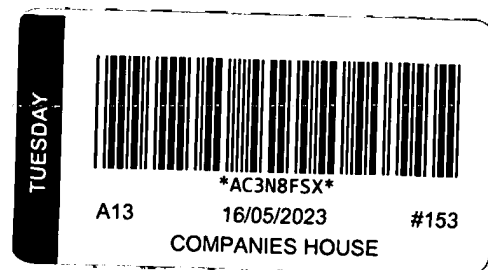


Grundfos Watermill Limited

Annual Report and Financial Statements

For the year ended 31 December 2021



Grundfos Watermill Limited

Annual Report and Financial Statements For the year ended 31 December 2021

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Grundfos Watermill Limited

Annual Report and Financial Statements For the year ended 31 December 2021

Officers and professional advisers

DIRECTORS

Anne Groenbjerg
Glynn Williams
Catherine Weaver

REGISTERED OFFICE

Grovebury Road
Leighton Buzzard
Bedfordshire
LU7 4TL

BANKER

Danske Bank
75 King William Street
London
EC4N 7DT

SOLICITOR

Tollers
F4 Medina House
329 Silbury Boulevard
Central Milton Keynes
MK9 2AE

AUDITOR

Ernst and Young LLP
Statutory Auditor
400 Capability Green
Luton
LU1 3LU

Grundfos Watermill Limited

Directors' report For the year ended 31 December 2021

The Directors present their annual report on the affairs of Grundfos Watermill Limited ("the Company") together with the financial statements and auditor's report, for the year ended 31 December 2021.

This Directors' report has been prepared in accordance with the provisions applicable to companies entitled to small companies exemption under Sections 415A and 415B of the Companies Act 2006 and accordingly no Strategic Report has been prepared.

PRINCIPAL ACTIVITY

The principal activity of the Company during the year was the manufacture and sales of shower pumps, this includes products branded for Grundfos and under private label agreements for other companies.

BUSINESS REVIEW

As shown in the Company's profit and loss account on page 9, the Company made a profit after taxation of £545,000 (2020: £316,000). The increase in profit is predominantly due to the combination of strong domestic Grundfos shower pumps sales in comparison with the prior year and reduced warranty, travel and staff related costs.

DIVIDENDS

The Directors do not recommend the payment of a dividend (2020: fnil).

DIRECTORS

The Directors who served during the year and up to the date of signing the financial statements were as follows::

Anne Groenbjerg (appointed 1 January 2021)

Catherine Weaver (appointed 1 January 2021)

Glynn Williams (appointed 1 January 2021)

Hans Jorgen Hansen (resigned on 31 December 2020)

Jimmie Troest Rasmussen (resigned on 31 December 2020)

DIRECTOR INDEMNITIES

The Company has made qualifying third party indemnity provisions for the benefit of its Directors of any parent, subsidiary or fellow subsidiary which were made during the year and remain in force at the date of this report.

PRINCIPAL RISKS AND UNCERTAINTIES

Cash flow risk

The Company's exposure to the financial risk through foreign currency risk is moderate. Purchases of goods for resale are made in pound sterling from other companies within the Grundfos Group with the counterparty assuming the foreign exchange risk. As part of the Grundfos Group, the Company has access to the Group's cash pooling facility as well as the management of cash flows at a local level.

Credit risk

The Company's principal financial assets are trade and other receivables, investments and cash and bank balances.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on bank balances is limited because the Company's cash requirements are handled as part of a Group banking arrangement with the Parent Company in which the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company has some concentration of credit risk with external customers accounting for only a fifth of all trade receivables. The Company has long trading relationships with these customers, however, who all have high credit ratings and have not been majorly affected since the year end. As such, it's not believed there to be an increased risk of credit losses.

Grundfos Watermill Limited

Directors' report *(continued)* For the year ended 31 December 2021

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

Liquidity risk

To maintain liquidity and ensure that sufficient funds are available for ongoing operations and future developments, the Company uses long-term debt finance from the Parent Company.

