

Daikin Airconditioning UK Limited
Annual report and financial statements
for the year ended 31 March 2020



Daikin Airconditioning UK Limited

Company information

Directors	M Dyer H Ishikawa A McGinlay W De Schacht T Tsubouchi J Umamoto
Company secretary	H Van den Berg
Registered number	04616794
Registered office	The Heights Brooklands Weybridge Surrey KT13 0NY
Independent auditor	Deloitte LLP Statutory Auditor Abbots House Abbey Steet Reading RG1 3BD United Kingdom

Daikin Airconditioning UK Limited

Contents

	Pages
Strategic report	1 - 4
Directors' report	5 - 7
Directors' responsibilities statement	8
Independent auditor's report	9 - 11
Profit and loss account	12
Balance sheet	13
Statement of changes in equity	14
Notes to the financial statements	15 - 31

Daikin Airconditioning UK Limited

Strategic report for the year ended 31 March 2020

The directors present their Strategic Report on the company for the year ended 31 March 2020.

Review of business

The company is the primary distributor of the Daikin Heating, Ventilation, Air Conditioning and Refrigeration (HVACR) product range in the UK market with a primary focus on air conditioning units.

Historically, the company has mainly focused on the UK commercial climate control market where it is one of the market leaders. Within this market it sells air conditioning, ventilation and applied products, mainly to professional installers, dealers and wholesalers.

Turnover increased by £905,000 from £176,634,000 in the prior year to £177,539,000 in the current year. This performance during difficult market conditions was mainly achieved by increasing sales volumes and prices in the current year. Furthermore, the company has maintained a profit for the financial year.

The company proposed and paid dividends of £5,300,000 (2019: £3,500,000) in the current period. No dividends have been declared after the year end.

Wages and salaries increased to £15,264,000 in the current year (2019: £14,233,000), a significant increase from the previous year. This is mainly due to the company's expansion in traditional and new business areas, resulting in company growth.

As heat pump technology has continued to increase its share in the heating market, the Daikin group continuously invests in the development of revenue from the domestic heating market, introducing air-to-water heat pumps and hybrid systems as a renewable and alternative heating system to the traditional boiler systems. The development of this market is due to accelerate in the near future as the government is committed to support renewable heat with financial incentives.

The company noticed that market conditions worsened throughout the year. The uncertainty in the market as a result of Brexit resulted in a slowdown on the high street and for larger projects, mainly in and around London. The company has compensated for this by continuing to diversify its business, mainly towards renewable heating solutions which, driven by a government green home incentive, is a growing market.

Related to Brexit, the company was and is prepared for various possible scenarios. Additional stock, upgraded IT platforms, new import routes into the UK, customs procedures and support to non UK staff has all been prepared and executed.

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections around the world. Measures taken by various governments to contain the virus have affected economic activity. The company has taken a number of measures to monitor and prevent the effects of the COVID-19 virus including health and safety measures for our people (for example social distancing and working from home) and securing the supply of products that are essential to our business.

The company will continue to follow the various national policies and advice and will continue operations in the best and safest way possible without jeopardising the health of our people.

The COVID-19 outbreak had minimum impact in the year ended 31 March 2020. As stated in the going concern note on page 15, there may be a lower level of profitability for the next financial year, however, the company expects recovery in the following years.

With market conditions expected to stay tough over the next few years, the company is dedicated to continue to reduce its operational costs in order to ensure a healthy financial situation. The company has continuous improvement projects which range from optimising its operational set up but also related to strict follow up of operational expenses.

Daikin Airconditioning UK Limited

Strategic report (continued) for the year ended 31 March 2020

Section 172 (1) statement

The directors of the company must act in accordance with a set of general duties. These duties are detailed in Section 172 of the UK Companies Act 2006 which is summarised as follows:

'A director of a company must act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

- The likely consequences of any decisions in the long term;
- The interests of the company's employees;
- The need to foster the company's business relationships with suppliers, customers and others;
- The impact of the company's operations on the community and environment;
- The desirability of the company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the company'.

The directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to employees of the company.

