Danfoss Limited

Directors' report and financial statements

Registered number 624322

31 December 2006

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Contents

Directors' report

The directors present the directors' report and financial statements for the year ended 31 December 2006

Principal activities

The principal activity of the company during the year has been the sale of controls and variable speed drives in the electrical and refrigeration industries and of refrigeration compressors

Business review

Danfoss Drives Division finished slightly behind the budget for 2006 but recorded an exceptional result in terms of growth over the previous years result in excess of 8% this being almost double the market expectation The Division has progressively increased its turnover over the last three years to 30% higher than the close of budget year 2003 with clear indications of a significant increase in market share In all sectors

The Division has also launched a number of new products into the market during 2006 ranging from the VLT HVAC drive focused on the building services industry together with the extension to the available power ranges opening up new markets in the Water and Waste Water sectors

The outlook looks also promising with additions to the external sales team strengthen the sales force in the Food and Beverage and Materials handling markets in particular

Danfoss RA-IA Division had a very successful 2006 finishing over 8% above budget whilst building on the growth we achieved in 2005 This was accomplished in a very mature market for IA products within an OEM sector that has experienced a continuing amalgamation of business corporations and also a movement to countries with lower production costs

These results have been achieved by RA-IA focussing on 6 strategic Business Areas (BA's) All have shown growth during 2006 but one, BA Marine, has been particularly buoyant with turnover increasing by over 60% in GB for IA At the beginning of 2006 Danfoss also made a joint acquisition of a company called "Senstronics", based in Newton Aycliffe, whose product portfolio significantly enhanced our range of Pressure Transmitters and offered increased opportunities in two of our other target BA markets - Hydraulic and Air RA- IA expectation is that by focussing our resources and expertise on the Key BA's identified will give us the best opportunity of continuing our trend of growth

Danfoss Gear Motor Division started 2006 loosing 2 major accounts accounting for 500k of the budgeted turnover, this left us fighting to bring in new business to cover our budgets and to make up this shortfall We managed to secure several new customers whose business we can continue to nurture and grow 2007 is set to be an on target year bringing us back to the budget levels expected in 2006

Danfoss Refrigeration and Air Conditioning Division had good sales and at year end was just over budget, with a healthy growth in excess of +7% over 2005 Most RA business areas performed well, in particular the sales growth in Food Retail was excellent Also we saw very good growth from the Wholesaler and Installer Business Area as the market performed well and we ventured into new areas, whilst in OEM we saw an increase in imports of lower cost finished goods which slowed this usually buoyant market

The outlook for 2007 is very good as major end users raise their focus on products and systems that deliver energy efficiency and environmental benefits, and new products become available to support these initiatives and help maintain market leader status in these fields

Performance follow up

Danfoss measures it local performance according to its internal growth perspectives and budgets On a monthly basis, all product lines and Business Areas are controlled and evaluated if performance divides to the above mentioned indicators If the business has deviations, immediate actions are set in place to analyze and action plans are made The controlling task is handled at Corporate Finance who will escalate the results of their controlling down the organisation

Directors' report *(continued)*

Risk management

The Group's central financial department, in cooperation with the Group's business units, handle overall monitoring and control of the Group's financial and operational risk management The control is based on policies established with the Danfoss Board and Executive Committee

The risk factors are divided into 2 groups' strategic/operational risk and financial risks

Strategic/operational risk covers the following areas supplier management, contract management, company acquisition and integration and illegal copying of Danfoss products

Financial risk covers the following areas, currency exposure, interest rate risk, liquidity risk, credit risk, other hedging and pension obligation risks

Proposed dividend

The directors do not recommend the payment of a dividend *(2005 £nil)*

Directors and directors' interests

The directors who held office during the year were as follows

Gerhard Strauss	(resigned 31 March 2007)
Roland Fritsch	
Ole Steen Anderson	(resigned 31 March 2007)
Henrik Skourup Hansen	(appointed 1 April 2007)

The interests of all directors are disclosed in the directors' reports of other group companies

