

**Danfoss Limited**

**Directors' report and financial  
statements**

**Registered number 624322**

**31 December 2011**

**WEDNESDAY**



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**19/12/2012**

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**COMPANIES HOUSE**

## Contents

|   |   |
|---|---|
| Directors' report   | 1 |
| Statement of directors' responsibilities in respect of the Directors' report and the financial statements | 3 |
| Independent auditors' report to the members of Danfoss Limited  | 4 |
| Profit and loss account   | 6 |
| Balance sheet   | 7 |
| Notes   | 8 |

## **Directors' report**

The directors present the directors' report and financial statements for the year ended 31 December 2011

### **Business review and principal activity**

The Company is a wholly owned subsidiary of Danfoss Holdings UK Limited, a company registered in the UK, which is in turn a wholly owned subsidiary of Danfoss A/S, a company registered in Denmark

The Company's principal activity is the sale of controls and variable speed drives in the electrical and refrigeration industries and of refrigeration compressors. There have not been any significant changes in the Company's principal activity in the year under review. Danfoss Limited analyses its business into various divisions.

### **Key performance indicators**

Danfoss Limited measures its 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.

### **Risk management**

The Group's central financial department handle overall monitoring and control of financial and operational risk management.

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 Company'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.

### **Foreign currency risk**

The Company 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.

## **Directors' report (continued)**

### **Interest rate**

Interest rate risk is negligible as the Company 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. The severity of the current economic downturn has caused Danfoss Limited to be extra vigilance in its credit control process. As with all companies, the Company is increasingly exposed to bad debt risk, although to date, the Company has managed to avoid actual bad debts.

### **Liquidity and cash flow risk**

As at 31 December 2011 the Company had cash resources of £4,224,000 and forecast positive cash flows for at least the next 12 months

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

### **Dividends**

The directors do not propose an ordinary dividend in respect of the current financial year (2010 £nil)

### **Political and charitable contributions**

The company made no political or charitable contributions during the year (2010 £nil)

### **Directors**

The directors who held office during the year were as follows

Henrik Skourup Hansen (Resigned 1 May 2011)  
Anders Stahlschmidt  
Kjeld Staerk

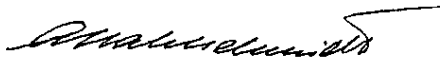
### **Disclosure of information to auditors**

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**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board

  
Anders Stahlschmidt  
Director

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)

Under company law the directors must not approve the financial statements unless they are satisfied that they 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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**

58 Clarendon Road  
Watford  
WD17 1DE  
United Kingdom

**Independent auditor's report to the members of Danfoss Limited**

We have audited the financial statements of Danfoss Limited for the year ended 31 December 2011, set out on pages 6 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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**

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

**Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Opinion on other matter prescribed by the Companies Act 2006**

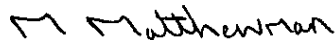
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



**M Matthewman (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
58 Clarendon Road  
Watford  
WD17 1DE

14 December 2012

**Profit and loss account**  
*for the year ended 31 December 2011*

|  | <i>Note</i> | <b>2011</b><br><b>£000</b> | 2010<br>£000 |
|--|-------------|----------------------------|--------------|
| <b>Turnover</b>                                      |             | <b>44,087</b>              | 45,822       |
| Cost of sales  |             | <b>(31,954)</b>            | (35 345)     |
| <b>Gross profit</b>                                  |             | <b>12,133</b>              | 10,477       |
| Administrative expenses                              |             | <b>(11,459)</b>            | (9,248)      |
| <b>Operating profit</b>                              |             | <b>674</b>                 | 1,229        |
| Other interest receivable and similar income         | 5           | <b>28</b>                  | 21           |
| Interest payable and similar charges                 | 6           | <b>(87)</b>                | (146)        |
| <b>Profit on ordinary activities before taxation</b> | 2           | <b>615</b>                 | 1,104        |
| Tax on profit on ordinary activities                 | 7           | <b>(81)</b>                | (342)        |
| <b>Profit for the financial year</b>                 |             | <b>534</b>                 | 762          |

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

Included within the above are turnover of £1 6m and an operating loss of £0 5m relating to the acquisition of the trade of another group company in the year

