

Company Registration No. SC591445 (Scotland)

DANFOSS SCOTLAND LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

COMPANIES HOUSE

30 SEP 2021

EDINBURGH MAILBOX



DANFOSS SCOTLAND LIMITED

COMPANY INFORMATION

Directors	A Stahlschmidt T Christensen E D Bretey N Wanless
Secretary	E D Bretey
Company number	SC591445
Registered office	50 Lothian Road Festival Square Edinburgh Scotland EH3 9WJ
Auditors	PricewaterhouseCoopers LLP Atria One 144 Morrison Street EDINBURGH Scotland EH3 8EX
Solicitors	Burness Paul LLP 50 Lothian Road Festival Square Edinburgh Scotland EH3 9WJ

DANFOSS SCOTLAND LIMITED

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DANFOSS SCOTLAND LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present the strategic report for the year ended 31 December 2020.

Fair review of the business

The company is a wholly owned subsidiary of Danfoss A/S, a company registered in Denmark. For the year ended 31 December 2020 the company's principal activities are the manufacture and sale of digital hydraulic pumps for the off highway and industrial markets. Additional revenue comes from the sale of engineering services to apply these products in specific customer applications and demonstrate the benefits to original equipment manufacturers and their end users.

As shown in the company's statement of comprehensive income, the company's turnover for the year was £384k (2019: £42k). The loss before taxation for the company in 2020 was £11,703k (2019: £6,477k). As shown in the company's balance sheet, the company's net assets at 31 December 2020 were £3,913k (2019: £14,728k).

We intend to leverage the steady growth of our sales opportunity pipeline to increase revenue from sales of products to OEM customers. We will continue to develop the current portfolio and also launch new products based on Digital Displacement® technology to open new markets for Danfoss. Through optimization and standardization of processes we will improve our operational efficiency and improve our cost structures. This will enable us to harvest the investment being made in this new business in the coming years.

Risk management

The central finance department of the Danfoss Group 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.

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.

Financial Key Performance Indicators

The company's key financial performance indicators are set by the Group to assess performance, including product sales and fixed expenses. It is not valuable to comment on these at this stage in the company's life cycle.

DANFOSS SCOTLAND LIMITED

STRATEGIC REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Impact of Covid-19

The coronavirus outbreak pandemic has developed rapidly and resulted in the UK and other governments introducing emergency measures to restrict the spread of the disease. These measures have caused a material disruption to global business markets and an economic slowdown in the UK which could negatively impact on the Company's financial performance.

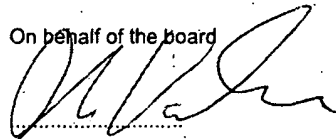
The impact on the Company's financial performance depends on a number of factors such as the strength of the economy's recovery, severity of the pandemic and the Government's resulting policies. These factors are expected to have an impact on the Company's performance and demand for the Company's products and are not possible to accurately predict.

The scope and direction of the pandemic is rapidly changing and additional impacts may arise. A sustained or prolonged outbreak could exacerbate the impact on the Company's performance.

Events after the End of the Reporting Period

In January 2021, the company acquired the remaining shares of its subsidiary, Artemis Intelligent Power Limited, bringing its ownership to 100%.

On behalf of the board



N Wanless

Director

Date: 29th September 2021

DANFOSS SCOTLAND LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors present their annual report and audited financial statements for the year ended 31 December 2020.

Directors

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

A Stahlschmidt

T Christensen

E D Bretey

N Wanless

(Appointed 1 August 2020)

Qualifying third party indemnity provisions

Directors and officers of the company benefit from a directors' and officers' liability insurance policy which provides appropriate cover in respect of legal actions brought against its directors.

Research and development

The company's business includes scientific and technical research and development. The potential for commercial success of its technology has enabled the company to continue to attract funding.

Financial risk management and future developments

The management of financial risk facing the company and future developments are discussed in the Strategic Report included in these financial statements.

Going Concern

The Company's business activities and factors likely to affect its future development and financial position are set out in the strategic report.

As part of the Directors' going concern review the 2021 year to date financial performance of the Company has been analysed. In addition, the financial position and performance of the Danfoss Group has also been reviewed in light of the Covid-19 pandemic and the impact that it has had to date on the Company.