Political and charitable contributions

The company made no political or charitable contributions during the year *(2005 £nil)*

Disclosure of information to auditors

The directors who held office at the date of approval of the directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company, is to be proposed at the forthcoming Annual General Meeting

By order of the board

HS Hansen
Secretary

Capswood
Oxford Road
Denham
Buckinghamshire
UB9 4LH

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have 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

KPMG LLP
Aquis Court
31 Fishpool Street
St Albans
AL3 4RF
United Kingdom

Independent auditors' report to the members of Danfoss Limited

We have audited the financial statements of Danfoss Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

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 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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

Independent auditors' report to the members of Danfoss Limited *(continued)*

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG LLP 3/10/07

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2006

	Note	2006 £000	As restated 2005 £000
Turnover	*1*	**35,356**	31,218
Cost of sales		**(27,138)**	(25,029)
Gross profit		**8,218**	6,189
Administrative expenses		**(8,401)**	(7,002)
Operating loss		**(183)**	(813)
Interest payable and similar charges	*5*	**(154)**	(69)
Other finance costs	*17*	**(34)**	(28)
Loss on ordinary activities before taxation	*2*	**(371)**	(910)
Tax on loss on ordinary activities	*6*	**214**	312
Loss for the financial year		**(157)**	(598)

The result for the current and previous year is derived from continuing activities

A reconciliation of movement in shareholders' funds is set out in note 18

Balance Sheet
at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Fixed assets					
Intangible assets	*8*		**141**		211
Tangible assets	*9*		**193**		253
			334		464
Current assets					
Stocks	*10*	**744**		715	
Debtors	*11*	**7,435**		6,250	
Cash at bank and in hand		**81**		-	
		8,260		6,965	
Creditors amounts falling due within one year	*12*	**(5,411)**		(4,247)	
Net current assets			**2,849**		2,718
Total assets less current liabilities			**3,183**		3,182
Provisions for liabilities and charges	*16*		**(14)**		-
Net assets excluding pension liability			**3,169**		3,182
Pension liability	*17*		**(552)**		(439)
Net assets including pension liability			**2,617**		2,743
Capital and reserves					
Called up share capital	*13*		**3,250**		3,250
Profit and loss account			**(633)**		(507)
Shareholders' funds	*18*		**2,617**		2,743

These financial statements were approved by the board of directors on 2 October 2007 and were signed on its behalf by

HS Hansen
Director

Statement of total recognised gains and losses
for the year ended 31 December 2006

	2006 £000	2005 £000
Loss for the financial year	**(157)**	(555)
Actuarial loss recognised in the pension scheme	**(16)**	(69)
Charge in relation to share based payments	**47**	-
Total recognised gains and losses relating to the financial year	**(126)**	(624)
Prior year adjustment (as explained in note 19)	**-**	64
Total gains and losses recognised since last annual report	**(126)**	(560)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

In these financial statements, FRS 20 'Share-based payments' has been adopted for the first time The accounting policies under these new standards are set out below together with an indication of the effects of their adoption

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

As the company is a wholly owned subsidiary of Danfoss A/S, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of Danfoss A/S, within which this company is included, can be obtained from the address given in note 21

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost and are amortised to nil by equal annual instalments over their useful economic lives as follows

Purchased software	-	3½ years

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Leasehold buildings	-	6 to 15 years
Plant and machinery	-	3 to 6 years
Motor vehicles	-	4 years

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year Turnover is recognised when goods are despatched from the warehouse All turnover is derived from activities within the UK

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease

Notes *(continued)*

1 Accounting policies *(continued)*

Post retirement benefits

The company participates in a group pension scheme providing benefits based on final pensionable pay The assets are held separately from those of the group The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

In addition, the company operates an unfunded unapproved deferred benefit scheme Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability The pension scheme deficit is recognised in full The movement in the scheme deficit is split between operating charges, finance costs and, in the statement of total recognised gains and losses, actuarial gains and losses Further details are shown in note 17 of these financial statements

