

Danfoss Limited

Directors' report and financial statements

Registered number 624322

31 December 2003



Contents

| | |
|--|---|
| Directors' report | 1 |
| Statement of directors' responsibilities | 2 |
| Independent auditors' report to the members of Danfoss Limited | 3 |
| Profit and loss account | 4 |
| Balance Sheet | 5 |
| Notes | 6 |

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

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.

Results and dividend

The results for the year are set out in the profit and loss account on page 4. The directors propose a dividend for the year of £750,000 (2002: £600,000).

Directors and directors' interests

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

Gerhard Strauss
Roland Fritsch
Ole Steen Anderson

None of the directors who held office at the end of the year had any disclosable interest in the shares of the company or other group companies.

Auditors

In accordance with Section 385 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



JW Lewis
Secretary

Capswood
Oxford Road
Denham
Buckinghamshire
UB9 4LH

21st Tgy 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have 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.



1 Forest Gate
Brighton Road
Crawley
RH11 9PT
United Kingdom

Independent auditors' report to the members of Danfoss Limited

We have audited the financial statements on pages 4 to 15.

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 are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

20 July 2004

Profit and loss account
for the year ended 31 December 2003

| | <i>Note</i> | 2003 £000 | 2002 £000 |
|--|-------------|----------------------------|--------------|
| Turnover | <i>1</i> | 32,669 | 33,457 |
| Cost of sales | | (25,129) | (25,259) |
| | | <hr/> | <hr/> |
| Gross profit | | 7,540 | 8,198 |
| Administrative expenses | | (7,523) | (7,680) |
| | | <hr/> | <hr/> |
| Operating profit | | 17 | 518 |
| Profit on sale of an intangible fixed asset | | - | 525 |
| Profit on sale of a tangible fixed asset | <i>5</i> | 600 | - |
| Interest receivable and similar income | <i>6</i> | 14 | - |
| Interest payable and similar charges | <i>7</i> | (43) | (34) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | <i>2-7</i> | 588 | 1,009 |
| Tax on profit on ordinary activities | <i>8</i> | (182) | (217) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities after taxation | | 406 | 792 |
| Dividend proposed | <i>9</i> | (750) | (600) |
| | | <hr/> | <hr/> |
| Retained profit for the financial year | | (344) | 192 |
| Retained profit brought forward | | 560 | 368 |
| | | <hr/> | <hr/> |
| Retained profit carried forward | | 216 | 560 |
| | | <hr/> | <hr/> |

The profit for the year is derived from continuing activities.

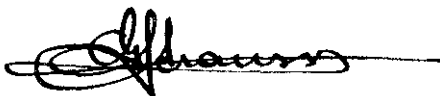
The company has no recognised gains or losses other than those passing through the profit and loss for the year.

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

Balance Sheet
at 31 December 2003

| | Note | 2003 £000 | 2002 £000 |
|---|------|---------------------|---------------------|
| Fixed assets | | | |
| Tangible assets | 10 | 374 | 391 |
| Current assets | | | |
| Stocks | 11 | 1,636 | 1,503 |
| Debtors | 12 | 6,209 | 6,235 |
| Cash at bank and in hand | | 236 | 2 |
| | | <u>8,081</u> | <u>7,740</u> |
| Creditors: amounts falling due within one year | 13 | <u>(4,849)</u> | <u>(4,321)</u> |
| Net current assets | | <u>3,232</u> | <u>3,419</u> |
| Net assets less current liabilities | | <u>3,606</u> | <u>3,810</u> |
| Provisions for liabilities and charges | 16 | <u>(140)</u> | <u>-</u> |
| Net Assets | | <u><u>3,466</u></u> | <u><u>3,810</u></u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 3,250 | 3,250 |
| Profit and loss account | | 216 | 560 |
| | | <u><u>3,466</u></u> | <u><u>3,810</u></u> |

These financial statements were approved by the board of directors on *21st Dec* 2004 and were signed on its behalf by:



G Strauss
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. The company has followed the transitional arrangements of Financial Reporting Standard 17, 'Retirement Benefits' in these 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 Financial Reporting Standard No. 1 (revised) 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 Financial Reporting Standard No. 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 19.

Fixed assets and depreciation

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

| | | |
|---------------------|---|---------------|
| Leasehold buildings | - | 6 to 25 years |
| Plant and machinery | - | 3 to 6 years |
| Motor vehicles | - | 3 years |

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.

Pension costs

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. In addition, the company operates an unfunded unapproved deferred benefit scheme. Contributions to the schemes are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the group. Further details are shown in note 17 of these financial statements.

Notes (continued)

1 Accounting policies (continued)

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 for the year. Deferred tax is recognised where material, 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 Financial Reporting Standard No. 19.

Turnover

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

2 Profit on ordinary activities before taxation

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| <i>This is stated after charging/(crediting)</i> | | |
| Auditors' remuneration | 25 | 23 |
| Depreciation | 96 | 117 |
| Operating lease charges – other | 815 | 792 |

Notes (continued)

3 Remuneration of directors

| | 2003 £000 | 2002 £000 |
|---------------------------|-----------------|-----------------|
| Directors' emoluments: | | |
| Remuneration as executive | 191 | 155 |
| Benefits in kind | 20 | 15 |
| Pension | 66 | 58 |
| | <hr/> 277 <hr/> | <hr/> 228 <hr/> |

Retirement benefits are accruing for one director under the company and group defined benefit schemes (2002: 1).

