

Danfoss Holding UK Limited

**Directors' report and financial
statements**

Registered number 2605811

31 December 2005



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2005.

Principal activities

The company is an investment holding company with subsidiaries engaged in the manufacture and supply of automatic controls, components and compressors.

Results and dividend

The results for the year are set out in the profit and loss account on page 5. Dividends paid during the year comprise a final dividend of £10,000,000 in respect of the previous year ended 31 December 2004. The directors have proposed a final ordinary dividend in respect of the current financial year of £2,500,000. This has not been included within creditors as it was not approved before the year end.

Directors and directors' interests

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

Jorgen Mads Clausen
Ole Steen Andersen

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. According to the register of directors' interests, no rights to subscribe for shares in the company were granted by any of the directors or their immediate families, or exercised by them during the financial year.

Political and charitable contributions

The company made no political or charitable contributions during the year (2004: none).

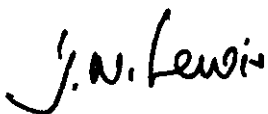
Disclosure of information to auditors

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

Auditors

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

By order of the board



JW Lewis
Secretary

Capswood
Oxford Road
Denham
Buckinghamshire
UB9 4LH

Statement of directors' responsibilities in respect of the directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



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

Independent auditors' report to the members of Danfoss Holding UK Limited

We have audited the financial statements of Danfoss Holding UK Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 2, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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 other transactions is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

22.5.06

KPMG LLP
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 December 2005

	<i>Note</i>	2005 £000	<i>Restated</i> 2004 £000
Administrative expenses	6	(240)	123
Operating (loss)/profit		(240)	123
Income from shares in group undertakings		2,925	3,050
Interest receivable and similar income	2	196	1,237
Interest payable and similar charges	3	(226)	(204)
Profit on ordinary activities before taxation		2,655	4,206
Tax on profit on ordinary activities	5	65	(350)
Profit on ordinary activities after taxation	13	2,720	3,856
Profit for the financial year		2,720	3,856

The results for the current and previous year are derived from continuing activities.

A reconciliation of movement in shareholders' funds is set out in note 13.

Balance sheet
at 31 December 2005

	<i>Note</i>	2005	<i>Restated</i>
		£000	2004
		£000	£000
Fixed assets			
Investments	8	10,526	10,526
Current assets			
Debtors	9	1,271	600
Cash at bank and in hand		-	7,395
		<u>1,271</u>	<u>10,920</u>
Creditors: amounts falling due within one year	10	<u>(5,093)</u>	<u>(4,537)</u>
Net current (liabilities)/assets		<u>(3,822)</u>	<u>3,458</u>
Net assets		<u>6,704</u>	<u>13,984</u>
Capital and reserves			
Called up share capital	11	6,200	6,200
Profit and loss account	12	504	7,784
Equity shareholders' funds	13	<u>6,704</u>	<u>13,984</u>

These financial statements were approved by the board of directors on **17.5.2006** and were signed on its behalf by:


Ole Steen Andersen
 Director

Statement of total recognised gains and losses
for the year ended 31 December 2005

	2005 £000	<i>Restated</i> 2004 £000
Profit for the financial year	2,720	3,856
Total recognised gains and losses relating to the financial year	2,720	3,856
Prior year adjustment – income from shares in group undertakings (as explained in note 14)	(2,925)	
Total recognised gains and losses recognised since last financial statements	(205)	

Notes

(forming part of the financial statements)

1 Accounting policies

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

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- The presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

FRS 21 'Events after the balance sheet date', which requires dividends which are proposed after the balance sheet dates to be disclosed and not recognised as a liability. Comparative data for the year 31 December 2004 has been restated in accordance with this standard (see prior year adjustment note 14).

Basis of preparation

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

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 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 Financial Reporting Standard 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 15.

Investments

Investments are stated at cost less provision, if any, for permanent diminution in value.

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.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. 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 Financial Reporting Standard 19.

Notes (continued)

1 Accounting policies (continued)

Dividends on shares presented within shareholders' funds

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

2 Interest receivable and similar income

	2005 £000	2004 £000
Interest receivable from loans to group undertakings	62	1,171
External bank interest receivable	134	66
	<u>196</u>	<u>1,237</u>

3 Interest payable and similar charges

	2005 £000	2004 £000
Interest payable on loans from group undertakings	226	201
Other	-	3
	<u>226</u>	<u>204</u>

4 Profit on ordinary activities before taxation

	2005 £000	2004 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration		
Audit fee	6	5
Other services	5	9
	<u>11</u>	<u>14</u>

None of the directors received any remuneration in respect of their services to the company, nor were any contributions paid into money purchase schemes on their behalf (2004: £nil). The company had no employees in the year ended 31 December 2005 (2004: nil).

Notes (continued)

5 Taxation

	2005 £000	2004 £000
Analysis of (credit)/charge in period		
<i>UK corporation tax</i>		
Current tax on income for period	(65)	350

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2004: lower) than the standard rate of corporation tax in the UK (30%, 2004: 30%). The differences are explained below.

