

Danfoss Limited

**Directors' report and financial
statements**

Registered number 624322

31 December 2009

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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 2009

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. The directors are not aware, at the date of this report, of any likely major changes in the Company's activity in the next year.

Danfoss Limited analyses its business into various divisions. A business review for each division is discussed below.

Danfoss Refrigeration & Air conditioning were able to increase their turnover by 7% despite the continuingly tough market conditions which they faced.

Danfoss Industrial Automation had a difficult 2009 with sales 30% down on the previous year. The business downturn was felt across all customer segments but specifically within the Mobile Hydraulic, Marine Engine and Vacuum industries.

Danfoss Geared motors turnover suffered as a consequence of current market conditions whilst the underlying business has remained at a reasonably constant level. Large projects and investments have been either cancelled or postponed. In several cases customers have closed their UK facilities altogether as they are unable to continue to trade within the UK market. In the short term this has been recognised and the company has restructured in such a way as to reduce costs to the absolute minimum during these turbulent times.

Danfoss Drives had a challenging year during 2009 and turnover fell by 13% during the period. This fall was however less than the overall contraction in the drives market of 17%.

Overall the Companies performance was significantly impacted by the tough market conditions and turnover fell 6.6% from £39,353,000 to £36,746,000. Despite a tough year in 2009 the directors are cautiously optimistic about the company's performance in 2010 and believe the company will return to growth.

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 2009 the Company had cash resources of £3,298,000 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.

Dividends

The directors do not propose an ordinary dividend in respect of the current financial year (2008 £nil).

Political and charitable contributions

The company made no political or charitable contributions during the year (2008 £nil).

Directors

The directors who held office during the year were as follows:

Roland Fritsch
Henrik Skourup Hansen
Anders Stahlschmidt

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



HS Hansen
Director

29th March 2010

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

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 2009, set out on pages 6 to 18. 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 sections 495 and 496 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 auditors' 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 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/UKNP.

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 2009 and of its loss 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



6/4/10

M Matthewman (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Aquis Court
31 Fishpool Street
St Albans
Hertfordshire
AL3 4RF

Profit and loss account
for the year ended 31 December 2009

| | <i>Note</i> | 2009 £000 | 2008 £000 |
|--|-------------|----------------------------|----------------------------|
| Turnover | | 36,746 | 39,353 |
| Cost of sales | | (29,625) | (30,468) |
| | | <hr/> | <hr/> |
| Gross profit | | 7,121 | 8,885 |
| Administrative expenses | | (7,084) | (7,887) |
| | | <hr/> | <hr/> |
| Operating profit | | 37 | 998 |
| Other interest receivable and similar income | <i>5</i> | 44 | 250 |
| Interest payable and similar charges | <i>6</i> | (17) | (82) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | <i>2</i> | 64 | 1,166 |
| Tax on profit on ordinary activities | <i>7</i> | (222) | (296) |
| | | <hr/> | <hr/> |
| (Loss)/profit for the financial year | | (158) | 870 |
| | | <hr/> | <hr/> |

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

The notes on pages 8 to 18 form part of these financial statements

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

Balance sheet
at 31 December 2009

| | | | 2009 | | Restated (see note 11) 2008 | |
|---|------|---------------|------|--------------|--------------------------------|--------------|
| | Note | £000 | | £000 | £000 | £000 |
| Fixed assets | | | | | | |
| Intangible assets | 8 | | | - | | - |
| Tangible assets | 9 | | | 12 | | 60 |
| | | | | <u>12</u> | | <u>60</u> |
| Current assets | | | | | | |
| Stocks | 10 | 999 | | | 883 | |
| Debtors (includes £3,297,000 in relation to cash pooling arrangement (2008 £719 000)) | 11 | 10,873 | | | 9,721 | |
| Cash at bank and in hand | | 1 | | | 168 | |
| | | <u>11,873</u> | | | <u>10,772</u> | |
| Creditors amounts falling due within one year | 12 | (8,796) | | | (7,616) | |
| Net current assets | | | | <u>3,077</u> | | <u>3,156</u> |
| Net assets | | | | <u>3,089</u> | | <u>3,216</u> |
| Capital and reserves | | | | | | |
| Called up share capital | 13 | | | 3,250 | | 3,250 |
| Profit and loss account | 17 | | | (161) | | (34) |
| Shareholders' funds | 18 | | | <u>3,089</u> | | <u>3,216</u> |

These financial statements were approved by the board of directors on 29th March 2010 and were signed on its behalf by


HS Hansen
Director

Company registered number 624322

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 20

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 16 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.