Overview of how the board performed its duties

- Our strategy and consideration of the consequences of decisions for the long term

The strategic plan is designed to have a long term beneficial impact on the company and to contribute to its success in delivering the most efficient and safe solutions to its customers for their heating, ventilation and climate control needs. The company has a clear strategic plan towards 2025 in order to fully capitalise on market opportunities within the UK market, and the directors are directly involved with discussing the strategic plan within the wider group in order to effectively execute the strategic plan.

- The interests of the company's employees

The directors place considerable value on the involvement of the company's employees and have continued to keep them informed on matters affecting them as employees and on the factors affecting the performance of the company. This is achieved through formal and informal meetings and the company newsletter. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests. The health, safety and well-being of employees is at the very core of the company's decision making.

- Business relationships with customers, suppliers and others

The company has a commitment based on trust and openness with our customers, colleagues, business partners and communities. The company has a strong drive towards long term partnerships with its re-sellers and customers. The company keeps its customers informed by regularly sending newsletters and holding online information sessions. Furthermore, the company involves its customer network while developing new products for the market.

- Community and the environment

The company is aware of its responsibility to protect the environment and its policies and practices strives to keep environmental sustainability high in its decision making. The company is committed to reducing greenhouse gas emissions of its products by reducing the impact of refrigerants and improving energy efficiency, and to make use of sustainable energy sources. There are many initiatives taken by the company to increase recycling. Most notably the company has started to sell certain product ranges that use 100% recycled refrigerants. This has been achieved by launching new recycling initiatives, such as Recycling with Confidence, where the company collects and recycles refrigerants from old installations. This makes the company a pioneer within its industry.

- Maintaining a reputation for high standards of business conduct

The company aims to contribute world leading technologies to society, and to anticipate the future needs of customers. The company is committed to building growth through the initiative and excellence of its employees.

Daikin Airconditioning UK Limited

Strategic report (continued) for the year ended 31 March 2020

Principal risks and uncertainties

The principal risks and uncertainties facing the company include the following:

- Market risk

The company operates in a highly competitive market but the quality and consistency of the company's product and services minimises the risk of losing sales to its key competitors. The company manages this risk by providing innovative products to its customers, having fast response times to customer enquiries and maintaining strong relationships with its customers.

The main immediate market risk relates to the outcome of Brexit negotiations. The company is fully prepared for a possible no-deal scenario, however, risks need to be analysed as they come up when this process comes to an end. The risk of foreign exchange fluctuations between sterling and the Euro are covered by the company's European HQ.

- Product defect risk and warranty

The company is exposed to the risk of defective products. The company manages the risk of product defects by holding warranty provisions against sales revenue within the warranty period, which varies from 1 – 7 years, depending on product type and customer status.

- Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the company. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. In the event that a loss has been identified or occurred a provision has been made for impairment. The company's management further mitigates the risk by obtaining credit insurance against the majority of its customers. The company has low credit risk, due to the exposure being spread over a large number of customers.

- Liquidity risk

In order to maintain liquidity to ensure sufficient funds are available for ongoing operations and future developments, the company uses a mixture of its own cash reserves and manages the payment of funds to fellow group companies.

- COVID-19 risk

The COVID-19 outbreak and resulting measurements taken by various governments to contain the virus have already negatively affected the company's business in the first months of the year ended 31 March 2021. In addition to the already known effects, the macroeconomic uncertainty causes disruption to construction activities and it is unknown what the longer term impact on the business may be. The main risks that result from the uncertain situation regarding COVID-19 are:

- Supply chain: the risk being that the company might be unable to supply goods to its customers, however, the company has managed to keep all its factories operational during the COVID-19 crisis, whilst simultaneously monitoring if local stock levels need to be reassessed.
- Revenues and profitability: where demand for the company's products are reduced due to pandemic related restrictions affecting customers. These restrictions could lead to potential decreases in revenue and adverse profitability, however with various government schemes listed below, this has been mitigated.
- Government assistance: the Job Retention Scheme has enabled the company to claim a grant for 80% of furloughed staff pay in the first months of the year ended 31 March 2021. The company brought back all of the staff that were on furlough by August 2020. The VAT deferral scheme between March and June has enabled the company to defer VAT payments until March 2021.