Current tax reconciliation

	2005 £000	<i>Restated</i> 2004 £000
Profit before tax	2,655	4,206
Tax at standard rate of 30% on profit for the year (2004: 30%)	796	1,262
Dividends receivable from subsidiaries not chargeable to tax	(878)	(915)
Other timing differences	17	3
Total current tax (credit)/charge	(65)	350

6 Disposal of investments

During 2003 Danfoss A/S sold its worldwide flowmetering business resulting in a profit on disposal of £29,251,000. In 2004, a previously written off bad debt was recovered from flowmetering giving rise to additional profit on disposal of £211,000 in that year. The associated credit was included within administrative expenses in 2004.

7 Dividends

The aggregate amount of dividends comprises:

	2005 £000	<i>Restated</i> 2004 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	10,000	35,000

The aggregate amount of dividends proposed and recognised as liabilities as at the year end is nil (2004: nil).

Notes (continued)

8 Investments

	Shares in subsidiary undertakings £000
Cost and net book value: At 1 January 2005 and 31 December 2005	10,526

Subsidiary undertakings	Country of incorporation	Issued ordinary share capital	% owned	Principal activity
Danfoss Limited	England and Wales	3,250,000	100	Supply of controls and drives for electrical and refrigeration industries
Danfoss Randall Limited	England and Wales	3,600,000	100	Manufacture and supply of time switches and thermostatic valves

9 Debtors

	2005 £000	<i>Restated</i> 2004 £000
Amounts recoverable from group undertakings	1,271	600

Interest is receivable on the loans to group undertakings based on LIBOR.

Notes (continued)

10 Creditors: amounts falling due within one year

	2005 £000	<i>Restated</i> 2004 £000
Bank loans and overdrafts	52	-
Amounts owed to parent company	1,392	-
Amounts owed to subsidiary company	3,520	4,158
Corporation tax	-	300
Accruals and deferred income	129	79
	<hr/> 5,093 <hr/>	<hr/> 4,537 <hr/>

Interest is payable on the loans to subsidiary undertakings based on LIBOR.

11 Called up share capital

	2005 £000	2004 £000
<i>Authorised, allotted, called up and fully paid</i> Equity: 6,200,000 ordinary shares of £1 each	6,200	6,200
	<hr/> 6,200 <hr/>	<hr/> 6,200 <hr/>
Shares classified in shareholders' funds	6,200	6,200
	<hr/> 6,200 <hr/>	<hr/> 6,200 <hr/>

12 Reserves

	2005 £000	2004 £000
Opening retained earning as previously stated	7,784	6,978
Prior year adjustment (see note 14)	-	31,950
	<hr/> 7,784 <hr/>	<hr/> 38,928 <hr/>
Opening retained earnings as restated	7,784	38,928
Profit for the financial year	2,720	3,856
Dividends paid	(10,000)	(35,000)
	<hr/> 504 <hr/>	<hr/> 7,784 <hr/>
Closing retained earnings	504	7,784
	<hr/> 504 <hr/>	<hr/> 7,784 <hr/>

Notes (continued)

13 Reconciliation of movement in shareholder's funds

	2005 £000	<i>Restated</i> 2004 £000
Profit for the financial year	2,720	3,856
Dividends on shares classified in shareholders' funds	(10,000)	(35,000)
Retained loss	(7,280)	(31,144)
Net reduction in shareholder's funds	(7,280)	(31,144)
Opening shareholder's funds (originally £13,178,000 restated for prior year adjustment of £31,950,000 comprising £35,000,000 dividend payable and £3,050,000 income from shares in group undertakings)	13,984	45,128
Closing shareholder's funds	6,704	13,984

14 Prior year adjustment

FRS 21 'Events after the balance sheet date'.

Under the terms of FRS 21 dividends which have been declared after the balance sheet date are not recognised as a liability at that date. The effect of the changes in the accounting policy on comparative financial information of the prior year is as follows:

	Year ended 31 December 2005 £000	Year ended 31 December 2004 £000
Income from shares in group undertakings:		
Dividend receivable previously credited to profit and loss in the year	-	(2,925)
Dividend receivable credited to profit and loss under FRS 21	2,925	3,050
Net addition in retained profit in the year	2,925	125
Dividends:		
Dividend previously charged to profit and loss in the year	-	10,000
Dividend charged to profit and loss under FRS 21	(10,000)	(35,000)
Net reduction to retained profit in the year	(10,000)	(25,000)

Notes (continued)

14 Prior year adjustment (continued)

Profit/(loss) for the year:		
As previously reported	2,720	(6,269)
FRS 21 – dividends payable	(10,000)	(25,000)
FRS 21 – income from shares in group undertakings	-	125
	<hr/>	<hr/>
As restated	(7,280)	(31,144)
	<hr/>	<hr/>
Debtors:		
As previously reported	1,271	3,525
FRS 21 – income from shares in group undertakings	-	(2,925)
	<hr/>	<hr/>
As restated	1,271	600
	<hr/>	<hr/>
Creditors:		
As previously reported	(5,093)	(14,537)
FRS 21 – dividends payable	-	10,000
	<hr/>	<hr/>
As restated	(5,093)	(4,537)
	<hr/>	<hr/>
Reserves profit and loss account:		
As previously reported	504	709
FRS 21 – dividends payable	-	10,000
FRS 21 – income from shares in group undertakings	-	(2,925)
	<hr/>	<hr/>
As restated	504	7,784
	<hr/>	<hr/>

15 Ultimate parent company

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 company may be obtained from their registered office as follows:

Danfoss A/S
6430 Nordborg
Denmark