The company will continue to be dependent on funding from its ultimate parent company, Danfoss A/S, for a period of at least 12 months from the date of signing these financial statements. The ultimate parent company has confirmed that it is aware of the Company's present financial situation, that it has full confidence in the management of the company, that its current policy is to support the Company commercially and financially, and has placed an intercompany credit facility of a maximum amount of £15m at disposal on the Company's bank account. The policy is not legally binding and the credit facility is uncommitted, and the Directors have therefore concluded this results in a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Although the ultimate parent company's support is not legally binding, the directors and management team have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis in preparing the annual report and financial statements.

Auditor

PricewaterhouseCoopers LLP were appointed as auditors to the company and in accordance with section 485 of the Companies Act 2006, a resolution proposing that they be re-appointed will be put at a General Meeting.

Statement of disclosure to auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors individually have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

DANFOSS SCOTLAND LIMITED

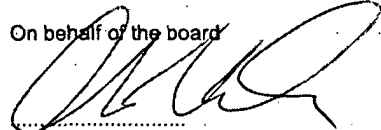
DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

Small companies exemption

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board



Ian Wanless
Director

Date: 29th September 2021

DANFOSS SCOTLAND LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

The directors are responsible for preparing the Annual Report and Financial Statements 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).

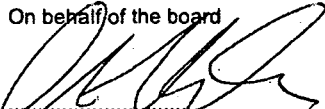
Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

The directors are responsible for 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 also 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



N Wanless

Director

24th September 2021

Independent auditors' report to the members of Danfoss Scotland Limited

Report on the audit of the financial statements

Opinion

In our opinion, Danfoss Scotland Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its loss 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income and 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.

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.2 to the financial statements concerning the company's ability to continue as a going concern. The company will continue to be dependent on funding from its ultimate parent company over the next 12 months. However, the ultimate parent company has not made a legal commitment to continue that support. These conditions, along with the other matters explained in note 1.2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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. 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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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 Directors' responsibilities statement, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation and Health and Safety regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of inappropriate journal entries and bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Reviewing board minutes to identify potential instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding of management's controls designed to prevent and detect irregularities;
- Challenging management on assumptions and judgements made in their significant accounting estimates; and
- Identifying and testing journal entries to assess whether any of the journals appeared unusual, in particular any unexpected account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

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 obtained 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: prepare financial statements in accordance with the small companies regime; and take advantage of the small companies exemption in preparing the Directors' Report. We have no exceptions to report arising from this responsibility.



Matthew Kaye (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Edinburgh
29 September 2021

DANFOSS SCOTLAND LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

		Year ended 31 December 2020 £	Period from 1 August 2018 to 31 December 2019 £
	Notes		
Turnover	3	384,356	41,945
Cost of sales		(319,999)	(46,858)
Gross profit/(loss)		64,357	(4,913)
Administrative expenses		(5,622,413)	(7,595,511)
Other operating income		936,806	1,338,952
Operating loss	4	(4,621,250)	(6,261,472)
Interest receivable and similar income	6	1,421	6,203
Interest payable and similar expenses	7	(48,829)	(221,539)
Amounts written off investments		(7,033,985)	-
Loss before taxation		(11,702,643)	(6,476,808)
Tax on loss	8	861,072	1,204,858
Loss and total comprehensive expense for the year / period		(10,841,571)	(5,271,950)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no items of other comprehensive income in either the current year or comparative period.

DANFOSS SCOTLAND LIMITED

BALANCE SHEET

AS AT 31 DECEMBER 2020

	Notes	2020 £	£	2019 £	£
Fixed assets					
Tangible assets	10	2,069,592		1,950,175	
Investments	11	3,586,771		10,620,756	
		<u>5,656,363</u>		<u>12,570,931</u>	
Current assets					
Stocks	13	622,437		266,542	
Debtors	14	3,329,572		4,037,725	
		<u>3,952,009</u>		<u>4,304,267</u>	
Creditors: amounts falling due within one year	15	<u>(5,721,893)</u>		<u>(2,147,148)</u>	
Net current (liabilities)/assets			<u>(1,769,884)</u>		<u>2,157,119</u>
Total assets less current liabilities			<u>3,886,479</u>		<u>14,728,050</u>
Capital and reserves					
Called up share capital	19	20,000,000		20,000,000	
Profit and loss reserves		<u>(16,113,521)</u>		<u>(5,271,950)</u>	
Total equity			<u>3,886,479</u>		<u>14,728,050</u>