Share based payments

The share option programme allows certain employees to acquire shares of the Company The fair value of options granted after 7 November 2002 and those not yet vested as at 1 January 2006 is recognised as an employee expense with a corresponding increase in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting

For cash settled share based payment transactions, with the exception of those awards settled before the transition date the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Stocks

Stocks are stated at the lower of cost and net realisable value In determining the cost of raw materials and work in progress standard cost is used For finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads and labour

Taxation

The charge for taxation is based on the loss for the year Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Notes *(continued)*

2 Loss on ordinary activities before taxation

	2006	2005
	£000	£000
Loss on ordinary activities before taxation is stated after charging		
Depreciation	**60**	46
Amortisation of intangible assets	**70**	35
Hire of other assets - operating leases	**612**	688

Auditors' remuneration

	2006	2005
	£000	£000
Audit of these financial statements	**25**	35
Amounts receivable by the auditors and their associates in respect of		
Other services relating to taxation	**21**	11

3 Remuneration of directors

The remuneration of all directors was borne by fellow group undertakings Retirement benefits are accruing for one director under the company and group defined benefit schemes *(2005 one)*

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2006	2005
Sales	**84**	88
Distribution	**4**	1
Administrative	**11**	15
	99	104

The aggregate payroll costs of these persons were as follows	**2006**	2005
	£000	£000
Wages and salaries	**3,842**	3,596
Social security costs	**395**	350
Other pension costs – funded defined benefits and money purchase scheme (see note 17)	**293**	246
Other pension costs – unfunded defined benefits scheme (see note 17)	**112**	51
Share based payments (see note 20)	**47**	43
	4,579	4,286

Notes *(continued)*

5 Interest payable and similar charges

	2006 £000	2005 £000
On bank loans and overdrafts	**108**	49
Net exchange losses	**46**	20
	154	69

6 Taxation

	2006	2005
Analysis of credit in period	**£000**	£000
UK corporation tax		
Current tax on income for this period	-	(209)
Adjustments in respect of prior year	**(192)**	32
Total current tax (see note below)	**(192)**	(177)
Deferred tax	**(33)**	(135)
Adjustments in respect of prior year	**11**	-
Total deferred tax (see note 15)	**(22)**	(135)
Tax on loss on ordinary activities	**(214)**	(312)

The current tax credit for the period is higher *(2005 lower)* than the standard rate of corporation tax in the UK of 30% *(2005 30%)* The differences are explained below

	2006	As restated 2005
Current tax reconciliation	**£000**	£000
Loss on ordinary activities before tax	**(371)**	(910)
Current tax at 30% *(2005 30%)*	**(111)**	(273)
Effects of		
Expenses not deductible for tax purposes	**105**	34
Capital allowances for the year (in excess of) depreciation	**(3)**	(18)
Other timing differences	**(12)**	35
Adjustments in respect of prior year	**(192)**	32
Losses carried forward	**21**	-
Total current tax credit (see above)	**(192)**	(177)

The recently announced changes in corporation tax rate from 30% to 28% on 1 April 2008 and the gradual phasing out of certain capital allowances were enacted by the House of Commons on 27 June 2007 This change will have a significant effect for the purposes of the current and deferred tax calculations

Notes *(continued)*

7 Dividends

The aggregate amount of dividends comprises

	2006 **£000**	2005 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	-	400

The aggregate amount of dividends proposed and recognised as liabilities as at the year end is £nil *(2005 £nil)*

8 Intangible fixed assets

	Purchased software £000
Cost	
At 1 January 2006 and 31 December 2006	246
Amortisation	
At 1 January 2006	35
Charge for the year	70
At 31 December 2006	105
Net book value	
At 31 December 2006	**141**
At 31 December 2005	211