Notes (continued)

2 Notes to the profit and loss account

| | 2009 £000 | 2008 £000 |
|--|--------------|--------------|
| <i>(Loss)/profit on ordinary activities before taxation is stated after charging</i> | | |
| Depreciation | 62 | 82 |
| Amortisation of intangible assets | - | 71 |
| Hire of other assets - operating leases | 613 | 614 |

| | 2009 £000 | 2008 £000 |
|--|--------------|--------------|
| <i>Auditors' remuneration</i> | | |
| Audit of these financial statements | 28 | 26 |
| Amounts receivable by the auditors and their associates in respect of Other services relating to taxation | 20 | 41 |

3 Remuneration of directors

| | 2009 £000 | 2008 £000 |
|-----------------------|--------------|--------------|
| Directors' emoluments | 107 | 86 |

No retirement benefits are accruing to one director under the defined benefit scheme (2008 nil). The other directors are remunerated by group companies.

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 | |
|----------------|---------------------|------------|
| | 2009 | 2008 |
| Sales | 79 | 84 |
| Distribution | 3 | 4 |
| Administrative | 13 | 13 |
| | <u>95</u> | <u>101</u> |

The aggregate payroll costs of these persons were as follows

| | 2009 | 2008 |
|---|--------------|--------------|
| | £000 | £000 |
| Wages and salaries | 4,015 | 4,250 |
| Social security costs | 443 | 460 |
| Other pension costs – funded defined benefits and money purchase scheme (see note 16) | 502 | 506 |
| Share based payments (see note 19) | 31 | 29 |
| | <u>4,991</u> | <u>5,245</u> |

5 Other interest receivable and similar income

| | 2009 | 2008 |
|-----------------------------|-----------|------------|
| | £000 | £000 |
| Other interest received | 44 | 13 |
| Net currency exchange gains | - | 237 |
| | <u>44</u> | <u>250</u> |

6 Interest payable and similar charges

| | 2009 | 2008 |
|------------------------------|-----------|-----------|
| | £000 | £000 |
| On bank loans and overdrafts | 3 | 82 |
| Net currency exchange losses | 14 | - |
| | <u>17</u> | <u>82</u> |

Notes (continued)

7 Taxation

| | 2009 £000 | 2008 £000 |
|--|--------------|--------------|
| <i>Analysis of charge in period</i> | | |
| <i>UK corporation tax</i> | | |
| Current tax on income for this period | 66 | 307 |
| Adjustments in respect of prior year | 105 | (11) |
| | <hr/> | <hr/> |
| Total current tax (see below) | 171 | 296 |
| <i>Deferred tax</i> | | |
| Origination/reversal of timing differences | (7) | 17 |
| Adjustments in respect of prior year | 58 | (17) |
| | <hr/> | <hr/> |
| Total deferred tax (see note 15) | 51 | - |
| | <hr/> | <hr/> |
| Tax on profit on ordinary activities | 222 | 296 |
| | <hr/> | <hr/> |

The current tax charge for the period is higher (2008 lower) than the standard rate of corporation tax in the UK of 28% (2008 28.5%). The differences are explained below

| | 2009 £000 | 2008 £000 |
|--|--------------|--------------|
| <i>Current tax reconciliation</i> | | |
| Profit on ordinary activities before tax | 64 | 1,166 |
| | <hr/> | <hr/> |
| Current tax at 28% (2008 28.5%) | 18 | 332 |
| <i>Effects of</i> | | |
| Expenses not deductible for tax purposes | 40 | 88 |
| Difference between capital allowances and depreciation | 8 | 17 |
| Tax deduction for share based payments | - | (105) |
| Adjustments in respect of prior year | 105 | (11) |
| Group relief not paid for | - | (25) |
| | <hr/> | <hr/> |
| Total current tax charge (see above) | 171 | 296 |
| | <hr/> | <hr/> |

Notes (continued)

8 Intangible fixed assets

| | Purchased software £000 |
|--|----------------------------|
| <i>Cost</i> | |
| At 1 January 2009 and 31 December 2009 | 246 |
| | <u> </u> |
| <i>Amortisation</i> | |
| At 1 January 2009 and 31 December 2009 | 246 |
| | <u> </u> |
| <i>Net book value</i> | |
| At 31 December 2009 and 31 December 2008 | - |
| | <u> </u> |

9 Tangible fixed assets

| | Leasehold improvements £000 |
|-----------------------|-----------------------------------|
| <i>Cost</i> | |
| At 1 January 2009 | 368 |
| Additions | 14 |
| | <u> </u> |
| At 31 December 2009 | 382 |
| | <u> </u> |
| <i>Depreciation</i> | |
| At 1 January 2009 | 308 |
| Charge for the year | 62 |
| | <u> </u> |
| At 31 December 2009 | 370 |
| | <u> </u> |
| <i>Net book value</i> | |
| At 31 December 2009 | 12 |
| | <u> </u> |
| At 31 December 2008 | 60 |
| | <u> </u> |