Business risk

Raw materials pricing in the global market is a continuing risk for the Company. A significant challenge and business risk is the ability to fulfil order commitments based on incoming supply chain and availability of components. A number of key measures are in place to mitigate this risk including diligent focus on sales inventory and operational execution, working very closely with key suppliers and stakeholders with forward ordering to maximise availability.

Economic risk

The invasion of Ukraine by Russia, which started on 24 February 2022, is developing fast and is affecting social, political and economic activity across Europe and the rest of the world. As of the date of this report, the invasion continues.

In reaction to the invasion, many nations and organisations, including the European Union (EU), have announced sanctions against Russia, Russian companies and individuals in and from Russia. These sanctions, as well as increased uncertainty resulting from the conflict, have so far resulted in increased volatility in financial markets and increased prices for a range of commodities, particularly energy prices, among others. The Company is not directly impacted by the conflict, as its operations have no exposure to Ukraine or Russia. However, the Company may be impacted by the indirect consequences. As a result of the conflict inflationary pressures may increase, specifically on heating and energy costs, which could have an adverse impact on operating costs of the Company.

The precise impact on the Company's business cannot be predicted with any certainty at this stage and the directors are monitoring the situation closely.

FUTURE DEVELOPMENTS

In 2021 the Grundfos Group announced a complete internal re-organisation of the Grundfos business. The new organisational structure serves two primary purposes; strengthening the ability to bring innovation to market; and serving customers even better through customising customer journeys and experiences targeting specific applications and sales channels. For many years the Grundfos customer facing organisation has been organised primarily along a geographical dimension.

The next stage in our journey towards realising our Strategy 2025, founded on our purpose of pioneering solutions to the world's water and climate challenges and improving the quality of life for people, is the organisational structural change, namely 'One Grundfos to the power of four'. With effect from 1 January 2023, our four customer segments, Commercial Building Services (CBS), Domestic Building Services (DBS), Industry (IND) and Water Utility (WU) will become Divisions with full responsibility and end to end accountability for their entire value chain from product development to the delivery of final products and after sales service to our customers. We believe this will further enable us to become even more customer centric, be easy to do business with, and to innovate faster.

GOING CONCERN

The Directors believe that preparing the financial statements on a going concern basis is appropriate.

The Directors have constantly monitored developments around the COVID-19 pandemic and are satisfied that the Company is in a strong position to respond to these challenges. The Directors are adhering to guidance as issued by the Government in order to safeguard the health and safety of all customers, employees, business partners and the public. The Directors believe that the Company is not significantly impacted by the pandemic.

As part of the assessment of going concern, the Directors have considered the Company's forecasts and budgets including a sensitised scenario.

The company has received a letter of support from its immediate parent company, Grundfos Pumps Limited who have provided the company with an undertaking that for a period of 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company to enable the Company to continue in operational existence for the foreseeable future. A similar letter of support has been issued by the parent company, Grundfos Holding A/S to Grundfos Pumps Limited, confirming the same undertaking for the same period. The Directors have assessed the ability of Grundfos Pumps Limited and Grundfos Holding A/S to provide such funding, if required, and are satisfied any such requirements can, and will, be met. The Directors believe that the principal risks and uncertainties affecting the going concern and liquidity risk for the Company are mitigated.

Grundfos Watermill Limited

Directors' report *(continued)* For the year ended 31 December 2021

GOING CONCERN *(continued)*

Having considered the parental support, the Company's forecasts and its financial position, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the date of approval of these financial statements. Therefore, the financial statements are prepared on a going concern.

POLITICAL CONTRIBUTIONS

The Company made no political donations or incurred any political expenditure during the year (2020: £nil).

DISCLOSURE OF INFORMATION TO AUDITOR

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 auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

The information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

AUDITOR

Deloitte LLP resigned as auditors and Ernst and Young LLP were appointed as new auditors.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst and Young LLP will therefore continue in office.