These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved by the board of directors and authorised for issue on 29th Sep 2021 and are signed on its behalf by:


N Wanless
Director

Company Registration No. SC591445

DANFOSS SCOTLAND LIMITED**STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	Share capital £	Profit and loss reserves £	Total £
Balance at 1 August 2018		10,000	-	10,000
Period ended 31 December 2019:				
Loss and total comprehensive expense for the period		-	(5,271,950)	(5,271,950)
Issue of share capital	19	19,990,000	-	19,990,000
Balance at 31 December 2019		20,000,000	(5,271,950)	14,728,050
Year ended 31 December 2020:				
Loss and total comprehensive expense for the year		-	(10,841,571)	(10,841,571)
Balance at 31 December 2020		20,000,000	(16,113,521)	3,886,479

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

Company information

Danfoss Scotland Limited is a private company limited by shares incorporated in Scotland. The registered office is 50 Lothian Road, Festival Square, Edinburgh, Scotland, EH3 9WJ.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below:

This company is a qualifying entity for the purposes of FRS 102, being a member of a group where the parent of that group prepares publicly available consolidated financial statements, including this company, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the group. The company has therefore taken advantage of exemptions from the following disclosure requirements:

- Section 7 'Statement of Cash Flows': Presentation of a statement of cash flow and related notes and disclosures;
- Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instrument Issues': Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument;
- Section 33 'Related Party Disclosures': Compensation for key management personnel.

The financial statements of the company are consolidated in the financial statements of Danfoss A/S. These consolidated financial statements are available from its registered office, 6430 Nordborg, Denmark.

1.2 Going concern

The Company's business activities and factors likely to affect its future development and financial position are set out in the strategic report.

As part of the Directors' going concern review the 2021 year to date financial performance of the Company has been analysed. In addition, the financial position and performance of the Danfoss Group has also been reviewed in light of the Covid-19 pandemic and the impact that it has had to date on the Company.

The company will continue to be dependent on funding from its ultimate parent company, Danfoss A/S, for a period of at least 12 months from the date of signing these financial statements. The ultimate parent company has confirmed that it is aware of the Company's present financial situation, that it has full confidence in the management of the company, that its current policy is to support the Company commercially and financially, and has placed an intercompany credit facility of a maximum amount of £15m at disposal on the Company's bank account. The policy is not legally binding and the credit facility is uncommitted, and the Directors have therefore concluded this results in a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Although the ultimate parent company's support is not legally binding, the directors and management team have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis in preparing the annual report and financial statements.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

1.3 Turnover

Turnover is measured at the fair value of the consideration received or receivable for the sale of goods and the rendering of services in the normal course of business, and is shown net of discounts and VAT.

Sale of goods

Revenue arises from the sale of digital displace pumps. Revenue is recognised when the customer accepts delivery of the goods.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer (usually on delivery of the goods), the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.4 Research and development expenditure

Research expenditure is written off against profits in the year in which it is incurred. Identifiable development expenditure is capitalised to the extent that the technical, commercial and financial feasibility can be demonstrated.

1.5 Tangible fixed assets

Tangible fixed assets are initially measured at cost and subsequently measured at cost or valuation, net of depreciation and any impairment losses.

Assets in the course of construction are stated at cost. These assets are not depreciated until they are available for use.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Leasehold improvements	over the life of the lease
Plant and equipment	8 years
Fixtures and fittings	3 years

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.6 Fixed asset investments

Interests in subsidiaries, associates and jointly controlled entities are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

1.7 Impairment of fixed assets

At each reporting period end date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

1.8 Stocks

Stocks are recognised as an expense in the period in which the related revenue is recognised. Cost is determined on the first-in, first-out (FIFO) method.

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

1.9 Cash at bank and in hand

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

1.10 Financial instruments

The company has elected to apply the provisions of Section 11 "Basic Financial Instruments" to all of its financial instruments.

Financial instruments are recognised in the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Basic financial assets

Short term debtors are measured at transaction price less any provision for impairment. Loans receivable are measured initially at fair value, net of transaction costs and are subsequently carried at amortised costs using the effective interest method, less any provision for impairment.

