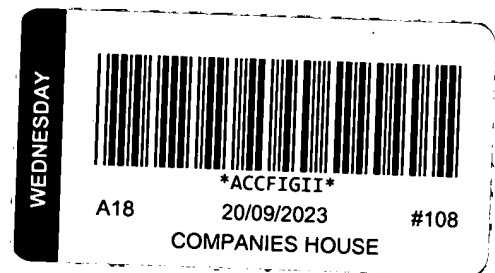


## **Wartsila Water Systems Limited**

Annual report and financial statements

31 December 2022

Registered number 00713227



## **Contents**

	Page
Strategic report	3
Directors' report	6
Statement of directors' responsibilities in respect of the financial statements	9
Independent auditor's report to the members of Wartsila Water Systems Limited	10
Statement of Comprehensive Income	14
Balance Sheet	15
Statement of Changes in equity	16
Notes to the financial statements	17

## Strategic report for the year ended 31 December 2022

The Directors submit their strategic report together with the audited financial statements of Wartsila Water Systems Limited ('the Company') for the year ended 31 December 2022.

### Business review and key performance indicators (KPI)

During the year the principal activities of the Company were the design, project management, supply, and sale of equipment for marine and offshore applications.

The strategic objective is to become the preferred supplier of our chosen products in our chosen markets; the objective to be achieved through continuous product development, a focus on engineering excellence, the building of exceptional customer relationships and a culture of whole product cycle support.

The loss after tax for the year to 31 December 2022 of £142,000 (2021: loss of £2,480,000) were mainly driven by low revenue and poor contract margins.

The Company's financial position shows net liabilities of £1,782k (2021: net liabilities of £1,640k).

The Company uses Key Performance Indicators (KPIs), designed to give a balanced picture of progress and performance. Where projects are undertaken with specific objectives, these projects will have separate KPIs designed to ensure a successful outcome of the projects.

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	12 months to 31 December 2022	12 months to 31 December 2021
	£'000	£'000
Turnover	36,565	26,100
Operating profit (loss)	201	(3,067)
Loss for the year	(142)	(2,480)
Share holders' Equity	(1,782)	(1,640)

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## **Strategic report (continued)**

### **for the year ended 31 December 2022**

#### **Principal risks and uncertainties**

The Company continues to focus on quality and technical excellence as key differentiators in the markets it serves. While low price products from competitors remains a risk, the Company maintains the strategy of maintaining technical leadership to provide mitigation against competitive risk.

The Company operates internationally and provides equipment manufactured using highly specialised materials. The risk of lack of supply of these materials is managed through flexible arrangements with suppliers and order book review being conducted on a regular basis.

The Company continues to monitor the ongoing war in Ukraine and where required has followed the government sanction guidelines regarding trade and relations with Russia. The Company also recognises the various risks that may be posed by the conflict going forward and is putting in place mitigation plans where appropriate.

#### **Reporting on Compliance with Section 172 Requirements**

In performance of their statutory duties and in accordance with s172 (1) Companies Act 2006, the Board of Directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172 (1) (a-f) of the act) in the decisions taken during the year ended 31 December 2022.

Each year, the Board reviews the performance of the Company and the revenue streams within it and receives updates on the statuses within those streams. In making decisions, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long-term reputation.

The following paragraphs summarise how the directors fulfil their duties.

##### *Long Term Decision Making*

As our business develops, changes and becomes more complex, it is vital that risks are effectively identified, evaluated, managed and mitigated and that our approach to risk management continues to evolve to support the long-term strategy of the Company. Details of our principal risks and uncertainties and our approach to managing them are noted above.

Culture and values underpin how a company creates and sustains value over the longer term and are key elements of how it maintains a reputation for high standards of business conduct. The standards set by the Board and by Wartsila Group mandate certain requirements and behaviours with regards to the activities of its directors, employees and others associated with it. The culture throughout Wartsila and the wider group is one that promotes engagement, collaboration, and development of employees for the mutual benefit of the business and those working within the organisation.

**Strategic report (continued)**  
**for the year ended 31 December 2022**

**Reporting on Compliance with Section 172 Requirements (continued)**

*Employee Interests*

The Company is committed to being a responsible business and our behaviour is aligned with the expectations of our employees, customers and investors. For the business to succeed, we need to manage our employees' performance and develop and bring through talent whilst ensuring we operate as efficiently as possible. All employees are set individual goals and annual development reviews are undertaken. The Company carries out regular engagement surveys, the results of which are shared with employees and used to formulate future strategy.

*Business Relationships*

The Company is ultimately 100% owned by Wartsila Corporation. As such, the Board maintains close working relationships with the Group head office and the strategies of the Company are closely aligned with the larger group.

The Company trades with customers globally, and as such the Board delegates the ownership of customer relations to the sales team who co-ordinate activities through their regional teams which are supported by the wider group. This allows the Company to understand and work efficiently with its customers whilst maintaining high levels of service. Understanding the needs of our customers is central to the success of the business and this underlines the importance of maintaining strong relationships with our customer base.