Notes *(continued)*

9 Tangible fixed assets

	Short leasehold properties £000	Plant and machinery £000	Motor Vehicles £000	Total £000
Cost				
At 1 January 2006 and 31 December 2006	361	193	7	561
Depreciation				
At 1 January 2006	127	174	7	308
Charge for the year	41	19	-	60
At 31 December 2006	168	193	7	368
Net book value				
At 31 December 2006	**193**	**-**	**-**	**193**
At 31 December 2005	234	19	-	253

10 Stocks

	2006 £000	2005 £000
Raw materials and consumables	**150**	183
Finished goods and goods for resale	**594**	532
	744	715

Notes *(continued)*

11 Debtors

	2006 £000	2005 £000
Trade debtors	**5,879**	5,145
Amounts owed by group undertakings	**1,076**	351
Prepayments and accrued income	**124**	454
Corporation tax recoverable	**248**	209
Deferred tax asset (see note 15)	**108**	91
	7,435	6,250

12 Creditors: amounts falling due within one year

	2006 £000	2005 £000
Bank loans and overdraft	**1,521**	1,154
Trade creditors	**227**	212
Amounts owed to group undertakings	**2,456**	1,977
Taxation and social security	**677**	544
Other creditors	**166**	225
Accruals and deferred income	**364**	135
	5,411	4,247

Notes *(continued)*

13 Called up share capital

	2006	2005
	£000	£000
Authorised, allotted, called up and fully paid		
3,250,000 ordinary shares of £1 each	**3,250**	3,250
Shares classified in shareholders' funds	**3,250**	3,250

14 Commitments

(a) There were no capital commitments at the end of the financial year

(b) Annual commitments under non-cancellable operating leases are as follows

	2006		2005	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Operating leases which expire				
Within one year	-	**43**	-	91
In the second to fifth years inclusive	-	**129**	-	137
Over five years	**326**	-	327	-
	326	**172**	327	228

Notes *(continued)*

15 Deferred taxation

The elements of deferred tax are as follows

	2006 **£000**	2005 £000
Difference between accumulated depreciation and capital allowances	**86**	59
Other timing differences	**1**	20
Trade losses carried forward	**21**	12
Deferred tax asset (see note 11)	**108**	91
Deferred tax on deficit in pension scheme (see note 17)	**49**	44
Total recognised deferred tax asset	**157**	135

16 Provisions for liabilities and charges

	Warranty provision £000
At 1 January 2006	-
Charged to the profit and loss account in the year	**14**
At 31 December 2006	**14**

Notes *(continued)*

17 Pension scheme

The company participates in the Danfoss Holdings (UK) Pension Scheme (the Scheme) which provides benefits based upon final pensionable pay and pensionable service completed with the company The assets of the Scheme are held separately from those of the companies Each company is unable to identify its share of the scheme assets and liabilities as it is exposed to actuarial risks associated with current and former employees of other companies participating in the Scheme

The company pays contributions determined on the advice of the Scheme's actuary using the projected unit method of valuation An actuarial valuation was carried out as at 31 March 2006 and the most significant assumptions were

- rate of interest — 6 65 % pa (pre-retirement), 5 5% pa (post retirement)
- rate of increase in salaries — 4 6 % pa
- rate of pension increases — 3 1 % pa (Up to 1st April 2006) 2 2 % pa (after 1st April 2006)

As at 31 March 2006, the market value of the Scheme's assets amounted to £48 3m Based on these assumptions, there was a shortfall of £1 8m compared to the amount required to cover the benefits that had accrued to members for expected future increases in salaries

The pension cost for the company during the period is equal to the contributions paid of £233,000 *(2005 £246,000)* During the period, the company contributed at a rate of 10 0% of pensionable salaries The rates are lower than those required to meet the cost of benefits accruing in the Scheme because of a surplus brought in from a previous scheme The company's contribution rate is therefore expected to increase to 11 8% from 1 January 2007 and then again to 20 2% from 1 July 2007, subject to the results of the actuarial valuation as at 31 March 2006 These rates include an additional 8 4% of pensionable salaries in order to help make good the shortfall revealed by the actuarial valuation