Basic financial liabilities

Short term creditors are measured at transaction price. Other financial liabilities, including bank loans and other loans, are measured initially at fair value, net of transaction costs and are subsequently carried at amortised costs using the effective interest method.

1.11 Equity instruments

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

1.12 Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account.

1.13 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

1.14 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or fixed assets.

Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the group in independently administered funds.

1.15 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

1.16 Leases

Rentals payable under operating leases, including any lease incentives received, are charged to profit or loss on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the leases asset are consumed.

1.17 Government grants

Grant income is accounted for on an accruals basis. Income is recorded in the same period in which the eligible expenditure upon which the grant claim is based is incurred.

Government grants are recognised at the fair value of the asset received or receivable when there is reasonable assurance that the grant conditions will be met and the grants will be received.

1.18 Foreign exchange

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation in the period are included in profit or loss.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

1 Accounting policies

1.19 Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company financial statements.

2 Judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

Key sources of estimation uncertainty

The estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are as follows.

Investment in subsidiaries

Determining whether the investment in subsidiaries is impaired required an estimation of the value in use. The value in use could not be reliably estimated due to the technology under development by the subsidiary being in an early phase of its life cycle, and future cash inflows being uncertain. The impairment assessment has instead been based on fair value less costs to sell, which relies on estimation of the net asset value. Fair values of shares not available in an open market are inherently difficult to determine, but a subsequent transaction to acquire the net assets of the subsidiary in question allowed a reasonable estimation of the fair value to be determined.

The carrying amount of fixed asset investments at the reporting end date was £3,586,771 after an impairment loss of £7,033,985 was recognised during 2020. Details of the impairment loss are set out in notes 9 and 11.

Deferred tax asset

The company currently recognises a deferred tax asset arising from accumulated taxable losses from which the company expects to derive future benefits. The exact timing of this benefit cannot reliably be forecast but the directors are confident that the losses can be fully utilised in future years. As the timing of loss utilisation cannot be reliably estimated, the applicable tax rate used to calculate the deferred tax asset also cannot be reliably estimated. The directors have made a provision for the deferred tax asset using their best estimates of the timing and tax rates based on the information available to them regarding future cash flows.

The carrying amount of the deferred tax asset at the reporting end date was £2,120,125 after a movement of £886,448 was recognised during 2020. Details of the deferred tax asset are set out in notes 8 and 16.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

3 Turnover and other operating income

		2020 £	2019 £
Turnover analysed by class of business			
Sale of goods		384,356	41,945
		<u> </u>	<u> </u>
Other operating income			
	Notes	2020 £	2019 £
Grants received	16	936,806	1,338,952
		<u> </u>	<u> </u>
Turnover analysed by geographical market			
United States		87,494	41,945
Europe		187,800	-
Asia		109,062	-
		<u> </u>	<u> </u>
		384,356	41,945

4 Operating loss

	Notes	2020 £	2019 £
Operating loss for the year is stated after (crediting)/charging:			
Exchange differences		(146)	(2,012)
Research and development costs		2,400,992	2,880,676
Government grants		(936,806)	(1,338,952)
Fees payable to the company's auditor for the audit of the company's financial statements		29,000	22,290
Depreciation of owned tangible fixed assets		273,410	73,413
Cost of stocks recognised as an expense		319,999	46,858
Operating lease charges		85,777	32,929
		<u> </u>	<u> </u>

5 Employees

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

2020 Number	2019 Number
19	18
<u> </u>	<u> </u>

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

5 Employees

Their aggregate remuneration comprised:

	2020 £	2019 £
Wages and salaries	895,114	1,085,604
Social security costs	100,083	204,017
Pension costs	74,252	84,361
	<u>1,069,449</u>	<u>1,373,982</u>

6 Interest receivable and similar income

	2020 £	2019 £
Interest income		
Interest receivable from group companies	1,421	6,203
	<u>1,421</u>	<u>6,203</u>

7 Interest payable and similar expenses

	2020 £	2019 £
Interest payable to group undertakings	48,762	220,458
Other interest on financial liabilities	67	1,081
	<u>48,829</u>	<u>221,539</u>