Approved by the Board of Directors on 15/05/2023 and signed on their behalf by:



Catherine Weaver
Director
Grovebury Road
Leighton Buzzard
Bedfordshire
LU7 4TL

Grundfos Watermill Limited

Statement of Directors' responsibilities in respect of the annual report and the financial statements

For the year ended 31 December 2021

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies in accordance with Section 10 of FRS 102 and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 102 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, that complies with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Grundfos Watermill Limited

Independent auditor's report to the members of Grundfos Watermill Limited

Opinion

We have audited the financial statements of Grundfos Watermill Limited for the year ended 31 December 2021 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit 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 opinion

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

Conclusions relating to 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.

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

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 directors are 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

Grundfos Watermill Limited

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

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 directors' 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; or
- the directors were not entitled to take advantage of the small companies exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent 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, to detect irregularities, including fraud. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are the Companies Act 2006, the Financial Reporting Standard 102, the United Kingdom direct and indirect tax regulations. In addition, the company must comply with operational and employment laws and regulations including health and safety regulations, environmental regulations and GDPR.

Grundfos Watermill Limited

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

- We understood how the company is complying with those frameworks by making enquiries of management and senior finance personnel and gaining an understanding of the entity level controls of the company in respect of these areas and the controls in place to reduce opportunity for fraudulent transactions.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by meeting with management, senior finance personnel and those charged with governance. We considered the procedures and controls that the company has established to address risks identified, or that otherwise prevent, deter and detect fraud and gained an understanding as to how those procedures and controls are implemented and monitored. We audited the risk of management override of controls, including through testing certain non-standard manual journal entries and other adjustments for appropriateness. We also performed audit procedures in response to the risk of improper revenue recognition.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved obtaining and reading management meeting minutes and relevant approval documents, enquiries of senior finance personnel and management and agreement of samples of transactions throughout the audit to supporting source documentation. In addition, we completed procedures to conclude on the compliance of the disclosures in the financial statements with all applicable reporting requirements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

DocuSigned by:

Ernst & Young LLP

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Farzin Radfar (Senior statutory auditor)

For and on behalf of Ernst and Young LLP, Statutory Auditor

Luton

Date: 15 May 2023

Grundfos Watermill Limited

Profit and loss account For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Turnover	3	4,943	3,861
Cost of sales		(3,405)	(2,864)
GROSS PROFIT		1,538	997
Administrative expenses		(865)	(570)
Other operating income	4	-	29
OPERATING PROFIT	5	673	456
Other interest receivable and similar income	8	62	-
Interest payable and similar expenses	9	(24)	(58)
PROFIT BEFORE TAXATION		711	398
Tax on profit	10	(166)	(82)
PROFIT FOR THE FINANCIAL YEAR		545	316

All activities derive from continuing operations.

There are no other comprehensive income/losses for the current and preceding financial year. Accordingly no separate statement of total recognised gains and losses is given.

The notes on pages 12 to 25 form a part of these financial statements.

Grundfos Watermill Limited

Balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
FIXED ASSETS			
Tangible assets	11	1,666	1,728
CURRENT ASSETS			
Stocks	12	775	590
Debtors	13	2,120	1,671
Cash at bank and in hand		-	30
		<u>2,895</u>	<u>2,291</u>
CREDITORS: amounts falling due within one year	14	(1,310)	(1,199)
NET CURRENT ASSETS		<u>1,585</u>	<u>1,092</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,251</u>	<u>2,820</u>
CREDITORS: amounts falling due after more than one year	15	(505)	(639)
PROVISIONS FOR LIABILITIES			
Other provisions	17	(6)	(12)
Deferred tax liability	18	(44)	(18)
NET ASSETS		<u>2,696</u>	<u>2,151</u>
CAPITAL AND RESERVES			
Called up share capital	19	25	25
Profit and loss account		<u>2,671</u>	<u>2,126</u>
SHAREHOLDERS' FUNDS		<u>2,696</u>	<u>2,151</u>

The notes on pages 12 to 25 form a part of these financial statements.

