

Danfoss Limited

**Strategic report, Directors' report and
financial statements**

Registered number 02605811

31 December 2016

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Strategic report

The directors present the strategic report of the company for the year ended 31 December 2016.

Business review, principal activities and future developments

The company is a wholly owned subsidiary of Danfoss A/S, a company registered in Denmark. For the year ended 31 December 2016 the company's principal activities are the sale of controls and variable speed drives in the electrical and refrigeration industries, refrigeration compressors and the manufacture and supply of electronic and electro-mechanical heating controls, including time controls and thermostats and thermostatically regulated valves. As shown in the company's statement of comprehensive income on page 6, the company's turnover for the year was £78,152k (2015: £75,012k). The profit before taxation for the company in 2016 was £5,586k (2015: £7,255k). This was in line with the Directors' expectations.

As shown in the company's balance sheet on page 7, the company's net assets at 31 December 2016 were £11,001k (2015: £21,189k). This was in line with Directors' expectations.

In recent years we have introduced a number of measures that have had a positive effect on our cost structure. Also next year we intend to continue adapting our structures to constantly changing market conditions and to continue our strict cost discipline. Through optimisation and standardisation of processes we can further improve our efficiency while simultaneously enhancing the quality of our customer service. Moreover the optimisation of our production and logistics networks will continue to improve our cost structures.

Risk management

The Group's central finance department is responsible for the 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.

Interest rate and credit risk

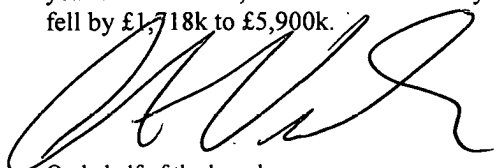
Interest rate risk is negligible as the company does not maintain any external debt. Exposure takes the form of customers who may not meet their obligation to agreed terms; the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity and cash flow risk

As at 31 December 2016 the company had no cash resources (2015: £Nil) as it uses the Danfoss Group cash pool facility for financing its operational expenses.

Financial Key Performance Indicators

The company uses key performance indicators to assess performance including turnover and operating profit. In the year under review, turnover increased by £3,140k on continuing activities. Operating profit on continuing activities fell by £1,718k to £5,900k.



On behalf of the board
Nick Wanless – Director

25th / Sept / 2017

22 Wycombe End, Beaconsfield
Buckinghamshire, HP9 1NB

Directors' report

The directors' present their annual report and the audited financial statements of the company for the year ended 31 December 2016.

Political contributions

The company made no political contributions during the year (2015: £nil).

Paid and proposed Dividend

During the year, the company paid a dividend of £14,000k (2015: £Nil) see note 21. The directors have not proposed a final ordinary dividend in respect of the current financial year (2015: £nil).

Directors

The directors who held office during the year and up to the date of signing the financial statements were as follows:

Anders Stahlschmidt
Nick Wanless
Henrik Paulsen
Kim Christensen
Jens Garde Gød

Financial risk management and Future developments

The management of financial risks facing the company and future developments are discussed in the Strategic report included in these financial statements, see page 1.

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 auditors are aware of that information.

Independent Auditors

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

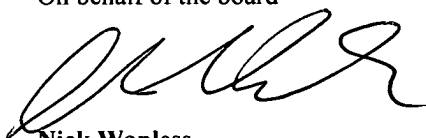
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



Nick Wanless
Director

25th Sept 2017
22 Wycombe End
Beaconsfield
Buckinghamshire
HP9 1NB

Independent auditors' report to the members of Danfoss Limited

Report on the financial statements

Our opinion

In our opinion, Danfoss Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Strategic report, Directors' report and financial statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2016;
- the Statement of comprehensive Income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

Independent auditors' report to the members of Danfoss Limited (Cont)

- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Daniel Brew (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes