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was 131(2002: 138).

The aggregate payroll costs of these persons were as follows:

| | 2003 £000 | 2002 £000 |
|-----------------------------------|-------------------|-------------------|
| Wages and salaries | 4,331 | 4,154 |
| Social security costs | 405 | 384 |
| Other pension costs (see note 17) | 214 | 93 |
| | <hr/> 4,950 <hr/> | <hr/> 4,631 <hr/> |

5 Profits on disposal of fixed assets

The profit relates to the completion of the sale of a property in 2003. The asset was held as a current asset at 31 December 2002 in anticipation of its sale.

Without the disposal, the corporation tax charge would have been reduced by £180,000.

Notes (continued)

6 Interest receivable and similar income

| | 2003 £000 | 2002 £000 |
|------------------|--------------|--------------|
| On bank deposits | 14 | - |
| | <u>14</u> | <u>-</u> |

7 Interest payable and similar charges

| | 2003 £000 | 2002 £000 |
|------------------------------|--------------|--------------|
| On bank loans and overdrafts | 43 | 28 |
| On other loans | - | 6 |
| | <u>43</u> | <u>34</u> |

8 Taxation

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| The taxation charge is made up as follows: | | |
| United Kingdom corporation tax | 194 | 204 |
| Adjustments in respect of prior year | (12) | 13 |
| | <u>182</u> | <u>217</u> |

The current tax charge for the period is higher (2002: lower) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

| | | |
|---|------------|------------|
| Profit before tax | 588 | 1,009 |
| Taxation at standard rate on profit before tax 30% (2002: 30%) | 176 | 303 |
| Expenses disallowed for tax purposes | 32 | 38 |
| Depreciation in excess of capital allowances | (14) | (15) |
| Capital gain on disposal relieved by capital losses brought forward | - | (137) |
| Other timing differences | - | 15 |
| | <u>194</u> | <u>204</u> |
| Current tax charge | <u>194</u> | <u>204</u> |

Notes (continued)

9 Dividends

| | 2003 £000 | 2002 £000 |
|-------------------------|--------------|--------------|
| Ordinary shares: | | |
| Final dividend proposed | 750 | 600 |

10 Tangible fixed assets

| | Short leasehold properties £000 | Plant and machinery £000 | Motor vehicles £000 | Total £000 |
|-----------------------|--|--------------------------------|---------------------------|---------------|
| <i>Cost</i> | | | | |
| At 1 January 2003 | 285 | 379 | 7 | 671 |
| Additions | 63 | 16 | - | 79 |
| Disposals | - | (124) | - | (124) |
| At 31 December 2003 | 348 | 271 | 7 | 626 |
| <i>Depreciation</i> | | | | |
| At 1 January 2003 | 32 | 241 | 7 | 280 |
| Charge for the year | 34 | 62 | - | 96 |
| Disposals | - | (124) | - | (124) |
| At 31 December 2003 | 66 | 179 | 7 | 252 |
| <i>Net book value</i> | | | | |
| At 31 December 2003 | 282 | 92 | - | 374 |
| At 31 December 2002 | 253 | 138 | - | 391 |

11 Stocks

| | 2003 £000 | 2002 £000 |
|-------------------------------------|--------------|--------------|
| Raw materials | 308 | 263 |
| Finished goods and goods for resale | 1,328 | 1,240 |
| | 1,636 | 1,503 |

Notes (continued)

12 Debtors

| | 2003 £000 | 2002 £000 |
|------------------------------------|-------------------|-------------------|
| Trade debtors | 5,087 | 5,142 |
| Amounts owed by group undertakings | 910 | 531 |
| Prepayments and accrued income | 212 | 160 |
| Fixed asset awaiting disposal | - | 305 |
| Corporation tax recoverable | - | 97 |
| | <hr/> 6,209 <hr/> | <hr/> 6,235 <hr/> |

On 23 January 2003 the company completed the sale of the fixed asset awaiting disposal. See Note 5.

13 Creditors: amounts falling due within one year

| | 2003 £000 | 2002 £000 |
|--|-------------------|-------------------|
| Bank overdraft | - | 170 |
| Trade creditors | 413 | 414 |
| Amounts owed to group undertakings | 2,390 | 2,541 |
| Other creditors including taxation and social security | 1,210 | 626 |
| Corporation tax | 86 | 132 |
| Accruals and deferred income | - | 438 |
| Dividend proposed | 750 | - |
| | <hr/> 4,849 <hr/> | <hr/> 4,321 <hr/> |

14 Called up share capital

| | 2003 £000 | 2002 £000 |
|---|-------------------|-------------------|
| <i>Authorised, Allotted, called up and fully paid</i> | | |
| 3,250,000 ordinary shares of £1 each | <hr/> 3,250 <hr/> | <hr/> 3,250 <hr/> |