The Board brought the maintenance and building of supplier relations in-house from 2020 and works to identify and foster key supplier relationships to the benefit of our business and our suppliers. By having our preferred suppliers, the business focuses on quality and reliability of our supply chain whilst driving value for money.

*Environment*

Wartsila acknowledges that climate change and other environmental impacts are both global and local concerns, and the Company strives to minimise its impact. Wartsila is committed to working in an environmentally responsible and efficient manner and strives to minimise its environmental footprint.

For Wartsila, environmental responsibility has two dimensions: products and operations. Most of the efforts to improve our environmental performance, including our operations, are conducted as part of the product development and improvement processes. This work is supported by operational measures, which are based on achieving high environmental standards and which seek constant improvement. We are also committed to continuous improvement in our environmental and social performance activities to avoid causing harm to those communities located close to our operations. Further details on this can be found on the Wartsila Group website [www.wartsila.com](http://www.wartsila.com), and also in the Annual Report that can also be accessed from the website.

Approved by the Board and signed on its behalf by:



**C Stephenson**  
**Managing Director**  
18 September 2023

## **Directors' report**

### **for the year ended 31 December 2022**

The Directors present their report and the audited financial statements of Wartsila Water Systems Limited ('the Company') for the year ended 31 December 2022.

#### **Principal activities**

During the year the principal activities of the company were the design, manufacture, and sale of equipment for marine and offshore applications.

#### **Results and dividends**

The loss for the financial year, after taxation, amounted to £142,000 (2021: loss £2,480,000).

No dividends were paid during the year (2021: £nil).

#### **Directors**

The following served as Directors during the year and up to the date of signing these financial statements:

A Lehtinen (Resigned on 31 August 2022)

F Scott

T De Gruijter

C Stephenson (Appointed 01 September 2022)

Wartsila Corporation maintains insurance policies on behalf of all the directors against liability arising from negligence, breach of duty and breach of trust in relation to the entity. This is a qualifying third-party indemnity provision made for the benefit of its directors during the year. These provisions remain in force at the reporting date.

#### **Political contributions**

The Company made no political or charitable donations during the year (2021: £nil).

#### **Research and Development**

The Company spent £459,000 during the year (2021: £47,000) on research and development on advanced wastewater, compressors and ballast water products and systems which was expensed to the profit and loss account.

#### **Financial Risk Management**

The Company's operations expose it to a variety of financial risks that include the effects of credit risk, liquidity risk, interest rate and foreign currency risk.

##### ***Interest rate and foreign currency cash flow risk***

The Company's working capital management requirements are provided by its ultimate parent, Wartsila Corporation, and the Company's policy is to minimise the interest rate risk inherent in such borrowings.

The Company operates globally with contracts taken in various currencies and the majority of its earnings being generated outside the UK. Changes in global currency rates can result in changes to expected earnings and cash flows if unhedged and affect the competitive position of the business. The Company uses forward currency contracts to reduce currency risk on its project sales and on purchases from a Wartsila factory in China. Hedge accounting is not applied.

##### ***Credit risk***

The Company has a comprehensive credit risk management policy covering both the introduction of new customers and the management of existing customers' debts.

**Directors' report (continued)**  
**for the year ended 31 December 2022**

**Financial Risk Management (continued)**

**Liquidity risk**

The Company actively maintains short-term debt finance, via intra-group facilities, which is designed to ensure the Company has sufficient available funds for operations and planned expansions. In addition, the Company is part of the Group cash pooling structure and has access to Group funds when required for liquidity purposes.

**Price risk**

The Company is exposed to price risk, and so to mitigate against price increases the Company negotiates framework agreements with suppliers to fix prices as far as possible. Purchases of materials are made to satisfy only known orders.

**Going concern**

The current economic conditions create uncertainty particularly over the level of demand for products sold. Growth in the Far East, most notably in China and India, the growing popularity for cruise vacations and the increasing demand for green energy, all provide sufficient evidence to allow the Board to express confidence for the satisfactory performance of the Company for the years ahead.

The Company continues to assess risk and closely monitors the increased economic uncertainty. The management team strive to mitigate financial risk whilst also ensuring a safe working environment for all personnel.

The ultimate parent company, Wartsila Corporation, has indicated their desire to divest Wartsila Water Systems Limited. At this stage in the process, the directors do not have visibility of the structure of such a transaction and are therefore unable to assess the potential impact, if any, on the future cashflows and funding arrangements.

In respect of the Company's net current liability position and ongoing funding requirements, the Company has obtained a letter of support from Wartsila Corporation that enables it to meet its financial obligations as they fall due for at least the next twelve months from the date of approval of these financial statements, or until such time as the Company is divested, whichever is sooner.

**Employees**

Whilst the spread of the Company's business and the devolution of responsibility to local management means involving employees in various ways such as joint management/employee committees, the overall objective is to achieve a shared commitment from all employees to the success of the business in which they are employed. Team briefings, management forums, Wartsila intranet and in-house newsletters are the main methods used to ensure that employees are well informed.

Occupational health and safety matters continue to receive management attention at all levels.