Daikin Airconditioning UK Limited

Strategic report (continued) for the year ended 31 March 2020

Key financial performance indicators

The key performance indicators of the company are stock turn days at 7 days (2019: 8 days) and debtor days at 78 days (2019: 84 days). Debtor days has decreased due to new payment terms which were agreed with a number of existing customers.

Future developments

The company has a wide range of new solutions lined up for the UK market. All these developments relate to the existing heating, ventilation and air conditioning markets the company is active in. The company continues to invest in a European development centre that will enable the company to develop and launch UK specific products and achieve future growth.

This report was approved by the board on

2020 and signed on its behalf by:

Angela McGinlay Digitally signed by Angela
McGinlay
Date: 2020.12.17 16:51:15 Z

**A McGinlay
Director**

The Heights
Brooklands
Weybridge
Surrey
KT13 ONY

Daikin Airconditioning UK Limited

Directors' report for the year ended 31 March 2020

The directors present their report and the audited financial statements of the company for the year ended 31 March 2020.

Results and dividends

The profit for the year, after taxation, amounted to £5,102,000 (2019: £5,295,000).

During the year, the company proposed and paid dividends amounting to £5,300,000 (44.5p per ordinary share) (2019: £3,500,000 (29.4p per ordinary share)). No dividends have been declared after the year end.

Future developments

An indication of the likely future developments of the company is provided in the Strategic Report on page 4.

Going concern

The directors have carried out a review of the company's expected performance in conjunction with budgets and cash flow requirements of the business to assess going concern. The directors recognise that the company remains exposed to the risk of an uncertain environment as a result of the COVID-19 pandemic, and its impact on the global economy, they have considered a number of impacts on sales, profits and cash flows. The directors believe there will be sufficient cash reserves to enable the company to meet its obligations. The directors have assumed that operations remain open and that the company will continue to be able to sell products to their customers. The directors scenario planned several outcomes, with volumes dropping significantly (in the range of 30 - 40%) and the impact lasting into 2021. The revenue and operational leverage of such a volume loss would have a negative impact on profitability, however, the scenario modeling indicates that the company would recover in the following years. Thus the directors continue to adopt the going concern basis in preparing the financial statements.

Directors

The directors who held office during the year and up to the date of signing the financial statements, except as otherwise noted, are as follows:

M Dyer
H Ishikawa
A McGinlay
W De Schacht
T Tsubouchi
J Umamoto

Financial risk management objectives and policies

The discussion of financial risk management objectives and policies has been promoted to the Strategic Report within the 'Principal risks and uncertainties' section.

Engagement with employees

The company's approach to employee engagement is set out in the Strategic Report on page 2 in the "The interests of the company's employees" section.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Daikin Airconditioning UK Limited

Directors' report (continued) for the year ended 31 March 2020

Stakeholder engagement

The company's approach to stakeholder engagement is set out in the Strategic Report on page 2 in the "Business relationships with customers, suppliers and others" section.

Energy and Carbon report

The directors set out below details of emissions sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2018.

The amounts below represent annual quantities of emissions from the company's operations across the UK for the year ended 31 March 2020.

- *Transport*

- 449 tonnes CO₂e.
- Calculated from business mileage for company car fleet and grey fleet at an average of 40 miles per gallon of diesel and average 2019 fleet carbon emissions.

- *Electricity*

- 148 tonnes CO₂e.
- Calculated from billing meters and an estimate of consumption at the company's Weybridge office.

- *Gas (heating)*

- 0.1 tonnes CO₂e.
- Calculated from billing meters.

- *kWh aggregate for transport, electricity and gas*

- The aggregate usage for the year was 1,293,883 kWh.

- *Energy efficiency improvements*

- The company has installed LED lighting and air source heat pumps for space heating and hot water in a workshop fit out at its premises in Bristol. The company vehicle fleet contains an 8% average of hybrid vehicles.
- Conversion factors are taken from UK Government GHG Conversion Factors for Company Reporting 2019 version 1.3 31/07/20.

- *Intensity measurement*

- 3.36 tonnes CO₂e per £m sales revenue.
- 2.07 tonnes CO₂e per full time equivalents.

- *Environmental management system*

- ISO 14001:2015 certified by Lloyds Register.
- Scope includes procurement, assembly and supply of Daikin air-conditioning equipment plus the provision of associated support, services and customer training.