For pension schemes such as Danfoss Holdings (UK) Pension Scheme, FRS 17 'Retirement Benefits', requires the company to account for pension costs in these financial statements as if the scheme were a defined contribution scheme

The company also operates a second defined benefit pension scheme The scheme is an unfunded, unapproved retirement benefit scheme which has no scheme assets The latest full actuarial valuation was carried out at 6 February 2004 and was updated for FRS 17 purposes to 31 December 2006 by a qualified independent actuary

The major assumptions used in this valuation were

	2006	2005	2004
Rate of increase in salaries	**3 9%**	3 7%	3 7%
Rate of increase in pensions in payment and deferred pensions	**2.9%**	2 6%	2 5%
Discount rate applied to scheme liabilities	**5.2%**	4 9%	5 5%
Inflation assumption	**2 9%**	2 7%	2 7%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

Notes *(continued)*

17 Pension scheme *(continued)*

The present values of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were

	Value of liabilities at 2006 £000	Value of liabilities at 2005 £000	Value of liabilities at 2004 £000
Present value of scheme liabilities	**(789)**	(627)	(479)
Deficit in the scheme	**(789)**	(627)	(479)
Related deferred tax thereon	**237**	188	144
Net pension liability	**(552)**	(439)	(335)

The amount of this pension liability would have a consequential effect on reserves

Movement in deficit during the year

	2006 £000	2005 £000
Deficit in scheme at beginning of year	**(627)**	(479)
Current service cost	**(112)**	(51)
Other finance cost	**(34)**	(28)
Actuarial loss	**(16)**	(69)
Deficit in the scheme at end of year	**(789)**	(627)

Notes *(continued)*

17 Pension scheme *(continued)*

Analysis of other pension costs charged in arriving at operating profit

	2006 £000	2005 £000
Current service cost	112	51

Analysis of amounts included in other finance costs

	2006 £000	2005 £000
Interest on pension scheme liabilities	(34)	(28)

Analysis of amount recognised in statement of total recognised gains and losses

	2006 %	2006 £000	2005 %	2005 £000
Experience gains and losses arising on scheme liabilities		(15)		17
Percentage of present value of year end scheme liabilities	(2%)		3%	
Changes in assumptions underlying the present value of scheme liabilities		(1)		(86)
Percentage of present value of year end scheme liabilities	-		(14%)	
Actuarial gain loss recognised in statement of total recognised gains and losses		(16)		(69)
Percentage of present value of year end scheme liabilities	(2%)		(11%)	

The Company operates a defined contribution pension scheme The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £60,000 There were no outstanding or prepaid contributions at either the beginning or end of the financial year

18 Reconciliation of movements in shareholders' funds

	2006 £000	As restated 2005 £000
Loss for the financial year	(157)	(598)
Actuarial loss recognised in the pension scheme	(16)	(69)
Charge in relation to share based payments	47	-
Dividends on shares classified in shareholders' funds	-	(400)
Retained loss	(126)	(1,067)
Net reduction in shareholders' funds	(126)	(1,067)
Opening shareholders' funds (as previously stated)	2,743	3,767
Prior year adjustment relating to share based payments (see note 20)	-	43
Closing shareholders' funds	2,617	2,743

Notes *(continued)*

19 Prior year adjustments

FRS 21 'Events after the balance sheet date', FRS 17 'Retirement benefits' & FRS 20 'Share based payments'

In the prior year, under the terms of FRS 21, dividends which have been declared after the balance sheet date are not recognised as a liability at that date

Under full implementation of FRS 17, a pension scheme deficit is now recognised on the balance sheet in respect of the defined benefit pension scheme for Gerhard Strauss This resulted in a prior year adjustment being the recognition of a pension scheme deficit net of deferred tax at 31 December 2005 of £439,000 *(2004 £335,000)*

FRS 20 'Share based payments' was adopted for the first time in these accounts (see note 20)

The effect of changes in accounting policies on comparative financial information of the prior year was as follows