The notes on pages 8 to 19 form part of these financial statements

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



**Balance sheet**  
**31 December 2011**

|  | Note | 2011<br>£000  | 2010<br>£000  |
|--|------|---------------|---------------|
| <b>Fixed assets</b>  |      |               |               |
| Tangible assets  | 8    | 26            | 8             |
| Intangible assets  | 9    | 1,867         | -             |
|  |      | <u>1,893</u>  | <u>8</u>      |
| <b>Current assets</b>  |      |               |               |
| Stocks   | 10   | 674           | 750           |
| Debtors (includes £4,224,000 in relation to cash pooling arrangement (2010 £11,703,000)) | 11   | 12,347        | 23,096        |
| Cash at bank and in hand   |      | 6             | 1             |
|  |      | <u>13,027</u> | <u>23,847</u> |
| Creditors' amounts falling due within one year   | 12   | (10,355)      | (19,919)      |
| <b>Net current assets</b>  |      | <u>2,672</u>  | <u>3,928</u>  |
| Provisions   | 13   | (44)          |               |
| <b>Net assets</b>  |      | <u>4,521</u>  | <u>3,936</u>  |
| <b>Capital and reserves</b>  |      |               |               |
| Called up share capital  | 14   | 3,250         | 3,250         |
| Profit and loss account  | 18   | 1,271         | 686           |
| <b>Shareholders' funds</b>   | 19   | <u>4,521</u>  | <u>3,936</u>  |

The notes on pages 8 to 19 form part of these financial statements

These financial statements were approved by the board of directors on 12/12 - 2012 and were signed on its behalf by



**Anders Stahlschmidt**  
Director

## 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 received by the customer. 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)**

#### ***Pension costs***

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The Company also participates in a group pension scheme providing benefits based on final pensionable pay. The assets are held separately from those of the company. 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 contribution payable to the scheme in respect of the accounting period. 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.

#### ***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.

#### ***Provisions***

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### ***Goodwill***

Goodwill is capitalised upon acquisition and amortised over its useful life of between 5 and 20 years.

## Notes (continued)

### 2 Notes to the profit and loss account

|  | 2011<br>£000 | 2010<br>£000 |
|--|--------------|--------------|
| <i>(Loss)/Profit on ordinary activities before taxation is stated after charging</i> |              |              |
| Depreciation   | 22           | 4            |
| Hire of other assets - operating leases  | 760          | 608          |
|  | <u>782</u>   | <u>612</u>   |

|  | 2011<br>£000 | 2010<br>£000 |
|--|--------------|--------------|
| <i>Auditors' remuneration</i>  |              |              |
| Audit of these financial statements  | 15           | 15           |
| Amounts receivable by the auditors and their associates in respect of<br>Other services relating to taxation | 25           | 35           |
|  | <u>40</u>    | <u>50</u>    |

### 3 Remuneration of directors

|                       | 2011<br>£000 | 2010<br>£000 |
|-----------------------|--------------|--------------|
| Directors' emoluments | 61           | 115          |
|                       | <u>61</u>    | <u>115</u>   |

The directors are not accruing retirement benefits under the defined benefit scheme (2010 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 |           |
|----------------|---------------------|-----------|
|                | 2011                | 2010      |
| Sales          | 68                  | 74        |
| Distribution   | -                   | 3         |
| Administrative | 15                  | 11        |
|                | <u>83</u>           | <u>88</u> |

The aggregate payroll costs of these persons were as follows

|   | 2011         | 2010         |
|---|--------------|--------------|
|   | £000         | £000         |
| Wages and salaries  | 4,488        | 4,461        |
| Social security costs   | 608          | 584          |
| Other pension costs – funded defined benefits and money purchase scheme (see note 17) | 2,573        | 2,375        |
| Share based payments (see note 20)  | 147          | 85           |
|   | <u>7,816</u> | <u>7,505</u> |

### 5 Other interest receivable and similar income

|                         | 2011      | 2010      |
|-------------------------|-----------|-----------|
|                         | £000      | £000      |
| Other interest received | 28        | 21        |
|                         | <u>28</u> | <u>21</u> |

### 6 Interest payable and similar charges

|                              | 2011      | 2010       |
|------------------------------|-----------|------------|
|                              | £000      | £000       |
| On bank loans and overdrafts | 76        | 43         |
| Net currency exchange losses | 11        | 103        |
|                              | <u>87</u> | <u>146</u> |

