

Danfoss Limited

**Directors' report and financial
statements**

Registered number 624322

31 December 2007



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Directors' report

The directors present the directors' report and financial statements for the year ended 31 December 2007

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 finished 1.6% above budget, but more significantly finished 17.1% above 2006. Drives in the UK continue to grow at a faster rate than the market which is very satisfying.

Drives initiated a business area split, in order to be able to better fulfil the needs of the different areas where Danfoss Drives operate.

The outlook for 2008 is very optimistic, and an annual growth of 10% is expected.

Danfoss Industrial Automation had a tough year, losing the business of one major customer. The customer moved to Korea and will now deal with Danfoss in Korea, so it was not due to any UK issues. The results were 2.7% behind budget, but as this customer accounts for a much higher proportion of sales, Danfoss Industrial Automation gained business from existing and new customers. The growth predominantly comes from the Marine Business Area.

The outlook for 2008 is for moderate growth.

Danfoss Refrigeration & Air Conditioning had a difficult year. The market is mature and the reduced number of building projects affected the performance. The budget for 2007 was not very optimistic with negative growth rates predicted.

Danfoss Refrigeration & Air Conditioning ended the year 0.4% above budget, but below the 2006 result.

For 2008 the outlook is more optimistic as new products have been launched, and also the Danfoss Group acquisition of Scroll Compressors in the US will help gain market shares. Danfoss expects a growth of 5%.

Danfoss Gear Motors had a good 2007. They were 2.5% ahead of budget, but 21.6% above 2006. This is due to taking market shares from competitors and gaining a lot of new customers. The outlook for 2008 is very positive.

Overall Danfoss Limited increased their performance, not only due to sales growth, but also none value adding support functions were closed down, so the fixed expenses base has been cut down, resulting in a leaner sales company structure.

Performance follow up

Danfoss measures the 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 differs 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 by Corporate Finance who will escalate the result of their controlling down the organisation.

Risk management

The Group's central financial department, in co-operation 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 and financial risks.

Directors' report *(continued)*

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 obligations risk

The group's activities expose it to various types of risk in the normal course of business. The following is not intended as a comprehensive summary of all risks

Price risk

The group is exposed to foreign currency risk on its transactions that are denominated in currencies other than Great British Pounds. It is therefore exposed to the movement in exchange rates. This risk is partially mitigated by the company having bank accounts in foreign currencies.

Interest rate

Interest rate risk is negligible as the group does not maintain any external debt.

Credit risk

Exposure takes the form of customers who may not meet their obligation to agreed terms, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity and cash flow risk

As at December 31, 2007 the company had cash resources of £114,000 and forecast positive cash flows for at least the next 12 months. As a result, we believe our exposure is limited in the short term.

Factors which could impact on our working capital management (and associated risk factors) are our ability to generate sufficient sales to new and existing customers, changes in the competitive environment of the markets in which we serve, and changes in technology.

Financial instruments

The Company has financial instruments in the form of trade creditors and trade debtors which arise directly from its operations.

Proposed dividend

The directors have proposed a final ordinary dividend in respect of the current financial year of £1.1 million. This has not been included within creditors as it was not approved before the year end.

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)
Anders Stahlschmidt	(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 (2006: £nil).

Directors' report *(continued)*

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 2007 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 4.

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 2007 and of its profit 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

23/4/08

KPMG LLP

Chartered Accountants

Registered Auditor

Profit and loss account
for the year ended 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Turnover	<i>1</i>	37,090	35,356
Cost of sales		(28,237)	(27,138)
Gross profit		8,853	8,218
Administrative expenses		(7,709)	(8,401)
Operating profit/(loss)		1,144	(183)
Other interest receivable and similar income	<i>5</i>	104	-
Interest payable and similar charges	<i>6</i>	(89)	(154)
Other finance costs	<i>17</i>	(10)	(34)
Profit/(loss) on ordinary activities before taxation	<i>2</i>	1,149	(371)
Tax on (profit)/loss on ordinary activities	<i>7</i>	(376)	214
Profit/(loss) for the financial year		773	(157)