8 Taxation

	2020 £	2019 £
Current tax		
UK corporation tax on profits for the current period	25,376	28,819
Deferred tax		
Origination and reversal of timing differences	(886,448)	(1,233,677)
	<u>(861,072)</u>	<u>(1,204,858)</u>
Total tax credit		

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

8 Taxation

The actual credit for the year can be reconciled to the expected credit for the year based on the profit or loss and the standard rate of tax as follows:

	2020 £	2019 £
Loss before taxation	(11,702,643)	(6,476,808)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	(2,223,502)	(1,230,594)
Tax effect of expenses that are not deductible in determining taxable profit	1,337,054	8,581
Depreciation on assets not qualifying for tax allowances	-	2,640
Research and development tax credit	25,376	28,819
Other permanent differences	-	(14,304)
Taxation credit for the year	(861,072)	(1,204,858)

9 Impairments

Impairment tests have been carried out where appropriate and the following impairment losses have been recognised in profit or loss:

	Notes	2020 £	2019 £
In respect of:			
Fixed asset investments	11	7,033,985	-
Recognised in:			
Amounts written off investments		7,033,985	-

Further details of the impairment review giving rise to the above impairment loss can be found in note 11.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

10 Tangible assets

	Leasehold improvements £	Assets under construction £	Plant and equipment £	Fixtures and fittings £	Total £
Cost					
At 1 January 2020	149,000	408,421	1,311,748	154,419	2,023,588
Additions	-	263,835	125,246	6,255	395,336
Disposals	-	(2,509)	-	-	(2,509)
Transfers	-	(369,181)	369,181	-	-
At 31 December 2020	149,000	300,566	1,806,175	160,674	2,416,415
Accumulated depreciation					
At 1 January 2020	16,932	-	38,367	18,114	73,413
Depreciation charged in the year	-	-	220,999	52,411	273,410
At 31 December 2020	16,932	-	259,366	70,525	346,823
Carrying amount					
At 31 December 2020	132,068	300,566	1,546,809	90,149	2,069,592
At 31 December 2019	132,068	408,421	1,273,381	136,305	1,950,175

11 Fixed asset investments

	Notes	2020 £	2019 £
Investments in subsidiaries	12	3,586,771	10,620,756

On 21 February 2019, Danfoss Scotland Limited acquired control of Artemis Intelligent Power Limited through the purchase of 74.9% of the share capital for a purchase consideration of £10,620,756. Artemis Intelligent Power Limited conducts research and development in digital displacement technology.

As a result of the acquisition, Danfoss Scotland Limited expects to make sales of products developed by Artemis Intelligent Power Limited to the market through the wider Danfoss group.

At the reporting date, the investment was assessed for indicators of impairment, and the recoverable amount was estimated. Its 'value in use' could not be determined reliably, due to the technology being in an early phase of its lifecycle, and future cash inflows being uncertain. It was, therefore, impaired to its 'fair value less costs to sell', which was deemed to be £3,586,771, the amount that Danfoss Scotland Limited paid to acquire Artemis Intelligent Power Limited's net assets in a subsequent transaction in March 2021.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

11 Fixed asset investments

Movements in fixed asset investments

	Shares in subsidiaries £
Cost or valuation	
At 1 January 2020 & 31 December 2020	10,620,756
Impairment	
At 1 January 2020	-
Impairment losses	7,033,985
At 31 December 2020	7,033,985
Carrying amount	
At 31 December 2020	3,586,771
At 31 December 2019	10,620,756

12 Subsidiaries

Details of the company's subsidiaries at 31 December 2020 are as follows:

Name of undertaking	Registered office	Nature of business	Class of shares held	% Held Direct
Artemis Intelligent Power Limited	Unit 3 Edgefield Industrial Estate, Loanhead, Scotland, EH20 9TB	Research and development	Ordinary	74.90

13 Stocks

	2020 £	2019 £
Raw materials and consumables	572,510	250,225
Work in progress	36,939	-
Finished goods and goods for resale	12,988	16,317
	<u>622,437</u>	<u>266,542</u>

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

14 Debtors

	2020	2019
	£	£
Amounts falling due within one year:		
Trade debtors	115,456	622
Grants receivable	559,410	753,794
Amounts owed by group undertakings	3,815	1,515,088
Other debtors	530,766	534,544
	<u>1,209,447</u>	<u>2,804,048</u>
	2020	2019
	£	£
Amounts falling due after more than one year:		
Deferred tax asset (note 16)	<u>2,120,125</u>	<u>1,233,677</u>
Total debtors	<u>3,329,572</u>	<u>4,037,725</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Included within this balance is cash of £nil (2019: £1,476,161) held by Danfoss A/S on behalf of the company.