27 September 2017

Statement of comprehensive income
For the year ended 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Turnover	2	78,152	75,012
Cost of sales		(57,774)	(53,270)
		<hr/>	<hr/>
Gross profit		20,378	21,742
Distribution costs		(4,154)	(3,883)
Administrative expenses		(10,324)	(10,241)
		<hr/>	<hr/>
Operating profit	3	5,900	7,618
Interest receivable and similar income	6	38	102
Interest payable and similar expenses	7	(352)	(465)
		<hr/>	<hr/>
Profit before taxation		5,586	7,255
Tax on profit	8	(1,232)	(1,882)
		<hr/>	<hr/>
Profit for the financial year		4,354	5,373
		<hr/>	<hr/>
Other comprehensive expense			
Re-measurement of the defined benefit liability	19	(686)	(181)
Income tax on other comprehensive expense	19	144	36
		<hr/>	<hr/>
Other comprehensive expense for the year, net of income tax		(542)	(145)
		<hr/>	<hr/>
Total comprehensive income for the year		3,812	5,228
		<hr/>	<hr/>

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

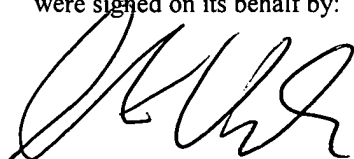
The notes on pages 9 to 25 form part of these financial statements.

Balance sheet
As at 31 December 2016

		2016	2015
	Note	£000	£000
Fixed assets			
Intangible assets	9	2,389	2,606
Tangible assets	10	1,182	878
Investments	11	-	-
		3,571	3,484
Current assets			
Stocks	12	6,040	4,336
Debtors (including amounts due after one year)	13	17,984	34,765
Cash at bank and in hand		-	-
		24,024	39,101
Creditors: amounts falling due within one year	14	(11,967)	(13,518)
Net current assets		12,057	25,583
Provisions for liabilities	15	(90)	(128)
Total assets less current liabilities		15,538	28,939
Defined benefit pension scheme liability	19	(4,537)	(7,750)
Net assets		11,001	21,189
Capital and reserves			
Called up share capital	17	6,200	6,200
Profit and loss account		4,801	14,989
Total shareholders' funds		11,001	21,189

The notes on pages 9 to 25 form part of these financial statements.

The financial statements on pages 6 to 25 were approved by the board of directors on 25th September 17 and were signed on its behalf by:



Nick Wanless
Director

Company registered number: 02605811

Statement of changes in equity
For the year ended 31 December 2016

	Called up Share capital £000	Profit and loss account £000	Total shareholders' funds £000
Balance as at 1 January 2015	6,200	9,761	15,961
Profit for the financial year		5,373	5,373
Actuarial loss on pension scheme net of tax		(145)	(145)
Total comprehensive income for the year	-	5,228	5,228
Balance at 31 December 2015	6,200	14,989	21,189
Balance as at 1 January 2016	6,200	14,989	21,189
Profit for the financial year		4,354	4,354
Actuarial loss on pension scheme net of tax		(542)	(542)
Total comprehensive income for the year		3,812	3,812
Equity dividends paid (note 21)		(14,000)	(14,000)
Balance as at 31 December 2016	6,200	4,801	11,001

Notes to the financial statements

1 Accounting policies

Danfoss Limited (the "Company") is a company limited by shares and incorporated and domiciled in England. The address of its registered offices is 22 Wycombe End, Beaconsfield, Buckinghamshire, HP9 1NB.

The Financial statements have been prepared in accordance with the Companies Act 2006 and in accordance with Financial Reporting Standard 102 - *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 January 2014 have not been restated
- Lease incentives – for leases commenced before 1 January 2014 the Company continued to account for lease incentives under previous UK GAAP

The Company's ultimate parent undertaking, Danfoss A/S includes the Company in its consolidated financial statements. The consolidated financial statements of Danfoss A/S are available to the public and may be obtained from Danfoss A/S, 6430 Nordborg, Denmark. In these financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- From preparing a statement of cash flow on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows; and
- Key Management Personnel compensation, as required by FRS102 paragraph 33.7.

As the consolidated financial statements of Danfoss A/S include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

Basis of preparation

The financial statements are prepared on the historical cost basis.