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

The notes on pages 10 to 23 form part of these financial statements

A reconciliation of movement in shareholders' funds is set out in note 19

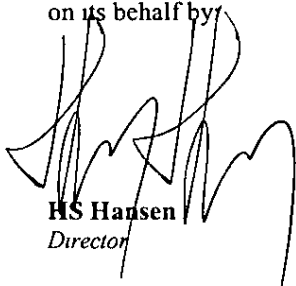
Balance Sheet
at 31 December 2007

	<i>Note</i>	2007 £000	2006 £000
Fixed assets			
Intangible assets	8	71	141
Tangible assets	9	135	193
		<u>206</u>	<u>334</u>
Current assets			
Stocks	10	688	744
Debtors	11	8,005	7,435
Cash at bank and in hand		114	81
		<u>8,807</u>	<u>8,260</u>
Creditors amounts falling due within one year	12	<u>(5,596)</u>	<u>(5,411)</u>
Net current assets		<u>3,211</u>	<u>2,849</u>
Total assets less current liabilities		<u>3,417</u>	<u>3,183</u>
Provisions for liabilities and charges	16	-	(14)
Net assets excluding pension liability		<u>3,417</u>	<u>3,169</u>
Pension liability	17	-	(552)
Net assets including pension liability		<u>3,417</u>	<u>2,617</u>
Capital and reserves			
Called up share capital	13	3,250	3,250
Profit and loss account	18	167	(633)
Shareholders' funds	19	<u>3,417</u>	<u>2,617</u>

These financial statements were approved by the board of directors on
on its behalf by

18/4 2008

and were signed


HS Hansen
Director

Statement of total recognised gains and losses
for the year ended 31 December 2007

	2007 £000	2006 £000
Profit/(loss) for the financial year	773	(157)
Actuarial gain/(loss) recognised in the pension scheme	10	(16)
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	783	(173)
	<hr/>	<hr/>
Total gains and losses recognised since last annual report	783	(173)
	<hr/> <hr/>	<hr/> <hr/>

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

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 improvements - 6 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 2007 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 into 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 profit or 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 Profit/(loss) on ordinary activities before taxation

	2007 £000	2006 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Depreciation	58	60
Amortisation of intangible assets	70	70
Hire of other assets - operating leases	608	612
	<u> </u>	<u> </u>

Auditors' remuneration

	2007 £000	2006 £000
Audit of these financial statements	25	25
Amounts receivable by the auditors and their associates in respect of Other services relating to taxation	15	21
	<u> </u>	<u> </u>

3 Remuneration of directors

	2007 £000	2006 £000
Directors' emoluments	52	-
	<u> </u>	<u> </u>

Retirement benefits are accruing to no directors under the defined benefit scheme (2006 one) One director exercised share options during the year (2006 nil)

Notes (continued)

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	
	2007	2006
Sales	79	84
Distribution	4	4
Administrative	13	11
	<u>96</u>	<u>99</u>

The aggregate payroll costs of these persons were as follows

	2007	2006
	£000	£000
Wages and salaries	4,535	3,842
Social security costs	349	395
Other pension costs – funded defined benefits and money purchase scheme (see note 17)	224	293
Other pension costs – unfunded defined benefits scheme (see note 17)	33	112
Share based payments (see note 20)	17	47
	<u>5,158</u>	<u>4,689</u>

5 Other interest receivable and similar income

	2007	2006
	£000	£000
Net exchange gains	<u>104</u>	<u>-</u>

6 Interest payable and similar charges

	2007	2006
	£000	£000
On bank loans and overdrafts	89	108
Net exchange losses	-	46
	<u>89</u>	<u>154</u>

Notes (continued)

7 Taxation

	2007 £000	2006 £000
<i>Analysis of credit in period</i>		
<i>UK corporation tax</i>		
Current tax on income for this period	160	-
Adjustments in respect of prior year	(47)	(192)
	<hr/>	<hr/>
Total current tax (see below)	113	(192)
<i>Deferred tax</i>		
Origination/reversal of timing differences	257	(33)
Effect of decreased tax rate	6	-
Adjustments in respect of prior year	-	11
	<hr/>	<hr/>
Total deferred tax (see note 15)	263	(22)
	<hr/>	<hr/>
Tax on profit/(loss) on ordinary activities	376	(214)
	<hr/>	<hr/>

The current tax credit for the period is lower (2006 higher) than the standard rate of corporation tax in the UK of 30% (2006 30%). The differences are explained below

	2007 £000	2006 £000
<i>Current tax reconciliation</i>		
Profit/(loss) on ordinary activities before tax	1,149	(371)
	<hr/>	<hr/>
Current tax at 30% (2006 30%)	345	(111)
<i>Effects of</i>		
Expenses not deductible for tax purposes	72	105
Difference between capital allowances and depreciation	1	(3)
Other timing differences	-	(12)
Pension adjustments	(237)	-
Adjustments in respect of prior year	(47)	(192)
Losses carried forward	-	21
Utilisation of tax losses	(21)	-
	<hr/>	<hr/>
Total current tax credit (see above)	113	(192)
	<hr/>	<hr/>

The change in corporation tax rate from 30% to 28% on 1 April 2008 and the gradual phasing out of certain capital allowances was enacted by the House of Commons on 27 June 2007. As a result, deferred tax balances have been calculated at 28%.