The financial statements of Grundfos Watermill Limited (registered number 01666445) were approved by the board of Directors and authorised for issue on 15/05/2023. They were signed on its behalf by:



Catherine Weaver
Director

Grundfos Watermill Limited

Statement in changes in equity For the year ended 31 December 2021

	Called-up share capital £'000	Profit and loss account £'000	Total shareholders' funds £'000
At 1 January 2020	25	1,810	1,835
Profit for the financial year	-	316	316
Total comprehensive income	-	316	316
At 31 December 2020	25	2,126	2,151
At 1 January 2021	25	2,126	2,151
Profit for the financial year	-	545	545
Total comprehensive income	-	545	545
At 31 December 2021	25	2,671	2,696

The notes on pages 12 to 25 form a part of these financial statements.

Grundfos Watermill Limited

Notes to the financial statements For the year ended 31 December 2021

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

Grundfos Watermill Limited (the "Company") is a private Company limited by shares incorporated, domiciled and registered in England and Wales in the United Kingdom under the Companies Act 2006.

The registered number is 01666445 and the address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102").

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council.

The functional currency of Grundfos Watermill Limited is considered to be pound sterling because that is the currency of the primary economic environment in which the Company operates and all amounts rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Poul Due Jensen's Foundation includes the Company in its consolidated financial statements. The consolidated financial statements of Poul Due Jensen's Foundation are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Poul Due Jensen's Foundation, Vej 7, DK-8850, Bjerringbro, Denmark. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Poul Due Jensen's Foundation include the disclosures equivalent to those required by FRS 102, the Company has also taken the exemptions available in respect of the following disclosures:

- Certain disclosures required by FRS 102.26 *Share Based Payments*; and,
- Certain disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

Change in accounting policy

In these financial statements the Company has changed its accounting policies in the following areas:

- Amendments to FRS 102: Interest rate benchmark reform Phase 2 has been adopted from 1 January 2021.
- Amendments to FRS 102: COVID-19-related rent concessions has been adopted from 1 January 2021.

These amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Grundfos group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

Going concern

The Directors believe that preparing the financial statements on a going concern basis is appropriate.

The Directors have constantly monitored developments around the COVID-19 pandemic and are satisfied that the Company is in a strong position to respond to these challenges. The Directors are adhering to guidance as issued by the Government in order to safeguard the health and safety of all customers, employees, business partners and the public. The Directors believe that the Company is not significantly impacted by the pandemic.

As part of the assessment of going concern, the Directors have considered the Company's forecasts and budgets including a sensitised scenario.

The company has received a letter of support from its immediate parent company, Grundfos Pumps Limited who have provided the company with an undertaking that for a period of 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the Company to enable the Company to continue in operational existence for the foreseeable future. A similar letter of support has been issued by the parent company, Grundfos Holding A/S to Grundfos Pumps Limited, confirming the same undertaking for the same period. The Directors have assessed the ability of Grundfos Pumps Limited and Grundfos Holding A/S to provide such funding, if required, and are satisfied any such requirements can, and will, be met. The Directors believe that the principal risks and uncertainties affecting the going concern and liquidity risk for the Company are mitigated.

Having considered the parental support, the Company's forecasts and its financial position, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the date of approval of these financial statements. Therefore, the financial statements are prepared on a going concern.

Turnover

Turnover is stated net of VAT and trade discounts and is recognised when the significant risks and rewards are considered to have been transferred to the buyer. Turnover from the sale of goods is recognised when the goods are physically delivered to the customer. Turnover from the supply of services represents the value of services provided under contracts to the extent that there is a right to consideration and is recorded at the fair value of the consideration received or receivable.

