Danfoss Limited

Strategic report, Directors' report and financial statements

Registered number 2605811

31 December 2013

Contents

Strategic report

The directors present the strategic report, the Directors' report and financial statements for the year ended 31 December 2013.

Business review and principal activity
The Company is a wholly owned subsidiary of Danfoss A/S, a company registered in Denmark. For the year ended 31 December 2013 the company's principal activity is 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.

In the previous year this entity acted as an investment holding company with subsidiaries engaged in the manufacture and supply of automatic controls, components and compressors. On the 1 January 2013 the trade and assets of two trading subsidiaries were hived up into Danfoss Limited. The trade of this entity will be on-going from this date in Danfoss Limited.

As shown in the Company's Profit and Loss on page 6, the Company's turnover for the year was £80,261k. This compares to a combined turnover of £79,974k for the UK group in the previous year. The Profit before Tax for the UK group in 2013 was £4,385k.

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

Strategic/operational risk covers the following areas, supplier management, contract management, company acquisition and integration and illegal copying of Danfoss products.

Financial risk covers the following areas, currency exposure, interest rate risk, liquidity risk, credit risk, other hedging and pension obligations risk.

The Company's activities expose it to various types of risk in the normal course of business. The following is not intended as a comprehensive summary of all risks.

Foreign currency risk
The Company is exposed to foreign currency risk on its transactions that are denominated in currencies other than Great British Pounds. It is therefore exposed to the movement in exchange rates. This risk is partially mitigated by the company having bank accounts in foreign currencies.

Interest rate
Interest rate risk is negligible as the Company does not maintain any external debt.

Credit risk
Exposure takes the form of customers who may not meet their obligation to agreed terms; the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity and cash flow risk
As at 31 December 2013 the Company had £156k of cash resources (*2012: £150k*) but is able to draw on the Danfoss Group cashpool if required.

By order of the board

10/9/2014

Nick Wanless
Director

22 Wycombe End, Beaconsfield
Buckinghamshire, HP9 1NB

Directors' report

Political contributions

The company made no political contributions during the year *(2012: £nil).*

Proposed dividend

The directors have not proposed a final ordinary dividend in respect of the current financial year *(2012: £nil).*

Directors

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

Anders Stahlschmidt
Kjeld Staerk
Nick Wanless
Thomas Jorgensen (appointed 31/03/13 – resigned 01/12/13)
Peter Simson (appointed 31/03/13)
Henrik Paulsen (appointed 01/12/13)

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

The directors expect that KPMG LLP will resign as auditors following the approval of these accounts, and that PwC LLP will be appointed to fill the vacancy arising.

By order of the board

Nick Wanless
Director

10/9/2014

22 Wycombe End
Beaconsfield
Buckinghamshire
HP9 1NB

Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG LLP
58 Clarendon Road
Watford
Hertfordshire
WD17 1DE
United Kingdom

Independent auditor's report to the members of Danfoss Limited

We have audited the financial statements of Danfoss Limited for the year ended 31 December 2013 set out on pages 6 to 24. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

M Matthewman

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

Date: 10/9/14

Profit and loss account
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Turnover	2	**80,261**	-
Cost of sales		**(57,961)**	-
Gross profit		**22,300**	-
Distribution costs		**(3,037)**	-
Administrative expenses		**(12,828)**	(719)
Operating profit/(loss)		**6,435**	(719)
Interest receivable and similar income	6	**3,467**	16
Interest payable and similar charges	7	**(3,850)**	-
Profit/(loss) on ordinary activities before taxation	3	**6,052**	(703)
Tax on ordinary activities	8	**(1,460)**	-
Profit/(loss) for the financial year		**4,592**	(703)

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

The notes on pages 9 to 24 form part of these financial statements.

A reconciliation of movement in shareholder's funds is set out in note 21.

Balance sheet
at 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Investments	*9*		**7,269**		10,526
Tangible assets	*11*		**1,498**		-
Intangible assets	*10*		**3,040**		-
			11,807		10,526
Current assets					
Stocks	*12*	**6,113**		-	
Debtors	*13*	**23,181**		1,660	
Cash		**156**		150	
		29,450		1,810	
Creditors: amounts falling due within one year	*14*	**(27,476)**		(637)	
Net current assets			**1,974**		1,173
Provisions for liabilities	*15*		**(83)**		-
Pension liabilities	*19*		**(10,320)**		-
Net assets			**3,378**		11,699
Capital and reserves					
Called up share capital	*17*		**6,200**		6,200
Profit and loss account	*20*		**(2,822)**		5,499
Shareholders' funds	*21*		**3,378**		11,699

The notes on pages 9 to 24 form part of these financial statements.