The company is exempt by virtue of Section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 1. The company has net current assets of £12,057k (2015: £25,583k) and net assets of £11,001k (2015: £21,189k). The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Goodwill and amortisation

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose. Goodwill is capitalised upon acquisition. Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. Goodwill is amortised over its useful economic life of 15 years.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Land and buildings	6 to 15 years
Plant and machinery	4 to 6 years
Fixtures, fittings, tools and equipment	2 to 6 years

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technology advancement, future investments, economic utilisation and the physical condition of the assets. See note 10 for the carrying amount of the tangible assets.

Notes to the financial statements *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current financial position of the debtors, the ageing profile of the debtors and historical experience. See note 13 for the net carrying amount of the debtors and associated impairment provision.

Leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Investments

Investments held as fixed assets are shown at cost less provision for impairment.

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.

The company sells products for a number of markets and is subject to changing consumer demands. As a result it is necessary to consider the recoverability of the cost of stock and the associated provisioning required. When calculating the stock provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage in production of raw materials. See note 12 for the net carrying amount of stock and associated provision.

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, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Notes to the financial statement *(continued)*

1 Accounting policies *(continued)*

Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

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. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the Company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The Company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Re-measurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs

Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference.

Notes to the financial statement *(continued)*

1 Accounting policies *(continued)*

Taxation (continued)

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

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 upon delivery of goods and the provision of services.

Dividends on shares presented within shareholder's 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.

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

- Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the useful economic lives and residual values of the asset. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

- Stock provisioning

The company holds a significant holding of raw materials and finished goods. It is therefore necessary to consider the recoverability of the cost of stock and the associated provisioning required. When calculating stock provision management considers the nature and condition of the stock, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 12 for the net carrying amount of the stock and associated provision.

Notes to the financial statement *(continued)*

1 Accounting policies *(continued)*

Critical accounting estimates and assumptions (continued)

- Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the ageing profile of debtors and historical experience and market knowledge. See note 13 for the net carrying amount of the debtors and associated impairment provision.

- Defined benefit pension scheme

The company has an obligation to pay benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 19 for the disclosures relating to the defined benefit pension scheme.

2 Turnover

	2016 £000	2015 £000
<i>By geographical market</i>		
UK	64,742	65,893
Europe	13,410	9,119
	<u>78,152</u>	<u>75,012</u>

3 Operating profit

	2016 £000	2015 £000
<i>Profit before taxation is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets - owned	217	371
Cost of goods sold	57,774	53,270
Hire of plant and machinery - operating leases	20	19
Hire of other assets - operating leases	290	601
Amortisation of goodwill (see note 9)	217	217
	<u>58,418</u>	<u>57,478</u>
	2016 £000	2015 £000
<i>Auditors' remuneration</i>		
Audit of these financial statements	32	59
Audit of FRS 102 adjustment	-	10
Advisory work on Pension	75	8
	<u>107</u>	<u>77</u>

Notes to the financial statements *(continued)*

4 Remuneration of directors

	2016 £000	2015 £000
Company contributions to money purchase pension schemes	8	88
Directors' emoluments	112	111
	<hr/>	<hr/>
	120	119
	<hr/>	<hr/>

One Director was remunerated by the company (2015: One). The emoluments of the other Directors were paid by the parent company. These Directors' services to this company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company. Accordingly, the above details include no emoluments in respect of their services.

The aggregate of emoluments of the highest paid director was £112k (2015: £111k), and company pension contributions of £8k (2015: £8k) were made to a money purchase scheme on his behalf.