**Directors' report (continued)**  
**for the year ended 31 December 2022**

**Financial Risk Management (continued)**

It is the policy of the Company and its ultimate parent, Wartsila Corporation, Finland, to offer equal employment opportunities to those who are disabled, provided it is practicable to offer them suitable employment, and to make every effort to provide appropriate employment for employees who become disabled. Furthermore, it is the intention to give disabled people opportunities for training, career development and promotion consistent with their capabilities.

**Disclosure of information to auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**Auditors**

Under section 487 of the 2006 companies act, Azet's were reappointed as our Auditor on the 30 May 2023 to commence the auditing of our financial statements for the year ended 31 December 2022.

Approved by the Board and signed on its behalf by:



**C Stephenson**  
**Managing Director**

18 September 2023

**Registered office**  
Merchants House, Vanguard Road, Poole, Dorset, England, BH15 1PH  
**Registered number 00713227**



## **Statement of directors' responsibilities in respect of the financial statements for the year ended 31 December 2022**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", 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 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

### **Directors' confirmations**

In the case of each director in office at the date the directors' report is approved:

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WARTSILA WATER SYSTEMS LIMITED**

### **Qualified opinion on financial statements**

We have audited the financial statements of Wartsila Water Systems Limited (the 'company') for the year ended 31 December 2022 which comprise the statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, except for the possible effects on the corresponding figures, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for qualified opinion**

We were not appointed as auditor of the company until after 31 December 2020. The audit opinion expressed by the predecessor auditor for that year was qualified on the grounds that they were unable to obtain sufficient and appropriate audit evidence over the existence and completeness of work in progress as at 31 December 2020, of an aggregate value of £16.1m. Consequently, we are unable to determine whether there was any consequential effect on the cost of sales for the year ended 31 December 2021. Our audit opinion on the financial statements for the year ended 31 December 2021 was modified accordingly. Our audit opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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 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 qualified opinion.

### **Conclusions relating to going concern**

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

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

## **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The director is responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

## **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 director's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and director's report have been prepared in accordance with other applicable legal requirements.

## **Matters on which we are required to report by exception**

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 material misstatements in the strategic report or director's report.

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

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

## **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 director determines 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 is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

### ***Extent to which the audit was considered capable of detecting irregularities, including fraud***

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above and on the Financial Reporting Council's website, to detect material misstatements in respect of irregularities, including fraud.

We obtain and update our understanding of the entity, its activities, its control environment and likely future developments, including in relation to the legal and regulatory framework applicable and how the entity is complying with that framework. Based on this understanding, we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This includes consideration of the risk of acts by the entity that were contrary to applicable laws and regulations, including fraud.

In response to the risk of irregularities and non-compliance with laws and regulations, including fraud, we design procedures which included:

- Enquiry of management and those charged with governance around actual and potential litigation and claims as well as actual, suspected and alleged fraud;
- Reviewing minutes of meetings of those charged with governance;
- Assessing the extent of compliance with laws and regulations considered to have a direct material effect on the financial statements or the operations of the company through enquiry and inspection;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations;
- Performing audit work over the risk of management bias and override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for indicators of potential bias.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of noncompliance. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## **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.

*Azets Audit Services*

Zara Hogg FCA, BA (Hons) (Senior statutory auditor)  
For and on behalf of Azets Audit Services

Chartered Accountants  
Statutory Auditor

Date: **18 September 2023**

Carnac Place  
Cams Hall Estate  
Fareham  
Hampshire  
PO16 8UY

# Statement of Comprehensive Income

for the year ended 31 December 2022

	<i>Note</i>	12 months to 31 December 2022 £000	12 months to 31 December 2021 £000
<b>Turnover</b>	<b>2</b>	<b>36,565</b>	26,100
Cost of sales		(32,252)	(25,808)
		<hr/>	<hr/>
Gross Profit		4,313	292
Administrative expenses		(4,112)	(3,359)
		<hr/>	<hr/>
Operating profit /(loss)		201	(3,067)
Interest receivable and similar income	6	538	321
Interest payable and similar expenses	7	(374)	(151)
		<hr/>	<hr/>
Profit/(loss) before taxation		365	(2,897)
Tax credit/(charge) on loss	8	(507)	417
		<hr/>	<hr/>
Loss for the financial year and other comprehensive income		(142)	(2,480)
		<hr/>	<hr/>

There were no other recognised gains or losses in either the current year or preceding year other than as stated above and therefore no separate Statement of Comprehensive Income has been presented.

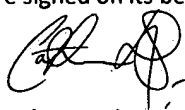
The notes on pages 17 to 37 are an integral part of the financial statements.