- *Reclaim with Confidence*

- Reclaimed refrigerant gas is analysed, cleaned, rebalanced and separated as required to ensure as much as possible is available for future use.
- This reduces demand for virgin product and extends refrigerant life.

Daikin Airconditioning UK Limited

Directors' report (continued) for the year ended 31 March 2020

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

Deloitte LLP, have expressed their willingness to continue in office as auditor and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

This report was approved by the board on

2020 and signed on its behalf by:

**Angela
McGinlay**

Digitally signed by Angela
McGinlay
Date: 2020.12.17 16:51:45
Z

**A McGinlay
Director**

The Heights
Brooklands
Weybridge
Surrey
KT13 0NY

Daikin Airconditioning UK Limited

Directors' responsibilities statement for the year ended 31 March 2020

The directors are responsible for preparing the annual report and the financial statements of the company in accordance with applicable law and regulations.

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

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 of the company, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

Daikin Airconditioning UK Limited

Independent auditor's report to the members of Daikin Airconditioning UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Daikin Airconditioning UK Limited (the 'company'):

- give a true and fair view of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the profit and loss account;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 21.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ("the FRC's") Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- 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.

We have nothing to report in respect of these matters.

Daikin Airconditioning UK Limited

Independent auditor's report to the members of Daikin Airconditioning UK Limited (continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion 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. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Daikin Airconditioning UK Limited

Independent auditor's report to the members of Daikin Airconditioning UK Limited (continued)

Report on other legal and regulatory requirements

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 the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Use of our report

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.



Andrew Hornby FCA (Senior Statutory Auditor)
for and on behalf of
Deloitte LLP
Statutory Auditor
Reading
United Kingdom

Date: 17 December 2020

Daikin Airconditioning UK Limited

Profit and loss account for the year ended 31 March 2020

	Note	2020 £000	2019 £000
Turnover	5	177,539	176,634
Cost of sales		(141,034)	(141,897)
Gross profit		36,505	34,737
Administrative expenses		(29,929)	(27,861)
Operating profit		6,576	6,876
Net finance income	9	21	-
Profit before taxation	6	6,597	6,876
Tax on profit	10	(1,495)	(1,581)
Profit for the financial year		5,102	5,295

The notes on pages 15 to 31 are an integral part of these financial statements.

The company's results are derived from continuing operations.

The company has no other comprehensive income for the current and preceding financial year. Therefore no separate statement of comprehensive income has been presented.

Daikin Airconditioning UK Limited

Registered number: 04616794

Balance sheet as at 31 March 2020

	Note	2020 £000	2019 £000
Fixed assets			
Intangible assets	11	23	43
Tangible assets	12	1,404	1,185
		<u>1,427</u>	<u>1,228</u>
Current assets			
Stocks	13	3,123	3,182
Debtors	14	43,460	48,511
Cash at bank and in hand		633	630
		<u>47,216</u>	<u>52,323</u>
Creditors: amounts falling due within one year	15	(26,217)	(31,329)
Net current assets		<u>20,999</u>	<u>20,994</u>
Total assets less current liabilities		<u>22,426</u>	<u>22,222</u>
Provisions for liabilities	17	(2,710)	(2,308)
Net assets		<u>19,716</u>	<u>19,914</u>
Capital and reserves			
Called up share capital	18	11,900	11,900
Profit and loss account		7,816	8,014
Total equity		<u>19,716</u>	<u>19,914</u>

The notes on pages 15 to 31 are an integral part of these financial statements.

The financial statements of the company were approved by the board of directors and authorised for issue on 2020 and were signed on its behalf by:

Angela McGinlay
Digitally signed by Angela McGinlay
Date: 2020.12.17 20:38:33 Z

A McGinlay
Director

Daikin Airconditioning UK Limited

Statement of changes in equity for the year ended 31 March 2020

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2019	11,900	8,014	19,914
Profit for the financial year, representing total comprehensive income	-	5,102	5,102
Dividends (see note 19)	-	(5,300)	(5,300)
At 31 March 2020	11,900	7,816	19,716

Statement of changes in equity for the year ended 31 March 2019

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2018	11,900	6,219	18,119
Profit for the financial year, representing total comprehensive income	-	5,295	5,295
Dividends (see note 19)	-	(3,500)	(3,500)
At 31 March 2019	11,900	8,014	19,914

The notes on pages 15 to 31 are an integral part of these financial statements.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

1. General information

The company is the primary distributor of the Daikin Heating, Ventilation, Air Conditioning and Refrigeration (HVACR) product range in the UK market with a primary focus on air conditioning units.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is The Heights, Brooklands, Weybridge, Surrey, KT13 0NY.