Notes (continued)

15 Commitments

Operating leases

At 31 December 2003, the company had annual commitments under non-cancellable operating leases as set out below:

| | 2003 | | 2002 | |
|--|-------------------------------|---------------|-------------------------------|---------------|
| | Land and buildings £000 | Other £000 | Land and buildings £000 | Other £000 |
| Operating leases which expire: | | | | |
| Within one year | - | 233 | - | 73 |
| In the second to fifth years inclusive | 100 | 101 | - | 227 |
| Over five years | 324 | - | 431 | - |
| | <u>424</u> | <u>334</u> | <u>431</u> | <u>300</u> |

16 Provisions for liabilities and charges

Deferred taxation, which has not been provided for in view of uncertainty over its recoverability, is set out as follows:

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Difference between accumulated depreciation and capital allowances | 24 | 108 |
| Pension contributions | 76 | 60 |
| | <u>100</u> | <u>168</u> |

| | 2003 £000 | 2002 £000 |
|--|--------------|--------------|
| Restructuring provision | | |
| At beginning of year | - | - |
| Charge to profit and loss for the year | 140 | - |
| Utilised during year | - | - |
| | <u>140</u> | <u>-</u> |

At end of year

Notes (continued)

17 Pension scheme

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

The company pays contributions determined on the advice of the Scheme's actuary using the projected unit method of valuation. An actuarial valuation was carried out as at 31st March 2003 and the most significant assumptions were:

- rate of interest 7.5 % pa (pre-retirement), 6% pa (post retirement)
- rate of increase in salaries 4 % pa
- rate of pension increases 2.5 % pa

As at 31st March 2003, the market value of the Scheme's assets amounted to £22.9m. Based on these assumptions, there was a shortfall of £7.7m compared to the amount required to cover the benefits that had accrued to members for expected future increases in salaries.

The pension cost for the company during the period is equal to the contributions paid of £213,000 (2002: £93,000). During the period, the company contributed at a rate of 7.0% of pensionable salaries, increasing to 10.0% from 1 January 2004. The rates are lower than those required to meet the cost of benefits accruing in the Scheme because of a surplus brought in from a previous scheme. The company's contribution rate is therefore expected to increase to 18.4% from 1 July 2007, subject to the results of the actuarial valuation as at 31 March 2006.

For pension schemes such as Danfoss Holdings (UK) Pension Scheme, Financial Reporting Standard no.17, Retirement Benefits, requires the company to account for pension costs in these financial statements as if the scheme were a defined contribution scheme.

The company also operates a second defined benefit pension scheme. The scheme is an Unfunded, Unapproved Retirement Benefit Scheme, 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.

The assumptions which are of greatest significance to the calculation of the company's pension costs are the following:

- Discount rate 7% pa
- Salary increase 5% pa

The last actuarial assessment of the liability took place at 13 February 2001, used the above assumptions. The company has made provision in the accounts since then consistent with the actuarial recommendations and using the same assumptions.

Movement in the provision during the year:

| | £000 | 2003 £000 |
|-------------------------------|------|--------------|
| Provision at 1 January 2003 | | (200) |
| Current service cost | (39) | |
| Past service cost | (15) | |
| Profit and loss charge | | (54) |
| Provision at 31 December 2003 | | (254) |

Notes (continued)

17 Pension scheme (continued)

As the scheme is unfunded there are no scheme assets. On a current funding basis, an additional provision of £84,000 would be required at 31 December 2003.

The net pension liability which would be recognised in the company's balance sheet in respect of the unfunded scheme as at 31 December 2003 if FRS17 had been adopted in full would be as follows:

| | 31 December | | |
|--|--------------------|-------------|-------------|
| | 2003 | 2002 | 2001 |
| | £000 | £000 | £000 |
| Net assets excluding unfunded pension | 3,720 | 4,010 | 3,764 |
| Unfunded pension | (338) | (299) | (260) |
| | <hr/> | <hr/> | <hr/> |
| Net assets including unfunded pension | 3,382 | 3,711 | 3,504 |
| | <hr/> | <hr/> | <hr/> |
| Profit and loss reserve excluding unfunded pension | 470 | 760 | 514 |
| Unfunded pension | (338) | (299) | (260) |
| | <hr/> | <hr/> | <hr/> |
| Profit and loss reserve including unfunded pension | 132 | 461 | 254 |
| | <hr/> | <hr/> | <hr/> |

18 Reconciliation of movements in shareholders' funds

| | 2003 | 2002 |
|--|-------------|-------------|
| | £000 | £000 |
| Opening shareholders' funds | 3,810 | 3,618 |
| Retained profit for the financial year | (344) | 192 |
| | <hr/> | <hr/> |
| Closing shareholders' funds | 3,466 | 3,810 |
| | <hr/> | <hr/> |

19 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.

Notes *(continued)*

20 Ultimate parent company and parent undertaking of larger group of which the company is a member
(continued)

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

21 Subsequent events

Subsequent to the year end, a decision was taken to close the Wantage site. Although the financial impact has not yet been determined, it is not expected to be material.