

Danfoss Limited

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

Registered number 02605811

31 December 2017



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Strategic report

The directors present the strategic report of the company for the year ended 31 December 2017.

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 2017 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 7, the company's turnover for the year was £82,511k (2016: £78,152k). The profit before taxation for the company in 2017 was £2,586k (2016: £5,587k). This was in line with the Directors' expectations.

As shown in the company's balance sheet on page 8, the company's net assets at 31 December 2017 were £16,437k (2016: £11,001k). This was in line with Directors' expectations.

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

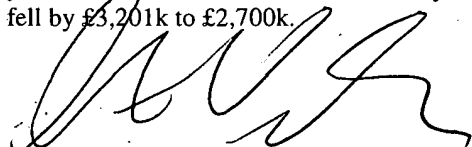
Interest rate risk is negligible as the company does not maintain any external debt. Exposure takes the form of customers who may not meet their obligation to agreed terms; the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

Liquidity and cash flow risk

As at 31 December 2017 the company had no cash resources (2016: £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 £4,359k on continuing activities. Operating profit on continuing activities fell by £3,201k to £2,700k.



On behalf of the board
Nick Wanless – Director

14 November 2018

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 2017.

Political contributions

The company made no political contributions during the year (2016: £nil).

Paid and proposed Dividend

During the year, the company did not pay a dividend (2016: £14,000k) see note 22. The directors have not proposed a final ordinary dividend in respect of the current financial year (2016: £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 (resigned 1 Oct 2017)
Kim Christensen (resigned 1 Oct 2017)
Jens Garde Gad
Torben Christensen (appointed 1 Oct 2017)
Marcus Postings (appointed 1 Oct 2017)

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.

Directors' report (Cont)

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:

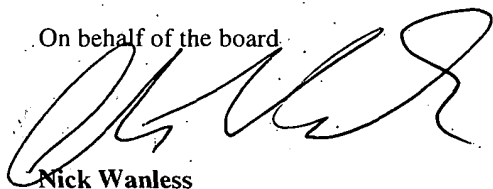
select suitable accounting policies and then apply them consistently;

- 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 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.

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.

On behalf of the board



Nick Wanless
Director

14 November 2018

22 Wycombe End
Beaconsfield
Buckinghamshire
HP9 1NB

Independent auditors' report to the members of Danfoss Limited

Report on the audit of the financial statements

Opinion

In our opinion, Danfoss Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic report, Directors' report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2017; the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Reporting on other information (Cont)

If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

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

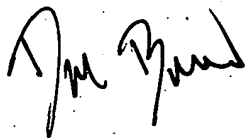
Other required reporting

Companies Act 2006 exception reporting

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

We have no exceptions to report arising from this responsibility.



Dan Brew (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Milton Keynes
14 November 2018

Statement of comprehensive income
For the year ended 31 December 2017

	<i>Note</i>	2017 £000	2016 £000
Turnover	2	82,511	78,152
Cost of sales		(64,223)	(57,774)
Gross profit		18,288	20,378
Distribution costs		(4,474)	(4,153)
Administrative expenses		(11,114)	(10,324)
Operating profit	3	2,700	5,901
Interest receivable and similar income	6	202	38
Interest payable and similar expenses	7	(316)	(352)
Profit before taxation		2,586	5,587
Tax on profit	8	(651)	(1,232)
Profit for the financial year		1,935	4,355
Other comprehensive income/(expense)			
Re-measurement of the defined benefit liability	19	4,229	(686)
Income tax on other comprehensive expense	19	(728)	144
Other comprehensive income/(expense) for the year, net of income tax		3,501	(543)
Total comprehensive income for the year		5,436	3,812

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

The notes on pages 10 to 28 form part of these financial statements.

Balance sheet
As at 31 December 2017

		2017	2016
	Note	£000	£000
Fixed assets			
Intangible assets	9	2,172	2,389
Tangible assets	10	1,594	1,182
Investments	11	-	-
		<u>3,766</u>	<u>3,571</u>
Current assets			
Stocks	12	6,138	6,040
Debtors (including amounts due after one year)	13	17,762	17,984
Cash at bank and in hand		-	-
		<u>23,900</u>	<u>24,024</u>
Creditors: amounts falling due within one year	14	<u>(14,177)</u>	<u>(11,967)</u>
Net current assets		<u>9,723</u>	<u>12,057</u>
Total assets less current liabilities		<u>13,489</u>	<u>15,628</u>
Provisions for liabilities	15	(880)	(90)
Defined benefit pension scheme asset/(liability)	19	3,828	(4,537)
Net assets		<u>16,437</u>	<u>11,001</u>
Capital and reserves			
Called up share capital	17	6,200	6,200
Profit and loss account		10,237	4,801
Total shareholders' funds		<u>16,437</u>	<u>11,001</u>

The notes on pages 10 to 28 form part of these financial statements.