2. Statement of compliance

The individual financial statements of the company have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") and the Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention.

The company's functional and presentational currency is the pound sterling.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Going concern

The directors have carried out a review of the company's expected performance in conjunction with budgets and cash flow requirements of the business to assess going concern. The directors recognise that the company remains exposed to the risk of an uncertain environment as a result of the COVID-19 pandemic, and its impact on the global economy, they have considered a number of impacts on sales, profits and cash flows. The directors believe there will be sufficient cash reserves to enable the company to meet its obligations. The directors have assumed that operations remain open and that the company will continue to be able to sell products to their customers. The directors scenario planned several outcomes, with volumes dropping significantly (in the range of 30 - 40%) and the impact lasting into 2021. The revenue and operational leverage of such a volume loss would have a negative impact on profitability, however, the scenario modeling indicates that the company would recover in the following years. Thus the directors continue to adopt the going concern basis in preparing the financial statements.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.3 Exemptions for qualifying entities under FRS 102

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102:

- preparing a statement of cash flows;
- related party transactions with wholly owned members within the Daikin group;
- disclosure of key management personnel compensation; and
- preparing certain financial instrument disclosures.

The company has taken advantage of these exemptions on the basis that it meets the definition of a qualifying entity and its ultimate parent undertaking, Daikin Industries Limited, includes the related disclosures in its own consolidated financial statements. Details of where those financial statements may be obtained can be found in note 21.

Other than the exemptions taken above, the company has applied the recognition, measurement and disclosure requirements of FRS 102.

3.4 Foreign currency

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period-end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

3.5 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods and services supplied, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises product revenue when the goods are physically delivered to the customer. The company recognises service revenue in accordance with the type of contract. Service repair revenue is recognised at the point of customer acceptance. Maintenance contract revenue is recognised over the life of that contract, or by a percentage of completion in a more complicated service contract. Where payments are received from customers in advance of the goods or services being delivered, they are recorded as deferred income and the amounts are included as part of creditors due within one year.

Interest income is recognised using the effective interest rate method.

3.6 Interest payable

Interest payable is recognised in the profit and loss account in the year in which the interest expense is incurred.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.7 Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

(i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

(ii) Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(iii) Defined contribution pension scheme

The company operates a defined contribution scheme for its employees. A defined contribution scheme is a pension scheme under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense in the relevant month. Amounts not paid are shown in accruals in the balance sheet. The assets of the scheme are held separately from the company in independently administered funds.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.8 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred tax assets and liabilities are not discounted.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in the tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

3.9 Intangible fixed assets

Intangible fixed assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using the straight-line method to allocate the depreciable amount of the assets to their residual value over their estimated useful lives as described below.

Computer software is amortised over its estimated useful life, of between three and five years, on a straight-line basis.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.10 Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation and provision for future impairment.

Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, on a straight-line basis, by equal annual instalments over their estimated useful economic lives as follows:

Leasehold improvements	-	5 - 8 years
Fixtures, fittings and computer equipment	-	3 - 5 years

3.11 Operating leased assets

Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

3.12 Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

3.13 Stocks

Stock is stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.14 Cash and cash equivalents

Cash and cash equivalents includes short term deposits held with banks and bank overdrafts.

Bank overdrafts are shown within current liabilities.

3.15 Provisions

Provisions for warranties and product liability, lease restoration and legal claims are recognised when: the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation and; the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are discounted where the time value of money is material.

Where there are a number of similar obligations, for example where a warranty provision has been given, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

3.16 Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets; including trade debtors, amounts owed by group undertakings and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the profit and loss account.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the profit and loss account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

3. Summary of significant accounting policies (continued)

3.16 Financial instruments (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other creditors and amounts owed to group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Basic debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.17 Share capital

Ordinary shares are classified as equity.