## Notes (continued)

### 7 Taxation

|  | 2011<br>£000 | 2010<br>£000 |
|--|--------------|--------------|
| <i>Analysis of charge in period</i>        |              |              |
| <i>UK corporation tax</i>                  |              |              |
| Current tax on income for this period      | 74           | 698          |
| Adjustments in respect of prior year       | (168)        | (28)         |
|  | <hr/>        | <hr/>        |
| Total current tax (see below)              | (94)         | 670          |
| <i>Deferred tax</i>                        |              |              |
| Origination/reversal of timing differences | 184          | (329)        |
| Adjustments in respect of prior year       | -            | 1            |
|  | <hr/>        | <hr/>        |
| Total deferred tax (see note 16)           | 184          | (328)        |
|  | <hr/>        | <hr/>        |
| Tax on profit on ordinary activities       | 81           | 342          |
|  | <hr/>        | <hr/>        |

The current tax charge for the period is higher (2010 higher) than the standard rate of corporation tax in the UK of 26.5% (2010 28%). The differences are explained below

|  | 2011<br>£000 | 2010<br>£000 |
|--|--------------|--------------|
| <i>Current tax reconciliation</i>                      |              |              |
| Profit on ordinary activities before tax               | 615          | 1,104        |
|  | <hr/>        | <hr/>        |
| Current tax at 26.5% (2010 28%)                        | 163          | 309          |
| <i>Effects of</i>                                      |              |              |
| Expenses not deductible for tax purposes               | 86           | 49           |
| Difference between capital allowances and depreciation | (2)          | (8)          |
| Adjustments in respect of prior year                   | (168)        | (28)         |
| Pension timing difference                              | (173)        | 348          |
|  | <hr/>        | <hr/>        |
| Total current tax charge (see above)                   | (94)         | 670          |
|  | <hr/>        | <hr/>        |

#### *Factors affecting the tax charge in future periods*

The 2012 Budget on 23 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively.

This will reduce the company's future current tax charge accordingly and further reduce the deferred tax asset at 31 December 2011 (which has been calculated based on the rate of 25% substantively enacted at the balance sheet date).

It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

**Notes** *(continued)*

**8 Tangible fixed assets**

|                       | <b>Fixtures<br/>&amp; Fittings<br/>£000</b> | <b>Leasehold<br/>improvements<br/>£000</b> | <b>Total<br/>£000</b> |
|-----------------------|---|--|-----------------------|
| <i>Cost</i>           |   |  |                       |
| At 1 January 2011     | -   | 382  | 382                   |
| Additions             | 144   | 47   | 191                   |
|                       | <hr/>                                       | <hr/>                                      | <hr/>                 |
| At 31 December 2011   | 144   | 429  | 573                   |
|                       | <hr/>                                       | <hr/>                                      | <hr/>                 |
| <i>Depreciation</i>   |   |  |                       |
| At 1 January 2011     | -   | 374  | 374                   |
| Additions in the year | 133   | 18   | 151                   |
| Charge for the year   | 4   | 18   | 22                    |
|                       | <hr/>                                       | <hr/>                                      | <hr/>                 |
| At 31 December 2011   | 137   | 410  | 547                   |
|                       | <hr/>                                       | <hr/>                                      | <hr/>                 |
| <i>Net book value</i> |   |  |                       |
| At 31 December 2011   | 7   | 19   | 26                    |
|                       | <hr/>                                       | <hr/>                                      | <hr/>                 |
| At 31 December 2010   | -   | 8  | 8                     |
|                       | <hr/>                                       | <hr/>                                      | <hr/>                 |

**Notes** *(continued)*

**9 Intangible fixed assets**

|                       | <b>Goodwill</b> |
|-----------------------|-----------------|
|                       | <b>£000</b>     |
| <i>Cost</i>           |                 |
| At beginning of year  | -               |
| Additions             | 2,000           |
| Disposals             | -               |
|                       | <hr/>           |
| At end of year        | 2,000           |
|                       | <hr/>           |
| <i>Amortisation</i>   |                 |
| At beginning of year  | -               |
| Charged in year       | 133             |
| Impairment losses     | -               |
|                       | <hr/>           |
| At end of year        | 133             |
|                       | <hr/>           |
| <i>Net book value</i> |                 |
| At 31 December 2011   | 1,867           |
|                       | <hr/>           |
| At 31 December 2010   | -               |
|                       | <hr/>           |

Goodwill from the acquisition of the trading assets of Heat Pump Ltd (see note 22) is being written off in equal instalments over it's estimated economic life which, in the opinion of the directors, is 10 years



## Notes (continued)

### 10 Stocks

|                                     | 2011<br>£000 | 2010<br>£000 |
|-------------------------------------|--------------|--------------|
| Raw materials and consumables       | -            | 101          |
| Finished goods and goods for resale | 674          | 649          |
|                                     | <u>674</u>   | <u>750</u>   |