Notes (continued)

8 Intangible fixed assets

	Purchased software £000
<i>Cost</i>	
At 1 January 2007 and 31 December 2007	246
<i>Amortisation</i>	
At 1 January 2007	105
Charge for the year	70
At 31 December 2007	175
<i>Net book value</i>	
At 31 December 2007	71
At 31 December 2006	141

9 Tangible fixed assets

	Leasehold improvements £000	Plant and machinery £000	Motor Vehicles £000	Total £000
<i>Cost</i>				
At 1 January 2007	361	193	7	561
Disposals	-	(193)	(7)	(200)
At 31 December 2007	361	-	-	361
<i>Depreciation</i>				
At 1 January 2007	168	193	7	368
Charge for the year	58	-	-	58
Disposals	-	(193)	(7)	(200)
At 31 December 2007	226	-	-	226
<i>Net book value</i>				
At 31 December 2007	135	-	-	135
At 31 December 2006	193	-	-	193

Notes (continued)

10 Stocks

	2007 £000	2006 £000
Raw materials and consumables	139	150
Finished goods and goods for resale	549	594
	<u>688</u>	<u>744</u>

11 Debtors

	2007 £000	2006 £000
Trade debtors	6,691	5,879
Amounts owed by group undertakings	756	1,076
Prepayments and accrued income	137	124
Corporation tax recoverable	339	248
Deferred tax asset (see note 15)	82	108
	<u>8,005</u>	<u>7,435</u>

12 Creditors: amounts falling due within one year

	2007 £000	2006 £000
Trade creditors	402	227
Amounts owed to group undertakings	3,677	3,977
Taxation and social security	891	677
Other creditors	299	166
Accruals and deferred income	327	364
	<u>5,596</u>	<u>5,411</u>

Notes (continued)

13 Called up share capital

	2007 £000	2006 £000
<i>Authorised, allotted, called up and fully paid</i>		
3,250,000 ordinary shares of £1 each	3,250	3,250
	<u>3,250</u>	<u>3,250</u>
Shares classified in shareholders' funds	<u>3,250</u>	<u>3,250</u>

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

	2007		2006	
	Land and buildings £000	Other £000	Land and Buildings £000	Other £000
Operating leases which expire				
Within one year	-	32	-	43
In the second to fifth years inclusive	-	147	-	129
Over five years	326	-	326	-
	<u>326</u>	<u>179</u>	<u>326</u>	<u>172</u>

15 Deferred taxation

The elements of deferred taxation are as follows

	2007 £000	2006 £000
Difference between accumulated depreciation and capital allowances	81	86
Other timing differences	1	1
Trade losses	-	21
	<u>82</u>	<u>108</u>
Deferred tax asset (see note 11)	82	108
	<u>-</u>	<u>237</u>
Deferred tax on deficit in pension scheme (see note 17)	-	237
	<u>82</u>	<u>345</u>
Total recognised deferred tax asset	<u>82</u>	<u>345</u>

Notes (continued)

16 Provisions for liabilities and charges

	Warranty provision £000
At 1 January 2007	14
Charged to the profit and loss account in the year	(14)
	<hr/>
At 31 December 2007	-
	<hr/>

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. The 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. 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 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 1 April 2007) 2.2 % pa (after 1 April 2007)

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 Scheme's technical provisions at the valuation date.

The pension cost for the company during the period is equal to the contributions paid of £182,000 (2006: £233,000). During the period, the company contributed at a rate of 11.8% of pensionable salaries from 1 January 2007 to 30 June 2007 and at a rate of 20.2% from 1 July 2007. This rate will be subject to review at the next actuarial valuation. The rate for the first half of 2007 is lower because of a surplus brought in from a previous scheme. These rates include an additional 8.4% of pensionable salaries in order to help make good the shortfall revealed by the actuarial valuation.