5 Staff numbers and costs

The monthly average number of persons employed by the company (including executive directors) during the year was analysed as follows:

	2016 Number	2015 Number
Production	98	105
Administration	18	17
Sales and marketing	95	92
	<hr/>	<hr/>
	211	214
	<hr/>	<hr/>
	2016 £000	2015 £000
Wages and salaries	9,448	9,265
Social security costs	1,047	1,055
Other pension costs (see note 19)	766	702
	<hr/>	<hr/>
	11,261	11,022
	<hr/>	<hr/>

6 Interest receivable and similar income

	2016 £000	2015 £000
Interest receivable on loans to group undertakings	-	102
Net currency exchange gain	38	-
	<hr/>	<hr/>
	38	102
	<hr/>	<hr/>

Notes to the financial statements *(continued)*

7 Interest payable and similar expenses

	2016 £000	2015 £000
Interest payable on loans to group undertakings	135	-
Interest on pension scheme liabilities (see note 19)	217	319
Net currency exchange losses	-	146
	<u>352</u>	<u>465</u>

8 Tax on profit

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016 £000	2015 £000
<i>Current tax</i>		
Current tax on income for the year	382	777
Adjustments in respect of prior years	(5)	377
Total current tax	<u>377</u>	<u>1,154</u>
<i>Deferred tax</i>		
Reversal of timing differences	861	728
Adjustments in respect of prior years	(6)	-
Total deferred tax	<u>855</u>	<u>728</u>
Total tax	<u>1,232</u>	<u>1,882</u>

	£000	2016 £000	£000	£000	2015 £000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	377	855	1,232	1,154	728	1,882
Recognised in other comprehensive income	-	(144)	(144)	-	(36)	(36)
Total tax	<u>377</u>	<u>711</u>	<u>1,088</u>	<u>1,154</u>	<u>692</u>	<u>1,846</u>

Notes to the financial statements (continued)

8 Tax on profit (continued)

The current tax charge for the year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £000	2015 £000
Reconciliation of effective tax rate		
Profit before taxation	5,586	7,255
	<hr/>	<hr/>
Current tax at 20% (2015: 20.25%)	1,117	1,469
	<hr/>	<hr/>
<i>Effects of:</i>		
Expenses disallowed for tax purposes	74	2
Amortisation	43	44
Other	4	(10)
Adjustments in respect of prior years	(6)	377
	<hr/>	<hr/>
Total tax expense included in profit or loss	1,232	1,882
	<hr/> <hr/>	<hr/> <hr/>

Factors that may affect future tax charges

The July 2015 Budget Statement announced changes (which were subsequently enacted) to the UK Corporation Tax regime which will reduce the main rate of Corporation Tax to 19% from 1 April 2017 and 18% from 1 April 2020. A further change was announced in the March 2016 Budget to further reduce the Corporation Tax rate to 17% by 1 April 2020, which was substantively enacted on 6 September.

9 Intangible assets

	Goodwill £000
<i>Cost</i>	
At 1 January 2016	3,257
	<hr/>
At 31 December 2016	3,257
	<hr/> <hr/>
<i>Accumulated amortisation</i>	
At 1 January 2016	651
Charged in year	217
	<hr/>
At 31 December 2016	868
	<hr/> <hr/>
<i>Net book value</i>	
At 31 December 2016	2,389
	<hr/> <hr/>
At 31 December 2015	2,606
	<hr/> <hr/>

Goodwill is being written off in equal instalments over its estimated economic life which, in the opinion of the directors, is 15 years.

Notes to the financial statements (continued)

10 Tangible assets

	Land and buildings	Plant and machinery	Fixtures, fittings, tools and equipment	Total
	£000	£000	£000	£000
Cost				
At 1 January 2016	1,546	3,891	1,323	6,760
Additions		438	83	521
Disposals	-	(6)	(20)	(26)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2016	1,546	4,323	1,386	7,255
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 January 2016	1,021	3,677	1,184	5,882
Charge for the year	4	147	66	217
Disposals	-	(6)	(20)	(26)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2016	1,025	3,818	1,230	6,073
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2016	521	505	156	1,182
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2016	525	214	139	878
	<hr/>	<hr/>	<hr/>	<hr/>

11 Investments

	Shares in subsidiary undertakings £000
Cost at 31 December 2016 and 31 December 2015	7,269
Prior impairment of investment	(7,269)
	<hr/>
As 31 December 2016 and 31 December 2015	-
	<hr/>

Name	Country of incorporation		Class of share capital	Proportion held	Nature of business
Danfoss Limited	UK	UK	Ordinary shares	100%	Non-trading company

On 22 March 2017, the company's subsidiary, Danfoss UK Limited was placed into voluntary liquidation. The impairment in investments shown above has been identified as an exceptional cost in the 2014 profit and loss.