### 11 Debtors

|   | 2011<br>£000  | 2010<br>£000  |
|---|---------------|---------------|
| Trade debtors   | 6,732         | 9,342         |
| Amounts owed by group undertakings                            | 954           | 1,448         |
| Amounts owed by group undertakings – cash pooling arrangement | 4,224         | 11,703        |
| Prepayments and accrued income                                | 253           | 244           |
| Deferred tax asset (see note 16)                              | 184           | 359           |
|   | <u>12,347</u> | <u>23,096</u> |

### 12 Creditors, amounts falling due within one year

|                                    | 2011<br>£000  | 2010<br>£000  |
|------------------------------------|---------------|---------------|
| Trade creditors                    | 183           | 476           |
| Amounts owed to group undertakings | 6,718         | 16,005        |
| Taxation and social security       | 968           | 1,288         |
| Other creditors                    | 1,830         | 497           |
| Accruals and deferred income       | -             | 985           |
| Corporation tax payable            | 656           | 668           |
|                                    | <u>10,355</u> | <u>19,919</u> |

### 13 Provisions

|   | Restructuring<br>£000 |
|---|-----------------------|
| At January 2011                           | -                     |
| Additional Provision made during the year | 44                    |
| <b>At December 2011</b>                   | <b><u>44</u></b>      |

A provision of £44,000 has been recognised in respect of re-organisation in Danfoss Ireland after the Transfer of Undertakings (TUPE) of it's employees to Danfoss Ltd and is fully expected to be utilised in 2012

## Notes (continued)

### 14 Called up share capital

|   | 2011<br>£000 | 2010<br>£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> |

### 15 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

|  | 2011                          |               | 2010                          |               |
|--|-------------------------------|---------------|-------------------------------|---------------|
|  | Land and<br>Buildings<br>£000 | Other<br>£000 | Land and<br>Buildings<br>£000 | Other<br>£000 |
| Operating leases which expire          |                               |               |                               |               |
| Within one year                        | -                             | 39            |                               | 45            |
| In the second to fifth years inclusive | 411                           | 139           | 56                            | 123           |
| Over five years                        | -                             | -             | 336                           | -             |
|  | <u>411</u>                    | <u>178</u>    | <u>392</u>                    | <u>168</u>    |

### 16 Deferred taxation

The elements of deferred taxation are as follows

|  | 2011<br>£000 | 2010<br>£000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 21           | 23           |
| Other timing differences   | 163          | 336          |
|  | <u>184</u>   | <u>359</u>   |
| Deferred tax asset (see note 11)                                   | <u>184</u>   | <u>359</u>   |

The deferred tax asset is expected to be recovered from the future taxable profits of the business within the foreseeable future

## Notes (continued)

### 17 Pension scheme

#### *Defined contribution pension scheme*

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 £147,680 (2010 £178,000). The Company paid contributions in accordance with the Scheme rules in respect of members of the defined contribution section.

Contributions amounting to £ nil (2010 £16,000) were payable to the scheme and are included in creditors.

#### *Defined benefit pension scheme*

The Company participates in the Danfoss Holdings (UK) Pension Scheme ("the Scheme"). The scheme has a defined benefit section, which provides benefits based upon pensionable pay and pensionable service completed with the Company to 31 December 2010, and a defined contribution section. Following closure of the defined benefit section to future accrual, its members joined the defined contribution section from 1 January 2011. The assets of the Scheme are held separately from those of the participating 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.

For pension schemes such as the 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 pays contributions to the defined benefit section 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 2009 and the most significant assumptions were:

#### Rate of interest

|   |         |
|---|---------|
| Pre-retirement  | 7.0% pa |
| Post-retirement                                       | 5.0% pa |
| Rate of increase in salaries                          | 5.0% pa |
| Rate of price inflation (RPI)                         | 3.5% pa |
| Rate of pension increases                             |         |
| Benefits built up prior to 1 <sup>st</sup> April 2006 | 3.4% pa |
| Benefits built up after 31 <sup>st</sup> March 2006   | 2.3% pa |

As at 31<sup>st</sup> March 2009, the market value of the Scheme's assets amounted to £38.8m. Based on these assumptions, there was a shortfall of £26.4m compared to the Scheme's technical provisions at the valuation date.