**Statement of Financial Position****As at 31 December 2022**

	Note	2022		2021	
		£000	£000	£000	£000
<b>Fixed assets</b>					
Intangible assets	9		1,763		2,036
Tangible assets	10		76		120
			<u>1,839</u>		<u>2,156</u>
<b>Current assets</b>					
Stocks	11	5,440		8,826	
Debtors	12	21,519		15,448	
Deferred tax asset	14	27		-	
Cash at bank and in hand		-		-	
		<u>26,986</u>		<u>24,274</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>(28,508)</u>		<u>(26,260)</u>	
<b>Net current liabilities</b>			<u>(1,522)</u>		<u>(1,986)</u>
<b>Total assets less current liabilities</b>			<u>318</u>		<u>170</u>
<b>Provisions for liabilities</b>					
Deferred tax liability	14	-		-	
Lease liabilities	13a	-		-	
Other provisions	15	(2,100)		(1,810)	
			<u>(2,100)</u>		<u>(1,810)</u>
<b>Net liabilities</b>			<u>(1,782)</u>		<u>(1,640)</u>
<b>Capital and reserves</b>					
Called up share capital	17		25		25
Share Premium account			22,328		22,328
Profit and loss account			(24,135)		(23,993)
<b>Total equity</b>			<u>(1,782)</u>		<u>(1,640)</u>

The notes on pages 17 to 37 are an integral part of the financial statements.

These financial statements on pages 14 to 37 were approved by the Board of Directors on 18 September 2023 and were signed on its behalf by:



**C Stephenson**  
Managing Director

Company registered number: 00713227

## Statement of Changes in equity

	<b>Called up Share capital £000</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
Balance at 1 January 2021	25	728	(21,513)	(20,760)
<b>Total comprehensive income for the period</b>				
Share issue		21,600		21,600
Reported Loss			(2,480)	(2,480)
Dividends			-	-
<b>Balance at 31 December 2021</b>	<b>25</b>	<b>22,328</b>	<b>(23,993)</b>	<b>(1,640)</b>

	<b>Called up Share capital £000</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Total equity £000</b>
Balance at 1 January 2022	25	22,328	(23,993)	(1,640)
<b>Total comprehensive income for the period</b>				
Reported loss			(142)	(142)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(142)</b>	<b>(142)</b>
Dividends			-	-
<b>Balance at 31 December 2022</b>	<b>25</b>	<b>22,328</b>	<b>(24,135)</b>	<b>(1,782)</b>

The notes on pages 17 to 37 are an integral part of the financial statements.



## Notes to the financial statements for the year ended 31 December 2022

### 1 Accounting policies

Wartsila Water Systems Limited (the "Company") is a private company, limited by shares, incorporated, and domiciled in the United Kingdom. The address of the registered office is Merchants House, Vanguard Road, Poole, Dorset, England, BH15 1PH.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101").

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRS's") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Wartsila Corporation, includes the Company in its consolidated financial statements. The consolidated financial statements of Wartsila Corporation are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the following address:

Wartsila Corporation  
John Stenbergin rantaa 2  
00530  
Helsinki  
P.O. Box 196  
00531 Finland

Or at the company website [www.wartsila.com](http://www.wartsila.com)

The financial statements are prepared in Sterling, which is the functional currency of the Company.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cashflow statement and related notes;
- Comparative year reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRS's;
- Disclosures in respect of the compensation of Key Management Personnel.

As the consolidated financial statements of Wartsila Corporation include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement*, and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements.

## Notes to the financial statements (continued) for the year ended 31 December 2022

### 1 Accounting policies (continued)

#### *New standards, amendments and IFRIC interpretations*

There are no new amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2021 and have had a material impact on the Company.

#### *Standards which are in issue but not yet effective*

At the date of the authorization of these financial statements, the following standards and interpretations, which have not yet been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS 3 – effective: 1 Jan 2022
- Amendments to IAS 16 – effective: 1 Jan 2022
- Amendments to IAS 37 – Onerous contracts – effective: 1 Jan 2022
- IFRS 9 Financial Instruments – Fees in the “10 percent” test for derecognition of financial liabilities – effective: 1 Jan 2022
- Amendments to IAS 1 – Classification of liabilities as Current or Non-Current – effective: 1 Jan 2023
- Amendments to IAS 1 – Classification of liabilities as Current or Non-Current – effective: 1 Jan 2023

#### 1.1 *Measurement convention*

The financial statements are prepared on the historical cost basis, as modified for fair value measurement of derivatives.

#### 1.2 *Going concern*

The current economic conditions create uncertainty particularly over the level of demand for products sold. However, growth in the Far East, most notably in China and India, the growing popularity for cruise vacations and the increasing demand for green energy, all provide sufficient evidence to allow the Board to express confidence for the satisfactory performance of the Company for the years ahead.

During the post pandemic period the business has sought alternative approaches to maintain business continuity throughout. This includes adapting to remote working environments and taking advantage of government grants. The Company continues to assess risk and closely monitors the increased economic uncertainty. The management team strive to mitigate financial risk whilst also ensuring a safe working environment for all personnel.

The Company continues to assess risk and closely monitors the increased economic uncertainty. The management team strive to mitigate financial risk whilst also ensuring a safe working environment for all personnel.

## Notes to the financial statements (continued)

### for the year ended 31 December 2022

#### 1 Accounting policies (continued)

##### 1.2 Going concern (continued)

The ultimate parent company, Wartsila Corporation, has indicated their desire to divest Wartsila Water Systems Limited. At this stage in the process, the directors do not have visibility of the structure of such a transaction and are therefore unable to assess the potential impact, if any, on the future cashflows and funding arrangements.