Notes to the financial statements *(continued)*

12 Stocks

	2016 £000	2015 £000
Raw materials and consumables	1,939	1,960
Work in progress	388	268
Finished goods and goods for resale	3,713	2,108
	<u>6,040</u>	<u>4,336</u>

13 Debtors (including amounts due after one year)

	2016 £000	2015 £000
Trade debtors	16,848	14,768
Amounts owed by group undertakings	69	17,905
Deferred tax asset (see note 16)	840	941
Deferred tax asset - due more than one year (see note 16)	100	710
Prepayments and accrued income	127	441
	<u>17,984</u>	<u>34,765</u>

Amounts owed by group undertakings are unsecured and repayable on demand. The interest rate charged at 31 December 2016 was 1.82319% (2015: 1.70406%).

14 Creditors: amounts falling due within one year

	2016 £000	2015 £000
Trade creditors	4,431	2,648
Amounts owed to group undertakings	1,684	5,269
Other creditors	1,961	2,141
Other taxation and social security	2,075	2,419
Corporation tax payable	312	369
Accruals and deferred income	1,504	672
	<u>11,967</u>	<u>13,518</u>

Amounts owed to group undertakings are unsecured and repayable on demand. The interest rate charged at 31 December 2016 was 1.82319% (2015: 1.70406%).

Notes to the financial statements *(continued)*

15 Provisions for liabilities

	Warranty provision £000	Total provision £000
At 1 January 2016	128	128
Additional provision made during the year	90	90
Provision utilised during the year	(128)	(128)
	<hr/>	<hr/>
At 31 December 2016	90	90
	<hr/> <hr/>	<hr/> <hr/>

16 Deferred tax

	Deferred tax £000
As at 1 January 2016	1,651
Recognised in the Profit and loss	(855)
Recognised in other comprehensive income	144
	<hr/>
	940
As 31 December 2016	<hr/> <hr/>

The deferred taxation balance is made up as follows:

	2016 £000 Recognised	2015 £000 Recognised
Differences between accumulated depreciation and capital allowances	47	82
General provisions	20	19
Pension liability	873	1,550
	<hr/>	<hr/>
	940	1,651
	<hr/> <hr/>	<hr/> <hr/>

Deferred tax of £100k (2015: £710k) relating to the pension liability (see note 19) is expected to crystallise after more than one year.

17 Called up share capital

	2016 £000	2015 £000
<i>Allotted, called up and fully paid</i>		
6,200,000 (2015: 6,200,000) ordinary shares of £1 each	6,200	6,200
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements *(continued)*

18 Commitments

- (a) There were no capital commitments at the end of the financial year (2015: Nil).
- (b) At 31 December 2016, the company had future minimum lease payments under non-cancellable operating leases as follows:

	2016 £000	2015 £000
Not later than 1 year	462	417
Later than 1 year and not later than 5 years	989	190
Later than 5 years	-	-
Total	1,451	607

19 Pension schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £766k (2015: £702k).

The company owed the pension scheme £103k at the end of the year (2015: £91k).

Defined benefit scheme

The company participated in the Danfoss Holdings (UK) Pension Scheme ("the Scheme") at 31 December 2016. 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.

Notes to the financial statements *(continued)*

19 Pension schemes *(continued)*

The information disclosed below is in respect of the whole of the plans for which the company is either the sponsoring employer or has been allocated a share of cost under an agreed group policy throughout the years shown.