These financial statements were approved by the board of directors on 10 September 2014 and were signed on its behalf by:

Nick Wanless
Director

Company registered number: 2605811

Statement of total recognised gains and losses
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Profit / (loss) for the financial year		**4,592**	(703)
Actuarial (loss) relating to on-boarding of the pension scheme	19	**(14,025)**	-
On-boarding related deferred tax movement	19	**3,226**	-
Actuarial (loss) recognised in the pension scheme	19	**(2,518)**	-
Related deferred tax movement	19	**404**	-
Total recognised (loss) relating to the financial year		**(8,321)**	(703)

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

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.

Under FRS 1 "Cash Flow Statements" the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Danfoss A/S, the Company has taken advantage of the exemption contained in FRS 8 "Related Party Disclosures" 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 24.

Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at their cost and are amortised to nil by equal annual instalments over their useful economic lives as follows:

Purchased software	3½ years

Fixed assets and depreciation

Depreciation is provided by the Company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows. No depreciation is provided on freehold land:

Freehold buildings	15 years
Leasehold improvements	6 years
Plant and machinery	4 to 6 years
Fixtures and fittings	2 to 6 years
Tools and equipment	2 to 6 years
Computer equipment	2 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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Provisions

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

Goodwill

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

Pension costs

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

The company also participates in a group pension scheme providing benefits based on final pensionable pay. The assets are held separately from those of the Company. In the previous year the Company was unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17, 'Retirement benefits', accounted for the scheme as if it were a defined contribution scheme. However, in the current year the share of the scheme assets and liabilities was identifiable due to the restructuring of the UK group. Therefore at the 1st January 2013 the share of the scheme assets and liabilities was bought onto the balance sheet, with any deficit posted through the statement of recognised gains and losses, and will be recognised as outlined below moving forwards.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between interest payable and similar charges and the statement of total recognised gains and losses.

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

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 FRS 19.

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 despatch 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.

Share based payments

The share option programme allows employees to acquire shares of the ultimate parent company. The fair value of options granted after 7 November 2002 and not yet vested as at 1 January 2012 is recognised as an employee expense with a corresponding increase in equity.

Notes *(continued)*

1 Accounting policies *(continued)*

The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For cash settled share based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Notes *(continued)*

2 Analysis of turnover

	2013	2012
	£000	£000
By geographical market		
UK	**71,868**	-
Europe and rest of the world	**8,393**	-
	80,261	-

3 Profit on ordinary activities before taxation

	2013	2012
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible fixed assets - owned	**376**	-
Amortisation of goodwill	**217**	-
Hire of plant and machinery - operating leases	**343**	-
Hire of other assets - operating leases	**338**	-

	2013	2012
	£000	£000
Auditor's remuneration		
Audit of these financial statements	**52**	9
Amounts receivable by the auditors and their associates in respect of:		
Other services relating to taxation	**17**	-

Danfoss Ltd also bares the cost of the audit of its subsidiary undertakings.

4 Remuneration of directors

	2013	2012
	£000	£000
Company contributions to money purchase pension schemes	**5**	-
Directors' emoluments	**99**	-
	104	-

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £99,000, and Company pension contributions of £5,000 were made to a money purchase scheme on his behalf. In the prior year, the remuneration of directors was borne by Danfoss A/S.

Notes *(continued)*

5 Staff numbers and costs

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

	2013 Number	2012 Number
Production	**115**	-
Administration	**20**	-
Sales and marketing	**117**	-
	252	-

	2013 £000	2012 £000
Wages and salaries	**9,001**	-
Social security costs	**1,119**	-
Other pension costs (see note 19)	**1,076**	-
	11,196	-

6 Interest receivable and similar income

	2013 £000	2012 £000
Interest receivable from loans to group undertakings	**-**	16
Expected return on pension scheme assets	**3,341**	-
Bank interest receivable	**126**	-
	3,467	16

7 Interest payable and similar charges

	2013 £000	2012 £000
Interest payable on loans from group undertakings	**93**	-
Interest on pension scheme liabilities	**3,669**	-
Net currency exchange losses	**88**	-
	3,850	-