In respect of the Company's net current liability position and ongoing funding requirements, the Company has obtained a letter of support from Wartsila Corporation that enables it to meet its financial obligations as they fall due for at least the next twelve months from the date of these financial statements, or until such time as the Company is divested, whichever is sooner.

##### 1.3 Foreign currency

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

##### 1.4 Classification of financial instruments issued by the Company

###### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. Gains and losses arising from changes in fair values are recognised in the profit and loss account in the period in which they have arisen.

###### *Non-derivative financial instruments*

Non-derivative financial instruments comprise intercompany, trade and other debtors, cash and cash equivalents, trade and other creditors, and borrowings.

###### *Intercompany, trade and other debtors*

Intercompany, trade and other debtors are recognised initially at transaction cost unless a financing arrangement is in place. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. These are derecognised at the time of either the customer settling the debt or being written off as not recoverable.

###### *Intercompany, trade and other creditors*

Intercompany, trade and other creditors are recognised initially at transaction cost unless a financing arrangement is in place. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. These are derecognised at the point that the debt is settled with the creditor.

**1 Accounting policies (continued)****Non-derivative financial instruments (continued)**

Cash and cash equivalents comprise cash balances. They are recognised at fair value initially and at the end of the accounting year, where necessary, translated to functional currency at the prevailing rates at that time.

### Interest-bearing borrowings

### 1.5 Tangible fixed assets

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets.

<ul style="list-style-type: none"> <li>Plant and equipment</li> <li>Right-of-use buildings</li> </ul>	<p>3 to 10 years</p> <p>term of the lease, non-cancellable period only, including option to extend only if it is reasonably certain that it will be exercised</p>
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- **Right-of-use plant and equipment**      **term of the lease**

20

## Notes to the financial statements (continued)

### for the year ended 31 December 2022

#### 1 Accounting policies (continued)

##### 1.6 Intangible assets

###### Software

Intangible assets acquired by the Group, other than goodwill, are stated at cost less accumulated amortisation and impairment losses. Intangible assets are amortised over the asset's estimated useful life on a straight-line basis as follows:

- Software 3 to 5 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

###### Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses. Amortisation is recognised straight line over the expected useful life of the asset as follows:

- Licences 10 years

Amortisation methods, useful lives and residual values are reviewed at each balance sheet date.

##### 1.7 Right-of-use assets

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Company's incremental borrowing rate on commencement of the lease is used. Other variable lease payments are expensed in the period to which they relate.

Right-of-use assets are initially measured at the amount of the lease liability.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

##### 1.8 Stocks and Work-In-Progress

Stocks are stated at the lower of cost and net realisable value. Cost includes materials, direct labour, delivery costs and an attributable proportion of manufacturing and assembly overheads based on normal levels of activity. 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.

## Notes to the financial statements (continued)

### for the year ended 31 December 2022

#### 1 Accounting policies (continued)

##### 1.9 Impairment excluding stocks and deferred tax assets

###### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it will suffer an expected credit loss (ECL). A financial asset is impaired if objective evidence indicates that a loss event will occur after the initial recognition of the asset, and that the loss event will have a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

###### *Non-financial assets*

The carrying amounts of the Company's non-financial assets, other than stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

##### 1.10 Employee benefits

###### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees. The Company provides pension arrangements to the majority of full-time employees through a money purchase scheme, which is operated by an independent third party. Contributions and pension costs are based on pensionable salary and are recorded in the period in which they fall due.

###### *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## Notes to the financial statements (continued)

### for the year ended 31 December 2022

#### 1 Accounting policies (continued)

##### 1.10 Employee benefits (continued)

###### *Termination benefits*

Termination benefits are recognised as an expense when the company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

##### 1.11 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. At each balance sheet date, the Company recognises such liabilities at the directors' best estimate of the expenditure required to settle the liability.

###### *Contracts*

Contract provisions are made where, based upon management's best estimate, the expected benefits from certain specific contracts are less than the cost of meeting those contract obligations.

###### *Warranty*

Provisions for warranties are raised in respect of certain products and are reviewed annually in line with historical actual warranty costs incurred, the unexpired years of warranties given and the relative maturity of the product lines in question. Warranty costs incurred are charged against these provisions.

##### 1.12 Turnover

IFRS 15 *Revenues from Contracts with Customers* is effective for periods beginning 1 January 2018 and has been applied using the modified retrospective approach. Under this standard, revenue recognition is based on the transfer of control, i.e., notion of control is used to determine when a good or service is transferred to the customer. In accordance with this, the Company has adopted a single comprehensive model for the accounting for revenues from contracts with customers, using a five-step approach for revenue recognition:

- (1) identifying the contract;
- (2) identifying the performance obligations in the contract;
- (3) determining the transaction price;
- (4) allocating the transaction price to the performance obligations in the contract; and
- (5) recognising revenue when or as the Company satisfies a performance obligation.

Revenue represents amounts receivable for goods or services provided in the normal course of business excluding amounts collected on behalf of third parties such as sales taxes, goods and services taxes, and value added taxes. Revenue is measured at the fair value of the consideration received or receivable.

The company revenue is mainly generated from the following:

#### **Revenue recognised over time**

##### *Service maintenance contracts*

Service maintenance contracts are performed over a period of more than one year and the customer receives the benefit of the work as it is performed, therefore revenue is recorded over time based on costs incurred as a proportion of total costs to be incurred for total services provided.