The financial statements on pages 7 to 28 were approved by the board of directors on 14 November 2018 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 2017

	Called up Share capital £000	Profit and loss account £000	Total shareholders' funds £000
Balance as at 1 January 2016	6,200	14,989	21,189
Profit for the financial year	-	4,355	4,355
Actuarial loss on pension scheme net of tax	-	(543)	(543)
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	3,812	3,812
Equity dividends paid (note 22)	-	(14,000)	(14,000)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	6,200	4,801	11,001
 Balance as at 1 January 2017	 6,200	 4,801	 11,001
Profit for the financial year	-	1,935	1,935
Actuarial gain on pension scheme net of tax	-	3,501	3,501
	<hr/>	<hr/>	<hr/>
Total comprehensive income for the year	-	5,436	5,436
	<hr/>	<hr/>	<hr/>
 Balance as at 31 December 2017	 6,200	 10,237	 16,437
	<hr/>	<hr/>	<hr/>

Notes to the financial statements

1 Accounting policies

Danfoss Limited (the "Company") is a private company limited by shares and incorporated and domiciled in England, United Kingdom. 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.

The principal accounting policies adopted in the preparation of the financial statement are set out below. The policies have been consistently applied to the period presented, unless otherwise state.

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 £9,723k (2016: £12,057k) and net assets of £16,437k (2016: £11,001k). 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.

Significant Judgements

In the preparation of the financial statement the directors and management make various judgements and estimates. The judgements and estimates discussed in this section are those deemed to be most important for the understanding of the financial statement.

- Goodwill

The goodwill reported within these accounts relates to purchased goodwill. On conversion to FRS 102 the directors believe it was correct to report this at historic net book value and amortised over 15 years. No change in calculation to prior years.

Notes to the financial statement *(continued)*

2 Turnover

	2017 £000	2016 £000
<i>By geographical market</i>		
UK	67,365	64,742
Europe	15,146	13,410
	<u>82,511</u>	<u>78,152</u>

3 Operating profit

	2017 £000	2016 £000
<i>Profit before taxation is stated after charging:</i>		
Depreciation and other amounts written off tangible fixed assets - owned	324	217
Cost of goods sold	64,223	57,774
Hire of plant and machinery - operating leases	18	20
Hire of other assets - operating leases	176	290
Amortisation of goodwill (see note 9)	217	217
	<u>64,958</u>	<u>58,518</u>
	2017 £000	2016 £000
<i>Auditors' remuneration</i>		
Audit of these financial statements	33	32
Advisory work on Pension	12	75
	<u>45</u>	<u>107</u>

Notes to the financial statements (continued)

4 Remuneration of directors

	2017 £000	2016 £000
Company contributions to money purchase pension schemes	10	8
Aggregate amounts (excluding shares) received under long-term incentive scheme	6	0
Directors' emoluments	158	112
	<u>174</u>	<u>120</u>

Two Directors were remunerated by the company (2016: One). The emoluments of the other Directors were paid by the parent company. These Directors' services to this company and 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 £114k (2016: £112k) and company pension contributions of £9k (2016: £8k) were made to a money purchase scheme on their 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:

	2017 Number	2016 Number
Production	101	98
Administration	20	18
Sales and marketing	106	95
	<u>227</u>	<u>211</u>
	<u>2017</u>	<u>2016</u>
	£000	£000
Wages and salaries	11,964	9,448
Social security costs	1,082	1,047
Other pension costs (see note 19)	867	766
	<u>13,913</u>	<u>11,261</u>

6 Interest receivable and similar income

	2017 £000	2016 £000
Interest receivable on loans to group undertakings	202	38
Net currency exchange gain	<u>202</u>	<u>38</u>

Notes to the financial statements (continued)

7 Interest payable and similar expenses

	2017 £000	2016 £000
Interest payable on loans to group undertakings	252	135
Interest on pension scheme liabilities (see note 19)	64	217
Net currency exchange losses	-	-
	<u>316</u>	<u>352</u>

8 Tax on profit

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

	2017 £000	2016 £000
<i>Current tax</i>		
Current tax (credit)/charge on income for the year	(230)	382
Adjustments in respect of prior years	60	(5)
Total current tax (credit)/charge	<u>(170)</u>	<u>377</u>
<i>Deferred tax</i>		
Reversal of timing differences	821	861
Adjustments in respect of prior years	-	(6)
Total deferred tax	<u>821</u>	<u>855</u>
Total tax charge	<u>651</u>	<u>1,232</u>

	£000	2017 £000	£000	£000	2016 £000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in Profit and loss account	(170)	821	651	377	855	1,232
Recognised in other comprehensive income	-	728	728	-	(144)	(144)
Total tax	<u>(170)</u>	<u>1,549</u>	<u>1,379</u>	<u>377</u>	<u>711</u>	<u>1,088</u>