Notes *(continued)*

8 Taxation

Analysis of charge in period

	2013 £000	2012 £000
UK corporation tax		
Current tax on income for the period	682	-
Adjustments to tax charge in respect of previous periods	(209)	-
Total current tax charge (see below)	473	-
Deferred tax		
Reversal of timing differences	1,037	-
Adjustments in respect of previous periods	(50)	-
Deferred tax	987	-
Tax charge on profit on ordinary activities	1,460	-

The current tax charge for the period is lower *(2012: lower)* than the standard rate of corporation tax in the UK of 23.25% *(2012: 24.50%)*. The differences are explained below:

	2013 £000	2012 £000
Current tax reconciliation		
Profit / (loss) for the year on ordinary activities before tax	6,052	(703)
Current tax at 23.25% *(2012: 24.5%)*	1,406	(172)
Effects of:		
Expenses disallowed for tax purposes	116	-
Amortisation	50	-
Differences between capital allowances and depreciation	18	-
Group relief surrender	-	172
Short term timing differences	(51)	-
Defined benefit scheme timing differences	(847)	
Adjustments to tax charge in respect of previous periods	(209)	-
Total current tax charge (see above)	473	-

Factors affecting the tax charge in future periods

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the group's future current tax charge accordingly. The deferred tax liability at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

Notes *(continued)*

9 Investments

	Shares in subsidiary undertakings £000
Cost and net book value:	
At 1 January 2013	10,526
Eliminated through acquisition	(3,257)
At 31 December 2013	**7,269**

The companies in which the Company's interest at the year end is more than 20% are as follows

Subsidiary undertaking	Class and percentage of shares held
Danfoss Randall Limited	100% ordinary shares
Danfoss UK Limited	100% ordinary shares

10 Intangible fixed assets

	Goodwill £000
Cost	
At beginning of year	-
Additions	3,257
At end of year	3,257
Amortisation	
At beginning of year	-
Charged in year	217
Impairment losses	-
At end of year	217
Net book value	
At 31 December 2013	**3,040**
At 31 December 2012	-

Goodwill from the acquisition of the trading assets of Danfoss UK Limited (see note 22) is being written off in equal instalments over its estimated economic life which, in the opinion of the directors, is 15 years.

Notes *(continued)*

11 Tangible fixed assets

	Land and buildings	Leasehold improvements	Plant and machinery	Fixtures, fittings, tools and equipment	Total
Cost	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 January 2013	-	-	-	-	-
Acquired in business combination	1,546	429	3,739	1,323	7,037
Additions	-	8	78	172	258
Disposals	-	(13)	-	(44)	(57)
At 31 December 2013	1,546	424	3,817	1,451	7,238
Depreciation					
At 1 January 2013	-	-	-	-	-
Acquired in business combination	1,009	424	2,781	1,204	5,418
Disposals	-	(11)	(1)	(42)	(54)
Charge for the year	4	7	316	49	376
At 31 December 2013	1,013	420	3,096	1,211	5,740
Net book value					
At 31 December 2013	**533**	**4**	**721**	**240**	**1,498**
At 31 December 2012	-	-	-	-	-

12 Stocks

	2013	2012
	£000	£000
Raw materials and consumables	**2,693**	-
Work in progress	**336**	-
Finished goods and goods for resale	**3,084**	-
	6,113	-

13 Debtors

	2013	2012
	£000	£000
Trade debtors	**16,280**	-
Amounts owed by group undertakings	**6,657**	1,660
Prepayments and accrued income	**226**	-
Deferred tax asset (see note 16)	**18**	-
	23,181	1,660

Notes *(continued)*

14 Creditors: amounts falling due within one year

	2013 £000	2012 £000
Trade creditors	**2,345**	-
Amounts owed to group undertakings	**18,090**	581
Taxation and social security	**1,661**	-
Other creditors	**3,903**	-
Accruals and deferred income	**810**	56
Corporation tax payable	**667**	-
	27,476	637

15 Provisions

	Restructuring provision £000	Warranty provision £000	Total provision £000
At 1 January 2013	-	-	-
Additional provision made during the year	-	-	-
Amounts arising from business combinations	96	90	186
Provision utilised during the year	(13)	(90)	(103)
Disposed of during the year	-	-	-
At 31 December 2013	**83**	-	**83**

16 Deferred tax

	2013 £000 Recognised	2013 £000 Unrecognised	2012 £000 Recognised	2012 £000 Unrecognised
Capital losses	-	92	-	92
Differences between accumulated depreciation and capital allowances	18	-	-	-

In the prior year the directors have considered the extent to which deferred tax assets will be recoverable and believe it is appropriate not to recognise an asset on the balance sheet at the current time. In the current year given the hive-up of trade and assets of which the trade is expected to continue going forward a deferred tax asset has been recognised.