## Notes to the financial statements (continued) for the year ended 31 December 2022

### 1 Accounting policies (continued)

#### 1.12 Turnover (continued)

##### Revenue recognised at a point in time

###### *Project sales*

Contracts to develop and build a system for a customer where a significant amount of project management is required are classed as projects and may or may not be performed over a period that exceeds one year. Revenue is recognised when performance obligations are satisfied, all parts have been shipped and control has been transferred.

###### *Spare parts and other product sales*

Spare parts and other product revenue is recognised when the order is fulfilled in line with the shipping terms in the sales contract.

###### *Service*

Service revenue is recognised on completion of the work.

#### 1.13 Expenses

##### *Interest receivable and interest payable*

Interest payable and similar expenses include interest payable, finance charges on finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and gross foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Other interest receivable and similar income include interest receivable on funds on deposit and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Foreign currency gains and losses are reported on a gross basis.

#### 1.14 Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.



### **1.15 Key Accounting estimates and Judgements**

#### **Intangible Impairment reviews**

Intangible assets are considered significant in comparison to the Company's total carrying amount. As such, these assets have been allocated to cash generating units (CGUs) or groups of cash generating units (CGUs).

When an indication of impairment is identified, the estimation requires measurement of recoverable value of cash generating units (CGUs). This requires estimation of the future cash flows from the cash generating units (CGUs) and also selection of appropriate discount rates in order to calculate the net present value of those cash flows. When these do not support the carrying amount, an impairment is booked.

#### **Long term contract accounting and Work-in-progress (WIP)**

In order to determine the profit or loss that the company is able to recognize on its long-term projects in a specified period, the Company has to allocate total costs of the projects to determine the work in progress (WIP) and estimate the future costs required to complete the projects. The assessment of the total costs to be incurred and assessing the work in progress (WIP) requires a degree of estimation. Management has established internal controls to review and ensure the appropriateness of estimates made on an individual contract basis, including any necessary contract provisions. Contract assets and onerous contract provisions are disclosed in Note 12 and Note 15 respectively.

#### **Warranty provision**

Company routinely gives warranties to customers in respect of certain products ranging from 18 to 24 months from delivery. Management estimates the provision on the basis of historic claims received over last few years which requires a degree of estimation. Management has established controls in process to monitor the frequency of claims, the expected lifetime of the products and the history of customers in estimating the claims.

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**2 Turnover**

	12 months to 31 December 2022 £'000	12 months to 31 December 2021 £'000
Sale of goods and services	36,565	26,100

**By geographical location:**

	12 months to 31 December 2022 £'000	12 months to 31 December 2021 £'000
UK	8,344	2,649
Rest of Europe	10,129	14,474
Rest of the World	18,092	8,977
	<u>36,565</u>	<u>26,100</u>

**By timing method:**

	12 months to 31 December 2022 £'000	12 months to 31 December 2021 £'000
Point in time	36,120	25,677
Over time	445	423
	<u>36,565</u>	<u>26,100</u>

**3 Expenses and auditors' remuneration**

*Included in loss are the following:*

	12 months to 31 December 2022 £'000	12 months to 31 December 2021 £'000
Depreciation of tangible assets	60	65
Amortisation of intangible assets	272	264
Impairment of inventories	-	-
Impairment of tangible fixed assets	-	16
Research and development expensed as incurred	459	47
Operating lease rentals	609	135

*Auditors' remuneration:*

	12 months to 31 December 2022 £000	12 months to 31 December 2021 £000
Audit of these financial statements	65	80

## Notes to the financial statements (continued)

### for the year ended 31 December 2022

#### 4 Staff numbers and cost

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

	Number of employees	
	12 months to 31 December 2022	12 months to 31 December 2021
Production	33	44
Selling and marketing	8	2
Spares and Service	38	33
Administration	7	9
	<u>86</u>	<u>88</u>

The aggregate payroll costs of these persons were as follows:

	12 months to 31 December 2022	12 months to 31 December 2021
	£000	£000
Wages and salaries	4,269	4,152
Social security costs	550	482
Contributions to defined contribution plans	260	249
Restructuring costs	<u>351</u>	<u>147</u>
	<u>5,430</u>	<u>5,030</u>

#### 5 Directors' remuneration

There was only one director who was appointed on 1 September 2022 was paid the period of 4 months from that served during 2022 for £36k. All other directors who served during the year consider that their services to the Company were merely incidental to the services provided to other Group undertakings, and they are paid by fellow subsidiary undertakings. Accordingly, no emoluments have been charged in relation to their services in the financial statements of this Company.