Notes to the financial statements (continued)

8 Tax on profit (continued)

The current tax charge for the year is higher (2016: higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below:

	2017 £000	2016 £000
Reconciliation of effective tax rate		
Profit before taxation	2,586	5,587
	<hr/>	<hr/>
Current tax at 19.25% (2016: 20%)	498	1,117
<i>Effects of:</i>		
Expenses disallowed for tax purposes	50	74
Amortisation	43	43
Other	-	4
Adjustments in respect of prior years	60	(6)
	<hr/>	<hr/>
Total tax expense included in profit or loss	651	1,232
	<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 2017	3,257
	<hr/>
At 31 December 2017	3,257
	<hr/>
<i>Accumulated amortisation</i>	
At 1 January 2017	868
Charged in year	217
	<hr/>
At 31 December 2017	1,085
	<hr/>
<i>Net book value</i>	
At 31 December 2017	2,172
	<hr/>
At 31 December 2016	2,389
	<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 2017	1,546	4,323	1,386	7,255
Additions	-	221	515	736
Disposals	-	-	-	-
At 31 December 2017	1,546	4,544	1,901	7,991
Accumulated depreciation				
At 1 January 2017	1,025	3,818	1,230	6,073
Charge for the year	4	186	134	324
Disposals	-	-	-	-
At 31 December 2017	1,029	4,004	1,364	6,397
Net book value				
At 31 December 2017	517	540	537	1,594
At 31 December 2016	521	505	156	1,182

11 Investments

	Shares in subsidiary undertakings £000
Cost at 31 December 2017 and 31 December 2016	7,269
Prior impairment of investment	(7,269)
As 31 December 2017 and 31 December 2016	

Name	Country of incorporation	Class of share capital	Proportion held	Nature of business
Danfoss UK Limited 81 Station Road Marlow Buckinghamshire SL7 1NL	UK	Ordinary shares	100%	Non-trading company

On 1 Nov 2017, the company's subsidiary, Danfoss UK Limited was dissolved.

Notes to the financial statements *(continued)*

12 Stocks

	2017 £000	2016 £000
Raw materials and consumables	2,099	1,939
Work in progress	342	388
Finished goods and goods for resale	3,697	3,713
	<u>6,138</u>	<u>6,040</u>

There is no significant difference between the replacement cost of raw materials and consumables, WIP and finished goods and goods for resale and their carrying amounts. Stocks are stated after provisions for impairment of £787k (2016: £567k).

13 Debtors (including amounts due after one year)

	2017 £000	2016 £000
Trade debtors	16,388	16,848
Amounts owed by group undertakings	426	69
Corporation tax	484	-
Deferred tax asset (see note 16)	42	840
Deferred tax asset - due more than one year (see note 16)	-	100
Prepayments and accrued income	422	127
	<u>17,762</u>	<u>17,984</u>

Amounts owed by group undertakings are unsecured and repayable on demand. The interest rate charged at 31 December 2017 was 1.31006% (2016: 1.82319%).

Trade debtors are state after provision for impairment of £299k (2016: £213k)

14 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	4,743	4,431
Amounts owed to group undertakings	3,873	1,684
Other creditors	1,845	1,961
Other taxation and social security	1,964	2,075
Corporation tax payable	-	312
Accruals and deferred income	1,752	1,504
	<u>14,177</u>	<u>11,967</u>

Amounts owed to group undertakings are unsecured and repayable on demand. The interest rate charged at 31 December 2017 was 1.31006% (2016: 1.82319%).

Notes to the financial statements (continued)

15 Provisions for liabilities

	Warranty provision £000	Deferred tax liability £000	Total provision £000
At 1 January 2017	90	-	90
Additional provision made during the year	229	-	229
Deferred tax liability – due in more than one year (see note 16)	-	651	651
Provision utilised during the year	(90)	-	(90)
At 31 December 2017	229	651	880

The provision for warranties relates to expected warranty claims on products sold at the balance sheet date. It is expected that the majority of this expenditure will be incurred over the next year.

16 Deferred tax

	Deferred tax £000
As at 1 January 2017	940
Recognised in the Profit and loss	(821)
Recognised in other comprehensive income	(728)
As 31 December 2017	(609)

The deferred taxation balance is made up as follows:

	2017 £000 Recognised	2016 £000 Recognised
Differences between accumulated depreciation and capital allowances	23	47
General provisions	19	20
Pension (liability)/asset	(651)	873
	(609)	940

Deferred tax liability of £651k (2016: asset of £100k) relating to the pension liability (see note 19) is expected to crystallise after more than one year.

17 Called up share capital

	2017 £000	2016 £000
Allotted, called up and fully paid		
6,200,000 (2016: 6,200,000) ordinary shares of £1 each	6,200	6,200

Notes to the financial statements *(continued)*

18 Commitments

(a) There were no capital commitments at the end of the financial year (2016: Nil).