Where a contract has only been partially completed at the balance sheet date turnover represents the fair value of the service provided to date based on the stage of completion of the contract activity at the balance sheet date. Where payments are received from customers in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences arising on gains or losses on non-monetary items which are recognised in other comprehensive income.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Freehold property comprises land and buildings. Depreciation is not provided on freehold land. Depreciation is charged on freehold buildings at 2% - 5% per annum on a straight line basis from the date when they are brought into use.

Depreciation is provided on the historical cost of all other fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life as follows:

Plant and machinery	10% - 33% per annum on a straight line basis
Fixtures, fittings, tools and equipment	10% - 33% per annum on a straight line basis

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an asset's future economic benefits.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Cost is calculated using the FIFO (first-in, first-out) method. Provision is made for obsolete, slow-moving or defective items where appropriate.

Research and development

Research and development expenditure is written off as incurred.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax liabilities are recognised for timing differences arising from investments in subsidiaries and associates, except where the Company is able to control the reversal of the timing difference and it is probable that it will not reverse in the foreseeable future.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date that are expected to apply to the reversal of the timing difference. Deferred tax relating to non-depreciable property, plant and equipment is measured using the revaluation model and investment property is measured using the tax rates and allowances that apply to sale of the asset.

In other cases, the measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Where items recognised in other comprehensive income or equity are chargeable to or deductible for tax purposes, the resulting current or deferred tax expense or income is recognised in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense or income.

Current tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are offset only if: a) the Company has a legally enforceable right to set off current tax assets against current tax liabilities; and b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

Employee benefits

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The amounts charged to the profit and loss account in respect of pension costs are the contributions payable in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

(i) Financial assets and liabilities

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Debt instruments which meet the conditions of being 'basic' financial instruments as defined in paragraph 11.9 of FRS 102 are subsequently measured at amortised cost using the effective interest method.

Debt instruments that have no stated interest rate (and do not constitute financing transaction) and are classified as payable or receivable within one year are initially measured at an undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

Other debt instruments not meeting conditions of being 'basic' financial instruments are measured at fair value through profit or loss.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

Financial Instruments *(continued)*

(ii) Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. The Company does not apply hedge accounting.

(iii) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Impairment of assets

Assets, other than those measured at fair value, are assessed for indicators of impairment at each balance sheet date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss as described below.

Non-financial assets

An asset is impaired where there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated recoverable value of the asset has been reduced. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Where indicators exist for a decrease in impairment loss, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Financial assets

For financial assets carried at amortised cost, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised.

Interest payable and Interest receivable

Interest payable and similar expenses include interest payable. Interest receivable and similar income include interest receivable on funds invested. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

1. ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs which are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets. Capitalisation begins when both finance costs and expenditures for the asset are being incurred and activities that are necessary to get the asset ready for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Company's obligation.

Government Grants

Government grants primarily relate to amounts received under the Covid Job Retention Scheme ("CJRS") which was in place during the current and prior year.

Government grants are in line with the accrual model and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred. Amounts recognised in the profit and loss are presented under the heading other operating income.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in note 1, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

There were no critical judgements in applying the Company's accounting policies.

Key source of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Valuation of derivative instruments

The Company uses derivative instruments to reduce exposure to interest rate movements. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. This fair value is estimated based on a valuation provided by the finance Company that provided it.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

3. TURNOVER

An analysis of the Company's revenue is as follows:

	2021 £'000	2020 £'000
Third party sales	373	350
Related party sales	4,570	3,511
	<u>4,943</u>	<u>3,861</u>

All turnover in both the current year and preceding year was derived from the Company's principal activity and income is from the United Kingdom.