The Company also operates a second defined benefit pension scheme. The remaining disclosures in this note relate to this scheme. The scheme is an Employer Financed Retirement Benefit Scheme, the level of provision for which is in accordance with the recommendations of an independent qualified actuary, whereby the projected liability is being accrued evenly over the period to retirement. As the scheme is unfunded there are no scheme assets.

The balance sheet disclosures as at 31 December 2005 and 2006 were based on valuations by the actuary on an FRS 17 basis. The scheme's liabilities were extinguished during the year and therefore no balance sheet liability remains as at 31 December 2007.

Notes (continued)

17 Pension scheme (continued)

The major assumptions used in this valuation were

	2007	2006	2005
Rate of increase in salaries	n/a	3.9%	3.7%
Rate of increase in pensions in payment and deferred pensions	n/a	2.9%	2.6%
Discount rate applied to scheme liabilities	n/a	5.2%	4.9%
Inflation assumption	n/a	2.9%	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

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 2007 £000	Value of liabilities at 2006 £000	Value of liabilities at 2005 £000
Present value of scheme liabilities	-	(789)	(627)
Deficit in the scheme	-	(789)	(627)
Related deferred tax thereon	-	237	188
Net pension liability	-	(552)	(439)

During the year, the company made a contribution to the scheme of £565,000 and the liabilities were extinguished (see below)

Movement in deficit during the year

	2007 £000	2006 £000
Deficit in scheme at beginning of year	(789)	(627)
Current service cost	(33)	(112)
Company contribution	565	-
Settlement gain	257	-
Other finance cost	(10)	(34)
Actuarial gain/(loss)	10	(16)
Deficit in the scheme at end of year	-	(789)

Notes (continued)

17 Pension scheme (continued)

The pension cost for this scheme is

Analysis of other pension costs (credited)/charged in arriving at operating profit

	2007 £000	2006 £000
Current service cost	33	112
Settlement gain	(257)	-
	<u>(224)</u>	<u>112</u>

Analysis of amounts included in other finance costs

	2007 £000	2006 £000
Interest on pension scheme liabilities	(10)	(34)
	<u>(10)</u>	<u>(34)</u>

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

	2007 %	2007 £000	2006 %	2006 £000
Experience gains and losses arising on scheme liabilities		10		(15)
Percentage of present value of year end scheme liabilities	-		(2%)	
Changes in assumptions underlying the present value of scheme liabilities		-		(1)
Percentage of present value of year end scheme liabilities	-		-	
		<u>10</u>		<u>(16)</u>
Actuarial gain loss recognised in statement of total recognised gains and losses			(2%)	
Percentage of present value of year end scheme liabilities				<u>(16)</u>

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 £42,000 (2006 £60,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes (continued)

18 Reserves

	Profit and loss account £000
At beginning of year	(633)
Profit for year	773
Actuarial gain recognised in the pension scheme	10
Charge in relation to share based payments	17
	<hr/>
At end of year	167
	<hr/>

19 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Profit/(loss) for the financial year	773	(157)
Actuarial gain/(loss) recognised in the pension scheme	10	(16)
Charge in relation to share based payments	17	47
	<hr/>	<hr/>
Retained profit/(loss)	800	(126)
	<hr/>	<hr/>
Net addition to/(reduction in) shareholders' funds	800	(126)
Opening shareholders' funds	2,617	2,743
	<hr/>	<hr/>
Closing shareholders' funds	3,417	2,617
	<hr/>	<hr/>

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 2006 to 2007. Approximately 2/3 of these options/warrants were awarded in 2006 (1st tranche) and 2007 (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 2006 (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 2006 and 2007. 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 2006 and 2007 respectively.

For the cash settled scheme, this applied 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 2005. 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 2003. During the year the director exercised a total of 4,125 share options when the share price was DKK 2273. 1,834 share options had a fair value of DKK 749 and the remaining 2,291 share options had a fair value of DKK 752. At the date of the transaction the total charge to the profit and loss account was £566,000 being the difference between the market price and the fair value.

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 2007. 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 2007 was DKK 1,101. Both these share schemes resulted in a charge to the profit and loss account in 2007 of £17,000.

The calculated fair values used for stating the values at the balance sheet date are based on the Black Scholes model. The assumptions used in the Black Scholes model are

	2007	2006
Share price	2,273	1,791
Expected volatility	23.0%	22.0%
Expected dividends	1.0%	1.0%
Risk free interest rate	4.4%	4.0%

As Danfoss is not quoted on a stock exchange, the calculation basis for the above values is founded on a number of comparable, quoted companies in Denmark and abroad.

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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UB9 4LH

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