17 Called up share capital

	2013 £000	2012 £000
Authorised, allotted, called up and fully paid		
6,200,000 ordinary shares of £1 each	**6,200**	6,200
Shares classified in shareholder's funds	**6,200**	6,200

Notes *(continued)*

18 Commitments

(a) There were no capital commitments at the end of the financial year.

(b) Annual commitments under non-cancellable operating leases are as follows:
Reserves

	2013		2012	
	Land and Buildings £000	**Other £000**	Land and Buildings £000	Other £000
Operating leases which expire:				
Within one year	**9**	**49**	-	-
In the second to fifth years inclusive	**303**	**147**	-	-
Over five years	**-**	**-**	-	-
	312	**196**	-	-

Lease commitments are with subsidiaries Danfoss Randall Limited and Danfoss UK Limited, however the costs are borne by Danfoss Limited.

Notes *(continued)*

19 Pension schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £1,031,000 *(2012: £nil)*.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Defined benefit scheme

The Company participated in the Danfoss Holdings (UK) Pension Scheme ("the Scheme") until 31 December 2013. 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.

In the previous year the Company was unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17, 'Retirement benefits', accounted for the scheme as if it were a defined contribution scheme. However, in the current year the share of the scheme assets and liabilities was identifiable due to the restructuring of the entities. Therefore the scheme deficit has been brought onto the balance sheet and accounted for as a defined benefit scheme.

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 periods shown.

	2013	2012
	£000	£000
Present value of funded defined benefit obligations	**(86,440)**	(81,000)
Fair value of plan assets	**73,540**	66,975
Deficit	**(12,900)**	(14,025)
Related deferred tax asset	**2,580**	3,226
Net liability	**(10,320)**	(10,799)

Movements in present value of defined benefit obligation

	2013	2012
	£000	£000
At 1 January 2013	**81,000**	75,900
Current service cost	**45**	121
Interest cost	**3,669**	3,664
Actuarial losses	**4,285**	3,715
Benefits paid	**(2,559)**	(2,400)
At 31 December 2013	**86,440**	81,000

Notes *(continued)*

19 Pension schemes *(continued)*

Movements in fair value of plan assets

	2013	2012
	£000	£000
At 1 January 2013	**66,975**	60,500
Expected return on plan assets	**3,341**	3,617
Actuarial gains	**1,767**	1,033
Contributions by employer	**4,016**	4,225
Benefits paid	**(2,559)**	(2,400)
At 31 December 2013	**73,540**	66,975

Expense recognised in the profit and loss account

	2013	2012
	£000	£000
Current service cost	**(45)**	-
Interest on defined benefit pension plan obligation	**(3,669)**	-
Expected return on defined benefit pension plan assets	**3,341**	-
Total	**(373)**	-

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

	2013	2012
	£000	£000
Interest payable and similar charges	**(3,669)**	-
Interest receivable and similar income	**3,341**	-
Admin expenses	**(45)**	-
	(373)	-

No movement was recognised for the scheme in the profit and loss account and statement of total recognised gains losses for 2012 as the pension scheme was not bought onto the balance sheet until 1st January 2013.

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses and the associated deferred tax movement is £2,114k *(2012: nil)*.

Notes *(continued)*

19 Pension schemes *(continued)*

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

	2013 Fair value £000	2012 Fair value £000
Equities	**21,776**	23,520
Government debt	**38,336**	29,410
Corporate bonds	**-**	6,260
Other	**13,428**	7,785
	73,540	66,975

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 yearend were as follows:

	2013 %	2012 %
Discount rate	**4.65**	4.60
Expected rate of return on plan assets	**5.30**	5.30
Expected return on plan assets at beginning of the period	**5.30**	5.80
Future salary increases	**4.40**	4.00
RPI	**3.40**	3.00
Life expectancy of male aged 65 in 2013	**22**	22
Life expectancy of male aged 65 in 2033	**24**	24

In valuing the liabilities of the pension fund at £12,900k, 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 2013 would have increased by £3,000k 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).
- Future retiree upon reaching 65: 24 years (male).