3.18 Distributions to equity holders

Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders until they are paid. These amounts are recognised in the statement of changes in equity.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the company's accounting policies

At 31 March 2020, the company did not make any critical judgements in applying its accounting policies.

(b) Key sources of estimation uncertainty

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:

(i) 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, the company considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 14 for the carrying amount of debtors and the associated impairment provision.

(ii) Provisions

Provision is made for warranties and the decommissioning of buildings. These provisions require management's best estimate of the costs that will be incurred based on legislative and contractual requirements. See note 17 for the carrying amount of provisions.

5. Turnover

An analysis of turnover by class of business is as follows:

	2020 £000	2019 £000
Distribution of HVAC Units and Spare Parts	<u>177,539</u>	<u>176,634</u>

A geographical analysis of turnover by destination is as follows:

	2020 £000	2019 £000
United Kingdom	177,440	176,256
Rest of Europe	6	29
Rest of World	93	349
	<u>177,539</u>	<u>176,634</u>

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

6. Profit before taxation

Profit before taxation is stated after charging/(crediting):

	2020 £000	2019 £000
Depreciation of tangible fixed assets	340	333
Amortisation of intangible fixed assets	29	20
Fees payable to the company's auditor for the audit of the company's annual financial statements	83	81
Fees payable to the company's auditor for other non-audit services	-	20
Operating lease rentals:		
- plant and machinery	280	160
- other	1,498	1,654
Loss/(gain) on foreign exchange	7	(4)

7. Directors' remuneration

	2020 £000	2019 £000
Directors' remuneration	455	602
Contributions paid to money purchase schemes	25	22
	480	624

The highest paid director received fees and other emoluments amounting to £209,000 (2019: £336,000) and pension contributions of £11,000 (2019: £3,000).

The remuneration paid to the directors disclosed above is borne by the company. In addition, the directors received from other group companies emoluments of £281,000 (2019: £274,000), which includes pension contributions of £Nil (2019: £Nil), for services as directors of the company.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

8. Employees

Staff costs, including directors' remuneration, were as follows:

	2020 £000	2019 £000
Wages and salaries	15,264	14,233
Social security costs	2,094	2,105
Pension costs	1,451	1,146
	<u>18,809</u>	<u>17,484</u>

Pension contributions charged to the profit and loss account are in respect of amounts paid to a defined contribution scheme operated by the company. There were no contributions outstanding at 31 March 2020 (2019: £Nil).

The average monthly number of employees, including executive directors, during the year was as follows:

	2020 No.	2019 No.
Management and administration	49	46
Sales and distribution	240	234
	<u>289</u>	<u>280</u>

9. Net finance income

	2020 £000	2019 £000
Other interest receivable	21	2
Other interest payable	-	(2)
	<u>21</u>	<u>-</u>

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

10. Tax on profit

	2020 £000	2019 £000
Corporation tax		
UK corporation tax on profit for the year	1,490	1,588
Adjustments in respect of prior periods	-	(21)
Total current tax	1,490	1,567
Deferred tax		
Origination and reversal of timing differences	9	(7)
Adjustments in respect of prior periods	-	21
Effect of changes in tax rates	(4)	-
Total deferred tax	5	14
Tax on profit	1,495	1,581

Factors affecting tax charge for the year

The tax assessed for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
Profit before taxation	6,597	6,876
Profit multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	1,253	1,306
Effects of:		
Expenses not deductible for tax purposes	246	275
Effect of changes in tax rates	(4)	-
Tax on profit	1,495	1,581

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

10. Tax on profit (continued)

Factors that may affect future tax charges

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was substantively enacted on 17 March 2020.