The directors believe that the Deferred Tax Asset will be recoverable against future profits from the trade of Digital Displacement® technology, or against eligible taxable profits of companies elsewhere in the Danfoss UK group.

15 Creditors: amounts falling due within one year

	Notes	2020	2019
		£	£
Trade creditors		603,623	311,219
Amounts owed to group undertakings		4,578,843	1,024,736
Government grants	17	431,900	431,900
Other creditors		9,824	9,518
Accruals and deferred income		97,703	369,775
		<u>5,721,893</u>	<u>2,147,148</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Included within this balance is an overdraft of £4,578,843 (2019: £nil) held by Danfoss A/S on behalf of the company.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

16 Deferred taxation

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon:

	Assets 2020 £	Assets 2019 £
Balances:		
Accelerated capital allowances	(185,475)	(113,746)
Tax losses	2,304,304	1,345,615
Retirement benefit obligations	1,296	1,808
	<u>2,120,125</u>	<u>1,233,677</u>
Movements in the year:		2020 £
Asset at 1 January 2020		(1,233,677)
Credit to profit or loss		(886,448)
Asset at 31 December 2020		<u>(2,120,125)</u>

17 Deferred grants

	2020 £	2019 £
Arising from government grants	<u>431,900</u>	<u>431,900</u>

Government grants are receivable from Innovate UK for the research and development work related to high efficiency digital hydraulic motors for renewable power and off-road vehicles.

There are no unfulfilled conditions or contingencies attached to the grants. Included in the profit and loss is grant income of £936,806 (2019 - £1,338,952). Included in the balance sheet is accrued income of £559,410 (2019 - £753,794) and deferred income of £431,900 (2019 - £431,900).

18 Retirement benefit schemes

	2020 £	2019 £
Defined contribution schemes		
Charge to profit or loss in respect of defined contribution schemes	<u>74,252</u>	<u>84,361</u>

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

19 Share capital

	2020 £	2019 £
Ordinary share capital issued and fully paid 20,000,000 Ordinary shares of £1 each	20,000,000	20,000,000

20 Related party transactions

Transactions with related parties

During the year the company entered into the following transactions with related parties:

	Sales		Purchases	
	2020 £	2019 £	2020 £	2019 £
Artemis Intelligent Power Limited	-	-	2,308,485	3,363,853
Danfoss A/S	-	-	476,668	-
Danfoss A/S Global Services	-	-	124,791	275,783
Danfoss Editron Oy	-	-	-	9,223
Danfoss Limited	-	-	19,119	-
Danfoss Power Solutions AB	4,982	-	-	-
Danfoss Power Solutions A/S	-	-	3,273	8,281
Danfoss Power Solutions a.s.	-	-	38,486	-
Danfoss Power Solutions GmbH & Co OHG	68,197	-	-	-
Danfoss Power Solutions Limited	-	-	603,217	2,203,298
Danfoss Power Solutions Trading (Shanghai)	7,139	-	-	-
Danfoss Power Solutions (US)	108,738	38,344	-	-

	2020 £	2019 £
Amounts due to related parties		
Artemis Intelligent Power Limited	351,509	960,430
Danfoss A/S	46,329	-
Danfoss A/S Global Services	-	54,773
Danfoss Editron Oy	-	9,223
Danfoss Limited	10,272	-
Danfoss Power Solutions Limited	-	310

The following amounts were outstanding at the reporting end date:

	2020 £	2019 £
Amounts due from related parties		
Danfoss Power Solutions A/S	-	583
Danfoss Power Solutions (US)	-	38,344
Danfoss Power Solutions AB	3,815	-
Danfoss A/S	3,819	1,476,161

DANFOSS SCOTLAND LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

21 Events after the reporting date

In January 2021, the company acquired the remaining shares of its subsidiary, Artemis Intelligent Power Limited, bringing its ownership to 100%.

22 Ultimate controlling party

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.