4. OTHER OPERATING INCOME

	2021 £'000	2020 £'000
Government grants (CJRS)	-	29
	<u>-</u>	<u>29</u>

5. OPERATING PROFIT

	2021 £'000	2020 £'000
Operating profit is stated after charging/(crediting):		
Cost of stock recognised as expenditure	2,920	2,412
Depreciation of tangible fixed assets	67	78
Hire of plant and machinery	3	4
Research and development expenditure	6	9
Foreign exchange losses/(gains)	95	(117)
Release of warranty provision	(6)	(2)
	<u></u>	<u></u>

6. AUDITOR'S REMUNERATION

Fees payable to Ernst and Young LLP for the audit of the Company's financial statements were £20,145 (2020: £10,720 Deloitte LLP). There were no fees payable to Ernst and Young LLP for non-audit related services (2020: £nil Deloitte LLP).

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

7. STAFF NUMBERS AND STAFF COSTS

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

	2021 Number	2020 Number
Administration	5	6
Production and sales	13	14
	<u>18</u>	<u>20</u>

Their aggregate remuneration comprised:

	2021 £'000	2020 £'000
Wages and salaries	500	540
Social security costs	45	50
Other pension costs	30	40
	<u>575</u>	<u>630</u>

The staff costs include income received for services performed by the Company's employees for Group companies. All of the Directors have been remunerated by other Group companies in 2021. As the Directors are Directors of multiple Grundfos entities it is impractical to split out their remuneration relating to Grundfos Watermill Limited.

8. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2021 £'000	2020 £'000
Fair value gain on derivatives measured at fair value through profit or loss (see note 24)	62*	-
	<u>62</u>	<u>-</u>

*In year ended 31 December 2020, the fair value gain of £13,000 was not recognised in the Profit and loss account and was included as part of accruals on the Balance Sheet. A correction has been made in current year to recognise the £13,000 in Other interest receivable and similar income.

The total amount of £62,000 recognised in year ended 31 December 2021 represents a fair value gain of £49,000 in relation to current year and a gain of £13,000 in relation to prior year.

9. INTEREST PAYABLE AND SIMILAR EXPENSES

	2021 £'000	2020 £'000
Interest payable on bank loan	24	58
	<u>24</u>	<u>58</u>

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

10. TAX ON PROFIT

Total tax expense recognised in the profit and loss account:

	2021 £'000	2020 £'000
Current tax		
UK corporation tax at 19% (2020: 19%)	134	73
Adjustments in respect of prior years	6	-
Total current tax	<u>140</u>	<u>73</u>
Deferred tax		
Origination and reversal of timing differences	21	8
Effect of tax rate change on opening balance	5	1
Total deferred tax	<u>26</u>	<u>9</u>
Total tax expense for the year	<u><u>166</u></u>	<u><u>82</u></u>

Factors that may affect future tax rates

The standard rate of tax applied to reported profit is 19% (2020: 19%). An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax assets and liabilities at 31 December 2021 has been calculated based on these rates, reflecting the expected timing of reversal of the related temporary or timing differences (2020: 19%).

There is no expiry date on timing differences, unused tax losses or tax credit.

Reconciliation of effective tax rate

	2021 £'000	2020 £'000
Profit before tax	<u>711</u>	<u>398</u>
Tax on profit at standard UK corporation tax rate of 19% (2020: 19%)	135	76
Effects of:		
Fixed asset differences	13	11
Expenses not deductible for tax purposes	1	1
Adjustment to tax charge	6	-
Impact of tax rate changes	11	1
Other permanent differences	-	(7)
Total tax expense for the year	<u><u>166</u></u>	<u><u>82</u></u>

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

11. TANGIBLE ASSETS

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2021	2,075	1,018	161	3,254
Additions	1	2	2	5
At 31 December 2021	2,076	1,020	163	3,259
Depreciation				
At 1 January 2021	460	913	153	1,526
Charge for the year	32	32	3	67
At 31 December 2021	492	945	156	1,593
Net book value				
At 31 December 2021	1,584	75	7	1,666
At 31 December 2020	1,615	105	8	1,728

Freehold land and buildings includes land of £868,000 (2020: £868,000) which is not depreciated and is assessed for impairment annually.