#### 6 Interest receivable and similar income

	12 months to 31 December 2022	12 months to 31 December 2021
	£000	£000
Foreign exchange gain	267	83
Other finance income	271	238
Gains on currency forward financial instruments	-	-
	<u>538</u>	<u>321</u>

**Notes to the financial statements (continued)**  
for the year ended 31 December 2022

**7 Interest payable and similar expenses**

	12 months to 31 December 2022 £000	12 months to 31 December 2021 £000
Interest expense	163	53
Foreign exchange loss	211	98
Losses on currency forward financial instruments	-	-
	<hr/>	<hr/>
Total interest payable and similar charges	374	151
	<hr/>	<hr/>

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**8 Tax credit on loss**

**Recognised in the profit and loss account**

	2022		2021	
	£000	£000	£000	£000
<b>UK corporation tax</b>				
Current tax (credit) on loss for the period	81		(471)	
Adjustments in respect of prior periods	376		54	
<b>Total current tax</b>		<b>457</b>		<b>(417)</b>
Deferred tax (see note 14)	27			
Origination and reversal of temporary differences			(54)	
Adjustments in respect of prior periods	23		54	
<b>Total deferred tax</b>		<b>50</b>		<b>-</b>
<b>Total tax (credit)</b>		<b>507</b>		<b>(417)</b>

**Reconciliation of effective tax rate**

The differences are explained below:

	2022		2021	
	£000		£000	
<b>Loss before taxation</b>	<b>365</b>		<b>(2,897)</b>	
Tax using the UK corporation tax rate of 19% (2021: 19%)	69		(551)	
Losses not Recognised	-		-	
Origination and reversal of temporary differences	438		80	
Adjustments in respect of prior periods			-	
Other			54	
<b>Total tax (credit)/charge on results</b>	<b>507</b>		<b>(417)</b>	

The main rate of UK corporation tax was 19% during the year. The Finance Act 2021 was substantively enacted increasing the rate of UK corporation tax from 19% to 25% effective 1st April 2023.

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**9 Intangible assets**

	<b>Product Licences £000</b>
<b>Cost</b>	
Balance at 1 January 2022	2,829
Additions	-
	<hr/>
<b>Balance at 31 December 2022</b>	<b>2,829</b>
	<hr/>
<b>Amortisation and impairment</b>	
Balance at 1 January 2022	793
Amortisation charge	273
	<hr/>
<b>Balance at 31 December 2022</b>	<b>1,066</b>
	<hr/>
<b>Net book value</b>	
At 31 December 2021	2,036
	<hr/>
<b>At 31 December 2022</b>	<b>1,763</b>
	<hr/>

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**10 Tangible assets**

	<b>Plant and equipment</b>
	<b>£000</b>
<b>Cost</b>	
Balance at 1 January 2022	565
Additions	16
Disposals	-
<b>Balance at 31 December 2022</b>	<b><u>581</u></b>
<b>Depreciation and impairment</b>	
Balance at 1 January 2022	445
Depreciation charge for the year	60
Disposals	
Impairment	
<b>Balance at 31 December 2022</b>	<b><u>505</u></b>
<b>Net book value</b>	
At 1 January 2022	<u>120</u>
<b>At 31 December 2022</b>	<b><u>76</u></b>

Depreciation charges are booked under Administrative Expenses in the P&L.

**11 Stocks**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Raw materials and consumables	915	666
Work in progress	3,556	7,084
Finished goods	248	268
Advances paid on inventories	721	808
	<u>5,440</u>	<u>8,826</u>

The balances are presented net of stock provisions, writing stock down to net realisable value, and which amounted to £1,245,000 (2021: £1,417,000). Impairments to stock are recognised in cost of sales.

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**12 Debtors**

	2022	2021
	£000	£000
Trade debtors	5,254	6,591
Amounts owed by group undertakings	8,164	2,092
Other debtors	7	(8)
Financial instruments – Currency forwards	179	1,152
Corporation tax – receivable from group undertakings	662	483
Other taxation and social security	1,425	496
Prepayments	145	286
Contract assets	5,683	4,356
	<b>21,519</b>	<b>15,448</b>

Included in amounts owed by group undertakings is cash placed on short term deposit as part of a Group cash pooling arrangement which is interest bearing at an average rate of 1% (2021: 1%) and is unsecured and repayable on demand. At 31 December 2022 this amounted to £4,141,754 (2021: £2,769,127).

Trade debtors are presented net of allowances for bad debts. At 31 December 2022 these amounted to £160,000 (2021: £270,000).

	Current	Up to 30 days overdue	Between 31 and 60 days overdue	Between 61 and 180 days overdue	More than 180 days overdue	Total
	£000	£000	£000	£000	£000	£000
Trade receivables (Third party and intragroup)	3,099	1,238	333	775	427	5,872
Loss Provision	-	-	-	-	160	160
Contract assets	5,683	-	-	-	-	5,683

The Company's contract assets have moved during the year by the following:

	Opening 1 January 2022	Revenue movement in the year	Cash	Closing 31 December 2022
	£000	£000	£000	£000
Contract assets	4,356	1,327	-	5,683

The movement in contract assets is due to normal business transactions.