	2016 £000	2015 £000
Present value of funded defined benefit obligations	(117,387)	(96,868)
Fair value of plan assets	112,850	89,118
Deficit	(4,537)	(7,750)
Related deferred tax asset	873	1,550
Net liability	(3,664)	(6,200)

Movements in present value of defined benefit obligation

	2016 £000	2015 £000
At 1 January 2016	96,868	97,935
Current service cost	-	-
Interest cost	3,631	3,374
Actuarial losses/(gains)	19,521	(1,343)
Change in treatment of annuity policies	-	-
Benefits paid	(2,633)	(3,098)
At 31 December 2016	117,387	96,868

Movements in fair value of plan assets

	2016 £000	2015 £000
At 1 January 2016	89,118	86,710
Expected return on plan assets	3,414	3,055
Actuarial gains/(losses)	18,834	(1,794)
Contributions by employer	4,117	4,245
Change in treatment of annuity policies	-	-
Benefits paid	(2,633)	(3,098)
At 31 December 2016	112,850	89,118

Expense recognised in the profit and loss account

	2016 £000	2015 £000
Current service cost	-	-
Net interest	(217)	(319)
Total	(217)	(319)

Notes to the financial statements *(continued)*

19 Pension schemes *(continued)*

The expense is recognised in the following line items in the profit and loss account:

	2016 £000	2015 £000
Interest payable and similar charges	(217)	(319)
	<u>(217)</u>	<u>(319)</u>

The total amount recognised in the other comprehensive income in respect of actuarial gains and losses and the associated deferred tax movement is £542k (2015: £145k).

The fair value of the plan assets and the return on those assets were as follows:

	2016 Fair value £000	2015 Fair value £000
Equities	34,731	26,643
Government debt	39,798	30,071
Corporate bonds	21,744	18,598
Other	16,577	13,806
	<u>112,850</u>	<u>89,118</u>

The expected rates of return on plan assets are determined by reference to the historical returns, without adjustment, of the portfolio as a whole and not on the sum of the returns on individual asset categories.

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

	2016 %	2015 %
Discount rate	2.65	3.80
Expected rate of return on plan assets	2.65	3.80
Expected return on plan assets at beginning of the year	3.80	5.28
Future salary increases	4.30	4.19
RPI	3.30	3.19
	Years	Years
Life expectancy of male aged 65 in 2016	22.40	22.30
Life expectancy of male aged 65 in 2036	24.10	24.00
	<u>24.50</u>	<u>24.40</u>
Life expectancy of female aged 65 in 2016	24.50	24.40
Life expectancy of female aged 65 in 2036	26.40	25.90
	<u>26.40</u>	<u>25.90</u>

Notes to the financial statements *(continued)*

19 Pension schemes *(continued)*

In valuing the liabilities of the pension fund at, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2016 would have increased by £2,257k (2015: £1,937K) before deferred tax.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22 years (male), 24 years (female)
- Future retiree upon reaching 65: 24 years (male), 26 years (female)

History of plans

The history of the plans for the current and prior years is as follows:

Balance sheet

	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Present value of scheme liabilities	117,387	96,868	97,935	86,440	81,000
Fair value of scheme assets	(112,850)	(89,118)	(86,710)	(73,540)	(66,975)
Deficit	4,537	7,750	11,225	12,900	14,025

The company expects to contribute approximately £4,200k to its defined benefit plans in the next financial year.

20 Financial instruments

	2016 £000	2015 £000
<i>Financial assets</i>		
Financial assets measured at amortised cost	16,917	32,673
<i>Financial Liabilities</i>		
Financial liabilities measured at amortised cost	8,709	7,987

Financial assets measured at amortised cost comprise trade debtors and amounts owed by Group undertakings and other debtors.

Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to Group undertakings and accruals.

Notes to the financial statements *(continued)*

21 Dividends and other appropriations

	2016 £000	2015 £000
<i>Declared and paid during the year</i>		
Equity dividends on ordinary shares		
Dividend for 2016	14,000	-
	<hr/> <hr/>	<hr/> <hr/>

No further dividend has been proposed

22 Ultimate parent undertaking

The company is a subsidiary undertaking of Danfoss A/S which is the ultimate parent company incorporated in Denmark.

The largest and smallest group in which the results of the company are consolidated is that headed by Danfoss A/S. The consolidated financial statements of this group are available to the public and may be obtained from Danfoss A/S, 6430 Nordborg, Denmark.