating activities

	1996 £000	1995 £000
Operating profit	1,431	1,170
Depreciation	465	468
Decrease in stocks	217	191
Decrease in debtors	1211	(491)
Decrease in creditors	(290)	(160)
	<u>3,034</u>	<u>1,178</u>

b. Analysis of changes in financing during the year

Balance at 1 October	(2,600)	(1,504)
Increase in loan from group undertaking	-	(1,096)
Balance 30 September	<u>(2,600)</u>	<u>(2,600)</u>

c. Analysis of changes in cash and cash equivalents

Balance at 1 October 1995	(1,181)
Net cash inflow	<u>1673</u>
Balance at 30th September 1996	<u>492</u>

d. Analysis of the balance of cash and cash equivalents as shown in the balance sheet

	1996 £'000	1995 £'000	change in yr. £'000
Cash at bank and in hand	492	1	491
Bank overdraft	-	(1182)	(1182)
	<u>492</u>	<u>(1181)</u>	<u>1673</u>

DANFOSS LIMITED

NOTES TO THE ACCOUNTS - 30 SEPTEMBER 1996 (CONTINUED)

16 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 joined the Holdings Scheme with effect from 1st September 1995 and all the assets and liabilities of the previous scheme were transferred to the Holdings Scheme.

Since 1st September 1995, the Company has continued contributions at the rate that would have been paid to the earlier scheme. Those contributions were assessed by an independent qualified actuary using the projected unit method of valuation as at 1st January 1993. The principal assumptions were that the return on investments would be 9% pa, general salary increases would be 7% pa, pension increases would be 4% pa in excess of the guaranteed minimum pension and that dividend increases would be 4.4% pa. Contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Company,

The valuation as at 1st January 1993 of the previous scheme, showed that the market value of the scheme's assets was **£6,987,000** and that the actuarial value of those assets represented 137% of the benefits that had accrued to members, after allowing for expected future increases in salaries. The contributions made by the company continued at 8% of salaries.

The next valuation of the enlarged Holdings Scheme is due as at 31st March 1998 and will include a reassessment of the position of the Company's section of the Scheme.

The pension cost for the Company is equal to the contributions paid by the Company of **£196,206** (1995 - **£169,000**).

17 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, registered in England.