12. STOCKS

	2021 £'000	2020 £'000
Finished goods and raw materials	775	590
	775	590

Finished goods and Raw materials recognised as cost of sales in the year amounted to £2,920,210 (2020 : £2,411,756). There was no write-down of stocks to net realisable value in the current year (2020: £nil).

13. DEBTORS

	2021 £'000	2020 £'000
Amounts falling due within one year:		
Trade debtors	48	70
Amounts owed to parent Company	1,314	1,169
Amounts owed by fellow Group undertakings	559	412
Prepayments and accrued income	17	20
Other debtors	182	-
	2,120	1,671

Amounts due from Group undertakings

Amounts owed by Group undertakings include £1,314,000 (2020: £1,153,000) owed by Grundfos Holding A/S, an intermediate parent Company, which is unsecured, related to a Group cash pooling arrangement and is subject to a variable rate of interest. The remaining amounts are due from fellow subsidiary companies, relate to the sale of goods or other operating activities, are unsecured and no-interest bearing and are repayable on demand.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Bank loan (see note 16)	105	80
Trade and other creditors	813	871
Amounts owed to parent Company	230	-
Amounts owed to fellow Group undertakings	4	1
Other taxes and social security	-	4
Accruals and deferred income	81	88
Corporation tax	77	155
	<u>1,310</u>	<u>1,199</u>

Amounts owed to Group undertakings

All amounts due to Group undertakings relate to the purchase of goods and other operating activities, are unsecured, non-interest bearing and are repayable on demand.

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2021 £'000	2020 £'000
Bank loan (see note 16)	438	523
Derivative financial instruments (see note 24)	67	116
	<u>505</u>	<u>639</u>

16. INTEREST-BEARING LOANS AND BORROWINGS

	2021 £'000	2020 £'000
Bank loan repayable:		
Within one year or on demand	105	80
Between one and two years	90	85
Between two and five years	303	286
After more than five years	45	152
	<u>543</u>	<u>603</u>

The bank loan is guaranteed by the intermediate parent Company, Grundfos Holding A/S . The loan is due to be repaid in full on or before 30 June 2027. The bank loan is subject to a fixed rate of interest of 5.86% APR which is payable for the duration of the loan. There is no security held against this borrowing.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

17. PROVISIONS

Provision for replacement under warranties

	£'000
Balance at 1 January 2021	12
Provisions utilised during the year	(6)
	<hr/>
Balance at 31 December 2021	6
	<hr/>

The provision for product warranties relates to expected warranty claims on products sold in the last three years. It is expected that the majority of this expenditure will be incurred in the next financial year and that all will be incurred within three years of the balance sheet date.

18. DEFERRED TAX LIABILITY

	£'000
At 1 January 2021	18
Recognised in Profit and loss account	26
	<hr/>
At 31 December 2021	44
	<hr/>

Deferred tax assets and liabilities are attributable to the following:

	2021 £'000	2020 £'000
Accelerated capital allowances	58	41
Other timing differences	(14)	(23)
	<hr/>	<hr/>
	44	18
	<hr/>	<hr/>

Provision for deferred tax

Deferred tax assets and liabilities are only offset where the Company has a legally enforceable right to do so and where assets and liabilities relate to income taxes levied by the same taxation authority. There is no expiry date on timing differences, unused tax losses or tax credits. There are no unprovided amounts in relation to deferred taxation.

19. CALLED UP SHARE CAPITAL

	2021 £'000	2020 £'000
Called-up, allotted and fully paid		
25,000 (2020: 25,000) ordinary shares of £1 each	25	25
	<hr/>	<hr/>

The Company has one class of ordinary shares which carry no right to fixed income. 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.

Reserves

Called up share capital

Represents the nominal value of shares issued.

Profit and Loss Account

Represents the reserves for net gains and losses recognised in the Profit and Loss Account.