Notes (continued)

10 Stocks

| | 2009 £000 | 2008 £000 |
|-------------------------------------|--------------|--------------|
| Raw materials and consumables | 166 | 228 |
| Finished goods and goods for resale | 833 | 655 |
| | <u>999</u> | <u>883</u> |

11 Debtors

| | 2009 £000 | Restated 2008 £000 |
|---|---------------|--------------------------|
| Trade debtors | 6,602 | 7,303 |
| Amounts owed by group undertakings | 656 | 731 |
| Amounts owed by group undertakings – cash pooling arrangement | 3,297 | 719 |
| Prepayments and accrued income | 199 | 159 |
| Corporation tax recoverable | 88 | 727 |
| Deferred tax asset (see note 15) | 31 | 82 |
| | <u>10,873</u> | <u>9,721</u> |

The company operates as part of a cash pooling arrangement within the Danfoss Group and as such the cash balance for 2008 has been moved from cash to amounts owed by group undertakings – cash pooling arrangement

12 Creditors amounts falling due within one year

| | 2009 £000 | 2008 £000 |
|------------------------------------|--------------|--------------|
| Trade creditors | 201 | 469 |
| Amounts owed to group undertakings | 7,389 | 5,766 |
| Taxation and social security | 670 | 929 |
| Other creditors | 304 | 283 |
| Accruals and deferred income | 232 | 169 |
| | <u>8,796</u> | <u>7,616</u> |

Notes (continued)

13 Called up share capital

| | 2009 £000 | 2008 £000 |
|---|--------------|--------------|
| <i>Authorised, allotted, called up and fully paid</i> 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

| | 2009 | | 2008 | |
|--|-------------------------------|---------------|-------------------------------|---------------|
| | Land and Buildings £000 | Other £000 | Land and Buildings £000 | Other £000 |
| Operating leases which expire | | | | |
| Within one year | - | 46 | - | 43 |
| In the second to fifth years inclusive | 41 | 129 | - | 173 |
| Over five years | 285 | - | 326 | - |
| | 326 | 175 | 326 | 216 |

15 Deferred taxation

The elements of deferred taxation are as follows

| | 2009 £000 | 2008 £000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 31 | 81 |
| Other timing differences | - | 1 |
| Deferred tax asset (see note 11) | 31 | 82 |

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

Notes (continued)

16 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, and a defined contribution section. 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, Financial Reporting Standard 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 31st March 2006 and the most significant assumptions were:

| | |
|---|----------|
| Rate of interest | |
| Pre-retirement | 6.65% pa |
| Post-retirement | 5.50% pa |
| Rate of increase in salaries | 4.60% pa |
| Rate of pension increases | |
| Benefits built up prior to 1st April 2006 | 3.10% pa |
| Benefits built up after 31st March 2006 | 2.20% pa |

As at 31st 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 year to 31st December 2009 is equal to the contributions paid of £369,000 (2008: £375,000). During this period, in respect of members of the defined benefit section, the Company contributed at a rate of 20.2% of pensionable salaries. This rate includes an additional 8.4% of pensionable salaries in order to help make good the shortfall revealed by the actuarial valuation.

The Scheme's Trustees are currently carrying out an actuarial valuation as at 31st March 2009 which is due to be completed by 30th June 2010. 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.

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 £133,000 (2008: £131,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Notes (continued)

17 Reserves

| | Profit and loss account £000 |
|--|---|
| At beginning of year | (34) |
| Loss for year | (158) |
| Credit in relation to share based payments | 31 |
| At end of year | (161) |

18 Reconciliation of movements in shareholders' funds

| | 2009 £000 | 2008 £000 |
|---|----------------------|----------------------|
| (Loss)/profit for the financial year | (158) | 870 |
| Credit in relation to share based payments | 31 | 29 |
| Dividends on shares classified in shareholders' funds | - | (1,100) |
| Retained loss | (127) | (201) |
| Net reduction in shareholders' funds | (127) | (201) |
| Opening shareholders' funds | 3,216 | 3,417 |
| Closing shareholders' funds | 3,089 | 3,216 |

19 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, no options were exercised during 2009. 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 DKK365, respectively. These schemes resulted in a charge to the profit and loss account in 2009 of £31,000 (2008: £29,000).

Notes *(continued)*

19 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

| | 2009 | 2008 |
|-------------------------|------|-------|
| Share price | 830 | 2,127 |
| Expected volatility | 56% | 33.0% |
| Expected dividends | 1.0% | 1.0% |
| Risk free interest rate | 3.3% | 4.4% |

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

20 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