11. Intangible fixed assets

	Computer software £000
Cost	
At 1 April 2019	1,882
Additions	9
At 31 March 2020	<u>1,891</u>
Amortisation	
At 1 April 2019	1,839
Charge for the year	29
At 31 March 2020	<u>1,868</u>
Net book value	
At 31 March 2020	<u><u>23</u></u>
At 31 March 2019	<u><u>43</u></u>

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

12. Tangible fixed assets

	Leasehold improvements £000	Fixtures, fittings and computer equipment £000	Total £000
Cost			
At 1 April 2019	1,795	2,466	4,261
Additions	490	69	559
Disposals	-	(661)	(661)
At 31 March 2020	2,285	1,874	4,159
Depreciation			
At 1 April 2019	1,152	1,924	3,076
Charge for the year	218	122	340
Disposals	-	(661)	(661)
At 31 March 2020	1,370	1,385	2,755
Net book value			
At 31 March 2020	915	489	1,404
At 31 March 2019	643	542	1,185

13. Stocks

	2020 £000	2019 £000
Finished goods	3,123	3,182

There is no material difference between the balance sheet value of stocks and their replacement value.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

14. Debtors

	2020 £000	2019 £000
Trade debtors	37,997	41,068
Amounts owed by group undertakings	4,477	6,199
Deferred tax asset (see note 16)	35	40
Prepayments and accrued income	951	1,204
	<u>43,460</u>	<u>48,511</u>

Trade debtors are stated after provisions for impairment of £136,000 (2019: £114,000).

Amounts owed by group undertakings are repayable on demand and incur interest at GBP ICE LIBOR plus 0.125%.

15. Creditors: amounts falling due within one year

	2020 £000	2019 £000
Trade creditors	1,425	1,212
Amounts owed to group undertakings	15,445	19,977
Corporation tax payable	1,324	1,650
Taxation and social security	2,181	2,152
Other creditors	139	121
Accruals and deferred income	5,703	6,217
	<u>26,217</u>	<u>31,329</u>

Amounts owed to group undertakings are repayable on demand and incur interest at GBP ICE LIBOR plus 0.125%.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

16. Deferred tax

	2020 £000
At 1 April 2019	40
Charged to the profit and loss account	(5)
At 31 March 2020	35

The deferred tax balance is made up as follows:

	2020 £000	2019 £000
Decelerated capital allowances	12	22
Other short term timing differences	23	18
	35	40

The deferred tax asset has been recognised since there is a reasonable expectation that the company will have suitable taxable profits against which the asset can be recovered. The deferred tax asset expected to reverse in the next 12 months is £35,000.

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

17. Provisions for liabilities

	Warranty provision £000	Lease restoration provision £000	Total £000
At 1 April 2019	1,803	505	2,308
Charged to the profit and loss account	1,017	246	1,263
Utilised during the year	(861)	-	(861)
At 31 March 2020	1,959	751	2,710

Warranty provision

Warranty provisions are held against sales revenue within the warranty period, which varies from 1 - 7 years. The provisions are expected to be utilised within this period or released unused as it expires. The provisions are an estimate based on past experience of actual claims, therefore the amount and timing of future utilisation cannot be predicted with certainty.

Lease restoration provision

At the inception of the lease by the company of its premises, it was agreed that alterations could be made to the building provided that the building would be returned to its original state at the end of the lease. The lease is currently expected to expire in 2025. The expected liability is recorded at current prices.

18. Called up share capital

	2020 £000	2019 £000
Allotted, called up and fully paid		
11,900,000 ordinary shares of £1 each	11,900	11,900

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

19. Dividends

	2020 £000	2019 £000
Interim dividend paid 44.5p (2019: 29.4p) per ordinary share	5,300	3,500

Daikin Airconditioning UK Limited

Notes to the financial statements for the year ended 31 March 2020

20. Commitments under operating leases

At 31 March 2020, the company had future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2020 £000	2019 £000
Not later than one year	739	711
Later than one year and not later than five years	2,495	1,362
Later than five years	421	340
	<u>3,655</u>	<u>2,413</u>

21. Immediate and ultimate parent undertaking and controlling party

The immediate parent undertaking is Daikin Europe N.V., a company registered in Belgium. Daikin Europe N.V. is the parent undertaking of the smallest group to consolidate these financial statements. Copies of these group financial statements are available from Zandvoordestraat 300, B-8400 Oostende, Belgium, which is also their registered office address.

The ultimate parent undertaking and controlling party is Daikin Industries Limited, a company registered in Japan. Daikin Industries Limited is the parent undertaking of the largest group to consolidate these financial statements. Copies of these group financial statements are available from Umeda Center Bldg., 2-4-12, Nakazaki-Nishi, Kita-ku, Osaka, 530-8323, Japan, which is also their registered office address.