The pension cost for the Company during the year to 31 December 2011 is equal to the contributions paid of £2,147,680 (2010 £2,434,000). Contributions amounting to £10,000 (2010 £34,000) were payable to the scheme and are included within creditors. During this period from 1 January 2010 to 30 June 2010 the Company contributed at a rate of 20.2% of pensionable salaries in respect of members of the defined benefit section. This rate includes an additional 8.4% of pensionable salaries in order to help make good the shortfall revealed by the 2006 actuarial valuation. Following completion of the 2009 actuarial valuation, the Company agreed a new contributions schedule. Under this schedule, the Company made a contribution of £2.0m towards making good the shortfall revealed by the 2009 actuarial valuation. Additionally, during the period from 1 July 2010 to 31 December 2010, the Company made regular monthly contributions of 12.0% of pensionable salaries plus £10,000 per month towards the expenses of administering the Scheme.

The next actuarial valuation of the Scheme will take place as at 31 March 2012. The level of contributions payable by the Company will be reviewed as part of the valuation.

The Company paid contributions in accordance with the Scheme rules in respect of members of the defined contribution section.

## Notes (continued)

### 18 Reserves

|  | Profit<br>and loss<br>account<br>£000 |
|--|---------------------------------------|
| At beginning of year                       | 686                                   |
| Profit for year                            | 534                                   |
| Credit in relation to share based payments | 51                                    |
| At end of year                             | <u>1,271</u>                          |

### 19 Reconciliation of movements in shareholders' funds

|  | 2011<br>£000 | 2010<br>£000 |
|--|--------------|--------------|
| (Loss)/profit for the financial year           | 534          | 762          |
| Credit in relation to share based payments     | 51           | 85           |
| Retained profit                                | <u>585</u>   | <u>847</u>   |
| Net increase/(decrease) in shareholders' funds | 585          | 847          |
| Opening shareholders' funds                    | 3,936        | 3,089        |
| Closing shareholders' funds                    | <u>4,521</u> | <u>3,936</u> |

### 20 Share based payments

In 2004, 2007 and 2009, Danfoss A/S established new share option programmes for executive employees in the Group. These programmes also allow warrants to be granted to certain executive employees if specific performance goals are achieved.

The awarded options and warrants grant the right to buy and subscribe to B shares (of DKK100) 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 options and warrants can only be exercised in return for Danfoss shares.

The equity settled programme included certain senior managers of Danfoss Limited who were granted 5,656 options in total between 2005 and 2009. These options give them the right to subscribe for 5,656 Danfoss A/S B-shares DKK in the subscription period April 2008 to April 2012. These share options having a vesting period of three years with the first tranche having vested in April 2008, 900 of these options were exercised during 2011. 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 for the 2004 programme were DKK 564 for the first tranche, DKK 762 for the second tranche and DKK 983 for the third and last tranche. The fair value for the 1st tranches of the 2007 (issued in 2008) and the 2009 programme (issued in 2009) were DKK 895 and DKK 395, respectively. These schemes resulted in a charge to the profit and loss account in 2011 of £51,000 (2010: £85,000).

## Notes (continued)

### 20 Share based payments (continued)

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

|                         | 2011  | 2010  |
|-------------------------|-------|-------|
| Share price             | 3,431 | 1,077 |
| Expected volatility     | 56%   | 56%   |
| Expected dividends      | 1.0%  | 1.0%  |
| Risk free interest rate | 3.3%  | 3.3%  |

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.

The share options issued in 2007 and 2009 gave the option to either receive the shares in Danfoss A/S or receive a cash payment for the difference between the market value of the share and the option price. Due to the large increase in share price in the year, management believe it prudent to accrue further for the options as it is believed there is a high probability the shares could be cash settled rather than equity settled. An extra £562,000 has been accrued other creditors (note 12).

### 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:

Danfoss Holding UK Limited  
Capswood, Oxford Road  
Denham, Bucks  
UB9 4LH

Danfoss A/S  
6430 Nordborg  
Denmark

### 22 Acquisition of trade

On the 30<sup>th</sup> April 2011, the Company purchased the trade of Heat Pumps Limited for a consideration of £19k. At the point of sale, the company had net liabilities of £1,981k. There is no difference between the fair value and the book value of the assets acquired. This gave rise to goodwill of £2,000k which is being amortised over 10 years.

During the period, the acquired trade made the following contributions to the profit and loss account:

|                         | £000    |
|-------------------------|---------|
| Turnover                | 1,604   |
| Cost of sales           | (1,094) |
| Gross profit            | 510     |
| Administrative expenses | (1,027) |
| Operating loss          | (517)   |