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

20. EMPLOYEE BENEFITS

Defined contribution pension scheme

The Company operates the Grundfos Watermill Limited Group Personal Pension Plan, a defined contribution pension scheme, the assets and liabilities of which are held independently of the Group. The scheme is open to all employees with more than three months service. Contributions charged to the Profit and loss account were £29,844 (2020: £40,383). The employees may choose to contribute 4%, 6% or 8% of their pensionable salary to the scheme with the Company contributing double the employee contribution. The amount charged to the Profit and loss account in respect of pension costs and other post-retirement benefits is the employer's contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Balance sheet. At the 31 December 2021 £4,263 (2020: £12,054) had not been paid over to the pension scheme and was included in the Balance sheet as an accrual.

21. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The Company is a subsidiary of Grundfos Pumps Limited, a Company registered in England and Wales. The ultimate parent Company and controlling party is Poul Due Jensen's Foundation registered in Denmark. Registered address is Poul Due Jensens Vej 7, DK-8850, Bjerringbro, Denmark.

The largest and smallest Group to consolidate these financial statements which includes the Company and for which Group financial statements are prepared is Poul Due Jensen's Foundation established in Denmark. A copy of the Group financial statements is available at Poul Due Jensen's Foundation, Vej 7, DK-8850, Bjerringbro, Denmark.

22. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption contained in Section 33 of FRS 102 which allows it not to disclose transactions with wholly-owned Group companies or investees of the Group qualifying as related parties.

23. FINANCIAL INSTRUMENTS

The carrying values of the Company's financial instruments are summarised below:

	2021 £'000	2020 £'000
Financial Assets		
Cash and cash equivalents	-	30
Measured at amortised cost		
• Trade debtors (note 13)	48	70
• Amounts owed by parent Company (note 13)	1,314	1,169
• Amounts owed by fellow Group undertakings (note 13)	559	412
Financial Liabilities		
Measured at amortised cost		
• Bank loan (notes 14, 15 and 16)	543	603
• Trade and other creditors (note 14)	813	871
• Amounts owed to parent Company	230	-
• Amounts owed to Group undertakings (note 14)	4	1
Measured at fair value through profit or loss		
• Derivative financial liabilities (note 24)	67	116

Grundfos Watermill Limited

Notes to the financial statements *(continued)* For the year ended 31 December 2021

23. FINANCIAL INSTRUMENTS (CONTINUED)

The Company's income, expense, gains and losses in respect of financial instruments are summarised below:

	2021 £'000	2020 £'000
Interest expense		
Total interest expense for financial liabilities at amortised costs	(24)	(58)
Fair value gain		
On derivatives measured at fair value through profit or loss	49	13

Managing interest rate benchmark reform and associated risks

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Company has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. The Company's main IBOR exposure at 31st December 2020 was indexed to sterling LIBOR. The alternative reference rate for sterling LIBOR is the Sterling Overnight Index Average (SONIA) rate. Amendments to financial instruments with contractual terms indexed to sterling LIBOR such that they incorporate new benchmark rates were completed by 30th of December 2021.

The risk management committee monitor and manages the Company's transition to alternative rates. The committee evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Company's board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of interest rate risk and risks arising from IBOR reform.

The Company holds interest rate swaps for risk management purposes that are not designated in cash flow hedging relationships. The interest rate swaps have floating legs that are indexed to SONIA. The Company's derivative instruments are governed by contracts based on the International Swaps and Derivatives Association (ISDA)'s master agreements.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	Due within one year		Due after one year	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Derivative carried at fair value liabilities				
Interest rate swaps	67	116	-	-

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. The interest rates used to discount estimated cash flows were 0.339% - 1.103% (2020: 0.030% - 0.068%).

Interest rate swap contracts

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date.

	Average contract fixed interest rates		Notional principal value		Fair value	
	2021 %	2020 %	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Outstanding receive floating pay fixed contracts						
5 years or more	5.76	5.86	523	603	67	116

The interest rate swaps settle on a quarterly basis. The floating rate on the interest rate swaps is GBP-SONIA-COMPOUND. The Company will settle the difference between the fixed and floating interest rate on a net basis.