	Year ended 31 December 2005 £000
Dividends	
Dividend previously charged to profit and loss in the year	-
Dividend charged to profit and loss under FRS 21	(400)
Net reduction to retained profit in the year	(400)
Retained loss for the year.	
As previously reported	(792)
FRS 21 – dividends payable	(400)
FRS 17 – retirement benefits	168
FRS 20 – share based payments	(43)
As restated	(1,067)
Creditors·	
As previously reported	(4,791)
FRS 17 – retirement benefits	544
As restated	(4,247)
Pension liability	
As previously reported	-
FRS 17 – retirement benefits	(439)
As restated	(439)
Reserves profit and loss	
As previously reported	(675)
FRS 17 – retirement benefits	168
As restated	(507)

Notes *(continued)*

20 Share based payments

Danfoss AS operates two share based payment schemes on behalf of Danfoss Limited, one cash settled and one equity settled For the equity settled scheme, certain executives and senior managers received the right to be awarded shares in a new equity compensation programme This programme is limited to the period 2005 to 2007 Approximately 2/3 of these options/warrants were awarded in 2005 (1st tranche) and 2006 (2nd tranche) The principal criterion for receiving options/warrants of the 3rd tranche is that RONA (Return on Net Assets) for a given year is above a certain minimum target In 2007 RONA exceeded the defined target

The awarded options and warrants grant the right to buy and subscribe to, respectively, B-shares (of 100 DKK) not earlier than 3 years after the options or warrants are granted to certain fixed exercise prices The exercise prices are determined as the latest published share price less 15% The latest date for utilisation of the options/warrants awarded in 2005 (1st tranche) is 21 May 2015 For the options or warrants granted in the last tranche (3rd tranche), the latest date for utilisation is 21 May 2017 The options and warrants can only be exercised in return for Danfoss shares

The equity settled programme applies to certain senior management who were granted 1,800 warrants in total during 2005 and 2006 These warrants gave them the right to subscribe for 1,800 Danfoss A/S B-shares DKK in the subscription period 1 May 2010 to 1 May 2017 The share warrants have a vesting period of three years with the first tranche vesting in May 2008

As these are equity settled transactions, the cost of the options is spread over the period from the grant date to the vesting date The fair value of the options at the grant date was DKK 564 for the first tranche and DKK 762 for the second tranche These have been converted at the average exchange rate for 2005 and 2006 respectively

For the cash settled scheme, this applies to one director of Danfoss Limited The director received the right to be awarded shares in the programme that was limited to the period 2001 to 2004 In order to participate in the programme, the director had to buy a number of shares at market value before the annual general assembly in 2002

The principal criterion for receiving options/warrants was a RONA for a given year being above a certain minimum target Based on this, options/warrants were awarded in 2003 and 2004

The awarded options and warrants grant the right to buy and subscribe to, respectively, B-shares (of 100 DKK) in the year Danfoss is quoted on the stock exchange, at certain exercise prices If Danfoss is not quoted on the stock exchange, the calculated value of the options and warrants can be cashed in by the holders from 6 April 2006 The value of an option/a warrant will as such be calculated as the share price at the time of utilisation less the exercise price The options/warrants must be cashed in/utilised no later than the date of the ultimate parent company's annual shareholders' meeting in 2011 The cost of these options is spread over the period from the grant date to the vesting date, with the fair value being adjusted at each balance sheet date The fair value of the options at the grant date was DKK 764 and the fair value at 31 December 2006 was DKK 1,101 Both these share schemes resulted in a charge to the profit and loss account in 2006 of £47,000

Notes *(continued)*

21 Ultimate parent company and parent undertaking of larger group of which the company is a member

The immediate parent company is Danfoss Holding UK Limited, a company incorporated in Great Britain and registered in England and Wales

The ultimate parent company is Danfoss A/S, a company incorporated and registered in Denmark The largest and smallest group in which the accounts are consolidated is that headed by Danfoss A/S

Copies of the financial statements of the above companies may be obtained from their registered offices as follows

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