(b) At 31 December 2017, the company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Not later than 1 year	519	462
Later than 1 year and not later than 5 years	1,057	989
Later than 5 years		-
Total	1,576	1,451

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 £867k (2016: £766k).

The company owed the pension scheme £110k at the end of the year (2016: £103k).

Defined benefit scheme

The company participated in the Danfoss Holdings (UK) Pension Scheme ("the Scheme") at 31 December 2017. 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. The effective date of the most recent valuation of the scheme was 31st March 2015.

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.

	2017 £000	2016 £000
Present value of funded defined benefit obligations	(116,940)	(117,387)
Fair value of plan assets	120,768	112,850
Asset/(Deficit)	3,828	(4,537)
Related deferred tax (liability)/asset	(651)	873
Net Asset/(liability)	3,177	(3,664)

Movements in present value of defined benefit obligation

	2017 £000	2016 £000
At 1 January 2017	117,387	96,868
Current service cost	-	-
Interest cost	3,048	3,631
Actuarial losses	1,222	19,521
Benefits paid	(4,717)	(2,633)
At 31 December 2017	116,940	117,387

Movements in fair value of plan assets

	2017 £000	2016 £000
At 1 January 2017	112,850	89,118
Expected return on plan assets	2,984	3,414
Actuarial gains	5,451	18,834
Contributions by employer	4,200	4,117
Benefits paid	(4,717)	(2,633)
At 31 December 2017	120,768	112,850

Expense recognised in the profit and loss account

	2017 £000	2016 £000
Current service cost	-	-
Net interest	(64)	(217)
Total	(64)	(217)

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:

	2017 £000	2016 £000
Interest payable and similar charges	(64)	(217)
	<u>(64)</u>	<u>(217)</u>

The total amount recognised in the other comprehensive income in respect of actuarial gains and losses and the associated deferred tax movement is £3,501k (2016: loss £543k).

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

	2017 Fair value £000	2016 Fair value £000
Equities	37,677	34,731
Government debt	40,487	39,798
Corporate bonds	24,852	21,744
Other	17,752	16,577
	<u>120,768</u>	<u>112,850</u>

The expected rates of return on plan assets are determined by reference to the historical returns, without adjustment, of the portfolio 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:

	2017 %	2016 %
Discount rate	2.44	2.65
Expected rate of return on plan assets	2.44	2.65
Expected return on plan assets at beginning of the year	2.65	3.80
Future salary increases	4.44	4.30
RPI	3.44	3.30
	Years	Years
Life expectancy of male aged 65 in 2017	22.1	22.40
Life expectancy of male aged 65 in 2037	23.2	24.10
	<u>24.1</u>	<u>24.50</u>
Life expectancy of female aged 65 in 2017	24.1	24.50
Life expectancy of female aged 65 in 2037	25.3	26.40
	<u>25.3</u>	<u>26.40</u>

Notes to the financial statements *(continued)*

19 Pension schemes *(continued)*

In valuing the liabilities of the pension fund, 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 2017 would have increased by £3,976k (2016: £2,257k) 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: 23 years (male), 25 years (female)

History of plans

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

Balance sheet

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of scheme liabilities	(116,940)	(117,387)	(96,868)	(97,935)	(86,440)
Fair value of scheme assets	120,768	112,850	89,118	86,710	73,540
Asset/(Deficit)	3,828	(4,537)	(7,750)	(11,225)	(12,900)

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

20 Financial instruments

	2017 £000	2016 £000
Financial assets		
Financial assets measured at amortised cost	17,235	16,917
Financial Liabilities		
Financial liabilities measured at amortised cost	12,213	8,709

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 Acquisition of trade and assets

On 1st June 2017 the Company acquired the trade and assets of Vacon Drives (UK) Limited.

	Fair value £000
Fixed assets	
Tangible	19
Current assets	
Stock	147
Debtors	1,412
Total assets	<u>1,578</u>
Creditors	(952)
Total liabilities	<u>(952)</u>
Net assets	<u>626</u>
Purchase consideration and costs of acquisition	
Settled through intercompany accounts	<u>626</u>

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 loss of £179k from the beginning of its financial year to the date of acquisition. In its previous financial year commencing on 1 January 2016 the profit for the year was £14k.

22 Dividends and other appropriations

	2017 £000	2016 £000
Declared and paid during the year		
Equity dividends on ordinary shares	-	14,000
Dividend for the year ended 31 December 2017 of £Nil (2016: £2.26) per ordinary share	<u> </u>	<u> </u>

No further dividend has been proposed.

Notes to the financial statements *(continued)*

23 Ultimate parent undertaking

The company is a subsidiary undertaking of Danfoss A/S which is the immediate and ultimate parent and controlling 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.