Notes *(continued)*

19 Pension schemes *(continued)*

History of plans

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

Balance sheet

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Present value of scheme liabilities	86,440	81,000	75,900	71,000	67,700
Fair value of scheme assets	(73,540)	(66,975)	(60,500)	(56,600)	(48,100)
Deficit	12,900	14,025	15,400	14,400	19,600

The Company expects to contribute approximately £4m to its defined benefit plans in the next financial year.

20 Reserves

	Profit and loss account £000
At beginning of year	**5,499**
Profit for the year	**4,592**
Actuarial loss on the pension scheme net of tax	**(12,913)**
At end of year	**(2,822)**

21 Reconciliation of movement in shareholders' funds

	2013	2012
	£000	£000
Profit / (loss) for the financial year	**4,592**	(703)
Actuarial (loss) on pension scheme net of tax	**(12,913)**	-
Retained (loss)	**(8,321)**	(703)
Net (reduction) in shareholders' funds	**(8,321)**	(703)
Opening shareholders' funds	**11,699**	12,402
Closing shareholders' funds	**3,378**	11,699

Notes *(continued)*

22 Acquisition of trade and assets

On 1st January 2013 the Company acquired the trade and assets of Danfoss Randall Limited and Danfoss UK Limited. No goodwill was generated upon acquisition.

	Fair value
	£000
Fixed assets	
Tangible	1,619
Current assets	
Stock	6,736
Debtors	20,249
Total assets	28,604
Provisions	(251)
Creditors	(13,258)
Total liabilities	(13,509)
Net assets	15,095
Purchase consideration and costs of acquisition	
Settled through intercompany accounts	15,095

The net transfer values were settled through intercompany accounts.

In the opinion of management the fair value of the transfer of assets is at the net book value. The net transfer values were settled through intercompany accounts.

The acquired undertakings made a result of £nil from the beginning of its financial year to the date of acquisition. In its previous financial year commencing on 1 January 2012 the profit for was Danfoss Randall Limited: £1,093k and for Danfoss UK Limited: £799k.

23 Share based payments

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

The awarded options and warrants grant the right to buy and subscribe to B shares (of DKK100) not earlier than 3 years after the options or warrants are granted to certain fixed exercise prices. The exercise prices are determined as the latest published share price less 15%. The options and warrants can only be exercised in return for Danfoss shares.

The equity settled programme included certain senior managers of Danfoss UK Limited who were granted 5,656 options in total between 2005 and 2009. These options give them the right to subscribe for 5,656 Danfoss A/S B-shares DKK in the subscription period April 2008 to April 2012. These share options having a vesting period of three years with the first tranche having vested in April 2008, 900 of these options were exercised during 2011. As these are equity settled transactions, the cost of the options is spread over the period from the grant date to the vesting date. The fair value of the options at the grant date for the 2004 programme were DKK 564 for the first tranche, DKK 762 for the second tranche and DKK 983 for the third and last tranche. The fair value for the 1st tranches of the 2007 (issued in 2008) and the 2009 programme (issued in 2009) were DKK 895 and DKK 395, respectively. These schemes resulted in a charge to the profit and loss account in 2013 of £nil (2012: £16,000).

The calculated fair values used for stating the values at the balance sheet date are based on the Black Scholes model. The assumptions used in the Black Scholes model are:

	2013	2012
Share price	3,460	3,198
Expected volatility	37%	36%
Expected dividends	1.0%	1.0%
Risk free interest rate	0.6%-0.9%	1.2%-1.6%

As Danfoss is not quoted on a stock exchange, the calculation basis for the above values is founded on a number of comparable, quoted companies in Denmark and abroad.

The share options issued in 2007 and 2009 gave the option to either receive the shares in Danfoss A/S or receive a cash payment for the difference between the market value of the share and the option price. Due to the large increase in share price in the year, management believe it prudent to accrue further for the options as it is believed there is a high probability the shares could be cash settled rather than equity settled. An extra £57,000 has been accrued other creditors (note 14).

24 Ultimate parent company and parent undertaking of larger group of which the company is a member

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.