**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**13 Creditors: amounts falling due within one year**

	<b>2022</b>	<b>2021</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	<b>204</b>	52
Amounts owed to group undertakings	<b>10,377</b>	7,138
Financial instruments – currency forwards	<b>444</b>	111
Corporation tax	<b>81</b>	-
Other creditors	<b>80</b>	19
Accruals	<b>3,525</b>	5,020
Contract liabilities	<b>13,797</b>	13,920
	<b>28,508</b>	26,260

Included within amounts owed to group undertakings are short term borrowings which are unsecured and interest bearing at relevant interbank rates plus a margin of 1% (2020 1%), repayable at maturity with no right to early repayment. At 31 December 2022 these amounted to £6,300,000 (2021: £1,502,530). All other amounts are unsecured, interest free and repayable on demand.

The Company's contract liabilities have moved during the year by the following:

	<b>Opening 1 January 2022</b>	<b>Movement in the Year</b>	<b>Closing 31 December 2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Contract liabilities	13,920	(123)	<b>13,797</b>

The movement in contract liabilities is due to normal business transactions.

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**14 Deferred tax assets**

*Recognised deferred tax assets*

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2022 £000	2021 £000	2022 £000	2021 £000	2022 £000	2021 £000
Accelerated capital allowances	27	-	-	-	27	-
	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>-</u>
Net tax asset	27	-	-	-	27	-
	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27</u>	<u>-</u>

*Movement in deferred tax during the year:*

	1 January 2022 £000	Recognised in profit and loss £000	Recognised in prior year profit and loss £000	31 December 2022 £000
Accelerated capital allowances	-	27	-	27
	<u>-</u>	<u>27</u>	<u>-</u>	<u>27</u>
	-	27	-	27
	<u>-</u>	<u>27</u>	<u>-</u>	<u>27</u>

## Notes to the financial statements (continued)

### for the year ended 31 December 2022

#### 15 Other Provisions

	Warranty Provision £000	Onerous Contract Provision £000	Total Provision £000
Balance at 1 January 2022	749	1,061	1,810
Provisions made during the year	547	418	965
Provisions used during the year	(100)	(72)	(172)
Provision reversed during the year	(503)		(503)
<b>Balance as at 31 December 2022</b>	<b>693</b>	<b>1,407</b>	<b>2,100</b>

#### *Provision for warranties*

The Company routinely gives warranties to customers in respect of certain products. Any costs incurred in meeting claims, for which the warranty provision has been established, are expected to be incurred within the agreed warranty period. This would typically be within 24 months of the balance sheet date.

#### *Provision for contract liabilities*

The Company has identified several contracts that commenced before the end of 2022 which are expected to make losses, and a provision for these forecast losses has been recognised accordingly in 2022.

These provisions are based upon the directors' best estimate of the expenditure required to settle the liability. In addition, contract provisions are made where, based upon management's best estimate, the expected benefits from certain specific contracts are less than the cost of meeting those contract obligations.

#### 16 Employee benefits

##### Defined contribution plans

The total expense relating to these plans in the current year was £260,022 (2021: £248,742) and the amount payable as at year end is £38,724 (2021: £nil). The current year expense before non-recurring costs was £260,022 (2021: £248,742).

## Notes to the financial statements (continued)

### for the year ended 31 December 2022

#### 17 Capital and reserves

##### Called up share capital

	2022 Number of shares	2021 Number of shares
1		
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	25,000	25,000

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

#### 18 Financial instruments measured at fair value

##### *Derivative financial instruments*

The Company identifies sales and purchase agreements denominated in foreign currencies and sets up foreign currency forward agreements on an individual contract basis where the sales or purchase value exceeds €300,000. These forward agreements are concluded with the central treasury function of the ultimate parent company. Individual sales and purchase contracts are fully covered based on the expected settlement date. The fair value of forward exchange contracts is based on real pricing tool for similar agreements on the market. Such forward agreements are not eligible for hedge accounting, since effectiveness of the related hedge cannot be measured.

##### *Fair values*

The amounts for all financial assets and financial liabilities carried at fair value are as follows:

	Fair Value 2022 £000	Fair Value 2021 £000
<b>Assets</b>		
Financial instruments – currency forwards	179	1,152
<b>Liabilities</b>		
Financial instruments – currency forwards	444	110

#### 19 Contingencies

As at 31 December 2022 contingent liabilities exist in respect of bank guarantees in relation to performance and advance payment guarantees totalling £3,292,000 (31 December 2021: £2,826,193).

The Company routinely enters a range of contractual arrangements in the ordinary course of business that can give rise to claims or potential litigation against the company. It is the Company's policy to make specific provision at the balance sheet date for all liabilities including guarantees which, in the opinion of the directors, are probable and estimable. The directors have reviewed the open claims and pending litigation against the Company at the year end and concluded that no material loss is likely to accrue from any such unprovided claims.

**Notes to the financial statements (continued)**  
**for the year ended 31 December 2022**

**20 Ultimate parent company and parent company of larger group**

The Company's immediate parent company is Wartsila Hamworthy Limited. The Company's ultimate parent undertaking, which is also the ultimate controlling party, is Wartsila Corporation, which is incorporated in Finland.

Wartsila Corporation is the only group in which the results of the Company are consolidated. The consolidated financial statements of this groups are available to the public and may be obtained from:

Wartsila Corporation  
John Stenbergin ranta 2  
00530  
Helsinki  
P.O. Box 196  
00531 Finland

Or at the company website [www.wartsila.com](http://www.wartsila.com).